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THE WORLD BANK GROUP

2000 ANNUAL MEETINGS
OF THE
BOARDS OF GOVERNORS

Summary Proceedings

Prague, Czech Republic
September 26–28, 2000

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SUMMARY PROCEEDINGS

**PRAGUE, CZECH REPUBLIC
SEPTEMBER 26–28, 2000**

INTRODUCTORY NOTE

The 2000 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 Prague, Czech Republic, September 26–28, 2000 (inclusive). The Honorable Trevor Andrew Manuel, Governor for the Bank and the Fund for South Africa, served as the Chairman.

The Summary Proceedings record, in alphabetical order by member countries, the texts of statements by Governors, and resolutions adopted by the Boards of Governors of the World Bank Group. The texts of statements concerning the IMF are published separately by the Fund.

Cheikh Ibrahima Fall
Vice President and Corporate Secretary
THE WORLD BANK GROUP

Washington, D.C.
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**REMARKS BY HONORABLE VACLAV HAVEL
PRESIDENT OF THE CZECH REPUBLIC**

Let me welcome all of you to the Czech Republic and to Prague. My welcome extends to the official participants in the Annual Meeting of the International Monetary Fund and the World Bank Group, to all business people, bankers, economists, political scientists, environmentalists, thinkers, journalists, and, indeed, to all people of good will who have come here because this is an occasion to discuss and possibly also to help determine our common future. This country and its capital city are greatly honored to be the venue of this major assembly, which brings together thousands of people from all countries and continents—including persons wielding a far-reaching influence—in the very year that the commonly used chronology views as a turn of ages. For us it means an honor, a joy, as well as a great challenge, and a major commitment. I trust that Prague—hosting such a gathering of a truly global significance for the first time in more than a thousand years of its history—will offer a good environment for the deliberations and will be reflected favorably both in the memory of its participants and in the history of global cooperation. Surely this city possesses certain historical prerequisites. Over the course of centuries—among other things because of its geographical position in the center of Europe—it has witnessed not only confrontations and conflicts but also creative encounters, mutual respect, reciprocal influence, and cooperation among various cultures; various peoples and ethnic groups; and various spiritual currents and social movements. This pluralism has helped to shape its visage. It would be good if, after decades of oppression, of life without freedom, of bent backs, and of imposed isolation, we succeeded in rediscovering this ancient tradition and offered this city as a congenial setting for the world's open debate about itself.

The dominant feature of Prague is the Cathedral of St. Vitus, St. Wenceslas, and St. Adalbert, and the dominant feature of the Cathedral is a Gothic tower. You may have noticed that the tower is presently wrapped in a scaffold. This is so because—for the first time ever and, so to speak, in the eleventh hour—it is undergoing a complete renovation. Temporarily, the scaffold conceals the beauty of the tower. But the present concealment is designed to preserve this beauty for the future. I would be glad if we could see this as an analogy and if we could say also about this country—just as it is true of other post-Communist countries as well—that if some of its good dispositions are not visible clearly enough for the time being, it is because the whole country is covered by a scaffolding as it undergoes a far-reaching reconstruction, striving anew—this time entirely freely—to find its true self, its good face, and its identity; and to preserve and restore them.

And it would be marvelous if this analogy were applicable more generally and if we could similarly hope that, behind at least some of the unsightly features of today's world, there are seeds of an endeavor to save, to preserve, and to creatively develop the values offered to us by the history of nature, the history of life, and the history of the human race.

One of the principal themes of the various debates about the situation of today's world, and also of the discussions concerning the mission of the Bretton Woods institutions, is the deeply entrenched poverty of billions of people and the question of what can be done to deal with it or to combat it.

I am afraid that debates of this kind may make us susceptible to one danger: the danger that we shall, unwittingly, begin to perceive poverty as a misfortune of the ones and the fight against it as a task of the others. It is as if humanity were divided by fate into two parts—a relatively small group of people or countries that fare altogether very well and a large group of people or countries that fare very badly—the result of which is the first group, for both humanitarian and security reasons, should help the second, financially as well as intellectually.

Such a vision of the world is only one step away from the rather widespread misconception that the wealthier are better off simply because they have, so to speak, conquered the world and its mystery, understood its laws, and cleverly used them to their advantage—in other words, because they know their way around—while the less fortunate have failed to grasp a multitude of things or are simply incapable of them. To achieve an overall improvement of the world, it should therefore suffice that the former convey some of their skills to the latter. This, as we all know, is not true.

Today's extensive poverty is one of the most visible manifestations of our contradictory civilization—a civilization we all help to shape in one way or another. We all are, to a greater or lesser degree, jointly responsible for both its good and its bad traits, and solving the problems that this civilization generates is our common task.

None of us can say that he or she knows it all; no one is beyond criticism, and nobody's voice should a priori be disparaged. Our planet is now enveloped by a single global civilization. It can be said, almost with certainty, that this is so for the very first time in human history. But there is yet another unprecedented feature of this civilization. Both in the manner of its inner momentum and in its principal outward manifestations, this appears to be the first civilization that is basically atheistic— notwithstanding how many billions of people profess, whether in more active or more passive ways, the various existing religions.

This means that the underlying values of this civilization do not relate to eternity, to the infinite, or to the absolute. In many important decision-making centers, we therefore observe a decline of regard for that which will come after us and for a truly common interest.

In a world that possesses an incredible sum of knowledge about itself—one in which uncensored information of all kinds, capital, ownership, and culture, spreads at a dizzying speed, and that can hardly be suspected of being unable to estimate alternatives of its future development—it is thus possible that people often behave as if everything were to end with the end of their own stay on the Earth. Human-kind depletes nonrenewable natural resources and interferes with the planet's climate; becomes estranged from itself by gradually liquidating appreciable human communities and human proportions in general; and tolerates a cult of material gain as the highest value to which everything else has to yield, and before which even democratic will sometimes falls on its knees. Almost apathetically, we reconcile ourselves with the warning indications that, although the numbers of population on the Earth are rapidly growing, the creation of wealth alarmingly ceases to correspond with the creation of real and meaningful values.

In other words, our civilization is wrought with paradoxes. On the one hand, it opens up possibilities that would, until quite recently, have been seen as fairytale fantasies; on the other hand, it shows a rather limited ability to avert developments which, in many places, infuse these possibilities with very dangerous content, or result in their outright abuses.

Consequently, this civilization is accompanied by many grave problems. Its pressures toward uniformity and the fact that we are being drawn ever closer to one another give rise to an urge to emphasize, at all cost, one's otherness, which often grows into a callous ethnic or religious fanaticism. New, sophisticated types of criminal activities, organized crime, and terrorism emerge. Corruption flourishes. The gap between the rich and the poor is growing deeper, and while people are dying of starvation in some parts of the world, other places witness waste—not only as a custom, but virtually as a social obligation.

All these serious problems receive a great deal of attention at the present time, and individual states, international institutions, and various governmental and nongovernmental organizations are attempting to resolve them. Nevertheless, I am afraid that these endeavors or measures will hardly ever lead to any major reversal of the current development unless something begins to change in the root of the thinking from which the contemporary types of human behavior, enterprise, and collaboration grow.

We often hear about the need to restructure the economies of the developing or the poorer countries and about the wealthier nations being duty bound to help them accomplish this. If this is done in a sensitive manner, against a backdrop of sound knowledge of the specific environment and its unique interests and needs, it is certainly a worthy and much-needed effort. But I deem it even more important, as I suggested

above, that we should begin to also think about another restructuring—a restructuring of the entire system of values that forms the basis of our civilization today. This, indeed, is a common task for all. And I would even say that it is of greater urgency for those who are better off in material terms.

The course of today's planetary or, if you will, global civilization has been determined by the Euro-American modern era, that is, mainly by those who now belong to the wealthiest and the most advanced. For that reason alone, they cannot be relieved of the necessity to engage in a critical reflection of the movements that they historically inspired.

We all know that it is possible to devise a thousand-and-one ingenious regulatory instruments to protect the climate of the earth; the non-renewable resources; biological diversity; ways to ensure that resources are used accountably at the places of their origin; the cultural identity of nations and the human dimensions of settlements; free competition; and sound societal relations. All this can, of course, reduce the threat of our civilization's plunging ahead in a thoughtless direction, and many people and institutions are actually working toward this end.

But the crucial task is to fundamentally strengthen a system of universally shared moral standards that will make it impossible, on a truly global scale, for the various rules to be time and again circumvented with still more ingenuity than had gone into their invention. Such standards will truly guarantee the weight of the rules and will generate natural respect for them in the societal climate. Actions proved to jeopardize the future of the human race should not only be punishable but, first and foremost, should be generally regarded as a disgrace. This will hardly ever happen unless we all find, inside ourselves, the courage to substantially change and to newly form an order of values that, with all our diversity, we can jointly embrace and jointly respect, unless we again relate these values to something that lies beyond the horizon of our immediate personal or group interest.

But how could this be achieved without a new and powerful advance of human spirituality? And what can be done in concrete terms to encourage such an advance? These are fundamental questions with which I have concerned myself for years. Undoubtedly, many of you have concerned yourselves with them as well, and I think that in your discussions here in Prague they cannot be left out either.

It is my firm belief that your deliberations will be successful and that you will agree on important strategies, programs and reforms. But I trust it is clear that I also believe in something else: that you will conduct your talks against the background of a broadly conceived, open, and friendly discussion on the world of today, on its problems, on the root causes of these problems, and on the ways to solve them. No one who cares about an auspicious future of the human race on this planet should, in my view,

be excluded from these debates, even if he or she were a thousand times mistaken. We all have to live next to one another on the earth, whatever our convictions; we all are threatened by our own shortsightedness, and none of us can escape our common destiny.

Given this state of affairs, to my mind, we have only one possibility: to search, inside ourselves, as well as around us, for new sources of a sense of responsibility for the world, new sources of mutual understanding and solidarity, of humility before the miracle of Being, of the ability to restrain ourselves in the general interest and to perform good deeds even if they remain unseen and unrecognized.

Allow me, in conclusion, to turn back to the Cathedral of which I spoke at the beginning. I think that the first people to whom it brings calculable financial gain are Prague hotel owners in the era of restoration of the market economy in the Czech Republic. Nowadays, this holds particularly true. Why, therefore, did someone in long bygone times engage in the construction of such a costly edifice that appears to be of so little use by today's standards?

One possible explanation is that there were periods in history when immediate material gain was not the highest value in human life and when humankind knew that there were mysteries that they would never understand, and before which they could only stand in humble amazement and perhaps project that amazement into structures whose spires point upwards. Upwards, in order that they may be seen from far and wide and that they highlight to everyone what is worth looking up to. Upwards, across the borders of ages. Upwards, to that which is beyond our sight that which, by its mere silent existence, appears to preclude for humanity any right to treat the world as an endless source of short-term profit, and which calls for solidarity with all those who dwell under its mysterious vault. Once again, I extend to you my best wishes for successful deliberations, and I thank you for your attention.

**OPENING ADDRESS BY THE CHAIRMAN
THE HONORABLE TREVOR ANDREW MANUEL
GOVERNOR OF THE BANK AND THE FUND
FOR SOUTH AFRICA**

Introduction

President Václav Havel, my fellow governors, your Excellencies, ladies and gentlemen, it is a great privilege to welcome you to the 2000 Annual Meetings of the International Monetary Fund and the World Bank Group. On behalf of the Boards of Governors, I would like to thank the government and people of the Czech Republic, and in particular, the people of Prague for their generous hospitality in this beautiful and historic city.

I am particularly honored to chair this year's meetings as a Governor from Africa—a continent that recognizes and appreciates the valuable support and assistance of these core institutions of the international economic system. In this context, we are determined to help strengthen the work of the Fund and the Bank.

Let me warmly welcome Mr. Horst Köhler, the new Managing Director of the IMF, and wish him well in guiding the institution during this particularly challenging time. I would also like to express my deep appreciation to Mr. James Wolfensohn for his acceptance of a second term as President of the World Bank Group. I am certain that, together, Mr. Köhler and Mr. Wolfensohn will work hard to implement our wishes to continue to strengthen the Fund and the Bank, so as to ensure that the benefits of globalization can be enjoyed by all. I would also like to express my appreciation to Mr. Michel Camdessus for his dedicated and inspired leadership of the IMF during his 13-year term.

Today we extend a special welcome to the delegation of San Marino on its accession to membership into the World Bank Group.

There is a story that Václav Havel tells of this beautiful city, long before he was president. A stone window ledge had fallen from a building and killed a woman. A local writer commented that the public outrage that ensued was too parochial and failed to recognize humanity's enormous progress. The next week, when another window ledge fell, the public wisely ignored the writer. To quote Václav Havel, the people "had understood that the so-called prospects of mankind are nothing but an empty platitude if they distract us from our particular worry about who might be killed by a third window ledge...."

Window ledges in Prague in the 1960s may be in another space and time from, say, a health clinic in Mozambique that is washed away by the floods, but the lessons are the same. The lesson then, as now, is that unless we take account of our reality and are prepared to do something about it, nothing changes.

When we think about globalization, about progress on the one hand, and increasing poverty on the other, we must not forget the specifics that add up to a new generation of human suffering that afflicts nearly half the world. We need to understand the dimensions of poverty, but more important, we need strategies to combat it and the faith that we can change things. We must take responsibility for our destiny and ownership of our future.

The latest *World Development Report* highlights some of these specifics while recognizing some of the successes in attacking poverty. Importantly, it accepts that those of us who bear the burden of poverty and inequality are best placed to shape the strategies to overcome it.

There is a Nguni word in our country that captures the cusp of history we occupy: *Umsobomvu*. It means “the dawn.” A time of awakening. Of struggle. Of hope.

As the mist lifts on the early morning of the new millennium, the challenges of the day become apparent. Looking back, the progress of the past 50 years is astounding. We live in a world where technology has enabled us to transcend geographic boundaries. Where news is instant and information is abundant. A world where telemedicine allows a surgeon in New York to assist in an operation in rural Brazil. A world dominated by real time, where the decisions of a trader in London can alter the future of a child in South Africa. A world where the fee on one financial transaction can pay for the education of all the children of a village in India. A world of unprecedented prosperity. But it is also a world of unprecedented inequality and poverty.

In his opening address to the July 1944 conference that would establish the Bretton Woods institutions, U.S. Treasury Secretary Morgenthau referred to the “great economic tragedy of our time”—the pre-war depression, that would (among other factors) eventually lead to the outbreak of World War II. It was to prevent the repeat of depression and war that the Bretton Woods institutions were formed.

The great economic tragedy of our time is poverty. We have yet to overcome this tragedy. The spirit of that July 1944 meeting is worth evoking. Two axioms were proposed by Morgenthau, first “prosperity has no fixed limits... the more of it other nations enjoy, the more each nation will have for itself”; and second, “prosperity, like peace, is indivisible... poverty, wherever it exists, is menacing to all and undermines the well-being of each of us.” It was in this spirit that the World Bank and the IMF were born. It is to this spirit and this vision that we have to recommit ourselves today.

Despite all the progress we have made since 1944, we still live in a world where billions of people wake up every morning to hunger, disease, poverty, and despair. A world where, despite the advances in wealth and technology, we have not been able to breach the poverty gap.

It is particularly disconcerting that globalization has had little impact on the tragedy of poverty. The latest *World Development Report* reminds us that some 2.8 billion people, almost half of the world's population, live on less than \$2 a day and that 1.2 billion people live on less than \$1 a day. Most of these people are located in South Asia and Africa. What is even more disquieting is that this tragedy is experienced at the same time that unimaginable riches are enjoyed by a small number of the world's economies and individuals. The income gap has doubled in the past 40 years. And while life expectancy in parts of Africa and Eastern Europe is actually declining, life expectancy for the world as a whole, as President Wolfensohn reminded us last year, increased more in the past 40 years than in the previous 4,000 years.

The stark statistics, with which we are all familiar, not only highlight the inequality and the slow pace of development, but perhaps more important point to the unequal distribution of opportunities and resources.

All of us today face the urgent task of making sure that the benefits of globalization are equally spread. We welcome the rededication of the Bretton Woods institutions to the cause of reducing poverty. In so doing we must recognize that the *raison d'être*—the overarching purpose of the Bank and the Fund—has remained essentially the same: to oversee the process of globalization, and facilitate the integration of the nations of the world into the global economy in a mutually beneficial way.

The Fund and the Bank have a vital role to play in ensuring that we arrive at more equitable outcomes and improve the quality of life for all. Yet to do this, we must give a stronger voice to the shareholders of our institutions. We must ensure that the mechanisms exist for meaningful participation and greater transparency in decision making.

Growing inequality poses the greatest risk to the future of the global economy. If the majority of the world's population is increasingly marginalised and economically disenfranchised, then globalization will fail. As custodians of the institutions that provide the anchor to the global economic system, we have a responsibility to ensure that globalization translates into a better life for all the peoples of the world.

The global economy has never been more prosperous. The opportunities for growth and sustainable development have never been greater. The challenge we face is to harness this potential. We must not be blinded by the prerogatives of wealth and influence so that we ignore or avoid dealing with poverty and inequality.

World Economic Outlook

The robust state of the global economy is due in no small measure to the success of the fundamental reforms undertaken by developing countries. Their boldness needs to be matched by the richer countries. The

consolidation of the recovery in Asia and the strong growth expected in China and India, the improved activity in Africa, and the rebounds from last year's slowdowns in Latin America and the Middle East have contributed significantly to the improved outlook. Growth in Eastern Europe is expected to be strengthened by continued macroeconomic reforms, as well as the better than expected recovery in Russia.

Despite the positive outlook for the global economy, there remain significant risks to sustainable growth. In particular, large economic and financial imbalances and persistent volatility characterize the three main currency areas. The possibility that these imbalances might unwind in a disorderly fashion remains a risk to global growth. The recent increase in oil prices, if sustained, will also hamper global growth and increase inflationary pressures, and will adversely affect oil-importing countries, particularly the poorest.

Structural reforms aimed at improving competitiveness, reducing external vulnerability and supporting broad-based development need to continue in all countries in order to strengthen prospects for sustained economic growth. The positive outlook for the global economy masks the problem of continued widespread poverty and inequality.

Let me focus on Africa. Our continent has the most catching up to do, with projected growth for 2000 at 3.5 percent. This in itself is a significant achievement, given huge terms-of-trade losses and natural disasters, and is the product of concerted macroeconomic reform across most of the continent. But it is still far below the 5 percent annual growth that is needed simply to keep the number of poor in Africa from rising. The goal of halving severe poverty by 2015 will require annual growth of more than 7 percent.

As Africans we face a number of critical challenges. While Africa contributes an important part of the resources critical to world growth, its capacity to process these and its share of world trade are insignificant and our share of global foreign direct investment remains miniscule.

Addressing these challenges means that we must remain focused on a number of important priorities:

- First, sound and sustainable macroeconomic and development policies are essential. Fiscal deficits are on average far lower than they were a decade ago, falling from almost 7 percent of GDP in 1992 to an estimated of 2.6 percent in 2000. Inflation has been significantly subdued, with the average inflation rate for sub-Saharan Africa at about 6 percent. We must continue to build on the gains that we have achieved. Achieving macroeconomic stability and sustainability is hard, but it brings with it choice and control over our own destiny. But stabilization is not enough. It needs to be followed by sound growth strategies designed to create jobs and overcome poverty.

- Second, increasing the level of savings and investment in our economies is critical. Although capital flows to developing countries increased about seven fold in this decade to \$270 billion, sub-Saharan Africa's share of this total was barely one percent. Foreign investment is essential, since all of Africa, with the exception of Botswana, faces a balance of payments constraint. But more important is creating the environment for domestic investment.
- Third, bridging the digital divide is a new challenge. There are 19 times more Internet hosts in the United States than in the whole of the developing world. It is this gap that we must overcome. Evidence suggests that it is possible to leapfrog stages of technological development to spur economic and social advancement. Investment in both infrastructure and human resources in this area is therefore critical.
- Fourth, HIV/AIDS is our living nightmare. This pandemic is one of the biggest challenges we face. We welcome the \$500 million facility approved by the World Bank Board for program dealing with HIV/AIDS. It is estimated that some 33 million people worldwide are living with HIV/AIDS. About 70 percent of these are in sub-Saharan Africa. The rapid rise in adult deaths is leaving an unprecedented number of orphans—some 11 million worldwide, over 90 percent of them in Africa.
- Fifth, too many countries on our continent continue to be mired in conflicts that seem inexplicable and intractable. These conflicts destroy life. They destroy the future of millions of ordinary people. And they destroy our humanity.

In summary, we need to remain focused on economic reforms and building the institutional capacity that will ensure that the gains we have already made are enhanced. Our fiscal policies must remain focused on social development and infrastructure. We need to invest in education and training to overcome the significant skills gap that characterizes most, if not all, our economies. We must continue to strengthen our democracies by strengthening the institutions that underpin them—parliaments, the legal system, and civil society.

However, while there are many measures that African countries can take, it is important not to lose sight of the fact that sustained growth in emerging markets and other developing countries must be seen as a global project. Whether or not developing countries are able to benefit from the fruits of global growth depends not only on their own efforts, but also on the efforts of those developed countries with which they share the global arena.

As long as developing countries remain debilitated by unsustainable debt burdens, required growth rates will not be achieved. Debt remains

one of the major obstacles to sustainable growth and development. The enhanced HIPC Initiative agreed to at the G-7 meeting in Cologne last year has yet to be fully implemented. Full funding has yet to be realized. The cumbersome process means that only half of the countries expected to reach their decision points by the end of this year are likely to do so. The challenge is three-fold: First, the G-7 must honor commitments they made in Cologne. Second, the process must be streamlined. Third, we must uphold the principle that the clear separation between the financing of the HIPC Initiative and donor commitments to finance IDA's new lending is observed.

I would like to, on this note, extend the sincere appreciation of many in the developing world to the Honorable Paul Martin, Finance Minister of Canada, for the brave stand that he took in both the International Monetary and Financial Committee (IMFC) and the Development Committee meetings on this issue.

Another issue that we must give attention to is the burden being placed on bilateral debtors who are not Paris Club members to provide debt relief on comparable Paris Club terms. Unless wealthy countries take responsibility for a larger share of debt reduction, a disproportionate burden will fall on poor and middle-income countries that have often been creditors in the spirit of good neighborliness.

Let me now turn to a more universal problem, that of governance. Improving governance is essential. It is the responsibility of governments across the world to ensure that limited resources are effectively channeled to areas of need. Over the last decade, good governance has sadly become a standard conditionality in contracts between borrowers and lenders. I want to suggest that this is not where these conditionalities belong. Rather, they belong in the contract between a government and its people. Good governance has to be more than a euphemism for corrupt-free governments. It is about ensuring that elected office is the channel for the delivery of goods and services to citizens and not for the enrichment of those in office. Poor governance compromises the integrity and legitimacy of the state and sacrifices the future of the poor. The strong stand taken by many of our governments against corruption must be further strengthened and supported.

Despite substantial progress made in liberalizing trade regimes in developing countries, these countries still have difficulty in benefiting from an improved global trade regime. The rest of the world is open only on a selective basis. The integration of world trade requires equal access for all countries and for all products and services. Advanced country trade policies require urgent reform. Fair access to the markets of the developed countries is critical to sustainable growth and development. OECD subsidies continue to reach record levels, and barriers to trade remain a fundamental obstacle to overcoming poverty. The benefits of

trade liberalization far outweigh the costs. It is imperative that we urgently refocus our efforts on a comprehensive and equitable conclusion of a new round of multilateral trade negotiations.

Lastly, the continued decline in official development assistance is of great concern. Given the substantial savings gap in the poorest countries, debt relief is unlikely to be effective in helping our countries fight poverty without well-targeted aid. The added cost of dealing with HIV/AIDS and other communicable diseases only underscores the importance of additional financial assistance. The rich countries have never been richer, and the poor countries have never been more capable of managing aid; the decline in development assistance is inexcusable and should not be tolerated by civilized and compassionate societies.

The World Bank and the IMF

Global institutions continue to have a critical role to play in addressing the fundamental structural weaknesses and imbalances that confront us. Growing inequality and persistent poverty, on the one hand, and the heightened fragility of the global economy on the other, mean that the World Bank and the IMF continue to have a vital role to play. In order to respond to this role, these institutions have to reflect the needs of those that they are designed to serve. This means not only a reconsideration of the governance structures, to give a greater voice to developing countries, but also a greater appreciation of what developing countries expect from the Bretton Woods institutions, in terms of programs and products. Poor countries, and even the majority of middle-income countries, remain excluded from capital markets. Those that believe that private markets can substitute for the Bank and Fund and other development finance are fundamentally naïve and simply reflect their own distance from our complex reality.

It is important that the voice of developing countries be heard more strongly in the Bank and the Fund. We must ensure that we can exercise ownership in a manner far beyond the outdated formulas that currently govern quota distribution. Ownership of programs means countries take responsibility upfront, which in turn requires a shift to enabling conditionality and away from micro-management. Let me be clear: developing countries need a greater voice in providing strategic direction to the Bretton Woods institutions to ensure greater effectiveness and credibility. For this reason, it is imperative that the forthcoming discussions on quotas are viewed from the perspective of the needs of global development, rather than merely from the perspective that economic might is right.

Conclusion

We share in common a vision of the world, free from poverty. A world where our unique collective intelligence and creativity can be

used to enhance the well being of all people. In parts of the world, including in this wonderful city, the promise and potential of this economic liberation is becoming evident. But for most people there has been no escape from grinding poverty. And because the hints of wealth from elsewhere have brought no escape, hope hangs on a thin thread. The challenge is to turn despair into hope. Hope, which is based on the knowledge that the world cares. Hope rooted in our common humanity and our determination to ensure that our children and their children will enjoy a life rich in opportunity and free of poverty.

In declaring these meetings open, I can think of no better words than those spoken by John Maynard Keynes in his closing address at the original Bretton Woods conference. They have no less resonance with reference to our contemporary tragedy, than they did in reference to the tragedy out of which the Bank and Fund were founded.

We have been learning to work together, if we can so continue, this nightmare, in which most of us here present have spent too much of our lives, will be over. The brotherhood of man will have become more than a phrase. Our task is to turn words into deeds. In this we cannot—dare not—fail.

**ANNUAL ADDRESS BY JAMES D. WOLFENSOHN
THE PRESIDENT OF THE WORLD BANK GROUP**

Building an Equitable World

I am delighted to welcome you to these Annual Meetings of the International Monetary Fund and the World Bank Group. I extend a very special welcome to the delegation from San Marino, which becomes the Bank's newest member country. I would like to thank the Chairman, Trevor Manuel, for his support and for his powerful speech. He has shown that rare combination of leadership in the fight for freedom and of sound economic management after freedom has been achieved. I would also like to thank the Governors and the Board of Executive Directors for their partnership in the work of the Bank.

May I also express my admiration for all that Michel Camdessus achieved over his years of leadership at the IMF, and thank him for his friendship and his close collaboration. I look forward to working in the same close relationship with Horst Köhler, and I believe we have made a great start. I am looking forward to our joint visit to Africa, as Horst has mentioned.

And let me emphasize how strongly I share what Horst has just said about our joint understanding of the complementary roles of the Bank and the Fund. Our shared objective is to improve the quality of life and reduce poverty through sustainable and equitable growth. In pursuit of this common goal, the Bank's core mandate is to reduce poverty, particularly by focusing on the institutional, structural, and social dimensions of development. It thus complements the Fund's focus on macroeconomic issues in pursuit of its main objective to promote and maintain international financial stability. Let me underscore how closely these are intertwined. If we fail to confront the flawed structures and social tensions that undermine macro-stability, the poor will be the first casualties. At the same time, as we pursue fiscal responsibility, our first priority must be protecting poor people.

I would also like to thank the Czech Republic and the people and authorities of Prague for hosting these meetings. They have done a magnificent job under difficult circumstances. I thank President Václav Havel, who so uniquely encapsulates in one person, one voice, the hopes and dreams of a generation. His words today were indeed inspirational, and we shall always remember his call for a renewal of values.

The Czech Republic has felt the pain and difficulties of the transition process. But it has been a pioneer and is firmly committed to building the institutions, the market structures, and the governance that are essential for equitable growth. And our meeting here in Prague, at the heart of Europe, symbolizes the great significance of the movement for European integration.

This is the sixth time I stand before you as President of the World Bank Group—my first address in my second term as President. I have learned much in the last five years, during which Elaine and I have traveled to more than 100 countries.

I learned from a woman in the favelas of Rio de Janeiro, who participated in a self-sustaining community water and sewerage program, that development is not about charity; it is about inclusion and empowerment.

I learned from a shrimp farmer in the Mekong Delta, robbed of his livelihood by environmental degradation in the mangrove swamps, that hard work can be for nothing if we do not address environmental challenges.

I learned from a Muslim religious leader in Côte d'Ivoire, on one of my very first trips for the Bank, that if you give the poor money with one hand and take back this same amount in debt with the other, then little is done to alleviate poverty. This simple lesson was the basis for the creation of the HIPC Initiative.

And above all, I have learned about a common humanity. People in poverty want for their children what we in this hall want for ours: education, good health, security, and opportunity. They want voice. They do not want charity. They want a chance to make a better life for themselves. They want respect for their human rights.

We are all here to work for that common humanity and above all to fight against poverty with passion. But to overcome poverty, passion is not enough. We must act, and act effectively. And we must commit ourselves for the long haul.

I believe the fundamental changes of the last decade, challenging and difficult as they may have been, provide us with a real chance for a dramatic advance in the fight against poverty. That opportunity is now, and we must seize it.

We have deepened our understanding of what poverty is and of how to generate equitable development. We are changing our institution and the way we do business to deliver more effectively, transparently, and with greater accountability.

But, we will make progress in fighting poverty only if we all work together—developing and developed countries, international institutions, civil society in all its forms, and the private sector. Ours must be a partnership to leverage the fight against poverty. Ours must be a partnership to build a new internationalism to match a globalized economy.

Outside these walls, young people are demonstrating against globalization. I believe deeply that many of them are asking legitimate questions, and I embrace the commitment of a new generation to fight poverty. I share their passion and their questioning. Yes, we all have a lot to learn. But I believe we can move forward only if we deal with each other constructively and with mutual respect. In this context, I am very grateful to President Havel for having organized a colloquium for dialogue recently here in Prague.

We stand at the beginning of a new millennium, at the end of a decade when globalization has accelerated dramatically. This is a time to assess where we have been and where we are now, as well as to provide a vision for the future. This is a time of great opportunity, but also of tremendous challenges. We must treat globalization as an opportunity, and poverty as our challenge. But what do we mean by globalization?

Globalization is about an increasingly interconnected and interdependent world. It is about international trade, investment, and finance that have been growing far faster than national incomes, so that our economies are more and more closely integrated. It is also about international financial crises. As we saw in the East Asian experience, instability in one country can affect us all. It is about technologies that have already transformed our abilities to communicate in a way that would have been unimaginable a few years ago. It is about illness, and I think particularly of HIV/AIDS, malaria, and tuberculosis. It is about crime, about violence, about threats and terrorism, which do not respect national boundaries. It is about new opportunities for workers in all countries to develop their potential and to support their families through jobs created by greater economic integration. But it is also about workers in developed countries who fear losing their jobs to lower-cost countries with limited labor rights. It is about workers in developing countries who worry about decisions affecting their lives that are made in far-away head offices of international corporations.

In short, globalization is about risks as well as about opportunities. We must deal with these risks at the national level by managing adjustment processes and by strengthening social, structural, and financial systems. And at the global level, we must establish a stronger international financial architecture, and work to fight disease, to turn back environmental degradation, and to use communications to give voice to the voiceless.

We cannot turn back globalization. Our challenge is to make globalization an instrument of opportunity and inclusion—not of fear and insecurity. The last decade has not only seen an acceleration in globalization; it has also seen real progress in the quality of policies in developing countries. Around the world more children are attending primary and secondary school. In many countries people are living longer, fewer infants are dying before childhood, and more mothers are living to know their children. And in economic policy, inflation has fallen, markets have been liberalized, and investment has risen strongly.

The economic outlook for the coming years is promising, with per capita incomes in developing countries likely to grow at well over 3 percent. This would be the highest sustained growth in decades, and faster

than in developed countries. Indeed, a large number of people in developing countries are seeing the fruits of the combination of these improved policies and globalization.

But for too many, that optimistic picture is still a mirage. In too many countries, population growth has wiped out per capita gains in income. In too many countries, HIV/AIDS has wiped out improvements in life expectancy and caused incalculable grief and hardship. In too many countries, weapons, war, and conflict have wiped out development. And at the global level, we cannot be complacent about the outlook, particularly in the face of volatility in oil and commodity prices and wild swings in exchange rates.

We live in a world scarred by inequality. Something is wrong when the richest 20 percent of the global population receives more than 80 percent of the global income. Something is wrong when 10 percent of a population receives half of the national income—as happens in far too many countries today. Something is wrong when the average income for the richest 20 countries is 37 times the average for the poorest 20—a gap that has more than doubled in the past 40 years. Something is wrong when 1.2 billion people still live under less than a dollar a day and 2.8 billion still live on less than two dollars a day.

With all the forces making the world smaller, it is time to change our way of thinking. Time to realize that we live together in one world, not two: this poverty is in our community, wherever we live. It is our responsibility. It is time for political leaders to recognize that obligation.

And the stakes could not be higher. The conflicts that have so plagued development are not simply accidents of history. Conflicts are much more likely in countries with severe poverty and primary commodity dependence. Violent crime is more likely in countries with high income inequality. And what is true within a single society today will be increasingly true of international conflict and terror in this globalized world. The fight against poverty is the fight for global peace and security.

What Have We Learned About How To Fight Poverty?

In facing these challenges we must act together. And we must draw on the lessons of experience. What have we learned? We have learned that poverty is about more than inadequate income or even low human development; it is also about lack of voice, lack of representation. It is about vulnerability to abuse and to corruption. It is about violence against women and fear of crime. It is about lack of self-esteem. Poverty, as discussions with 60,000 poor people in 60 countries have taught us, is about lack of fundamental freedom of action, choice, and opportunity. We have learned that market-oriented reforms, if combined with social and institutional development, can deliver economic growth to the poor people. We have learned that economic growth is the most powerful

force for sustained poverty reduction. Growth is central, but it is not enough.

If we are serious about fighting inequity, we must also help poor people build their assets, including education, health, and land. We must get infrastructure and knowledge to poor areas—rural and urban alike. We must confront deep-seated inequalities, bridging gender, ethnic, social, and racial divides. We must protect poor people from crop failures and natural disasters, from crime and conflict, from sickness and unemployment.

Development must be comprehensive. It must embrace education and health, but it must also embrace good governance, the fight against corruption, legal and judicial reform, and financial sector reform. Development must embrace infrastructure and environmental protection as it must also embrace sound economic policies. All these elements depend on and reinforce each other.

We have learned—and this is fundamental—that development cannot be imposed from above. There is no universal blueprint for development. It must be homegrown and home owned. Without a comprehensive approach that is developed and adopted in each country, we will not achieve the development that is vital for a peaceful, equitable world.

We are applying what we have learned. Over a year ago, recognizing the importance of a comprehensive approach, we launched the Comprehensive Development Framework (CDF). Holistic, long term, and country owned, the CDF is being implemented in a dozen countries.

Last year, with the IMF, we began supporting our partner countries in their work on poverty reduction strategies—strategies that are country driven and poverty focused. Our comprehensive framework and the poverty reduction strategies embody an approach to development that is gaining strong recognition in the development community.

And let us recognize that there is a key element that runs right through this approach—it is participation. Participation delivers powerful results at the project and program level. And it can create the social consensus that is the foundation for social change and reform. It is a part of freedom.

Where better than here in Prague, home of the Velvet Revolution, to underscore the central importance of participation? Where better to reaffirm what poor people across the world say they want—freedom, participation, and voice in creating a better life for themselves?

Participation can take many forms—and it works. In Bangladesh, we are supporting nongovernmental organizations that are taking the lead in microcredit programs serving more than 5 million poor people, 90 percent of them women. In Uganda, we have provided matching grants to community groups, with the result that school attendance and use of health facilities have improved dramatically. In India, the deepen-

ing of democracy has advanced participation in the smallest towns. Reforms have greatly strengthened representation for women in local councils.

With the support and leadership of our client governments, we are working with communities, local governments, the private sector, and civil society, to support community-driven development. In Indonesia, more than 2,000 villages and community groups are developing their own proposals to receive local funding. In Benin, women are working together to protect the forests and make them sources of income rather than sources of fuel.

And at the national level, we are helping to build strong institutions to ensure that poor people can participate in, and benefit from, their economy and society. We must make state institutions more responsive to poor people. We must recognize that in too many countries, fighting poverty is also about fighting the vested interests of an economic elite that has undue influence on policies, regulations, and laws.

If we embrace a comprehensive approach, working in partnership with governments, and if we achieve this participation, this equity, and this inclusion, then we will have democratized development.

The Information and Communications Revolution

Today we have a unique tool at our disposal to enable involvement of all, on a scale undreamed of even several years ago. The information and communications revolution will transform development as we know it.

This revolution promises a historic opportunity to redraw the global economy through broad and equal access to knowledge and information; through enhanced empowerment and inclusion of local communities; and through economic growth, jobs, and improved access to basic services.

And so, over the last five years, we have been focusing on how we can harness the power of information and communications technology and of knowledge to accelerate development. We are working with governments to foster policy, regulatory, and network readiness, through our analytical and advisory work and through our grant facility, infoDev. We are linking development leaders globally through our Global Development Learning Network, which provides training and creates broad learning communities. We are connecting students and teachers in secondary schools in developing countries with their counterparts in industrialized countries through our World Links for Development program. We are using information and communications technology to create a “university without walls” and to link Sub-Saharan African countries directly with global academic faculty and learning resources through the African Virtual University.

Through the Global Development Gateway and the Global Development Network, we are promoting the generation and sharing of

knowledge. We are supporting knowledge networking, global research, and communities of practice from the grass roots up.

And finally, we are developing many practical applications being used by poor communities worldwide to bring them knowledge in local languages, to build communities, to create businesses, to assist in medical treatment, and to link them with each other and with the world.

The information and communications revolution offers us an unprecedented opportunity to make empowerment and participation a reality. And poor people across the world are demanding action. In response to our “Voices of the Poor” study, many groups have asked us, as a key priority, for increased access to information and communications technology.

We must work toward the day when, through the Internet, through distance learning, through cellular phones and wind-up radios, the village elder or the aspiring student will have access to the same information as the finance minister. Communications technology gives us the tool for true participation. This is leveling the playing field. This is real equity.

A Bank That Is Delivering

Throughout its history, the Bank has adjusted to the changing external environment, from post-World War II reconstruction to the challenges of global development. That change continues today. Let me tell you a little about what we have done over the last five years to build on the enormous contributions of my predecessors, and on the solid base of the past.

In the last five years, we have continued to focus our lending on social sectors such as health, education, and social protection, which now make up about a quarter of our portfolio.

Five years ago, our lending in the global fight against HIV/AIDS was small. Today we have committed about \$1 billion, including \$500 million recently made available for programs in Africa. Five years ago, we were not engaged in post-conflict activities. Today we are involved in over 35 countries. Five years ago, we had not thought of the HIPC Initiative. Today we have agreed to debt relief for 10 countries, and we are doing our utmost to reach 20 countries by the end of the year. Five years ago, we did not work on anticorruption programs. Over the last five years, we have engaged in over 600 anticorruption activities. Five years ago, we focused only on “doing no harm” to the environment. Today, we have an environmental portfolio of \$15 billion, including climate change and biodiversity programs.

We are working with governments to improve governance and the climate for investment. We are working to build sound regulatory environments so that the private sector can contribute more effectively to building infrastructure. The International Finance Corporation (IFC) is

working through its innovative projects and growing portfolio to expand the frontier of investment opportunities. So too is the Multilateral Investment Guarantee Agency (MIGA), where guarantee coverage has risen from \$600 million five years ago to over \$1.5 billion today.

We have focused on results and we have delivered. There are those, however, who say we promise more than we deliver.

In 1995, I said we would become a “knowledge bank,” and we have made great strides. In 1996, I said we would fight the “cancer of corruption,” and we are one of the leaders in that fight. In 1997, I spoke of the “challenge of inclusion,” and we are working more than ever to bring the weak and most vulnerable from the margins of society to the center stage. In 1998, I spoke about the need to balance essential economic growth with social and structural development and called for a Comprehensive Development Framework. Since then we have piloted this approach and we are introducing the poverty reduction strategies on a more global basis. And in 1999, I spoke of the importance of governance and capacity building and of partnering with others. We are working on these issues every day, day in and day out, and achieving great results.

We work constantly to improve the quality of our programs. Over the last five years, the share of lending operations with outcomes rated satisfactory or better by the Bank’s independent evaluation unit increased significantly. And five years ago, 34 percent of our projects were at risk. Today that figure is down to 15 percent. We are closer to our clients; we now have half of our country directors and 2,300 staff in the field. And we are more transparent, disclosing over 85 percent of our country assistance strategies, up from none five years ago.

We are a different Bank, doing development differently. Are we there yet? No. But are we more than halfway through a major reform program? Yes. And in the next five years, we will focus still more sharply on implementation.

We are ready and able to take responsibility for the social and structural agenda working with the IMF in supporting countries’ programs. We are working with our colleagues in the UN system and the other multilateral development banks on selectivity and the division of labor among us. We are working with governments, helping them to take forward their policies and institutions rather than simply implementing our projects.

All this calls for a further change in our business strategy: less micro-management, more working with governments to help them to set the broad parameters.

We will continue conditionality but we will streamline it and focus on fundamental principles. We will support fully owned country strategies, with program loans that align donor support with the government’s budget and policy cycles. For this purpose, we are introducing the Poverty Reduction Support Credit.

For both projects and programs, we will be flexible in responding to the specific needs of particular countries, and we will be looking for innovative ways to support regional programs with advice, financing, and grants.

We will work with our development partners to harmonize and coordinate our procurement, environmental, and reporting standards and procedures to reduce the administrative burden on clients.

We believe that this is the route to scaling up and to more speedy, flexible, and effective implementation.

Let me also make very clear that we will both continue and deepen our work in overcoming poverty in middle-income countries.

We cannot ignore the 1 billion people living on less than two dollars a day in middle-income countries. We will continue to bring both money and knowledge to work in education, health, and social protection in poor communities.

We will continue to build on the synergy between our lending and nonlending services, which is critical to promoting reform. We will continue to work with national and regional authorities to improve the climate for the investment and jobs that are crucial for poverty alleviation. Over time their access to markets will grow. We cannot simply ask these countries to rely on volatile capital markets to fund their fight against poverty. Our partnership must be long term, committed, and poverty focused—in bad times and in good.

This is a demanding program, and our budget is highly constrained. Let me take this opportunity to express my deep gratitude for the dedication and professionalism of our management and staff who, during this period of transition, have worked so hard. I believe they are the most dedicated, talented development team in the world, and I applaud them and their families. I am immensely proud to work with them.

Moving Forward: Responsibility and Opportunity

I have spoken of opportunity, of security, of empowerment. I have spoken of participation, transparency, and accountability. But what of responsibility? Two years ago we published a study on aid effectiveness. The results were clear. Countries with good policies that receive aid use it well. In countries with bad policies, aid is wasted. More countries have been putting in place those policies for sound growth. More countries have been doing well.

More and more developing countries are keeping their side of the bargain. But what about the developed world? Some countries are shouldering their responsibilities magnificently, and we are extraordinarily grateful to them. But many are not. I believe we need to focus on several priority areas as we move forward.

First, many developed countries have fallen far below the internationally recognized targets for aid. They must increase their aid. Second,

developed countries must provide the resources for deeper, faster, and broader debt relief. If we want to move rapidly on the HIPC Initiative, we must look to the rich countries for resources. This initiative should not be funded by reduced or more costly support for other low- or middle-income countries. Third, developed countries must dismantle trade barriers to poor countries. Our estimates indicate that the annual costs of all trade barriers by industrial countries are more than double total development assistance. Fourth, we must explore innovative instruments, including grants, for such pressing issues as HIV/AIDS, the environment, basic education, and health. We at the Bank must build up our Development Grant Facility. Fifth, multilateral and bilateral donors must work together to simplify their procedures and reduce the cost of doing business. And finally, we must recognize that there are more and more issues whose resolution requires action at the global level. We must act together.

Now is the time. Budgets of rich countries have never been stronger. Technology has never been more dynamic. Growth prospects have rarely been greater. Public action in all countries must be driven by a new commitment to poverty reduction.

The demographic challenge is before us. Over the next 25 years, nearly 2 billion people will be added to the existing 6 billion of the world's population, almost all of that increase in developing countries. In 25 years, Europe's population will be roughly the same as today, while the developing world will move from 5 billion to almost 7 billion people.

Without that commitment to development, we will not hold back the tide of deprivation, want, and despair. We will not create that equitable world, we will not ensure peace and stability for our children. All of us here today know that we can and must do more.

We Have a Historic Opportunity

This new world, our greater understanding, a wiser development community, and a changing international institutional environment mean that through working together, doing development differently, and giving voice to the voiceless, we now have a chance to make the next decade one of real delivery in the fight against poverty.

The opportunities and promise of a global economy, the information age, and life-saving and productivity-enhancing technologies are all ours to seize. We must work together to harness the benefits of globalization to deliver prosperity to the many, not just the few.

This is not just a new economic program. It is an obligation, an obligation based on shared moral and social values. It is an obligation that is also based on enlightened self-interest. It is an obligation to the next generation to leave them a better world: a world of equity, a world of peace, a world of security.

**REPORT BY YASHWANT SINHA
CHAIRMAN OF THE DEVELOPMENT COMMITTEE**

As Chairman of the Development Committee, I am pleased to report to you on the Committee's work during the two meetings held this year. Let me first express, on behalf of the Committee, our great appreciation to Minister Tarrin Nimmanahaeminda, for his outstanding leadership and guidance of the Committee during the past two years. I am honored to have been chosen to succeed him as Chairman for the next year. The Committee's agenda in these two meetings focussed on four basic areas that I would like to describe to you today.

HIPC/PRSP

The HIPC Initiative began four years ago in the Development Committee, and it continues to be a major focus of our attention. Last year we had encouraged the institutions to develop options designed to make the debt relief "broader, deeper, and faster" and to establish a clear link between debt relief and poverty reduction. These goals served as the basis for the agreements reached a year ago. At our April meeting this year, we noted the progress made in beginning to implement the enhanced HIPC Initiative and the poverty-reduction strategy process, and we encouraged all parties to move ahead more quickly so that the benefits of debt relief could reach all eligible countries as soon as possible.

Symbolic of the importance attached by member governments to this objective, two days ago we held a joint meeting of the International Monetary and Financial Committee and the Development Committee. This meeting reflects the close cooperation and high political commitment of all countries and institutions to achieving debt relief, poverty reduction, and economic growth for the poorest countries. Ministers agreed that momentum in the HIPC/PRSP program has built rapidly and that real progress has been made, and they urged that further steps be taken to strengthen the process. The results were reflected in a joint communiqué issued after the meeting. At yesterday's Development Committee meeting, we agreed on a communiqué that further indicates the Committee's continuing active interest in the success of these programs. We believe the Committee has contributed to a major strengthening of Bank/Fund collaboration in support of poverty reduction—increased cooperation that is likely to have an impact far beyond the HIPC Initiative.

The enhanced initiative entails, of course, additional costs for all participants. The Development Committee sessions and the joint meetings with the IMFC have helped to build political support and the momentum needed for success. Central to achieving this political support has been the reaffirmation of several key principles that have guided the ini-

tiative from the start, including the additionality of debt relief, the maintenance of the financial integrity of multilateral financial institutions, and the importance of fair and equitable burden sharing.

In short, we are very happy with the leadership role played by the two institutions and their leaders in making this ambitious venture possible with, of course, the generous support of many partners represented in this hall today.

Intensifying Action Against HIV/AIDS

Last April, the Committee addressed the HIV/AIDS epidemic, not only as a very serious public health concern, but as a severe danger to development itself. Ministers recognized that HIV/AIDS weakens economic growth, governance, human capital, labor productivity, and the investment climate, thereby undermining the foundations for development and poverty reduction. Ministers welcomed the Bank's expanded efforts against HIV/AIDS and urged a further intensification of its work on a global basis.

Trade, Development, and Poverty Reduction

In April, the Committee also emphasized the critical importance of trade for development and poverty reduction. Finance and development ministers have a direct interest in the impact of trade, and in a wide-ranging discussion ministers stressed the substantial benefits that could be gained from further liberalization of trade regimes in both developed and developing countries. Among a number of key recommendations, they encouraged the Bank to pay greater attention to trade in its country assistance programs as well as through a strengthened research program.

Future Directions for the World Bank

In our meeting yesterday, we addressed two subjects that together provide an excellent overview of the Bank's work at the global and national levels. The Bank now supports many programs that address cross-border issues. These "global public goods" include the attack on HIV/AIDS and the trade work I have just mentioned, but there are also many programs in other areas: for example, helping to strengthen international financial architecture, agricultural research, and global environmental activities. While not all these programs are new, there has been a surge of attention to them of late. The Bank is asked to take on many such global and regional public goods, and this first discussion at the Committee provided the Bank an opportunity to hear advice from ministers before final decisions on future priorities are made. We shall consider a more complete plan at our next meeting.

The second discussion focused on the Bank's support for country development in low- and middle-income countries. While the pattern is

quite clear for the former, it is much less developed for the latter. Ministers reiterated that the Bank continues to have a very important role to play in middle-income countries, home to so many poor people. We made very clear that we did not agree with some critics that the Bank is no longer needed in these countries. We had an interesting discussion about the areas that needed further analysis and creative thinking before the Bank returns next April with a more highly developed strategy for the middle-income countries.

Conclusion

This brief report cannot do justice to the wide variety of interesting and productive discussions Committee members have had in this past year, including an informal dinner prior to last April's meeting to explore in-depth global poverty challenges put to us by President Wolfensohn. We will repeat that effort to provide less formal opportunities for the Committee members to meet as well as to continue our efforts to provide important topical issues for ministers' deliberations.

I have greatly enjoyed my first experience as Chairman and look forward to the next year with great anticipation. The Committee is proving to be a very useful forum for addressing issues of significance to the Bank and often for the Fund as well.

STATEMENTS BY GOVERNORS AND ALTERNATE GOVERNORS

ALBANIA: ANASTAS ANGJELI

Governor of the Bank

Taking advantage of the opportunity of the Annual Meeting of the Boards of Governors of both financial institutions, the IMF and the World Bank, the valuable contribution of these institutions in the development of the global economy, especially to the developing countries and the countries in transition, I would like to inform you at the very beginning that the Albanian government is fully committed to the implementation of programmed policies to achieve sustained macroeconomic stability and to implement a wide structural reform. All of this will help us to achieve a rapid economic growth for the reduction of poverty, to improve the overall living standards, and to narrow the gap of economic and social development compared with the other countries in the region.

The achievement of these objectives will require a long period. During this period, the attention of the government has been focused on the strict implementation of the programmed measures for the realization of these goals, which are expressed in the form of commitments in the Economic and Financial Policy Memorandum of the government based on IMF agreement. Although we are preparing for local elections, we do highly evaluate this policy as a successful one.

Broad objectives toward poverty reduction are being undertaken after a successful performance in the reestablishment of macroeconomic stability and of restoring high and stable economic growth during the last two years (1998–99). This period was preceded by the restoration of order and security in the country. It is characterized by fiscal consolidation as a result of the deepening fiscal policies, a wider structural reform, and intensification of institutional reform.

One of the challenges already faced during this period is the systematic and stable growth of the financial resources of the government, mainly through the increase of tax revenues, after a period of continuous decline. The measures adopted at the end of 1997 and during 1998, after the crisis relief, made it possible to ensure a considerable increase of tax revenues and total budgetary incomes, enabling an increase of budgetary expenditures alongside the controlled increase of the international debt of the government. It is to be noted that the increased level of tax revenue collection during 1999 was realized during the Kosovo crisis, despite its effects on the Albanian economy. Meanwhile, a contemporary fiscal package for tax and customs revenue was being implemented.

Economic growth is estimated to be at the level of the program (7 percent). Although it is impossible to make a direct evaluation of GDP, the main economic sector development indicators indicate a general growth in the forecasted program. Although we have a low level of crediting economy, which is far from the prescribed limit, other factors are key to the economic progress, such as the increase of aggregate demand, investment volume, the banking infrastructure enlargements with new private banks, the recent improvement in the economic legislation, and the business climate.

Inflation for the past eight-month period is under the level of the program objectives, thus preceding a lower annual level, as was forecasted by the program. At the end of August, the consumer price index (CPI) compared with one year before was minus 1 percent. Under these circumstances, considering the increase in inflation for the last months, it is estimated that at the end of the year, the CPI will reach 2–3 percent.

The evolution of balance of payments is considerable, although the foreign trade balance demonstrates a higher deficit as a result of the increase of imports, compared to the lower export level. The deficit of the current account, which is under one cipher level with the tendency for decrease in recent years, is expected to reach the program's forecasted level, as will happen with the foreign currency reserves. The Albanian currency, the lek, is presented close to the program, despite a slightly depreciated level relative to the U.S. dollar.

During the last three years, the decrease of the financed deficit from inflationary resources has been one of the main factors to achieve sustained macroeconomic stability. The 2000 macroeconomic performance indicates a better performance relative to the program. The level of domestic credit to the government, which is one of the quantitative performance criteria and indicative targets of the program, at the end of September is estimated to be 5 percent lower than the program. However, it is expected that the situation will change during the coming period and at the end of 2000 will reach the programmed level at about 4.4 percent of GDP (lek 24 billion). This is because of the great efforts that are being made to reach an increased level of tax revenues, when at the same time, we have had a good performance in respect of expenditures by reflecting the positive experience of the past years.

We are strengthening the fiscal administration in order to improve tax and customs revenue collection. We have implemented all the measures for the improvements of the legal framework and the well-functioning of both administrations, according to the specific programs, in support of the economic program of the government, as well as in the accomplishment of an anticorruption program.

A key element in the government program is the structural and institutional reform. Actually, we are successfully implementing the program

related to strategic sector privatization and reinforcement of public institutions. This ambitious program, which was reformulated two years ago with the assistance of the World Bank, is being implemented with the required transparency.

The privatization of some strategic companies reflects the increasing interests of foreign investors. This is also due to the improvements in security and other issues. The successful AMC Company privatization, as regards the strict implementing procedures and the buyer qualities, is considered as the greatest success in this field. This has also led to an increase in the government budget. Alongside this positive experience should be mentioned the signing of the contract for the ICB privatization, which is followed by the privatization of some medium-sized companies.

The Public Administration Program Reform is another government key program element. In this direction, for the first time a contemporary legal framework was established, followed by concrete steps for its implementation.

We are currently in the budgetary preparation process for the year 2001. Reflecting positive experience gained over the years regarding the implementation of the new organic budgetary law, work is being undertaken in this respect. This law is better than last year, because it includes the orientation to link the annual budget with the medium-term expenditure framework (MTEF) program. Thus, great attention will be paid to the governmental program for poverty reduction and the priorities of support to the health, education, and infrastructure sectors.

Albania is distinguished for progress in its poverty reduction strategy. A preliminary document related to this program has been forwarded to the Boards of the IMF and the World Bank. Based on this document, the final poverty reduction document is being prepared in Albania. In preparing this document, great attention will be devoted to the intensive participation of local institutions and the private sector. This will be followed by discussion of the priority sectors that are affected by this strategy.

In this context, the Albanian government considers the strategy of poverty reduction a very important strategy with great profit for the whole country. At the same time, this strategy shall be an instrument for the presentation of the general development strategy of Albania and for the priorities of international community policies, especially of the donors.

Up to the end of September, all the criteria set forth in the ESAF agreement with the IMF. At the same time, other criteria whose deadlines expire at the end of the year are being implemented. Structural measures are being implemented according to the related graphics that are part of the Memorandum for the Government Economic Policies dated May.

Macroeconomic Developments and Perspectives

The ongoing economic development of Albania during 2000 continues to be in conformity with the macroeconomic forecasts of the beginning of this year and, on the other side, with the joint estimations with the IMF mission during the jointly held discussion in July. In general, it is regarded as a balance as to economic development, especially in the aggregate components demand.

It is expected that the economic growth level of 7 percent for 2000 shall remain unchanged as a result of arrangements in the structural internal demand for some sectors of the economy based on the actual level of economic development.

The inflation results under the planned limits (at the end of August this was minus 4.1 percent, compared with December 1999) and by the end of the year, it is expected to reach 3 percent, taking into account that it will increase in the late quarter of this year.

The nominal exchange rate had undergone some oscillation in the international foreign currency market, while the Albanian lek strengthened against the euro at 5.03 percent and declined compared with the U.S. dollar at 6.11 percent. This depreciation of Albanian currency is welcome, since it reflects the export increase of goods and services.

Attachment II

Overview of the Budgetary Situation

Budget situation at the end of September. Based on the data concerning the government's fiscal operations, it is estimated that the end-September budgetary situation is within our prediction. In this process is seen the positive tendency to accumulate budgetary revenues, especially from taxes, which figure about 100–101 percent of the plan. Compared with the same level of 1999, it is 30 percent higher.

With the accumulated tax and customs revenues at the end of September, the required target (lek 60 billion) was reached. This amount goes along with what has been agreed with the IMF mission, being officially included in the Financial and Economic Memorandum of the government. As regards the customs revenue collection, the target was not reached as foreseen. This gap from customs revenues was compensated with the extra amount collected from the tax administration.

The deficit created in the customs administration is directly linked with import volume, exchange rate, and medium custom tariffs. The results are under the program level. Evaluating the degree of customs revenue collection of this year and, moreover, concentrating on the objective and subjective reasons are some important factors to be men-

tioned that make us conclude that the annual program will be realized at 97 percent.

The accumulated expenditure of the budget at the end of September (about lek 115 billion) compares with the level of expenditure at the end of the year and will reach the planned level (over 95 percent). This is supported by the updated tendency being consolidated to absorb the upgrading of funds and the rhythmic implementation of expenditures.

The level of deficit at the end of the nine-month period is below the forecasted level preceding the full realization of the targets. In these conditions, it is estimated that at the end of September, we shall be a bit under the expected target (lek 18 billion). Although we do not have the final account, the expectations are very optimistic, as they were during the discussion with the IMF in July.

Recent changes in the 2000 Budget Law. Budgetary developments during the eight months and our evaluations for the ongoing period induce us to review the 2000 budgetary law, thus increasing the expenditure level at about lek 4 billion (or 0.8 percent of GDP). At the same time, we maintain key parameters for the deficit, which is financed by bank resources, and for inflation according to the program. Other important factors increased the possibility for financing the various sectors of the economy for the year 2000, such as realizations in the privatization of the state-owned enterprises and foreign assistance for the budget.

With these changes to the budget, we aim at fulfilling the several goals and obligations of the government:

- Ensure the total mobilizing of additional resources that are realized by: support of the budget over the annual programmed level; total revenues from the privatization, which are expected to overcome the annual plan; and an increase of budgetary non tax revenues from the public companies.
- Include in the Budgetary State Law the use of supplemental resources to finance public expenditures, thus assuring full macro-economic stabilization and compliance with the main parameters, according to the IMF agreement.
- Include in the Budgetary State Law an increase in the expenditure level, in accordance with government priorities, for some sectors, such as infrastructure, education, electric power system, etc.
- Support with budgetary funds the initiated projects in the framework of the Kosovo crisis, which should go along with the respective financing.
- Create new environments for sector budgetary policies for the year 2001 from the decrease in debt service through the lowering of the internal stock debt during 2000.
- Estimation for the end of 2000.

Positively evaluating the facts, at the beginning of September, the government found the instrument for an increase in budget expenditures within the general framework of the program. This will be implemented without setting aside the internal debt and without putting at risk the actual level of inflation. It is expected to reach the required level of the budget and the annual financing program.

The level of expenditures at the end of the year is expected to be quite near the programmed requisites. In this framework, one must mention the ongoing control of the expenditures to disallow the misuse of funds at the end of the year, as was seen at the end of the previous year. If at the end of the year, 3–5 percent of the allocated funds remain unused, this will be mainly due to the reserves resulting from good management of the funds through planning.

Implementation of the Measures Regarding Tax and Customs Administration

The achievements in the collection of tax and customs revenues demonstrate the importance of the package of programmed measures that are to be undertaken by the relevant administration and their efficiency in their job performance.

Customs administration. The measures undertaken according to the evaluation of customs issues in the framework of the legislation on customs implementation (the preparation of the instructions for customs evaluations, methodology, and the general rules in the Customs Code Implementation) and especially the public information to reach the needed cooperation, measures to upgrade the professional level of the customs officers, as well as the program for continuation of the job in this field are important priorities in full conformity with the principles of the agreements for participating in OBT.

Systematic work is being done on the adoption of references in order to deter evasion through false bills, as well as a range of measures to put into practice a system of incentive (encouraging) rewards in the customs system, such as special bonuses or rewards from the revenues of sanctions.

The internal control unit is systematically working on preparing a twice-weekly report on the observations from auditing and respective measures. We are implementing a full program for the auditing of the firms that profit from a special customs regime.

Tax administration. We believe that the main priorities among several steps undertaken in the framework of the program for decreasing fiscal evasion and the war against the underground economy are:

- control of fiscal receipts, aiming to reflect from these receipts the trade transactions of taxpayers;

- full processing of data and information taken from customs concerning a subject's imports, data taken from the treasury's branches on taxpayers operating with budget funds, and any other possible information;
- improvement of the exchange information scheme and other data on taxpayers' selling, especially of the biggest taxpayers, in order to increase the control efficiency of the biggest taxpayers' selling and to verify their activity; and
- strengthening of the control and identification of unregistered taxpayers, who make a clear fiscal evasion, and implementation of legally restrictive measures for the elimination of these activities.

The Projections for the Budget of 2001

The budget of 2001 and the medium-term expenditure framework. The MTEF document for the 2001–03 budget is completed. Five ministries of the same line have prepared expenditure sector strategies, and the Ministry of Finance has prepared the macro-fiscal framework, the resources framework, and the expenditure framework. The MTEF document that is discussed in the Economic Policy Committee and approved by the Council of Ministers is the main orientation for introducing demands from the above-mentioned ministries and the basis for evaluating their proposals in the compilation process of the state budget for 2001. As the Poverty Reduction Strategy Paper program needs and as the MTEF documentation has programmed, in the compilation of the state budget of 2001, the health sector, education, and infrastructure sectors are considered priority sectors.

Based on the main orientation for the budget compilation and as a part of the instructions, the following are included, except for procedural items, the orientation quotas for production, inflation, fiscal revenues, expenditures based on the medium-term objectives that are mentioned in this document. Meanwhile, we are in the process of compiling the base information for the budget demands of the institutions. We have prepared a preliminary version for the expenditure and revenue levels, and its deficit and financing, considering the latest developments for the project adjustments included in the MTEF.

Compared with the expected levels in the MTEF document, this project includes some improvements. First, projecting quite in the same level of general expenditures as the percent of GDP, we forecast an increase in general expenditures without interest. In this period, the first priority is given to increasing capital expenditures. This improvement is supported by two factors: the decrease in internal stock at the end of 2000, compared with the forecast period, as a result of using supplementary revenues from the privatization of the year 2000; and the forecasting of lower interest rates for government borrowing and, respectively, in the decreasing of the servicing cost of old debt.

Second, quite on the same level as the general budget deficit, a lower level of borrowing from the banking sector is forecasted, compared with the forecasting of the medium-term program, which is based on the reevaluations for privatization made during 2000 and those that are expected to be finished during the next year.

Budget Support Measures. We are working on preparations for the fiscal package in accordance with the fiscal revenue administration and also for all the tariff changes that are expected to take effect in the year 2000. On customs administration, we are preparing the changes that will be made in the law for the Goods List and in the Customs Code, reflecting the government's commitment to decreasing tariffs and resolving the subjects that are presented during the one-year period of support measures and half of the implementation of the New Customs Code.

- reduction of the maximum customs barrier to 15 percent from 18 percent, beginning January 1, 2001;
- reduction of the tariff for the import of machinery to 2 percent from 5 percent, or for all articles with 5 percent, or a combination of these; and
- some changes in tariffs to minimize fiscal evasion of customs, through the reduction of the tariff level or the unification of this tax for some samples that are considered exposed to evasion.

On fiscal administration, we have begun and will finish, together with the approval of the State Budget Law, as a support package, the amendment or review of several laws and legal acts; of the law for the value-added tax aiming at encasing the number of subjects included; of the law for taxes aiming at expanding taxes, etc.

Taking into account the legal improvements and the administration's fiscal improvements, and considering the basic economic factors for increasing fiscal revenues, the latest forecasting results are a bit below the expected level in the framework of the medium-term program, mainly because of the elimination of the solidarity tax, with is considered to have a zero effect for 2001, making the effects of the decrease in the rate equal the decrease in evasion.

Related to expenditure, in the framework of the World Bank project for public administration reform, the government has undertaken important steps to improve the management of public resources in the areas of formulation and implementation of the budget, macroeconomic and fiscal analysis and forecasting, and treasury and accounting, with a special focus on transparency and accountability.

In addition to the budget preparation based on the MTEF, measures are being taken to improve the implementation of the budget for next year, including the introduction of the new budget classification according to international standards.

Structural Reform

The government is fully committed to the reform of the financial sector through a combined agenda of privatization and improvement in the institutional framework. The privatization program is quickly implemented with transparency, reflecting the increase of foreign investment interest in response to the improvement of order and security.

The successful privatization of the AMC company—both from the point of view of procedures and from the quality of the buyers—in respect to the created image and the profits of the state, can be considered without reserve as the greatest success in this field. Following this positive experience, we can mention the successful agreement on the privatization of the TCB and the procedure for the privatization of five medium-sized companies (Beer, Durres, Canteen, Ajka, and Profarma) that are finally concluding procedures for the official publication of the Council of Ministers' decision on the authorization and signing of the contract.

We are working seriously and intensively for the preparatory steps, according to the program, for the other companies that will be privatized in the next year, such as the Saving Bank and Albetelecom. After choosing the chief operating and accounting officers and the advisers for the privatization of the Saving Bank, all the necessary steps are being undertaken to end the recapitalization process of this bank prior to its privatization.

A number of measures are being undertaken to prepare the privatization of the biggest insurance company, INSIG, such as planning of the restructuring strategy of this company, which is approved by the Council of Ministries, and beginning the privatization formula of this company, aiming at starting the privatization process of this company at the beginning of 2001.

Among the important measures that the government is actually undertaking are those measures that are connected with the restructuring and improving of the management of the biggest company of the Electricity Albanian Power KESH, including the assurance of management assistance from a powerful and reputable company. Actually, the negotiations with the winning company are ongoing in connection with the managing assistance contract, and we are waiting for it to soon be signed.

The program of the reform of the public administration is another key element in the program of the government. In this framework, after approving the law on the status of civil officials at the end of the previous year, all the acts to implement this law are actually approved. A number of concrete measures are being undertaken in their implementation, such as the publication of vacancies in the Public Administration

Department, development of a selection procedures for candidates, and the recruitment of a new civil officer. It is signing the special structure of the ministries, and we are working to set up a training institution of the public administration.

Attachment IV

Preparation of the Poverty Reduction Strategy

Albania is distinguished for its progress in its poverty reduction strategy. A preliminary document related to this program has been forwarded to the Boards of the IMF and the World Bank. Based on this document, the final poverty reduction document is being prepared in Albania. In preparing this document, great attention will be devoted to the intensive participation of local institutions and the private sector. This will be followed by discussion of the priority sectors that are affected by this strategy.

In this context, the Albanian government considers the strategy of poverty reduction a very important strategy with great profit for the whole country. At the same time, this strategy shall be an instrument for the presentation of Albania's general development strategy and for the priorities of international community policies, especially of the donors.

Progress is completed in the implementation of the working program for the poverty reduction strategy, and the steering committee and the working group are functioning. The government, with the assistance of the World Bank, has selected the Institute for Development Studies to undertake an analysis of the participatory process in Albania, and an analysis of the power groups. Meanwhile, the government has begun a dialogue with local donors on financial support of the program.

ARMENIA: LEVON BARKHUDARYAN

Governor of the Fund

I want to thank first of all the organizers of the meetings for having everything well prepared, as well as for warm hospitality we all can feel here. The meetings in Prague are important to many Fund and Bank members in a sense that Czech Republic is one of the most advanced in transition, and being here gives us a chance to get the first-hand experience of the successful transition. On behalf of my authorities I would like to welcome again the new Managing Director of the IMF. Mr. Camdessus has done a lot to turn IMF into an efficient and cooperative organization, and we are full of hope that with the new Managing Director those efforts will be further enhanced.

The international community is currently facing new challenges associated with globalization. And the theme of the IMF *Annual Report* per-

fectly matches the main challenge—to make the global economy work for all. Not only the countries borrowing from the IMF and the World Bank shall liberalize their economies, but also industrialized countries shall open their economies to developing ones—thus allowing them to fully capture the benefits of globalization. This is an area where we feel that international financial institutions, the Bank and the Fund in particular, in parallel with the WTO, should be more specific.

We all witness that globalization is providing enormous opportunities for growth, investment, and the transfer of know-how and technology, bringing about unprecedented economic expansion and welfare gains in the global economy. At the same time, the extreme income inequalities between nations are threatening to become a major source of political instability in the world. As stated in the joint statement by the Managing Director of the Fund and the President of the Bank, rapid growth in the world economy—fueled by expanding international trade and advancing technology, and resulting in more rapid increases in living standards to more of the world's people than ever before in history—is paralleled with severe deprivation and inequality, when one-fifth of the world's population lives on less than a dollar a day. Particularly in this respect, I would like to underscore the importance of regional cooperation initiatives—and their inclusion in both IMF and Bank programs to provide for more regional integration, and thus increased economic efficiency to help overcome poverty.

In our efforts to combat poverty, it is of critical importance to rely more and more on country-owned strategies, and we are happy to see that this idea is gaining more support throughout the international community. Despite well-practiced measures to achieve macroeconomic stability and structural reforms, none of them will succeed if the individual circumstances of a country are not taken into account. We do hope that in the forthcoming IMF and Bank programs, we will have a clear demonstration of this approach, which would provide a strong guarantee of the success of the programs. It goes without saying that, in the discussions of those strategies, both the international financial institutions and the governments should rely on the broad participation of civil society, thereby ensuring that it is the nation as a whole that accepts responsibility for its own development.

A participatory process is vital for the development of sound and credible poverty reduction strategies—a process in which Armenia is currently engaged. In developing our interim Poverty Reduction Strategy Paper (PRSP), with the help of multilateral institutions and in particular the World Bank, we have involved ourselves in a broad-based participatory process with the civil society, represented by the nongovernmental organizations, parliament, political parties, and the international donor community. We are confident that having the civil society

participating in the development of PRSP, especially the full PRSP, will ensure the successful implementation of poverty reduction strategies, with the civil society supporting our policies to reduce poverty and enhance economic growth.

We expect that the interim PRSP will be the basis for us to start new multiyear programs with both the IMF (PRGF) and the Bank (SAC-IV). Despite several shocks to the economy, Armenia continues to have a stable macroeconomic environment and reform-oriented government, which has had successful discussions with both institutions on the forthcoming programs expected to be approved within this year.

The government of Armenia is confident that, with the help of the international community, we will be able to achieve the goals set in the interim PRSP (further to be specified in a full PRSP). Having the support of the IMF in areas such as macroeconomic stability (balance of payments, exchange rates, and fiscal and monetary policies)—as well as in structural reforms needed to ensure the sustainability of macroeconomic stability—and the Bank's assistance in poverty reduction through institutional, structural, and social reforms will enable the government to push ahead with the necessary reforms to foster economic growth and minimize poverty.

AUSTRALIA: ROD KEMP

Governor of the Fund and the Bank

Australia would like to add its congratulations to Mr. Köhler on his appointment as Managing Director of the IMF and to Mr. Wolfensohn on his reappointment as President of the World Bank Group. On behalf of Australia, let me add my thanks to the people of the Czech Republic for hosting this year's Annual Meetings. Prague, a symbol of the achievements of the transition economies, is a most fitting site for the first Annual Meetings in the new millennium.

This is an exciting time. We have the ability to accelerate growth in living standards and reduce poverty around the world. However, the main challenge ahead for the international community is to ensure that all people in both developed and developing countries reap the benefits of the global economy. While openness to the global economy and integration in it is necessary for real human progress, it is not in itself sufficient to guarantee that progress will be secure and stable.

At this point, let me join other delegates in deploring the violence we witnessed yesterday. Violent protesters were not interested in dialogue, nor were they interested in any constructive solutions to the relief of poverty. Some comments made outside these meetings would suggest that globalization is the source of almost every problem currently pre-

vailing in the world. But the wealth of evidence suggests otherwise. Experience of the past 50 years has demonstrated that economies that have increasingly opened themselves up to the world economy have achieved some of the fastest rates of economic growth. And economic growth is the best poverty-busting policy.

But recent financial crises show that participation in the global economy is not without risks. Sustained growth requires sound domestic policies and institutions, better lending and investment assessments, and better performance from the international institutions. And we should not forget the responsibility of the international community. Lowering trade barriers is one of the major contributions that the developed economies can make to help boost the prospects of the poorest economies.

The outlook of continued strong world economic growth is welcome. But there are risks to this outlook. We have witnessed a significant misalignment between the major currencies. We should remember that small currencies can be destabilized and confidence in them weakened when they get caught in the crossfire of substantial shifts in the currencies of the majors.

The sharp rise in world oil prices is clearly another significant risk to the world economic outlook. In the light of rising world demand, it is imperative that restrictions on the supply of oil are removed and this is an area where we need a concerted effort by the international community. We welcome the decision by the U.S. to release some of its strategic oil reserves. We also need more intensive study of how greater stability at lower prices can be achieved in oil markets—not just in the short run but also in the more medium term. The Fund should work on these issues.

The current healthy economic environment in Australia reflects the major reforms that have brought our economic and financial policies and institutions up to world's best practice. Most recently, we have completely overhauled our tax system to ensure that it is internationally competitive and able to meet the demands of the twenty-first century.

As reform has made the Australian economy more competitive, work practices have improved and businesses have sought ways to raise productivity, including through profitable applications of the new information and communications technologies. This sound mix of macroeconomic policies and an ongoing microeconomic reform agenda has created a more flexible and resilient economy. The benefits of these reforms are evident in Australia's record of sustained strong economic growth—13 consecutive quarters of through the year growth at or above 4 percent—and low inflation outcomes.

Australia has embraced key elements of the so-called new economy. We have one of the highest percentages of the total population with Internet access. Businesses are also looking to embrace new information

and communication technologies. The key attributes of a new economy cannot be assessed simply in terms of the production of information and communications technology, but rather the ability to apply developments in new technology so as to increase productivity and an economy's overall output. In this regard Australia has correctly been identified as one of the fast-growth new economies of the 1990s.

The Fund's Agenda

Another crisis similar to the Asian financial crisis is always possible. It is up to us to ensure that the likelihood of further crises is minimized and that, should a crisis occur, its severity is limited. We welcome the expeditious completion of the review of Fund facilities, with the package of reforms recently agreed by the Executive Board. With that agreement in place, the Fund should now refocus its energies on those features that ultimately lead to successful programs—namely, program design, ownership and conditionality.

Australia also acknowledges the progress made to date in developing a framework for private sector involvement in crisis prevention and resolution. We urge the Fund to continue its work in this area, particularly in the area of tools for involving the private sector. We welcome efforts to continually strengthen Fund surveillance, including in assessing financial vulnerabilities. We believe that Fund surveillance should continue to focus on core macroeconomic and financial issues.

We have strongly supported the development of standards and codes and efforts to improve transparency. But the Fund must balance its role as confidential adviser with the push for enhanced transparency. As part of ongoing efforts to enhance the transparency of the Fund's operations, Australia is pleased to see that the Independent Evaluation Office will be a reality in the near future. Representation at the Fund needs to more closely reflect members' relative economic standing, although we would not like to see the representation of smaller, developing countries reduced. We support a simplification of the current quota formula system, which lacks both logic and transparency, and look forward to the progression of this issue.

The World Bank

The Bank has been reviewing and reassessing its agenda in the light of changing circumstances. It has made great progress in this regard over the past five years, but there continue to be many new challenges and we encourage it to press ahead. The Bank should emphasize a strategic approach in the development of its comparative advantage relative to other lending institutions. I mention, in particular, the principles of the Comprehensive Development Framework and their application through Poverty Reduction Strategy Papers, which provide a sound basis for the Bank's country work. The challenge is to ensure that the demands made

on borrowing countries are not excessive and are within countries' often-limited capacity.

Joint Fund-Bank Issues

To date, 10 countries have reached their decision points under the enhanced HIPC Initiative. Efforts are being redoubled to get a further 10 countries to this point by the end of the year. While this is welcome progress, it is no cause for complacency. The successful implementation of the enhanced initiative will require sustained effort over a number of years. We urge the World Bank and IMF to maintain their current efforts and continue to collaborate closely. For their part, potential HIPC beneficiaries must address factors preventing early delivery of relief, including in some cases, destabilizing conflicts. If not supported by stable and well-functioning policies and institutions, the proceeds of relief will be quickly squandered.

Debt relief must of course be funded. We encourage all who have pledged contributions to the Trust Funds administered by the World Bank and IMF to honor them as soon as possible. We also underline the importance of full participation of all creditors in the initiative, and encourage the Bank and the Fund to persist in their efforts to bring this about.

Debt relief provides one example of the importance of close cooperation between the IMF and World Bank. We welcome strongly the joint statement issued by President Wolfensohn and Managing Director Köhler clarifying the respective roles of the Bank and the Fund and outlining their vision for an "enhanced partnership." As they point out, the two institutions share the same broad objective. The challenge now will be to translate the spirit of the joint statement into better collaboration at the working level. While HIPC is a good example of early progress, we will be looking for further gains elsewhere, including the design and coordination of conditionality and cooperation in crisis situations.

Conclusion

Australians are, by their nature, optimistic people. We are also realists. We know that the continued strong growth of the Australian economy requires the maintenance of sound economic policies. We also recognize the responsibility of the international community, including the important role of the IMF and World Bank, to ensure that the full benefits of globalization are shared by all nations.

AUSTRIA: KARL-HEINZ GRASSER

Governor of the Bank

I would like to begin by thanking the Czech authorities for organizing the first Bretton Woods Annual Meeting in a so-called transition

country in Central Europe. This is a momentous occasion whose importance cannot be overestimated. We Austrians are proud that one of our closest Central European neighbors is hosting this event.

Let me also welcome the new Managing Director of the IMF, Horst Köhler. Mr. Köhler has the good luck to have been appointed to the helm of this important institution in times of relative calmness. This will give him the opportunity to use these calmer times to drive forward the necessary restructuring of the IMF. So far, Mr. Köhler has done an admirable job. Basically, I can say that Austria shares his visions for the IMF. I wish Mr. Köhler and his staff much luck, energy, and perseverance.

The State of the World Economy

The world economy today is in a much better situation than it has been in a long time: growth in the major regions is buoyant, employment is increasing, unemployment is falling, and core inflation is under control. In contrast to the previous three years, there are no acute financial crises—even though a large number of less developed and emerging countries are struggling with adjusting to the new framework of a more globalized economy.

The major threat to further world economic growth is the recent surge in oil prices, which leads to significant income transfers to the oil-exporting countries from the consuming countries. This affects both developed and less developed economies, the latter to a significantly more severe extent. Recent estimates show that world growth might be impaired significantly if the present high prices for crude oil persist.

We should consider ways to avoid these recurrent strong fluctuations in oil and other raw material prices by coming to long-term agreements between producing and consuming countries that respect the legitimate interests of both groups. We all should work towards this direction. It will benefit us all—businesses and consumers, producers and distributors. We all need more stable conditions and fair and equitable prices in order to plan our respective futures.

Today, fluctuations in raw material prices are also reinforced by the fact that most of them are accounted for in one major currency. Thus, strong fluctuations in exchange rates tend to increase the effects of swings in raw material prices. It is time that we look together for a strategy that will lead to raw materials' being priced in less volatile units.

Regional Imbalances

While the overall picture of the world economy looks very positive, behind it hide a number of persistent imbalances threatening the stability of the present growth path. High and surging current account deficits, widely fluctuating stock prices and low personal savings rates overshadow the extremely commendable growth record of the United States

economy. While all of us have expected a slowdown in this extraordinary growth performance for a number of years, we stand amazed at this longest upturn in recent history. Still, it is in all our interest to hope for a soft landing. This will require the reasons for the major imbalances to be addressed.

We certainly hope for a continuation of the still fledgling, but promising Japanese upswing. In order for this upswing to become sustainable, more of it will have to be supported by private investment and consumer demand. There is hardly any more leeway for public expenditure programs. The sooner the Japanese authorities can go about correcting their budget imbalance without endangering the upswing, the better founded the growth process will be.

Europe, at this time, is in a better economic position than it has been in many years. Growth fundamentals are very sound, all EU countries have impressive growth and employment records. The process of budget consolidation towards balanced budgets is continuing, structural reforms in a vast number of product and labor markets are under way, a reordering of the industrial and financial sector business landscape is taking place, with the aim of increasing productivity, cutting slack, and making European businesses more efficient in the light of increasing global competition. We are confident that a sober evaluation of this record will also eventually convince financial market players of the internal and external strength of the euro. More realistic and less volatile exchange rates among the three major world economic powers are in the interest of all of us.

While Austria does not support ideas that call for fixing the exchange rates of the major currencies of the world, we support all plans that reduce exchange rate movements that are not called for by imbalances in the economic fundamentals of the major regions.

The Reform Program for Austria

Let me briefly cover my own country, Austria. The new Austrian government recently revised its medium-term budget plan, an issue of previous criticism by international institutions, like the IMF, the OECD, and the European Union. We have moved forward in a series of bold steps and will slash our budget deficit to three quarters of a percentage point of GDP by the end of next year, and balance it in 2002. We are convinced that a large, front-loaded program, supported by structural reforms, a retrenchment of the state, and more efficient provision of public services where they are needed, is the right thing to do—especially in times of a very benevolent cyclical situation. This program is flanked by major market-oriented reforms in all areas of product, service, and labor markets. Our aim is to give new impetus to the post-World War II “Austrian economic miracle” and make Austria one of the most competitive economies in the world.

Some of the major reform points include a reform of the pension system, which suffers from aging problems; an administrative reform aimed at refocusing the government's activities on its core competencies and leaving other functions to the market; a modernization of the Austrian welfare state that provides security and help where it is needed, and not to every citizen; and, very important, a major campaign to increase the innovative capacity of Austrian society and economy in such a way that Austria will be able to participate fully in the benefits of a more globalized economy.

Austria Is a Strong Supporter of the IMF

We appreciate the help and advice that the IMF has given us in the past in this endeavor. Our interest in the IMF stems from the benefits that the IMF as co-provider of a world public good, namely financial stability, can bestow not only on Austria, but on the world economy as a whole. The experiences of the financial crises around the world during the past three years have proven once more that contagion effects can occur very rapidly, and if unchecked, can affect even countries with sound policies. It is in this sense that crisis prevention, management, and resolution are global public goods that can only be provided by global organizations.

Our interest in the IMF is also grounded in the role it plays in the transition countries, especially the European ones. Orderly transition with well-planned sequencing of market liberalization will eventually lead to the market-oriented and competitive structures and behavior that are so necessary. The further eastward from the Austrian border we look, however, the greater the problems become of leading these transition countries into the world economy. The Bretton Woods institutions still have a lot of work to do.

As a small country we want to stress once more that the principle of universality of the IMF is a very important one. Only in such an institution can small countries make their voices heard. For this reason we are skeptical as far as the mushrooming of informal forums dealing with matters of financial stability is concerned. This endangers the viability of the whole organization, since it reduces the "sense of ownership" of the smaller countries not included in these outside forums. This is not in the interest of the IMF; it is not in our interest.

We appreciate the return to its "core competence" by the IMF and its re-invigorated cooperation with the World Bank. We are convinced that in the context of the efforts to reduce poverty, both the Fund and the Bank have an important role to play—within their fields of competence—and that they must work together.

One specific area where the Fund can contribute to alleviating poverty is the great challenge posed by globalization. Globalization opens

up new opportunities for all countries, also and especially for developing countries. But the examples of Asia and Latin America during the last two to three years show that there may be dramatic threats to prosperity. In such cases, the IMF has a crucial role to play in advising and assisting countries to realize most of the positive side of globalization while avoiding the risks as much as possible. Surveillance, improved codes and standards, transparency—the IMF is in the ideal position to promote these to all countries. At the same time, the IMF can and must take into account the specific needs of each country and avoid a simplistic “one rule fits all” approach. The new strategies stressed by the new Managing Director go in this direction. We support them whole-heartedly. I welcome, in particular, the renewed efforts to an even closer cooperation than in the past between the IMF and the World Bank, as outlined by the joint declaration of Mr. Köhler and Mr. Wolfensohn.

As we will face a dramatic increase in poverty over the next 25 years, joining forces is a must. Moreover, if we reverse the trends, in addition to the cooperation of the Bretton Woods institutions, we must ensure that all other institutions—multilateral and bilateral, developing countries and donor countries—will have to work together in a meaningful division of labor and cooperation, taking into account all the elements necessary for the sustainable development of countries and their societies.

Bank Strategy

We support the Bank’s proposal to improve upon its strategy in low- and middle-income countries as a means to become an even more efficient and effective development player. Today, the global as well as local environments are changing rapidly. Both of them equally require responses. The Bank must respond to new circumstances quickly. Given the rapid external changes, prudence calls for a continued process of adjusting its procedures and instruments. In this respect, the Bank’s role and strategy in low-income countries has constantly adjusted through the IDA and HIPC processes to move in the direction of a clear anti-poverty focus. Nevertheless, the Bank must continue to enhance its strategy vis-à-vis and together with the poorest countries.

We agree that middle-income countries have been affected most by the recent global changes and that the World Bank Group must continue to help them to fight poverty in these countries and to adopt new strategies to make them better and sooner prepared for taking advantage of the opportunities that globalization can bring. We must not underestimate the role the World Bank plays in middle-income countries, even in the more advanced ones. Thus the need to adopt a new strategy is obvious. We basically agree with the proposal regarding the new instruments, although we would like to call for cautious implementation, as we do not yet know the financial and human resource implications. The newly

established Task Force on the World Bank Group Strategy for Middle-Income countries, in addition to its other tasks, will have the difficult task of developing appropriate ways to support non-borrowing Part II countries as well in their efforts to improve their structural and social policy agenda. However, given the additional economic and sector work required, the Bank will have to ensure that it can deliver on these ambitious goals.

Global Public Goods

We share the view that global public goods play an increasingly important role in furthering the development process. Because of opening boundaries and increasing world integration, global collective action can substantially benefit developing countries. The Bank can play an important role in this area along the lines discussed in the Development Committee. Thus, we support an increased focus of the Bank's activities on global public goods as an effective means to increase development efficiency and effectiveness. An important aspect of the topic is the formation and development of partnerships to push the issue forward and to raise awareness about the opportunities and benefits of global action, as well as to secure proper financing. Only a strong partnership with global and local players will ensure that global action has a long-term and sustainable perspective.

Austria Supports HIPC

We have expressed our full support of the enhanced HIPC Initiative, and we appreciate the progress made so far in implementing the initiative. Much progress has been made with respect to linking debt relief to poverty reduction in order to ensure that the poor are benefiting from HIPC. We have noted with satisfaction that the new PRSP framework for the efforts of the Bretton Woods institutions to support low-income countries, approved at the last Joint Meeting of the International Monetary and Financial Committee and the Development Committee is widely accepted among the developing countries as well as the development community at large. Considerable work has followed from this effort. We are encouraged to see from the experience up to now that the Poverty Reduction Strategy Papers provide the necessary tool for ensuring sustainable long-term debt relief and support its mainstreaming into the Bank's and IDA's business through the Country Assistance Strategy.

While we assess the recent developments to have been very positive, I also want to issue a word of caution. Recent HIPC cases have shown that the success of the initiative, especially with respect to poverty reduction programs, will very much depend on these programs not becoming routine affairs. Rather, it is essential that the viability and implementation of all agreed program measures is discussed with all stakeholders

and that a sustainable long-term strategy is found. If this does not happen, we know from past experience that the process will most likely fail. Therefore, as important as a speedy implementation of the initiative is, the quality of economic and social policies in support of the poor is by far more important. In addition, I urge both institutions—management and the Board alike—to make sure that, while ensuring the utmost efficiency, they provide in the framework of their administrative budgets the resources necessary to support the strategies agreed upon.

Austria Contributes to HIPC

In the past, we not only voiced our full support for the initiative, but also were always committed to contributing our fair share to HIPC financing. However, we consider it important that funding of HIPC be based on an equal and fair burden-sharing formula. This is even more important as the financing requirements for the initiative are enormous. Substantial efforts have been made to close the financing gap. Within the next couple of months, I will propose to the Austrian government, and subsequently to the Austrian parliament, that they pass a law to secure an Austrian contribution to the HIPC Trust Fund while a law to secure financing of the IMF portion of HIPC has already been presented to the Austrian parliament. My proposal for a HIPC Trust Fund contribution will be oriented along our share in IDA over the past few years and should be the basis to deliver our contribution in the near future.

BANGLADESH: SHAH A.M.S. KIBRIA
Governor of the Bank

It is a privilege for me to address the Annual Meeting of the Bank and the Fund. I join the other speakers in extending my warmest felicitations on your election to the Chair of this august body. On behalf of my government and the delegation, I also express our appreciation of the leadership that the President and the Managing Director have provided the two institutions at a time of rapid changes in the world—both economic and political. Last but not least, I thank the government of the Czech Republic, the people of this country, and Prague for their warm hospitality and the excellent arrangements they have made for the meeting.

The economic map of the world is changing fast; the rules determining economic relations within and between countries are also being redefined. As the new millennium begins, we have to address the task of dealing with the emerging economic issues. I will touch on some of these critical issues.

First, the transfer of resources from the industrial countries to the less-developed countries fell far short of the promise. Official development assistance transfer has been about one-third of the agreed target.

Much more disconcerting is the fact that the proportion has been declining over time.

Second, questions are being asked about the impact of liberalization on the developing countries. These countries have not received an equitable share of the benefits of liberalization, while our industries face stiff competition from imports from industrial countries. Our access to their markets still remains constrained by tariff as well as non-tariff barriers. Competition in the service sector in the domestic market compounds the problem further because of the wide gap in human and technological resources.

Third, liberalization of the flow of goods and services has not been matched by the flow of factors of production. Labor migration policies of the industrial countries continue to be restrictive. Movement of capital has been highly volatile, and unstable portfolio investment has often exacerbated the problem.

The performance of world trade and factor movement has important implications for development assistance. Had the developing countries done better in trade and factor movement, the need for aid would have been far less. Efforts should be made to accelerate the flow of resources to the developing countries, particularly ODA; to enhance market access for their products; to progressively liberalize labor migration; and to establish institutions and mechanisms for ensuring a more orderly flow of capital and the stability of currencies.

While aggregate flow of ODA has not increased, delivery of aid has also been experiencing constraints, and in many cases has slowed down or declined. Increasingly, aid is being linked with policy and institutional reforms. We recognize the importance of reforms, but external pressures for reform that disregard the structural and political complexities attending policy and institutional changes can be self-defeating and may include a slowdown of the reform process. In order for aid to perform its basic task—namely, helping low-income countries accelerate growth through higher investment and outlay for the provision of public goods and social overhead—the magnitude and speed of delivery have to improve. Slow delivery or cutting of aid does not necessarily make the environment more conducive to change. More important, policies are not technical-bureaucratic exercises only; the strong underpinnings of policies are societal support and endorsement. Technical-managerial judgment should not displace the critical societal endorsement needed for successful reforms.

It is gratifying to note that participatory and democratic developments are among the values that aid now aims at promoting. It is important for countries like ours, where we are trying to establish democracy on a strong institutional foundation, despite odds—even subtle resistance—from groups that benefited from military rule and are yet to

absorb democracy fully as a fundamental value in their political culture. Those who take decisions on aid will have to exercise very fine judgment as to what policies and strategies will promote development and democracy simultaneously.

Let me turn briefly to the policies and developments in Bangladesh achieved under the dynamic leadership of Prime Minister Sheikh Hasina. While the list can be long, I will mention only a few critical achievements.

- Sustained growth, poverty reduction, and social justice are the cornerstone of our development strategy. Besides structural policies, a number of specific affirmative actions have been initiated to this end.
- Since 1996, we have sustained an annual average growth rate of 5.1 percent.
- Macroeconomic stability has been sustained, coupled with low inflation at less than 4 percent and improvements in domestic savings and national investment ratios, close to 18 percent and 23 percent, respectively.
- A liberal foreign exchange regime, deregulation of investment, and a wide range of fiscal incentives have been adopted to attract direct foreign investment. The initial response has been encouraging, but we expect a much stronger response.
- A flexible exchange rate policy has encouraged export; however, investment and technological upgrading are required for diversification of products as well as export destinations.
- Development strategy focuses on the social sector and human resources, including health and education. Enrollment rates at the primary level exceed 85 percent, and, more significantly, gender parity has been achieved by Bangladesh.
- A series of actions has been taken for the empowerment of women; significant among them being direct election to representative local government institutions and recruitment into all branches of the government, including the defense services.
- As part of the strategy for better governance, transparency, accountability, and anticorruption measures are being strengthened through enhanced professional capacity and autonomy of audits, anticorruption administration, and parliamentary oversight.

The government remains firmly committed to a development strategy for rapid growth with social justice, poverty eradication, macroeconomic stability, and structural reforms for better efficiency, and, in the

political arena, to strong democratic and participatory institutions ensured by empowerment of the socially disadvantaged and weak.

BELARUS: GENNADY V. NOVITSKY
Governor of the Bank

On the threshold of the twenty-first century, the development of the global society is determined by two major forces: globalization, meaning an integration of the world countries, and localization as seeking self-determination.

Globalization has demonstrated that any economic solutions, wherever reached, should take account of international factors. While globalization brings the world countries together, localization changes their internal balance of forces. Today, none of the countries in the world can neglect the multifaceted political and economic interaction between nations.

The guiding principles, as outlined in the Joint Statement of September 5, 2000 by Messrs. Köhler and Wolfensohn, heads of the IMF and the World Bank, stipulating the need for a comprehensive approach, respect and preservation of cultural heritage and diversity, and the tailoring of a country's development strategy to its circumstances, fully coincide with the stance of the government of the Republic of Belarus.

A strategic development target of the Republic of Belarus is to raise the standard of living and to build a free democratic society. The selected model of development, i.e. a socially oriented market economy, also corresponds to that target. It combines free private initiative and competition with an active involvement of the state, and economic efficiency with a high level of social protection for the citizens. This explains why the government takes cautious and gradual action in matters regarding reform implementation.

The volume of foreign trade in goods and services in Belarus surpasses its GDP by 30 percent. Such openness of the country's economy makes it very sensitive to exogenous factors. After obtaining its sovereignty, the Republic, like most other post-socialist states, faced severe hardships in the economic sphere. The period of transformation appeared to be a very difficult test for its economy. The situation is aggravated by the fact that a considerable amount of resources (up to a quarter) has to be diverted for eliminating the consequences of the Chernobyl disaster.

Despite all hardships, however, the Republic is following its strategy of gradual reforms focused on the preservation of social priorities in development and has been retaining positive dynamics of the main macroeconomic parameter, GDP, for five years already. Thompson Bank-

watch, an international rating agency, raised by a point the country market rating for Belarus and qualifies it as stable (*Interfax, 29 August 2000*), thus proving our choice of a model for economic policy and economic progress in Belarus for the past four years was right.

At the same time, we haven't received any credit resources from international financial institutions for the said period. Ultimately, this affects the country's macroeconomic stability and pace of economic growth.

Following the IMF recommendations and complying with its basic requirement, i.e., to transfer to a unified exchange rate for the Belarusian rubel, the Republic has been conducting a tighter monetary and credit policy since late 1999. Within this approach, domestic rubel credit is allocated exclusively to financing the country's budget deficit; but the growth of the rubel money supply is decreasing.

The multiple exchange rate of the Belarusian rubel is close to its total removal. The convertibility of the national currency in the domestic foreign exchange market has improved. Foreign exchange trading at the Belarusian Currency and Stock Exchange has increased. The demand of households for foreign currency is being satisfied.

We are aware that a macroeconomic policy with a focus on hampering inflationary pressures is of key significance to support the Belarusian rubel. This can be, first of all, achieved by cutting public expenditures, the country's budget deficit, and volumes of its emissional lending, as reflected in our programs for the year 2001 related to the country's monetary and credit policy, social and economic development, and budget. These measures demonstrate that the authorities of the Republic of Belarus are ready to more effectively develop its cooperation with the International Monetary Fund and the World Bank and to maintain the atmosphere of mutual trust.

We hope that the normalized situation in the country's currency market will serve as a basis for the World Bank to change main provisions of the Country Assistance Strategy for the Republic of Belarus. A transfer from non-lending services to loan agreements will, in turn, support the process of market reforms. We would like the World Bank to devote its closest attention to the official approval of a loan for the Social Sector Energy Efficiency project. Otherwise, we can lose those important positive results achieved in implementation of the Bank's \$1 million advance for the project preparation.

We hope to find a solution that will be acceptable for both sides and are ready to discuss a possible list of further actions deemed necessary for the loan approval. In particular, we believe it would be a good idea that the World Bank assess and apply in Belarus such new lending facilities as adaptable lending.

We once again confirm our interest in further cooperation in such spheres as private entrepreneurship development, fighting HIV and

tuberculosis, social protection for low-income households, and the Development Through Internet project. The government regards these spheres as priority in its cooperation with the Bank and is ready to maintain dialogue both within the framework of relations between the World Bank and the government and on a multilateral basis.

On behalf of the government of the Republic of Belarus I would like to reiterate our commitment to reforms and interest in expanding cooperation with the World Bank.

BELGIUM: DIDIER REYNDERS

Governor of the Bank

I should like to pay special compliments to Mr. Horst Köhler, the new IMF Managing Director, who is attending his first Annual Meeting. I am confident that Mr. Köhler will decisively address the problems currently facing the Fund.

As the IMF/World Bank Annual Meeting is being held in Prague this year, we are all able to note the achievements of the transition economies and the challenges they face. This transition, which began in Europe some ten years ago, had become an inexorable process in view of the manifest limitations of the centrally planned economies, whose conversion into market-based economies is one of the major challenges of our era. It is a conversion to which our institutions justifiably attach considerable importance, as evidenced by the fact that two chapters are devoted to the transition economies in the most recent *World Economic Outlook*. These analyses highlight the sacrifices these countries have had to make, including in terms of declining purchasing power. They also demonstrate that the major challenge for the transition economies is to strengthen the move toward structural and institutional reforms. This is particularly true for those countries applying for membership in the European Union (EU), and subsequently the European Monetary Union (EMU). In the interests of the applicant countries themselves, I would stress the importance of attaining the "Copenhagen criteria"; meeting the political and economic membership criteria will enable applicant countries to garner the fruits of membership.

Capital account liberalization is one of the key reforms associated with membership. The World Bank and IMF have a very useful role to play in this respect: in light of their respective skills, they are in a position to judge the extent to which the financial systems of countries applying for membership are strong enough to withstand the pressures of heightened competition and increased exposure to external shocks attributable to liberalization of capital flows.

We are encouraged by the World Bank's recent initiation of a dialogue aimed at making its loans and policy advice specific to the needs

of countries requesting World Bank services. However, this dialogue needs to be deepened so that tools specifically geared toward addressing the needs of the various country categories can be developed. I am thinking in particular of the transition countries whose structural reforms need effective assistance.

Belgium, whose constituency includes several transition countries, will shoulder its responsibilities in assisting this process. It will do so particularly for those countries seeking to join the EU. I will be very pleased to welcome them as integral parts of the European continent to which they belong. I sincerely hope that the Czech Republic, as well as other countries, will meet the criteria enabling it to join the ranks of new EU members in the near future.

World Economic Outlook

After some hesitation last year, economic growth in the euro area accelerated to 3.5 percent and is likely to hold virtually steady around this level over the next year.

This growth rate accurately reflects the potential of the euro area, whose economic fundamentals are excellent. Further structural reforms are nonetheless necessary to support this growth and maintain it at current levels. Thus, Belgium, as I indicated last month, expects to implement in-depth tax reforms. This in turn should help reduce the tax burden on income from labor, and especially on low wages, and so improve the employability of job seekers. Thus, everyone will have sufficient incentive to engage in gainful employment.

The tax reforms to be implemented will considerably improve the quality of government finance without jeopardizing the restoration of Belgium's fiscal position. Modest surpluses will be recorded in the next four years, allowing Belgium to cope with the future challenge of its aging population.

Belgium has also embarked upon in-depth goods and services market reforms. All EU countries have initiated reforms that are expected to help them achieve sustained medium- and long-term growth. The EU will thus contribute to maintaining high global growth even after a slowdown in the United States.

Such growth—stable and sustained over the long term—will be maintained more readily if exchange rates between the major zones are close to their equilibrium level. On this score, I wholeheartedly endorse the assessment of Fund economists who maintain that exchange rates should not deviate significantly from their equilibrium rates. Persistent deviations, even in a country with an undervalued currency, ultimately lead to distortions in resource allocation that are liable to endanger price stability and sustainable growth.

The efforts to strengthen the euro's exchange rate will undoubtedly be facilitated by the improved ability of financial market participants to

assess economic policy pursued by euro area authorities. During Belgium's tenure over the next year, I intend to focus especially on the preparation, functioning, and communications of the Euro group—the meeting of ministers of euro area member countries—while engaging in constructive and continuous dialogue with the European Central Bank.

The euro area needs to acquire added visibility. The Fund's efforts to pursue an Article IV consultation for the euro area will undoubtedly help achieve this goal.

The upsurge in oil prices (world prices have tripled since the February 1999 OPEC meeting) is certainly in no way comparable to the price increases recorded during the two oil shocks in the 1970s and early 1980s. Nevertheless, its size is such that it can only cause problems. Although the impact of the energy problem has been reduced, numerous countries, including mine, are still particularly vulnerable to such increases. It is in our collective interests, including those of the oil producing countries, to prevent a slump in world growth; it is therefore essential to ensure that the market is supplied in a manner more in line with economic circumstances. The oil importing industrial countries should avoid repeating past errors. Inflation should be kept under control. The terms-of-trade loss brought about by higher oil prices should lead to an effective process of adaptation in all economic sectors. In no case should costs to the latter resulting from the rise in energy prices be passed on to the public coffers.

International Financial Architecture

The increase in oil prices will have repercussions on the financial markets. These markets have changed since the previous oil shocks, classic intermediation through credit institutions having been superseded by the enhanced role of the securities markets.

The Fund and all financial market participants should consider themselves partners in the flow of information and in the prevention and resolution of financial crises. The rise in oil prices will cause substantial deterioration in the balance of payments of several countries. It is important, first of all, for the Fund, through the information-gathering networks it manages, to be able to identify quickly those countries that are experiencing financing problems, to quantify the problems, and to inform the markets. Communications between the Fund and financial market participants should be interactive: in this spirit, the creation of the Capital Markets Consultative Group at the initiative of the Managing Director is highly promising.

On the subject of crisis prevention, surveillance should be increased to a very great extent and the context in which economic agents take risks and manage them improved. In this spirit, Article IV surveillance could be refocused on examining members' vulnerability to financial cri-

ses. This should especially be the case for the industrial countries in which the Organization for Economic Cooperation and Development is studying structural problems. As suggested by the Office of the President of the European Union, Article IV surveillance could also address the issues of financial integrity and the fight against corruption and money laundering, subjects to which our populations are acutely sensitive.

Finally, the private sector's role in resolving financial crises should also be spelled out. Thus, private sector involvement in the financing of Fund programs should remain a key element of efforts to strengthen the international financial architecture and should make it possible to avoid the problems of moral hazard. It would be worthwhile to specify the underlying principles of such a policy, to get beyond a strictly ad hoc approach.

In addition, I consider it quite necessary for the Fund to be given real power with respect to capital flows, so that it can be in a position to give opinions, where necessary, on unilateral payment suspensions in the external debt framework.

Cancellation of the Poorest Countries' Debts

The Bretton Woods institutions have worked hard to make a success of the program to reduce the poorest countries' debts. Some would like more countries to benefit quickly from the advantages of this program. Nevertheless, I think the greatest factor in the success of such a program lies in the broadest possible participation of the representatives and the people of the countries in question. Without unduly delaying decisions, the World Bank and the Fund should therefore make certain that the poverty-reduction plans prepared by the countries reflect the widest possible consensus. It is also vital that debt reductions granted under this program have a significant impact on the beneficiary countries. I therefore urge the contributing countries to honor their commitments without delay, so as not to place the funding of the program in jeopardy.

It is also important that World Bank assistance programs take account of the specific needs of the countries in question. From that perspective, the Bank's initiative to establish a line of credit to finance the fight against AIDs, a scourge that is causing enormous economic and social damage in Africa, is encouraging.

Future Role of Our Institutions

The globalization of economies and markets has prompted the Fund to rethink its role and its actions. Major efforts have already been made to reflect and take new positions, and we welcome them. Consequently, the Fund should—no doubt more so than in the past—focus on its core tasks, namely, macroeconomic and exchange rate surveillance, as well as assessing the soundness of financial systems. This is merely a matter of

identifying the comparative advantages of our institutions. It is certainly not my intention to limit their role. Quite the contrary: they are more crucial than ever for making a success of globalization and for doing so in such a way as to benefit all. It is therefore essential that our institutions evince a genuine participatory culture that is attuned to the financial markets and their participants and open to the suggestions of civil society and, more particularly, to non-governmental organizations. The Fund and the World Bank must remain at the center of the international financial system: their multilateral nature makes them the most appropriate venue for effective international cooperation.

BRUNEI DARUSSALAM:
DATO HAJI SELAMAT HAJI MUNAP
Governor of the Fund and the Bank

Assalamu'alaikum Warahmatullahi Wabarakatuh and good morning. The health of the world economy in general is improving. In Europe the economy is doing so well that it is now challenging the United States as the world's economic power.

The April 2000 *World Economic Outlook* estimates that global output growth in 1999 was 3.3 percent, somewhat above the 3.1 percent of average growth since 1990. Prospects for 2000 are better still, with global output growth expected to accelerate to 4.2 percent, a significant upward revision to the estimates made by the IMF in October 1999. It is now projected that global growth in 2000 could reach 4.7 percent.

Recovery in ASEAN continues to strengthen. The pace and pattern of the recovery will continue to be critically affected not just by domestic events, but also by growth in the global economy. If the consensus view proves correct, external conditions over the next 12 months will help consolidate, broaden, and deepen the recovery that is now underway in the region.

Most of the crises-affected ASEAN economies started to bottom out some time in the second half of 1998, and then began to stage a recovery in early 1999. In 1999, recovery proved to be faster than expected, but recovery was only partial. In 2000, recovery has consolidated further.

Brunei Darussalam has not been spared from the effects of the recent economic crisis. We have, however, taken a proactive stance towards recovery. We have formed the Brunei Darussalam Economic Council to reexamine our economic situation and make the necessary adjustment.

Since its formation in 1998, the Council has identified several short-term measures as part of our Action Plan for Recovery. This includes measures to review and improve the government payment system as

well as increases in public spending on selected strategic areas, including housing, tourism, and information technology infrastructure.

The recovery of our economy is foremost in our National Agenda, even as we are coping with the consequences of globalization, and recovery programs have begun to be initiated. At the same time, to give greater emphasis on development by the private sector, a number of measures are being undertaken in the financial fields. We are forging ahead with our fiscal consolidation, including gradually restructuring the budget, and increasing revenues through increased oil production as well as through increased and new charges and fees. Fiscal consolidation is also gradually effected through commercialization of certain government services as well as corporatization of certain government agencies as a prelude to their privatization.

In the meantime, we have turned Brunei Darussalam into an International Financial Services Center. And we are also pushing Brunei Darussalam to be the Service Hub for Trade and Tourism for the BIMPEAGA Region. The setting up of the International Financial Center was announced by His Majesty The Sultan during His Majesty's fifty-fourth birthday on July 15, 2000. The Brunei International Financial Center (BIFC) is a major initiative of His Majesty's government to diversify the economy. With this, the nation hopes to position itself as an equal partner in the on-going globalization of financial and commercial activities. BIFC will primarily be complimentary to existing financial markets and their needs. The jurisdiction has set out to meet international market requirements. This will inevitably lead to some healthy regional and global competition. But it will also lead to significant strategic alliances with other nations as well as the global private sector.

Brunei Darussalam's Ministry of Finance is now cooperating with central banks and other supervisory authorities from Bahrain, Malaysia, Indonesia, and other Islamic countries toward setting up an International Islamic Money Market (IIMM). We believe the establishment of IIMM is the right step forward in making Islamic banking as innovative and reliable as any good conventional banks. The establishment of IIMM will also enhance the level of cooperation between Islamic banks and Islamic monetary authorities and will speed up the development of various Islamic money market and capital market instruments that are liquid and fully acceptable to all Islamic banks.

We support the broad strategies of the Fund and the Bank. We hope that the lessons that have been learned in dealing with the Asian financial crisis would enable us to come up with more effective measures to prevent its recurrence in the future. Or, at the very least, we will be better prepared to deal with future crisis. We need to address not only the macroeconomic issues, but also its impact on the poor and vulnerable in our society. There is a need to have a mix of policies not only aimed at growth, but also designed to take care of the less fortunate as well.

We are happy to note that the IMF and the Bank have given special attention to the poverty-reduction aspect when drawing up their assistance program. We can move forward in our endeavor to alleviate the struggle of the poor by speeding up the implementation of the programs under the HIPC Initiative.

With regard to the quota subscription, the Fund should endeavor to reformulate its allocation so that it reflects the changing circumstances of the global economy.

CAMBODIA: CHEA CHAN TO AND KEAT CHHON
Governors of the Fund and the Bank (respectively)

It is once again a great honor and privilege for us to address the fifty-fifth Joint Annual Meeting of the International Monetary Fund and the World Bank on behalf of the Royal Government of Cambodia and the National Bank of Cambodia. It is also a great pleasure to be in Prague, an ancient city enriched by cultural life and fine architecture, under such happy and promising circumstances. Only two years ago, the world financial and economic conditions, especially those of the Asian region, were rather grim, and the future prospects were uncertain. The world economy, however, turned in an impressive performance since 1999, showing clear signals that we have emerged from the crisis. Moreover, now the underlying fundamentals of the world economy have more generally strengthened, and a more sustainable pattern of growth has been created. All these achievements are, surely enough, to be credited to the relevant countries themselves. But we must also give emphasis to the tremendous efforts of the international community, especially of the Bank and the Fund, in assisting countries to implement the necessary macroeconomic adjustments and structural reforms in the financial, corporate, and government sector. On behalf of the people of Cambodia, allow us, therefore, to take this opportunity to express our sincere gratitude to the two Bretton Woods institutions for their support thus far and for the assistance that we will receive in the years ahead.

This Annual Meeting of the World Bank Group and the International Monetary Fund at the beginning of the millennium is of paramount significance. It provides a forum for discussing the most pressing issues facing humanity in the new century. Let us now turn to the issues that are of utmost importance for all of us: globalization and poverty reduction.

We have all witnessed how globalization has become a watchword and a catchword in the past few years. Like it or not, globalization is an all-embracing, irreversible revolution and is the central challenge we face today. While globalization offers great opportunities, at present its

benefits are very unevenly shared, and its costs are unevenly distributed. Thus, our top priority is how to meet the challenges of globalization and how to mitigate the impact of globalization, i.e., how to turn the forces of globalization into a positive factor for our national economy.

Globalization could lead to the marginalization of developing and least-developed member countries if they do not adjust to maximize their benefits. Obviously, there is a growing link between globalization, poverty, and the digital divide. Where the capacity is not in place, information technology is poised to become a powerful force of exclusion. In the age of modern technology and the Internet, many countries have found themselves in a spiral of pauperization and social disintegration. The current wave of globalization, though holding promise, has widened the disparity between the rich and the poor. The digital revolution should be exploited for human development to create a global knowledge-based economy. We must seek to transform the digital divide into a global landscape of digital opportunities. Closing the digital divide is key to long-term poverty alleviation. Measures to address this situation are self-evident: deep and broader debt relief; improved market access; foreign direct investment; management of capital flows—especially short term—and financial and technical support in the current trading system. At the same time, developing members should strengthen their capacity to profit from globalization and the knowledge revolution and to ensure that globalization becomes a positive force for all people. Moreover, greater efforts should be deployed to combat poverty, hunger, and marginalization. Developing countries' access to the information superhighway should be facilitated. Knowledge, information, and the access to new technologies are the foundations on which to build higher living standards. In this regard, Cambodia supports efforts being made to relieve the burden of unsustainable debt in the poor countries through HIPC and PRGF initiatives.

The impact of the financial cataclysm in the region two years earlier has resulted in large-scaled tragedies that cannot be gauged. Asia is recovering rapidly, although the growth is still fragile. The experiences drawn from this crisis show that the poor are the most vulnerable and the most affected by the crisis. Therefore, there is a dire need for the establishment of social safety nets to prevent future crisis and for the enactment of regulations and the adoption of policy measures to ensure smooth operation of the market mechanism. The world has spent a lot of time discussing the need to establish social safety nets and a new financial architecture, and to control capital flows and speculative operations in the financial markets. However, it is regrettable that so far progress has been slow. More needs to be done to implement concrete actions to resolve the cross-cutting issues currently faced by the world economy and financial systems in order to maintain decent social safety

nets for the millions of poor people scattered around and vulnerable to all kinds of crises. Indeed, at the regional level and within the ASEAN and the “ASEAN plus three” framework, we have worked on some of these issues. The Chiang Mai Initiative is an important step in this direction. These efforts, however, will not be sufficient if there is no overhaul in the world order.

Let us take this opportunity to apprise this distinguished forum of Cambodia’s efforts to combat poverty. The Royal Government of Cambodia (RGC) has recently drafted an interim Poverty Reduction Strategy Paper that represents a development program addressing specific areas that are key to improving the lives of the country’s poor. Ensuring participation from various segments inside and outside the country in its preparation, this paper will serve as a guide for a more coordinated action toward achieving the country’s primary development objective and for our pioneering work toward preparing the full Poverty Reduction Strategy Paper in the coming year.

The RGC has responded to poverty by taking measures to accelerate economic growth, improve the distribution of income and wealth, and promote social development. The government’s poverty-reduction strategies have three main components: (1) long-term, sustainable economic growth at an annual rate of 6–7 percent; (2) equitable distribution of the fruits of economic growth between the have and the have-nots, between urban and rural areas, and between genders; and (3) sustainable management and utilization of the environment and natural resources. The ultimate objective of poverty reduction is to ensure more cohesive, consensus-based development with equity for Cambodia and all Cambodians.

Growth is the most powerful weapon in the fight for higher living standards. Faster growth will require policies that encourage macroeconomic stability, shift resources to more efficient sectors, build physical infrastructure, and strengthen prudent macroeconomic management, combined with economic openness and market orientation, to integrate with the global economy. Cambodia continues to deepen its integration with the regional and global economy and maintain outward-looking and market-based economic, financial, and trade policies. In this regard, the government will maintain its market-based exchange rate policy and liberal exchange system. Trade reform will also continue in the context of AFTA and Cambodia’s accession to the WTO.

The government’s economic framework focuses on increasing economic growth to 6–7 percent over the medium term, keeping inflation below 4 percent, containing the external current account deficit to sustainable levels, and prudent management of external debt. To reach these objectives, the government pursues fundamental fiscal reform aimed at increasing revenue and improving the pattern and efficiency of

spending. We are committed to continuing the strict implementation of the VAT, avoiding tax exemptions, rationalizing incentives granted to investment projects, enhancing the collection of non tax revenue and ensuring direct transfer of revenue to the Treasury, recovery of arrears from the private sector, and strengthening of the tax and customs administration. The main goals are to raise government savings to finance the public investment program to avoid bank financing.

The main thrust of the structural reform programs is to strengthen forestry and public resource management, improve tax administration, implement civil service and military reform, promote financial sector development and private sector development, and embark on trade reform. The RGC is committed to reviewing the tax policy framework, with the objectives of raising revenues, enhancing tax buoyancy and equity, and removing distortions that discourage private investment. This is designed to develop a modern tax framework and transparent procedures for managing natural resource concessions, including mining, petroleum, and forestry, with the objectives of improving their sustainable, efficient utilization and enhancing revenues to the government.

However, the benefits of growth for the poor may be eroded if the distribution of income worsens. Thus, there is still room for policies that target interventions to improve health and education outcomes. At the top of the list are female education to ensure gender equality, safe water and sanitation, and child immunization, as well as social safety nets to protect the most vulnerable. Attention is also needed for the social structures and institutions that affect development, otherwise called social capital. In the spirit of this motto, the government's pro-poor policy is geared toward establishing a favorable environment to promote and generate economic growth without environmental degradation and with equitable distribution of income.

On the basis of our broad strategy, we have formulated the following policy response to poverty: promoting opportunities, creating security, strengthening capabilities, and generating empowerment. Our approach to promoting opportunities is via strengthening macroeconomic performance, accelerating economic growth, promoting private sector development, developing the physical infrastructure, strengthening the energy sector, ensuring sustainable development of the agricultural sector, improving water resource management, advancing rural development and decentralization, ensuring sound natural resource management, encouraging income-generation activities, embarking on land reform, and increasing access to microfinancing for the poor.

Reducing the vulnerability of the poor by developing resistance to external shocks and increasing the overall sustainability of their livelihoods are priorities, as is assisting those poor who want to diversify from agriculture. These concerns have not received sufficient attention. The

current emphasis is on microcredit for income-generating activities, but there is a need also to address vulnerability to fluctuations in income. This could be tackled by providing insurance, savings, and loans for consumption purposes. Moreover, security can be ensured by expanding safety net programs, promoting environmental protection, and clearing land mines.

The government plays a crucial role in the delivery of services and the improvement of capabilities. Priority actions that will be taken by the RGC over the short- to medium-term are to establish priority groups of government officials to improve service delivery and increase productivity; expand decentralization and continue deconcentration of the administration system to increase accessibility of essential services to the people; accelerate the reform of the state by implementing action plans in demobilization, administrative, and fiscal reforms, with a view to strengthening the rule of law and consolidating the foundation of the market economy; deepen the judicial reform and establish a national program for judicial reform; and implement the measures outlined in the Governance Action Plan.

Broad-based growth will also need to be accompanied by an emphasis on improving the access of the poor to credit, education, healthcare, and infrastructure, as well as drinking water and sanitation. Efforts have been deployed by the RGC to increase access of the poor to markets by building rural roads, providing information, and developing rural markets. Also important is better governance to improve the responsiveness of the state to the needs of the poor, as well as the decentralization of power and resources from central government to provincial and local institutions in order to facilitate the participation of the poor in decision making. In this regard, the positive results of the government's SEILA program are encouraging. The proposed communal council elections and establishment of the councils should assist in further developing local institutions and promoting grassroots democracy with the potential to contribute to faster poverty reduction.

The RGC is committed to developing and strengthening the legal and regulatory framework and institutional capacity conducive to private investment and business activities in Cambodia. The RGC considers the private sector as an engine of economic growth and employment generation. Efforts to improve the business climate and create a level playing field for the private sector include harmonizing laws and regulations, adopting a comprehensive commercial code, strengthening the rule of law and good governance, maintaining Cambodia's competitiveness vis-à-vis the region, and improving the quality of the judicial system.

In the financial sector, we continued apace with our banking sector reform. Starting with the promulgation of the Law on Banking and Financial Institutions, we have taken measures to fine tune and update

our legislation. We issued a series of banking regulations and guidelines to foster a more transparent and sound banking sector. More specifically, we have recently introduced a new framework for bank relicensing, and flight to quality represents the major motive for this action. Banks that fail to abide by the provisions of the law and its implementing regulations will be closed. With this step, we hope to promote public confidence in the banking sector that, in turn, contributes to mobilizing domestic savings.

Cambodia is well aware of the fact that the more the country gains economic and social strength, the better it can provide a cooperative contribution to the region and to the rest of the world. Having said that, we would like now to use the opportunity given by this international forum to brief you on the progress that we have made since the last Annual Meeting of the Bank and the Fund with respect to preparing our economy for the changing world and to promoting macroeconomic stability.

Since 1999, the Cambodian economy has shown remarkable improvement, thanks to the determination of the Royal Government of Cambodia in pursuing decisively its economic reform programs. Macroeconomic performance during the first half of 2000 has strengthened our confidence in the future economic prospect. In 1999, the economy achieved a real growth of 4.3 percent, a recovery from the stagnation at 1 percent in the previous two consecutive years. The year 2000 has witnessed ravaging flooding that has wreaked havoc on the people and the economy of the six riparian countries of the Mekong River. The RGC has to divert its resources to finance emergency relief assistance and to rehabilitate the agricultural and transport infrastructure. It is also mobilizing external assistance for those purposes. For this year, therefore, facing the devastation caused by the flood, we have to work hard to ensure that the economy will expand by more than 5 percent, which would be supported by improved foreign direct investment, higher domestic consumption, increased exports of garments, and tourism services. The three-month moving average inflation declined from 12.6 percent in December 1998 to 0 percent in December 1999, and inflationary pressure has remained absent since then. The exchange rates were fairly stable, depreciating by only 2 percent from the December 1999 level. This was induced more by the general strength of the U.S. dollar against other currencies than by internal factors. During the first six months of the year, the number of passenger arrivals for tourist purposes was up by 19 percent compared to the same period of last year. Cambodia's exports under the Generalized System of Preferences showed an increase of 50 percent over the level recorded for the last two quarters of the previous year. The position of gross foreign reserves held by the National Bank of Cambodia improved further and, at the end of the second quarter 2000, was sufficient to finance 3.5 months of total imports of goods and services.

At the last Consultative Group Meeting held in Paris in May 2000, donors expressed their full support for the RGC's reform programs and the achievements attained so far, pledging US\$548 million for 2000 to push the reform process forward. Moreover, this year's IMF mission for Article IV consultation and PRGF review came to a conclusion. Good progress has been made in several areas, as the achievements in 1999 and in the first half of 2000 were broadly in line with the government's program targets. In particular, all performance criteria for the financial sector were observed, and structural reforms have been progressing as envisaged. Consequently, the first PRGF review in 2000 was successfully completed by the IMF Executive Board on September 15, and we expect to have the same result with the Structural Adjustment Credit review.

Cambodia looks forwards to strengthening further its relationship with the Bank and the Fund to respond to the new development challenges, combat poverty effectively, narrow gradually the digital divide, and prevent marginalization. We welcome the reforms under way in the Bank and the Fund to make them more effective in today's rapidly evolving world economy, and the determination to strengthen the voice of developing countries within the Bretton Woods institutions. Playing a new role in the new millennium, the Fund and the Bank need to coordinate their activities with regional financial institutions. Cambodia calls for more emphasis to be placed on poor members that are strongly committed to reforms to help them reduce poverty. We expect that the new partnership, reflected in the Technical Cooperation Action Plan, will help Cambodia strengthen its capacity to cope with globalization. In this regard, we would like to appeal to the international financial institutions and other interested donors to assist in mitigating the impacts of the flooding that is ravaging Cambodia and other riparian countries of the Mekong River. There is an urgent need to rehabilitate physical infrastructure, transportation, and agricultural facilities.

We do hope that this Annual Meeting will provide a stronger impetus for the Bank and the Fund, and for the international community to contribute more effectively to the development process of the poor and poorest countries in the world.

In conclusion, we would like to express our sincere appreciation to the World Bank and the International Monetary Fund, as well as to the Asian Development Bank (AsDB) and other international multilateral financial institutions, and to Cambodia's bilateral partners for their support and assistance in our endeavors to engineer economic development and alleviate poverty in our populace. Their invaluable wealth of experience is of great significance to all of us. We are looking forward to enhancing our cooperation with the Fund and Bank in the pursuit of ameliorating the social and economic conditions in Cambodia within the framework of our new development cooperation partnership paradigm.

CANADA: LEONARD M. GOOD

Alternate Governor of the Bank

(on behalf of Antigua and Barbuda, the Bahamas, Barbados, Belize, Canada, Dominica, Grenada, and Guyana)

It is customary at these meetings to describe one's domestic economic progress. Canada is doing very well. The overarching objective of the Canadian government's policy agenda since 1993 has been to achieve strong long-term economic growth to ensure higher standards of living and quality of life for all Canadians. The last few years are an example of what the Canadian economy can achieve on a sustained basis.

Since 1997, Canada has matched the strong performance of the United States in growth in real GDP per capita, and our job creation has outpaced that in all other G-7 countries. Real GDP growth accelerated to 4.5 percent in 1999, more than a full percentage point faster than in 1998 and the strongest pace in the G-7. The economy continued to grow strongly in the first half of 2000. The Canadian economy has now expanded for 20 consecutive quarters, the longest uninterrupted run since the mid-1960s.

Canada's strong economic performance has been reflected in a healthy labor market. The unemployment rate has been brought down to 6.6 percent in May and June—its lowest level since March 1976 from near 10 percent at the end of 1996. In August, the unemployment rate was 7.1 percent.

Domestic inflation pressures remain subdued, although "headline" inflation has picked up somewhat, mainly due to the strong increase in world oil prices. Canada's current account balance has moved into surplus, buoyed by the improvement in international economic conditions; improved competitiveness, reflecting strengthening productivity growth and low inflation; and an improvement in the terms of trade.

Much of the resurgence in our economic performance in recent years is due to the sound economic and fiscal policies Canada has put in place: eliminating the deficit, putting the debt-to-GDP ratio on a strong downward track, and maintaining low inflation. Further, these policies provide a strong foundation for achieving the kind of future economic performance that is the key to Canada's prosperity.

I would like to use my limited remaining time to make some points about the current status of development cooperation. We are at a significant juncture in our history. With the end of the Cold War just over 10 years ago, a window of opportunity has opened for those of us in the business of development. We are able to step back from the ideological divide that characterized the postwar period and pursue development cooperation as it was meant to be—with a single-minded focus on development effectiveness and poverty reduction.

As we all know, there has been some progress in the developing world over the last 50 years:

- Between 1970 and 1997, the average life expectancy at birth for all developing countries rose to 65 years from 55.
- Over the same period, the percentage of adults in developing countries considered literate rose to approximately 70 percent from just under 50 percent; during this time, the gap between women and men, and girls and boys, began to narrow.
- About 70 percent of the population in the developing world has access to safe water, compared to 30 percent in 1970.
- Most of the credit for this progress lies with developing countries themselves. We also know that challenges remain.
- Half of the planet's 6 billion people live on an income of less than US\$2 a day, with 1.3 billion living on less than US\$1 a day.
- Seventy countries have average incomes below their 1980s level, and the poorest 20 percent of the world's population receive only 1.2 percent of world income.
- Over 30,000 children die each day from largely preventable diseases. Poor nutrition contributes to over half these deaths.
- Over 20 percent of school-aged children are still out of school. Of this number, two-thirds are girls.

With the end of the Cold War, we now have a chance to approach these challenges differently. First we must acknowledge that we made some mistakes in our approach to development in the last 50 years.

- Our approach was often unbalanced, focusing on economics to the exclusion of social, institutional, and political realities.
- We had unrealistic expectations that countries could effect a double transformation—political and economic—in a very short space of time.
- There was limited coordination among donors and too much concern for showing the flag and working in “popular” areas.
- Most significantly, aid was excessively donor driven.

But we have learned a few things, and what we've learned is reflected in the principles set out in *Shaping the 21st Century* and the World Bank's Comprehensive Development Framework. Specifically, we are now more aware of the importance of a comprehensive and balanced approach to development, such as getting the macro framework right but recognizing

social and political impacts; and ensuring that social and institutional development go hand in hand with economic development. Also,

- we now have more realistic expectations about the timeframes in which we can expect results;
- we acknowledge greater donor coordination and coherence; and
- we recognize that developing countries must drive their own development strategies.

We are now trying out the programming approaches—the Comprehensive Development Framework, Poverty Reduction Strategy Papers, SWAPs, and sector investment programs that implement these principles. We are finding that they are not easy, and they imply changes for the way in which international financial institutions and bilaterals do business.

According to the Bank’s recently released CDF progress report discussed at the fall meeting of the Development Committee, the 13 CDF pilots are progressing but at different rates. Likewise, many HIPC countries are moving ahead on PRSPs, although issues of time, conditionality, and capacity require attention.

Donors have made some first steps as well. There is widespread, though not universal, intellectual commitment to the CDF principles. But at the programming level, there are some real challenges.

There are significant implications for bilateral donors of the new programming approaches and instruments. Canada’s development cooperation agency, CIDA, has only recently begun to understand and pursue the changes required. We are, at the moment, involved in only a small number of sector-wide approaches, and we have much to learn in this area. We have not yet seriously explored the full implications of the so-called “common pool” for our domestic accountability framework. Untying, under discussion at the Organization for Economic Cooperation and Development, is not moving forward at the pace that we are demanding of the PRSP process.

The effort on donor coordination that lies at the heart of the CDF principles is barely under way. It is not enough to collaborate at the project level; donor coordination must deal with every stage of assistance—diagnosis, setting of targets and objectives, procurement and financial reporting and monitoring and evaluation of results.

Let me share with you a few of the targets that we have set for ourselves in CIDA for the coming year. We will carefully study the “country owned” diagnosis and vision statements contained in CDFs and PRSPs, not only in our role as responsible members of the World Bank Executive Board, but also as a way to set the guiding principles and policy context for our own bilateral programming.

From among the growing number of CDF and PRSP countries, we will look to select two or three pilot cases, where we can commit extra resources and effort, stretch our own operational policy and procedures, and pursue more rigorous coordination with other donors. In short, to begin to “move the yardsticks,” as Minister Martin has suggested in his Development Committee statement.

While there are some difficulties in implementing this sensible but nontraditional approach to development cooperation, Canada believes in these principles and would like to see us all move toward implementing them.

Our constituency here at the Bank, which includes donor countries—Canada and Ireland—and 11 Caribbean countries, of which a number are borrowers, is convinced of the merits of this coherent, coordinated, balanced, realistic, politically sensitive, and country-driven approach to development.

CHINA: DAI XIANGLONG

Governor of the Fund

First, on behalf of the Chinese delegation, I would like to express our sincere thanks to the government and people of the Czech Republic for their efforts in making the excellent arrangements for this year’s Annual Meeting in Prague and the warm hospitality they have extended to the Chinese delegation. Also, please allow me to take this opportunity to congratulate Mr. Köhler on his appointment as the Managing Director of the IMF.

Since last year’s Annual Meeting, the world economy has generally put the effects of the financial crisis behind it. Despite the continued existence of some risks, the global economy is likely to witness its fastest growth in nearly a decade this year. In a relatively stable international environment, governments and international organizations need to strengthen their consensus on such key issues as economic and financial globalization. Economic globalization is an inevitable trend that is expected to come along with the improvement of productivity. However, countries fare differently in the process of globalization; developing countries are generally in a disadvantaged position, and the gap between them and the developed countries tends to widen, resulting in unprecedented pressures and challenges in respect of economic security and economic sovereignty. What we are calling for is a win-win globalization characterized by equality. All countries, no matter whether they are in the south or in the north, big or small, should be the beneficiaries of globalization. The wealth of a few countries should not and cannot be built on the poverty of those countries in the south. Otherwise, the social sta-

bility of some countries, as well as regional and world peace, will be threatened, and we will have to pay a high price for that. Therefore, it is essential to establish a fair and reasonable world economic order, involving all the countries—to the extent possible and on an equal basis—in international economic decision making and rule setting; establishing a new and fair international financial and trading system; and reducing the risks facing developing countries in the course of globalization. Financial globalization, while having boosted the flow of international capital and enhanced the efficiency of international financial markets, brings new financial risks as well. The most urgent issue in seeking to maintain the steady development of the world economy lies in the prevention and resolution of international financial risks. We hope to improve the international monetary system, and urge the major developed countries to assume their responsibility for stabilizing the world economy by further coordinating their macroeconomic policies and reducing fluctuations in the world economy. International financial institutions should increase financial and technical assistance to member countries, helping to eliminate macroeconomic and balance of payments imbalances, as well as to reducing poverty and debt. We strongly oppose the tendency of international financial institutions to politicize the process of providing assistance.

We consider regional financial cooperation to be a helpful complement to the existing international financial system. Economic integration in the euro area has been accelerating, with economic growth picking up significantly. The Chiang Mai Initiative marked another step for economic cooperation in the Asian region. China will be an active participant in financial cooperation based on the currency swap arrangements recently introduced among ASEAN countries and China, Japan, and Korea.

We welcome the efforts by the Fund in recent years to maintain financial stability and strengthen the international financial system. The series of standards and codes that has been established by the Fund and put in use on an experimental basis has an important role to play in improving macroeconomic decision making by member governments. However, due to the differences of circumstances among the members, these standards and codes should be disseminated and implemented based on voluntary and progressive principles. As we devote ourselves to enhancing the transparency of the public sector, we should also work to enhance the transparency of the private sector and strengthen the supervision and regulation of highly leveraged institutions in particular. Steps must be taken to effectively deter the massive, disorderly, and disruptive flows of short-term capital.

Against the backdrop of economic globalization, the World Bank's role in promoting long-term development has once again come into the

spotlight. We believe that the Bank should continue to help developing countries achieve sustainable economic development and help reduce poverty in developing countries by facilitating the transfer of resources. The Bank should keep lending operations as its core business, complemented by country assistance strategy and problem diagnosis. We have consistently held that the Bank should operate in accordance with its Articles of Agreement, instead of catering to the political needs of a few members. However, the political orientation of the Bank has become increasingly evident in recent years. The Bank will eventually change itself from a development institution into a political tool of a few countries if it falls in with their political intentions and succumbs to pressures from interest groups at the expense of development objectives. This would rock the foundations of the Bank, compromise the fundamental interests of its developing members, and endanger the cause of world development. In implementing its assistance strategies, the Bank should not unduly emphasize those issues that should be addressed by developing countries themselves, such as governance and institutional reform. Otherwise, the Bank would hardly be able to concentrate on those real issues concerning development and resource transfer. The safeguard policies of the Bank are intended to serve the purpose of poverty alleviation and economic development, and should not overshadow the development objectives. Unrealistic requirements and arbitrary increases in safeguard standards have engendered higher cost in project implementation. This has not only constrained developing countries' ability to use the Bank's loans and put limits on the Bank's role in economic development, but has also contributed to the recent decline in the Bank's loan commitment. We call on the Bank's management to pay more attention to the opinions of the borrowing members and correct the practice of putting means ahead of ends.

Being a net debtor and low-income developing country, China is willing to make contributions to reducing the debt burdens of HIPC countries and the poorest nations. The Chinese government is now studying the schemes aimed at reducing the debt of these countries on a bilateral basis.

Over the past decade, most transition economies have followed an erratic development path and are now moving toward stability, with many of them achieving relatively faster growth. Since each country has its specific situations, the modality of economic development is bound to vary. We believe that reform should follow market rules and proceed in an orderly way, step by step. In addition, it is essential to strike a balance between reform, stability, and development.

In the past 20 plus years, China has undergone the transformation from a planned economy to a socialist market economy. By upholding reform and opening up policies, China has achieved rapid and sustained

economic growth. Economic growth in the mainland is expected to exceed 7 percent—the projection at the beginning of the year. We will begin implementing the Tenth Five-Year Plan for the national economy next year and press ahead with the strategic adjustment of the economic infrastructure, including more intensive implementation of the strategy of developing the western regions. We will continue to conduct proactive fiscal policy and sound monetary policy, improve budget management, reform the structure of fiscal expenditure, strengthen the financial system, and promote financial reform. We have fully deregulated the lending rates and basically liberalized the deposit rates of foreign currencies. Interest rate reform for the domestic currency is also well under way. China is currently implementing a managed-floating exchange rate system based on market supply and demand, which proves to be consistent with the circumstances and reality in China. China has achieved the convertibility of its currency in the current account and plans to achieve capital account convertibility in the future when conditions permit.

Hong Kong SAR and Macao SAR have fully recovered from the Asian financial crisis. Both economies are growing vigorously and are blessed with favorable prospects. The experience of Hong Kong SAR and Macao SAR has proved the correctness and success of the “One-Country;Two-Systems” principle.

China will soon join the World Trade Organization. I believe we will seize this opportunity to deepen reform, increase openness, strengthen cooperation with other countries, and join others to ensure a steady development of the world economy.

CROATIA: MATO CRKVENAC
Governor of the Bank

It is a great pleasure and privilege to address the 2000 Annual Meeting of the Boards of Governors of the Bank and the Fund here in Prague. I would like to take this opportunity to warmly thank Mr. Wolfensohn and Mr. Köhler for their achievements and for all continuing support the Bank and the Fund have extended to Croatia and other countries. Our gratitude is also intended for former Managing Director of the Fund, Mr. Camdessus.

Allow me first to refer briefly to economic developments and achievements in the Republic of Croatia. After parliamentary elections held in January 2000, our new government inherited Croatia in recession and facing a number of structural issues. The growth of fiscal expenditure, which has been going on continuously for years, has forced the central bank to operate a tight monetary policy. The banking consolidation seems to have finally reached its last stage. Steps that had to be taken in

this regard have left their traces: namely, financial obligations that unfortunately arose from the restructuring to enhance the soundness of financial sector, but also from the repayment of arrears and commitments related to the social sector and a major infrastructure project that had to be duly serviced.

The program of the current government of the Republic of Croatia is one of substantial political change. It is based on a fundamental commitment to the building of a democratic civil society with an open market-oriented economy integrated into the European and global economy. The Croatian government has decisively begun to achieve balanced public finances, with more efficient budget management, reduced public spending, and intensified structural changes aimed at fostering faster growth and development. In 2000, the first year of the implementation of this government's program, it is our obligation to strengthen the economic recovery and to create foundations for sound and sustainable economic and social development over the coming years as the program is fully implemented.

The government's overall economic program and policy measures are supportive of further economic stability, with stable prices and low inflation, a stable rate of exchange with concurrent economic growth, a faster rate of employment, and higher output and exports. Recent economic developments show a significant shift in economic trends. After -0.3 percent growth in 1999, the economy grew at an annual rate of 4.0 percent in the first six months of 2000, and industrial production rose 3.0 percent on a year-on-year basis to June 2000. The central government budget was decreased in nominal terms by 1.2 percent, state official salaries were decreased by 30 percent, and all public sector wages by 5 percent. The government already settled HRK 5.6 billion in arrears out of a total of HRK 9.5 billion that were unsettled at the beginning of 2000. Tourism is expected to rise 30 percent compared to 1999. The current account deficit has been improved by 5 percent in the first five months of 2000. Foreign exchange reserves reached US\$3.5 billion in August 2000 growing from US\$2.8 billion at the beginning of February. Export performance improved by 10 percent in the first six months of this year, and it is our belief that our export performance cannot be buttressed by superficial measures, such as the exchange rate changes; rather, the ability of exports to compete has to be enhanced. That, in turn, can only be achieved by increasing foreign direct investment and by improved access to markets through the WTO and full integration of Croatia into the various levels of regional organizations. Accelerated privatization will see foreign direct investment inflows rise in the shorter term, while stable, credible economic policies and a more efficient legal system will provide a basis for increased greenfield investments.

Through its program and actions undertaken so far, the new government has proved its readiness for the development and intensifying of

constructive cooperation, and Croatia's relationship with the European Union and international financial and other institutions. The government especially stresses the importance of the timely introduction of systematic reforms in order to democratize all institutions, strengthen compliance with human rights and basic freedoms, implement more intensive economic reforms, reconcile ethnic differences, develop peace in the region, and achieve overall cooperation and stability.

With accession to the WTO, Croatia will meet one of the two most important conditions for joining CEFTA, which, together with the Association Agreement with the EU, is one of the main preconditions and necessary requirements for increased investor interest. We are pleased with the Partnership for Peace membership, whereas entry into NATO remains a strategic goal of Croatia. In order to achieve an active and creative position in the Stability Pact, Croatia will continue to give high attention to activity within all three pact tables. Croatia is prepared to assume its share of responsibility for the success of the pact, bearing in mind the common goal—lasting peace, progress, and stability in southeast Europe.

How do we see future developments? Croatian industry and tourism are picking up, and also export industries are becoming a driving force of economic growth. Still we are well aware of the challenges facing the Croatian economy. There is much yet to be done in the restructuring sectors, from shipbuilding to agricultural and processing plants, privatization of the large public sector, and implementation of systemic measures against crime and corruption. The Croatian economy is small, and future development is possible through the adjustments of an open and export-oriented policy.

There is a need to expand and to not limit the flow of resources from the Bank. The Bank has the headroom necessary for new lending. There is a case for increasing the flow of traditional lending activities from the Bank to support critical areas, including especially infrastructure. Private sector and commercial banks have to take a larger share as well. This is an area in which we are trying to increase both public and private investment. I believe the Bank can help support this effort through a combination of direct lending and play a catalytic role in using its other instruments to facilitate new investments.

We are fully aware that the long-lasting benefits of such support cannot be expected without appropriate structural adjustments and sound macroeconomic policy. In fostering stability and sustainability of monetary, fiscal, and exchange rate policy, the support of the Fund is therefore of great importance. The Fund's expertise in these areas, as well as its relevant experience, has proved to be, in our case, an indispensable and highly beneficial part of the efforts to develop an adequate macroeconomic framework. We truly hope the successful and rewarding cooperation in these areas of core competencies of the Fund will be continued in the future as well.

Recent Fund efforts to strengthen the effectiveness of its facilities will undoubtedly encourage a more efficient use of its resources. However, these efforts should not be separated from those aimed at encouraging the sense of "ownership" as a sine qua non for successful implementation of every program.

Furthermore, let me assure you that, on our part, we shall continue to back all our activities with due transparency, which will hopefully contribute to the accountability and credibility of our macroeconomic policy.

Also to be noted are Croatia's efforts to enhance effective financial surveillance, as well as the accountability and credibility of its macroeconomics policies. In this regard, I must stress how greatly Croatia has benefited from the Fund's technical assistance and close dialogue with Fund staff this year.

As I have said, Croatia will keep its course toward integration into the European and Euro-Atlantic political, economic, and security structures. We consider the Fund's and the Bank's support in these matters to be of great importance. The Bank's portfolio of projects in Croatia is broad and satisfactory, and I am deeply convinced that jointly agreed operational priorities will further strengthen the Bank's engagement in Croatia and strongly contribute to a successful completion of the transition process. Croatia strongly looks forward to concluding a new arrangement with the Fund, hopefully within this year.

Allow me to assure you that we look forward to future close, mutually beneficial cooperation and we express our thanks to the management and the entire staff of the Fund and the Bank for their valuable assistance and unselfishly shared expertise and knowledge. I also thank the Czech Republic and Czech authorities for their kind hospitality, which is greatly appreciated.

CYPRUS: TAKIS KLERIDES

Governor of the Bank

It is an honor for me to make a statement to this Annual Meeting of the Governors of the International Monetary Fund and the World Bank Group. I will concentrate my address on how the global economic situation and the OECD initiative against "harmful tax competition" can and are affecting certain small states like Cyprus.

It is again pleasing to note that the growth of world output and trade continues to be rapid and that the bulk of countries are benefiting from the improvement in the global economic situation. Of course, we would like to see the population of the poorer countries achieving greater increases in their living standards and participating more in deriving benefits from the globalization process. In this connection we welcome

the renewed focus and efforts of the IMF and the World Bank Group to reduce poverty, and trust that the provision of debt relief to the HIPC countries can be accelerated and translated into the actual alleviation of poverty.

At present the combination of a further strengthening of the U.S. dollar and the continued maintenance of oil prices at very high levels is posing difficulties for major oil importers (both small and larger states) with currencies that have depreciated significantly against the U.S. dollar. The gains to the export sector derived from a depreciating currency are being offset by terms-of-trade losses that are associated increasingly with sharp increases in U.S. dollar-priced oil imports. Correcting the imbalances lying behind these relative price and exchange rate changes is likely to be a slow and disruptive process. Already, we see in Europe a reluctance on the part of governments and the population to allow market forces to bring about adjustment, with much resistance to the passing on of higher costs of energy imports into increased domestic prices.

From the perspective of small open economies like Cyprus there is the danger that at any time, they are quite vulnerable to developments in global markets. Cyprus is certainly benefiting from faster world economic growth and trade, particularly from the upswing in European economies. The benefits from the lower exchange rate for Cyprus, particularly on tourism exports, are being offset by the impact on higher import prices on current account payments and on the domestic inflation rate. There are of course increased pressures to further subsidize domestic oil prices. But such subsidization would just result in higher fiscal costs and blunt the reallocation of resources toward less-energy intensive sectors, such as those providing financial services.

This brings me to the subject of how small states highly dependent on the production of a few commodities and/or services can diversify their economies, especially into production, which is less dependent on energy inputs and which can tap into the globalization process. In this endeavor, a number of small countries throughout the world have promoted the provision of offshore financial services not only for economic diversification per se, but also to take advantage of the opportunities afforded by the deregulation of global financial services and increased international trade and corporate activity.

In Cyprus, our economic strategy since the late 1970s was to diversify away from depending on a few agricultural and manufactured products toward the development of the export-oriented tourism and business services sectors. And Cyprus, along with a number of countries in Europe, Asia, and the Caribbean, has been quite successful in these efforts, becoming important tourist destinations and offshore business centers.

The Cyprus authorities consider that there must be effective regulation of the financial services sector and the exchange of information and cooperation at an international level to avoid money laundering and other forms of financial crimes as well as harmful tax competition. Toward this end, the Cyprus government has agreed to associate itself with the OECD's work against harmful tax practices. Furthermore, although financial services are a small part of the offshore sector of Cyprus, the government has taken all the necessary steps to minimize the vulnerability of the sector to money laundering. And following a detailed assessment, the Financial Action Task Force concluded in June 2000 that Cyprus has a comprehensive anti-money laundering system and was cooperating in the international fight against money laundering.

Even though Cyprus has associated itself with the OECD's work against "harmful tax competition" it recognizes that the OECD initiative could have a considerable adverse economic impact on small states that rely on the provision of offshore financial services. With this in mind it is felt that small states must cooperate more closely with each other, and with the Commonwealth bodies and the World Bank, the IMF, and the World Trade Organization to assess the potential impact of the OECD initiative and for laying the ground for a multilateral discussion of the global issue of "harmful tax competition." Indeed, the OECD initiative and the controversy surrounding the process adopted highlight the need for an international forum representing all nations, including small states, to address the issues of harmful tax competition.

Despite a number of unfavorable disturbances to the Cyprus economy this year, including higher fuel prices and an increased value-added tax the rate of growth of real GDP is forecast to be about 5 percent and the rate of unemployment is projected to fall and average 3 percent in 2000. After peaking at 4½ percent in June 2000, the rate of increase in consumer prices is expected to decline and average 4.3 percent in 2000. The strong growth of economic activity are higher indirect tax rates are boosting government revenues, and it is currently forecast that the fiscal deficit in 2000 will fall to 3½ percent of GDP, compared with 4.1 percent in 1999. In the government budget for 2001, which has recently been tabled at the House of Representatives, expenditure allocations have been further restrained, so as to reduce the government deficit to 3.2 percent of GDP. This policy is in line with our objective of lowering the fiscal deficit to below 3 percent of GDP by 2002 in order to harmonize our fiscal policies with those of the European Union and satisfy the relevant Maastricht convergence criterion.

In concluding, I will emphasize that Cyprus continues to support and cooperate with the Fund and the Bank in their efforts to foster a stable economic and financial environment conducive to healthy growth and development. Also, I would take this opportunity to thank the manage-

ment and staff of the Fund and the Bank for the constructive advice that they have rendered to Cyprus.

CZECH REPUBLIC: PAVEL MERTLIK

Governor of the Bank

Transparency: The Importance for Economic Growth

Fifty-six years ago in Bretton Woods, Czechoslovakia was one of the founding member countries of the IMF and the World Bank. At that time, our country was ranked one of the top 10 economies of the world. More than that, in pre-World War II, Czechoslovakia was also one of the few democracies on the European continent, and the only one in Central Europe. Yet in 1948, the country experienced a Communist revolution, followed by over 40 years of the grand Communist experiment, economic isolation, and the abolishment of private property.¹ Forty years were long enough to bring the once-admired economy down to the fourth or fifth ten among the world's economies—a striking change that normally happens as a result of violent conflicts. Eleven years of transition caused tremendous costs to the society and a lot of pain to the Czech people. It will still take many years for the Czech economy to make it back to the very first league. This striking illustration should serve as a strong memento to any other nation or society that would like to take on a similar hazardous economic experiment, or to any small economy that would favor isolation over integration in the global economy.

While the years of Communism did not at all destroy—or even affect—the high level of literacy and education of the population, the confrontation with the ultimate social state and with the complex and multifaceted legacy of Communism under circumstances of abolished private institutions significantly altered the perceptions, norms, and standards of the society, affected ethics and, most important, market skills. It has proved to be much more difficult to transform the human capital, even if assets provide a fair economic base. Market skills and the market literacy of individuals are not inherited, “given from God,” intrinsic to human beings. Market skills are learned by experience; individuals and societies absorb them as they grow and mature, in the way that we breathe the air. Market skills are tacit knowledge that does not stay with the society; they can diminish, if the society suppresses the market mechanism as the ruling force of economic development. This is the one aspect that crucially and fundamentally distinguishes the challenges of transition

¹ Only 3 percent of the total national income of Communist Czechoslovakia was created by private property before the political changes of 1989.

from the challenges of bringing developing countries out of poverty and up on the development path.

The Czech experience of transition is revealing. The first generation reforms, i.e., the initial liberalization of trade and prices and the subsequent macroeconomic stabilization, had not been politically easy to implement, but became admired by the world for the speedy and smooth way of achieving macroeconomic stability, and for the ambitious and unprecedented pace of transferring property from the state to private hands via the innovative process of voucher privatization. Speed of privatization was declared the critical factor. Privatization distributed ownership—via a fair, relatively transparent, and highly sophisticated and competitive mechanism, to a vast majority of the adult Czech population. It was obvious, and had been so perceived, that secondary trading in shares would have to take place in order to create concentrated structures of ownership in the privatized companies, which would provide a potential for effective corporate governance and corporate restructuring. Underestimated, however, were the requirements of the financial and legal systems, of auditors, of the information disclosure agencies, of the regulation of capital markets and transparency of the corporate sector, and of incentives for and accountability of managers, that would be necessary for such massive secondary trading to avoid any abuse.

A highly competitive market structure, with over a thousand financial intermediaries was allowed to grow in order to facilitate financial intermediation. The experience showed that in the absence of the relevant legislation enforcing prudential behavior, information disclosure, protection of investors' and creditors' rights, in the absence of proper skills of supervision agencies, there is a clear trade-off between the benefits resulting from a highly competitive market structure and the risks of an inability to properly motivate and supervise such complex market structures in an environment entirely lacking relevant information and benchmarks.

The Czech experience showed that the first-generation reforms can be implemented relatively quickly and through relatively uniform economic policies, which may be transferable from one country to another. It, however, also illustrated that the first-generation reforms do not make the transition complete and that the speed of privatization is not the single criterion, not even the most relevant one.

The real critical aspect of the transition is the second-generation reforms, namely building of the institutional underpinnings of a market economy under the circumstances of a lack of market skills and experience, of attitudes and perceptions different from those prevailing in countries with a long and uninterrupted experience of a market economy. If the structural and institutional reforms have not been completed, the macroeconomic stability is not sustainable. It is not difficult to create

institutions of a market economy in the nominal terms—i.e., laws, codes, and organizations that look like the ones in traditional market economies or carry identical names. The challenge is to create institutions that function as in stable market economies, which produce the same, predictable outcomes. It should be a lesson for the Bretton Woods institutions, too: fulfilling institutional conditions in the nominal terms (such as approval of certain laws or the foundation of institutions of a certain name) does not automatically mean that from the first day, the society will benefit from outcomes that could be expected from such institutions in traditional market economies.

The experience of transition also clearly demonstrated the critical importance of the legal system and the financial sector for the functioning of a market economy. The legal (and tax) systems must protect private property and provide incentives for value creation, rather than to leave room for drifting, or even asset stripping or looting. The financial system must channel funds to the most effective uses; since late last century and the first decades of this century, the world has known that this function critically requires having a broad range of information available to the public. In this one aspect, the lesson from transition is not different from the lessons learned during the crises of the early 1900s, from the financial crises of the 1980s or of the mid-1990s.

Among all aspects that challenge the building of institutions and of the capacity and can skyrocket the costs of transition, the one most critical seems to be the moral hazard issue. Among economists, the moral hazard¹ issue, together with the adverse selection problem, is one of consequences of information asymmetry. The moral hazard problem may involve both behavior that is intentionally undesirable from the point of view of the economic or social efficiency (such as management entrenchment, bankruptcy for profit, expropriation of value through transfer pricing, stealing of assets, involvement in high-risk projects, or excessive management compensation), as well as the behavior that is driven by the lack of experience, lack of market incentives, or the lack of care and efforts.

In most markets, asymmetric information in both the adverse selection and moral hazard varieties is present and pervasive. For a number of reasons, it is particularly true about transition countries.

¹ The moral hazard concept comes from the agency theory, which refers to situations where the principal relies on the agent to act on his behalf but cannot fully assess the agent's effort and results due to the stochastic nature of the world. The principal and the agent sign a contract that specifies what exactly the agent is supposed to do in the best interest of the principal. Ideally, they would sign a complete contract specifying the agent's desired behavior in all states of the world. Due to the stochastic, not fully predictable, nature of the world, however, complete contracts are not feasible. The situation when the agent acts in a way that is undesirable for the principal is referred to as the moral hazard problem.

The information asymmetry is extremely high, due to the magnitude of the change of the whole society, as well as to the magnitude of the transfer of resources.

The historical information on reputation within the society or on past economic performance loses most of its relevance. As the rules of the game change, in most cases the past performance of individuals and firms no longer matter, making any due diligence and risk assessment difficult or impossible.

Relevant market economy skills are scarce or absent, thus making the behavior hard to predict and the outcomes often inefficient or harmful. This is true for both individuals and business firms, as well as for financial intermediaries *and* their supervisors.

The binding norms within the society are weak; the old laws lose their relevance and need to be replaced by hundreds of new codes. The effects of the new codes need to be just tested, due to the fact that any outcome of the law, a code, or a norm depends on the interaction with the general experience, perceptions, and attitudes of those to be regulated, as well as on the context of other norms and on the enforcement and a broader institutional framework.

The old Communist ethic loses its legitimacy and cannot substitute for the weak laws.

Alternative norms, which could fulfill the role of the substitute—such as civic moral, religion, or family norms—may not be developed or widely shared in each and every society.

The past experience of the ultimate social state causes a belief in bail-outs and in the paternal role of the state, and the propensity to push on them.

Time horizons of managers, new owners, and financiers are often very short, providing them with a weak or no incentive to build a good reputation.

The government, the parliament, and the judiciary system are not immune from moral hazard, which may affect their willingness to introduce a proper institutional framework and increase the vulnerability of the state to administrative corruption (taking bribes), or even worse, to the state's capture by vested interests.

The existence of moral hazard may have fatal consequences for economic efficiency or even for social cohesion in *any* market economy. In transition economies, however, due to the nature of the transition, the risk of moral hazard is likely to be always higher and more prevailing than in stable, evolutionary market economies. This fact makes it essential to have the moral hazard issue always in mind while designing economic policies in transition, and to try to mitigate it in the institutional design. For example, a too liberal approach to the proper-fit test of managers of financial intermediaries may turn extremely costly for the creditors,

minority investors, and/or taxpayers. Too complex institutional structures and a too fast pace, combined with a huge magnitude of transfers, increase the risks that adequate supervision will be simply impossible.

The most important factor of reducing the moral hazard risk is, however, to combat the information asymmetry itself, to shed light on what is actually happening in firms and financial intermediaries, and on what managers, as well as politicians, are doing. Transparency and accountability, in my view, should be a high priority in every society in the best benefit of efficiency, of social cohesion, of the ownership of the economic policies by the broad society, and of economic growth. For all the reasons above, the need to make transparency a high priority is particularly important in transition economies and societies. As a minimum, the lack of transparency increases the costs of transition and slows down economic growth. In the worst case, it may make reforms impossible due to the capture of the state by vested interests, to the loss of credibility of the country's leadership, to the loss of social cohesion and willingness to take the burden of reforms, or due to a violent conflict. Transparency and accountability as a high priority should be promoted, in each and every way, by the country's leadership, encoded in *enforceable* laws, and given much visibility in law enforcement. Transparency refers to both the public sector, including public finance or the judiciary, as well as businesses. Transparency does not come easily, but should be an ever-sought goal.

Broad inclusion is automatically an inevitable part of the requirement of transparency. In the transition of the Czech economy and society, the full recognition of transparency as a high priority did not come easily and was bought out by much higher fiscal costs than needed. The fiscal burden, which was at least partly unnecessary, and the slowdown of transition of my country in 1996–1999 makes me now a strong promoter of transparency and inclusion.

As the Governor of the World Bank for the Czech Republic, I strongly welcome the endeavor of the Bank to be one of leaders in transparency and inclusion among all multilateral public agencies. I believe that the Bank has achieved this position, which makes it credible when promoting transparency and inclusion among other forums as well as within national governments. The improvement of transparency and inclusion and the promotion of them is, however, a never-ending goal. While it is unrealistic to believe that the Bank—or any public agency—can meet each and every interest, as interests are not homogenous—transparency is, in my view, the best proxy for making such an agency “owned” and trusted by most of the population. Moreover, the strong focus on transparency and inclusion adds to the Bank's legitimacy to intermediate the exchange of information and knowledge, including the due diligence type of information on economies and economic phenomena. Collecting, analyzing, and

sharing information, and promoting its qualified use, is a very important public good, one of those that have to be taken up on the global level in order to enable as broad a population as possible to use the benefits, rather than to bear the costs of globalization. We believe that the Bank has a very strong role and a competitive advantage in this area. We strongly support the Bank's going in this direction, even though we realize that it would confront us with difficult issues to resolve with respect to its operational and financial adaptation.

I strongly welcome the proposals for the Bank to open itself even more. As the financial theory teaches us, the leader in openness and transparency always bears the short-term negative costs, but I believe that in the benefit of the medium- and long-term benefits, promotion of transparency is still the way to go.

Finally, I firmly believe that the requirement of transparency as a high priority refers to everyone who wants to be part of the economic and social interaction in this interconnected world. While the pressures on the transparency and accountability of public agencies—including the World Bank and the IMF—from civil society are legitimate and needed as feedback, I would like to believe that civil society will soon apply the same criteria to itself on a broader scale. Interests will not be homogenous, but transparency, the disclosure of interests that are represented, and the credibility achieved through openness are critical pre-conditions for real partners to sit down at a table and have a constructive discussion on any controversial issue.

DOMINICA: AMBROSE GEORGE

Governor of the Fund

*(on behalf of the Commonwealth Caribbean States
that are members of CARICOM)*

I have the honor to speak on behalf of the Commonwealth Caribbean states that are members of the Caribbean Community (CARICOM), namely, Antigua and Barbuda, the Bahamas, Barbados, Belize, Grenada, Guyana, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Trinidad and Tobago, and my own country, the Commonwealth of Dominica.

I join my colleagues in expressing our appreciation to the government and people of the Czech Republic for their generous hospitality and excellent arrangements made in facilitating this meeting. We also commend the efforts of our institutions in that regard.

On behalf of CARICOM, I wish to join my other colleagues in welcoming on Board our new Managing Director of the IMF, Mr. Köhler. We in CARICOM recognize your approach towards addressing the

issues relating to the global economy and in that context we wish to extend a special invitation to you to our region so that you can have a real appreciation of the challenges that confront us. We look forward to your visit, Sir.

We are happy that the effects of the financial crisis (1997–99) are now largely behind us, and that growth has resumed in nearly every country that had been adversely affected by the contraction in emerging financial markets. While this has yielded some results, a number of significant and substantial issues remain and new ones have emerged, which affect both the broader international community as well as our small, regional grouping in the Caribbean.

We in the CARICOM region acknowledge that the adjustment effort is clearly our own responsibility, and recognize the support given by our bilateral friends, particularly the traditional ones from regional and international institutions.

We note the continued declining pattern of bilateral official assistance flows and apparent uncertainty over the size and disbursement of the funding package for the Initiative for Heavily Indebted Poor Countries. Part of this decline is related to a substantially lower level of adjustment lending consequent upon the fading of the crisis. Another influential factor is the high cost of doing business with the Bank. Here, I speak of costs not only in direct financial or interest rate terms, but also from the point of view of the time and institutional effort involved in complying with the Bank's processes and procedures. For most of our countries, the recent increase in oil prices combined with weak prices for our major export commodities and a declining euro has further complicated this situation.

I do need to emphasize the very grave difficulties faced by our traditional agricultural export sector, which is such an important source of employment and income for us. These of course arise mainly from trading rules that we had little involvement or influence in shaping.

This issue affects our banana industries, particularly in the Windward Islands. Despite on-going efforts aimed at achieving structural transformation of our economies, the banana industry continues to exert a major macro-economic influence in terms of employment, incomes, foreign exchange earnings and aggregate demand.

The big problem of obtaining a marketing arrangement that is "WTO compatible" remains outstanding. We hope that the current impasse in the negotiations can be speedily addressed in a manner that is supportive of efforts to transform our economies. Moreover, the fraudulent use of import licenses have further complicated the problem resulting in a significant drop in prices. We appreciate the efforts of the European Union in bringing about a favorable resolution on the matter and look forward to its effective implementation.

The diversification strategy for our economies includes a focus on agriculture, tourism, manufacturing, and services. This entails adoption of new systems for adding value and improving productivity. We are also adopting programs aimed at modernizing production technology as well as developing physical infrastructure. Steps are being taken to boost on-farm productivity via irrigation, greenhouses, access to credit, and appropriate equipment. In addition, upgrading institutional capacity within all sectors of the economy is a major priority. Further, in the CARICOM region, we are seeking to strengthen the linkages between all major sectors, e.g., tourism and agriculture. We therefore invite the World Bank Group to support our efforts on these initiatives and to lend its voice to the ACP request for improved market access and a longer transition period under the EU-Banana Trade Regime.

I now turn to the Financial Services Sector. The threat posed to emerging international financial centers by initiatives to name and shame countries is of grave concern to us in the Caribbean. We are well aware of the adverse effects that the publication of such lists can have, not only on the growth of our international financial sectors in the Caribbean, but also on our efforts at economic diversification.

It must be recognized that the time frame stipulated for Caribbean countries to take the kind of action that is required of them, without assistance, is inadequate. The existing situation could well result in the impoverishment and destabilization of our region. We appreciate the technical assistance initiatives that are currently being undertaken by some of our friends to complement our on-going efforts.

The OECD and the G-7 are the best-known supporters of free trade, and yet our efforts at developing an international financial services sector in our jurisdictions are being unduly hindered by them. It is important to note that this sector does not rely on trade preferences or subsidies. Instead, its development embraces the principles of globalization and the law of comparative advantage. The sector is being built on concepts of free trade and private investment. We in CARICOM believe that the OECD lacks international legitimacy to pronounce jurisdictions as tax havens and call for a transparent, multilateral approach to resolve this issue.

I wish here to reaffirm the decision made by the heads of government of the Caribbean Community at its recently held meeting in July this year. The heads of government underscored their commitment to fight money laundering and combat all other forms of commercial crime. Another key issue of importance to us in CARICOM is that of small states. We welcome the work that has been done to date on the small states initiative and look forward to the process that has been agreed upon at the first annual Small States Forum.

In relation to the IMF, I am pleased to say that the Fund has listened to our plea for some attention to our needs. In addition to some reorga-

nization of the division dealing with our countries in order to improve the focus on small states—a reorganization that we understand is still ongoing—the Fund held earlier this year, jointly with the Caribbean Development Bank, a very successful conference on development issues facing the Caribbean, and is currently engaged in preparatory work for the establishment of a regional technical assistance agency. We look forward to the early completion of that work and to the establishment of the agency. The Fund continues to provide assistance to our countries in developing the capacity for macroeconomic management and we wish to express our thanks.

The critical issue of HIV/AIDS in our region should not go unnoticed. We wish to note that the Bank was a key participant in a just concluded Caribbean regional conference on HIV/AIDS in Barbados and has been instrumental in assisting the region in raising resources to deal with this very serious problem. We wish to commend the Bank for the initiative taken so far.

My purpose has been to emphasize that small size is not a reason for us to be accorded a level of treatment that may be lower than that accorded to large states. It is important that the inclusiveness, participation and ownership that underlie the Bank's comprehensive development framework continues. We understand that this approach is endorsed by developed countries, as reflected in the practice of international development cooperation that is the basis for these meetings. We urge that in their development work, our bilateral friends and multilateral institutions place as much emphasis on the practice of democracy among nations as they place on promoting democracy within nations. In that way, the welfare of all member states within the international community is more likely to benefit.

FIJI: JONE YAVALA KUBUABOLA
Governor of the Bank

It is indeed an honor to attend the fifty-fifth joint Annual Meetings of the Boards of Governors of the International Monetary Fund and the World Bank Group in this beautiful and golden city of Prague. I would like to take this opportunity to congratulate Mr. Horst Köhler on his appointment as the new Managing Director of the International Monetary Fund. I thank President Wolfensohn for his continuing leadership of the World Bank. Allow me to also express our appreciation to Mr. Michel Camdessus for his stewardship and achievements during his distinguished tenure at the Fund. On behalf of the Fiji delegation, I wish to express our deepest gratitude to the government and the people of the Czech Republic for their warm hospitality and the excellent arrangements made for

these annual meetings. I would also like to welcome San Marino to the membership of the Bretton Woods institutions.

Like many of my fellow Governors, I am pleased to note that the world economic outlook has continued to improve. Globalization has helped brighten the world economic scenario through trade and capital liberalization. However, this financial and trade integration can correspondingly increase the risks of currency misalignments and impose severe pressures on the balance of payments of vulnerable member countries. Preventing these shocks or at least limiting their scope, intensity, and duration presents a major challenge to international financial organizations. While firm and prudent policy actions are clearly warranted at the country level, it is equally important that the commitment toward the establishment of the international financial architecture be sustained.

The increasing frequency of financial crises around the globe has focused the attention of the international community on the fundamental roles, facilities, and resources of the Bank and the Fund. I therefore welcome the review of Fund facilities and the various initiatives that have been developed, such as the Contingent Credit Lines to better address in a timely fashion the needs of member countries. At the same time, it is becoming increasingly evident that a renewed effort must be made to safeguard financial stability.

On the domestic front, as past experiences have shown, financial system stability and sound macroeconomic stability are inextricably linked. I also commend the Fund's work with the Bank for International Settlements in continuing to develop and refine core principles of financial supervision and in integrating these indicators with broader macroeconomic measures. An important initiative in this area is the Financial Sector Assessment Program, which was set up to help not only the early detection of financial vulnerabilities, but also the identification of priorities for financial sector development and the strengthening of financial systems. In this matter, the Bank and the Fund have an important role to play in upgrading prudent supervisory standards in developing countries to international levels. At the same time, the adverse effects of financial crises can be mitigated through the adoption of internationally acceptable debt resolution and insolvency arrangements. Overall, increased cooperation and coordination among public and private institutions at the international level needs to be pursued vigorously in a clear and cohesive manner.

A great deal of attention has been placed on the role of international financial institutions, particularly the Fund, the World Bank, and multilateral development banks in reducing poverty. In this daunting fight against poverty, the Bank and the Fund have progressed considerably in adopting collaborative and concerted actions at country, regional, and

global levels. Joint initiatives such as the Initiative for Heavily Indebted Poor Countries and Poverty Reduction Strategy Papers demonstrate the potential for donor synergies not only between the Bretton Woods institutions, but also among the international community in general.

In this regard, we would like to lend our support to the Comprehensive Development Framework's holistic approach, which brings about a more strategic focus and cohesiveness to poverty reduction efforts at the country level. However, in implementing the CDF approach, the Bank and development partners would need to pay adequate attention to the local conditions and economic structures of individual countries. To instill a real sense of country ownership, the CDF allows developing countries to play an active and more upstream role in the preparation of poverty reduction strategies. To this end, the Bank should continue to provide the necessary technical assistance and support for capacity building. The Bank's newly proposed modalities for enhanced poverty reduction at country levels are steps in the right direction. However, I wish to see a thorough analysis to properly and clearly bring out the impact of the conditionalities of these initiatives on the ability of developing countries to successfully implement these programs. In developing these conditionalities, I would also urge the Bank to pay adequate attention to special characteristics amongst the Bank's clients, particularly countries such as Fiji, which are not eligible for IDA but are subjected to considerable economic vulnerabilities.

Initiatives such as the joint Commonwealth Secretariat/World Bank report on small states were an important milestones in this regard. In moving forward, the incorporation of this work by the Bank in addressing the special needs at country and regional level, is essential. I note the progress made by the Bank in preparing its strategy for the Pacific islands. However, we would have appreciated a better reflection of the findings of the joint report on small states into this strategy. Although an IBRD country, Fiji's vulnerability to external shocks pose a big risk to our economic performance, which we often have to maintain at significant financial costs. Moreover, we seldom rely on borrowed resources from the Bank and the Fund. Therefore, maintaining access to technical assistance, as and when needed, would be critical to meeting our requirements. In implementing the Pacific Islands Strategy, it would be important that the Bank take a more progressive approach while fully understanding the limitations and opportunities of the Bank's role in the Pacific.

I welcome the decision to hold an annual conference on small states during these Annual Meetings. I hope that the Bank and the Fund can effectively use this forum to accommodate the views of small states on the modalities of country programs and to evaluate performances. In summary, I am of the view that we have not exhausted our innovation in

the assistance to small states, and I urge the Bank and the Fund to continue to explore possibilities to better respond to their special development needs.

In closing, I would like to touch on recent developments in Fiji. As you know, there has been a major downturn in Fiji's economy as a result of the recent political crisis. In response to the crisis, our authorities have put in place a number of fiscal and monetary policy measures to safeguard Fiji's financial position. I am happy to report that Fiji's financial position has stabilized, and some of the temporary measures put in place during the crisis have been wound back. Fiji's foreign reserves are at adequate levels and government deficit remains moderate.

Fiji now face the difficult task of rebuilding confidence and restoring economic growth. We are fortunate that we will be doing so against a backdrop of strong global economy and international financial stability. At the same time, the government is taking the opportunity to build a firm foundation for future growth through a firm commitment to a comprehensive agenda of structural reforms. We are hopeful that with sound macroeconomic policies and our ongoing commitment to liberalization and reform, Fiji can recover lost grounds within two years and achieve a platform for sustained growth in the long term. Of particular importance to Fiji in this respect would be the complementary roles of IFC and MIGA in enhancing investor confidence and maximizing opportunities in the development of our private sector. It is my hope that Fiji, like any member country, can continue to count on the Fund and the Bank for guidance and assistance in this critical period of economic reconstruction.

I conclude by thanking the World Bank and the Fund for their continuing assistance and support to Fiji and the Pacific region. As in the past, we continue to look forward to assistance in infrastructure, human resource development, institutional strengthening, and economic and financial policy advice. We commend the support of the Pacific Technical Assistance Centre and thank the Fund and other donor countries for their ongoing help in this and other areas. I wish the IMF and the World Bank well in their next year of operation.

FRANCE: JEAN-CLAUDE TRICHET

Alternate Governor of the Fund

According to the latest forecasts of the IMF, we may expect sustained global growth, notably in Europe. Within the framework of the growing interdependence of our economies, our collective goal must be to enhance noninflationary sustainable growth. Such a favorable environment should not tempt us to defer implementation of new policy orientations for the prevention and resolution of financial crises. Finally, more

than ever, we must be vigilant that the poorest countries fully benefit from this progress.

More Balanced Growth Should Be Our Collective Goal.

The macroeconomic situation in the euro area is positive. This year, we have had sustained growth of over three percent and this trend should continue next year. For France, the 2000–2001 growth forecasts bear witness to the dynamism of our economy.

Enhancing sustainable and non-inflationary growth. Growth must be used in Europe as a whole to reorganize public finances and bring them to equilibrium. This will allow for better preparation of the challenges linked to the aging of our societies. Thus, in 2000, the deficit of the French public administration should be 1.4 percent of GDP when our initial target was 1.8 percent. For 2001, our objective is 1 percent of GDP.

From now on, the question for us Europeans will be to perennialize this growth cycle; that is to say, to maintain a high level of activity growth without causing the outbreak of inflationary pressure. As a result of moderation in labor costs, these pressures are being contained, providing one corrects for the direct effects of the rise in crude oil prices on the price of fuel. Moreover, the development of new technologies, which we are encouraging at the European level in the wake of the European Council of Lisbon, should translate into an acceleration of productivity likely to raise our noninflationary growth potential. This will be critical to enable supply to respond to the dynamics of demands without stress. I am thus optimistic, even if we must, of course, stay watchful given the uncertainties surrounding the direct and indirect effects of the rise in oil prices and the pressures on production capacity.

The governments have been equally committed to accelerating structural reform. Tax reform and improvements in the functioning of labor markets as well as continued opening of a number of sectors to competition should stimulate business supply of goods and services and household supply of labor. These reforms also favor the spread of new technologies. And they pave the way toward a dynamic, modern, full employment, noninflationary economy.

Stabilizing the oil market. In this regard, I want to reiterate that the impact of current oil prices is of deep concern to France as well as the whole world. The abrupt rise in oil prices over the last few months has raised worries in public opinion, but it must not derail expectations of economic agents and put public budgets in danger of new imbalances.

What are the causes of this surge in oil prices? The main factors are well-known; recovery of global demand, insufficient productive capacity due to a period of low prices, and, finally, a market environment in which uncompetitive mechanisms have provoked price increases beyond those which the producing countries themselves would judge desirable. We

have strayed far from a rational market equilibrium and it is our duty to reset this market's reference points.

Let us be vigilant that this temporary excess of volatility does not transform itself into a new global shock. This being said, we should keep especially in mind the potentially adverse consequences for the least advanced countries.

We are all determined to see oil prices return to a level of stability—I insist on this notion of stability—in conformity with a good balance between the interests of producing and consuming countries. Let us agree today to define the terms of a common diagnosis and to act in such a way that tomorrow, through a fruitful dialogue, after having found together solutions within our reach, the market will regain equilibrium.

The progress achieved thus far in the reform of the international financial architecture must be fully put into practice. Over the last three years, we have made great strides in international financial regulation, but we must avoid that improvement in the world economic situation could lead to a certain complacency.

Put into practice what has been agreed to. Among most significant advances, I will mention the development effort, the dissemination and evaluation of Standards and Codes, and the pilot experience on Reports on Observance of Standards and Codes (ROSC), in which France is participating. But experience shows that rules are indispensable to efficient market functioning.

We must also implement the progress already achieved in involving the private sector, but also in adapting the facilities of the IMF. As to private sector involvement, like you, I welcome the fact that private financing is now the major source of financing for developing countries. Experience has now shown that a framework is indispensable to efficient market functioning. We are today in agreement on a framework founded on the principles of equity and accountability of all actors. We have notably reaffirmed the catalytic role of the IMF, the limited nature of the resources of international financial institutions, the necessity for orderly resolution of financial crises, and the search for a permanent dialogue between creditors and debtors. From this time on, we must fully implement these principles.

The adaptation of the IMF instruments to the new configuration of the global economy is today at a critical juncture. I want to stress two points which seem particularly significant to me: (i) the preventive role of the IMF will be strengthened in making the rules of access to the new Contingent Credit Line clearer; and (ii) the incitation role of the IMF will as well be strengthened by reform of its two main facilities: the Stand-By Agreement and the Extended Financing Facility. Important advances will still be necessary to give greater consistency to the regulation of the international monetary and financial system.

Pursuing reform. New regulations based on the remarkable work of the Financial Stability Forum are necessary in order to face up to the risks created by financial globalization. The fight against money laundering must be of primary concern. The harmful effects of money laundering on the stability of the international financial system and on sustainable development of the global economy, especially of the emerging countries, no longer needs demonstration. From now on, it will be incumbent upon the IMF and the World Bank, as they define their priorities and programs, to take into account the question of money laundering in general and the conclusions of multilateral work on it in particular.

All this work, being achieved or making progress, is encouraging. But we must go to the end of reform, that is to say, to assure better consistency: we cannot, on the one hand, recognize the increasing role played by private capital flows, and on the other, ignore its consequences on the international financial architecture and on the core missions of the Fund. We already have available numerous elements to rapidly find agreement on a “road map” to open to international capital flows, a concept often characterized under the rubric “orderly financial liberalization.” The goal is to go forward with increasing financial openness in full understanding that it will not bear fruit absent certain preconditions.

This is why I call on the IMF to resume its work on how to put in place the legal and operational means necessary to advise and support developing countries seeking access to international capital markets.

The Fight Against Poverty Should Remain a Priority.

Undeniable results have been achieved in the fight against poverty. But, faced with growing inequalities and with continued overwhelming need, no one can be satisfied with the progress made thus far.

One of the core missions of the IMF. The universality of the IMF is one of its founding principles. Its support to all countries, especially the poorest, is necessary for sustainable development. The IMF cannot escape this role and this responsibility.

Let us nonetheless be clear: the IMF must have at its disposal the means necessary to attain this goal. The difficulties that could appear in the next few months on the financing of the Poverty Reduction and Growth Facility give us reason to worry. Faithful to our commitment to support development, which is witnessed by our contribution to the flows of ODA, France is ready to contribute to the financing of the PRGF. This is why we have decided at Horst Köhler’s request—and this despite the increasingly unbalanced burden-sharing between the developed countries in financing support for the poor countries—to lend nearly SDR 10 billion additional (EUR 1.46 billion) to finance the

PRGF. It would be justified for all other developed countries to stand with us, and that the commitments already made, and indispensable to the financing of HIPC, be honored.

All of us here are convinced that the HIPC Initiative must quickly reach its goal: that of enabling a real reduction of poverty in countries that benefit from debt forgiveness. Since our last meeting, we have shown that we want to keep our promises.

Ten countries have achieved their decision points for eligibility in the enhanced HIPC initiative, and most of them are benefiting from this decision or soon will, through immediate relief from the majority of their debt service. The largest multilateral lenders and the Paris Club have resolutely committed to this end. I call on all the other creditors to do the same. The IMF and the World Bank have indicated to us that ten other countries could become eligible for the initiative before the end of the year. I deeply hope that this will be the result. But, I also want to repeat clearly that the policies committed to must be well adapted for debt relief that benefits the most vulnerable. This implies making strong commitments, notably in the fight against corruption, which constitutes the greatest risk of diverting the funds freed up by the initiative from their intended purpose.

The fight against AIDS. At least three obstacles impede our action today: the absence of coordination between the actors dedicated to this cause; insufficient financial means; and, sometimes, a lack of local government mobilization.

The French government calls on the international community to respond:

- As regards financing, the international community, developed countries, development institutions, developing countries, must dedicate \$10 billion over the next few years to consolidating public health systems and the fight against AIDS. These resources must be used effectively and with vigor. For instance, it is essential that developing countries use the margin of maneuver created by debt relief to include in the PRSPs actions to fight this disease at the national level.
- We must mobilize the concessional and nonconcessional resources of the World Bank. Africa is the continent most severely affected by AIDS. IDA has considerable available resources that should normally be assigned to the African countries. A great part of these resources that we have wanted to dedicate to poverty reduction should serve to contain the spread of a disease, which is also the major generator of large scale poverty, especially on the African continent.
- It is equally incumbent on us to take appropriate decisions to ensure that these resources are not wasted. Shouldn't the World Bank be

charged to coordinate this effort to complete the financing, in close coordination with UNAIDS and also with the WHO, which has exceptional specialized knowledge in the field? The Bank has the competence, the will, and the political capacity to succeed. It will assure that the actors on the ground use their resources in the most effective and transparent ways.

- Finally, as to the mobilization of governments, which is a central issue, France has proposed that under the auspices of the United Nations, a conference be held on access to treatment, thus completing the efforts at information dissemination and political mobilization already realized or underway.

Our economies are currently experiencing a period of very encouraging growth, influenced by scientific and technological innovation and thanks to strengthening economic and financial integration at the global level. This phenomenon carries with it great opportunity, and also, inevitably, important risks, which we must guard against.

International institutions carry out exactly this heavy but inspiring charge to prevent the risks that could accompany a disorderly and unjust globalization. International institutions are not the symbolic illustration of a savage internationalization, as some seem to think. On the contrary, they are the instrument that makes it possible to protect the common interests of the international community and to ensure respect for each member of that community, in disciplining and mastering, at the relevant level, that is to say the global level, forces and movements that so greatly threaten it.

To fulfill this task, these institutions must reach simultaneously the highest level of professionalism, respect for each other's responsibilities, openness to civil society, and transparency. I observe with great satisfaction that we are in good agreement on all these points.

Europe intends to make its contribution to the stability and prosperity of the international economy through active reform, through the preservation of its internal and external balances, and in assuring the full success of our single market and single currency. A strong euro is in the interest of the euro area and of global economic stability.

GERMANY: ERNST WELTEKE

Governor of the Fund

First of all, I am pleased to extend a warm welcome to the new Managing Director of the IMF. I wish you, Mr. Köhler, for your difficult and challenging work every good fortune and success. We are delighted that the Annual Meetings of the IMF and World Bank are being held this

time in Prague—in other words, in the heart of Europe. We are now meeting in a country which not much more than 10 years ago was—from our point of view—behind the “Iron Curtain” and was neither a member of the IMF nor of the World Bank. We welcome the Czech Republic’s successful efforts at being a very generous host to the Bretton Woods institutions under difficult circumstances. We would like to take this opportunity to express our warmest gratitude and to wish our host country every success in continuing its course as a country that is at the forefront of the transformation process.

We welcome the dynamic overall development of the world economy, however, at the same time, we also perceive risks that must be taken seriously.

- Growth, which is more highly synchronized globally, tends to increase inflationary risks.
- These risks are being heightened by rising oil prices and—in Europe—by the strength of the U.S. dollar.

This means that in economic policy, the right decisions to shape the future course must be taken today.

- The policy of fiscal consolidation has to be continued. In many industrial countries and emerging market economies budgetary policy is still procyclical. Dynamic growth creates additional scope for fiscal consolidation, which should be used.
- The process of growth has to be underpinned by a monetary policy that remains steadfastly geared to domestic stability.
- The supply conditions to foster growth and employment also have to be improved further.

For the IMF, surveillance, and therefore crisis prevention, have to be the primary concern. There are already examples of significant progress in that respect.

- In most countries, transparency of monetary and fiscal policy is much greater now than it was even a few years ago.
- Standards and codes for financial stability receive broad international support now. Their implementation is, first and foremost, the responsibility of individual countries.
- IMF surveillance has been significantly improved by the inclusion of the analysis of national financial sectors and indicators for crisis vulnerability.

However, the reform agenda has not been accomplished yet. I welcome and support the new Managing Director’s proposals with regard to

the further strengthening of crisis prevention and especially to intensify contacts to important participants in international financial markets.

If financial crises do occur in the member states despite improved surveillance and precautionary measures, the IMF should act in such a way that market forces are maintained or strengthened, not undermined. It is crucial to foster the self-responsibility of market partners.

For that reason, when combating acute crises, the IMF should confine itself to its financial role—which is a catalytic one—and should not seek to become a “lender of last resort.” This would not be in accordance with its mandate and its limited financial resources.

The official sector has to give the financial markets clear signals on its acting when a crisis occurs. The private sector expects such clarity. In each and every financial crisis, the Fund has to start from the basic necessity that the private sector must make an appropriate contribution to crisis resolution. The IMF should work out proposals to make this approach operational as soon as possible.

In the past, the IMF and the World Bank have all in all been successful in fulfilling their mandates. For this to remain so in the future, these institutions need to be adapted and strengthened. In a market economy environment, too, they have to provide important public goods—something the World Bank is stressing this year.

The division of labor enhances the efficiency of both institutions. Their original—and still valid—mandates define their respective responsibilities: the IMF is a monetary institution that has the mandate of ensuring a stable monetary and financial system; the mandate of the World Bank is focused on developmental objectives. Given this clear division of responsibilities the institutions should not compete with but rather complement each other and work together in a well-focused result-oriented way.

Allow me to touch briefly upon an issue that is being debated in Prague, not only here at the Annual Meetings but outside as well: the advancing globalization.

Let us be frank: to make optimum use of market forces, those forces should not be unnecessarily hindered. Therefore, global liberalization cannot—and must not—be turned back. Its benefits are beyond dispute. Liberalization gives developing countries the possibility for their deeper integration into the international financial and trade system—and also provides new opportunities for income. Free trade is the most effective support for development.

In the long term, however, globalization will only be broadly accepted if all can benefit from its advantages. This implies, inter alia, that the more advanced economies will open their markets further and will accept related adjustment burdens.

In conclusion, I would like to say a few words on the debt initiative. At the Cologne Summit in 1999, it was agreed that the initiative should

be “broader, deeper, and faster.” I believe that this goal can be achieved. However, full funding still has to be assured. The debt initiative will be successful if the following principles guide its implementation:

- Financial support must be secured. It is, therefore, important that all countries fulfill their financial commitments.
- Rapid implementation of the debt initiative should not endanger the quality of reform programs in debtor countries. It is important to lay the foundations for sustained growth and a vigorous fight against poverty by policies owned by countries. Progress in this area is the best guaranty that new debt problems can be avoided.
- We are concerned by the burden recently being placed on some debtor countries by sharp rises in oil prices and falling prices for export-commodities. We stress, however, that the debt initiative is flexible enough to take into account these temporary volatilities. Moreover, the structures in the affected countries need to be strengthened so that they can also better cope with temporary fluctuations. I would like to call on the oil-exporting countries to be aware of their responsibility for the world economy, especially for poor countries that are particularly hard hit by rising oil prices.

GREECE: YANNOS PAPANTONIOU
Governor of the Bank

Let me first congratulate Horst Köhler on his election as the new Managing Director and pay tribute to the work of Michel Camdessus while he was in the post, and James Wolfensohn for his valuable contribution in pursuing the goals of the World Bank. I also express my welcome to San Marino as the latest member of the International Bank for Reconstruction and Development.

Regarding recent economic developments in my country, last June the European Council at Feira in Portugal congratulated Greece on its economic performance and welcomed the decision that Greece will join the euro area, on January 1, 2001. Entry into the European Economic and Monetary Union involved a major effort to consolidate public finances and restructure the economy. The policies followed over the last few years succeeded in drastically reducing the general government deficit to a level that is expected to be below the euro area average for this year, lowering inflation to the level of the euro area average and promoting strong growth on a sustained basis.

Structural reforms aim at improving the functioning of markets by, inter alia, containing the role of the state and putting in place a clear and

transparent legal and regulatory framework within which market agents operate. To this effect, our telecommunications and electricity sectors will be fully liberalized in 2001. To raise productivity further, increased importance is placed on education, on the modernization of work practices, and on the reorganization of the public sector. For the next few years, we are expecting growth rates of about 5 percent. These growth rates, driven primarily by investment, together with fiscal discipline are expected to lead to surpluses in the general government sector and, in combination with the continuing privatization program, to a steady reduction of the general government debt. Inflation is expected to remain under control as a result of the anti-inflationary fiscal policy and the structural reforms that will lead to an increase in potential output, preventing the emergence of bottlenecks.

In the spirit of the Lisbon summit conclusions, we are taking steps to fully exploit the opportunities offered by information and communication technology in raising output and providing a longer-term push to productivity growth. In this effort, we are channeling the resources of the Community Support Framework to their best use. At the same time, we are also assuming a constructive role in the reconstruction process of the Balkans. We are determined to continue on the virtuous path we are on and to take advantage of the positive trends that have emerged in the world economy.

Most international organizations predict that world output will register substantial growth in 2000 and 2001. The continuing robust growth in the United States is contributing to this worldwide performance, but so is Europe and the newly industrialized Asian economies. At the same time, inflation has remained under control. This performance follows from the pursuit of sound macroeconomic policies by most countries simultaneously, thus resulting in balanced growth. Technological improvements, especially in the information and communication technology sectors, have also made a substantial contribution.

World economic recovery is currently accompanied by some exchange rate instability, especially as concerns the euro's continuing weakness, which does not reflect economic fundamentals in the euro area. As underlined by supportive actions already taken, a strong euro is in the interest of global stability.

The Fund has contributed to the improvement in economic prospects by promoting sound macroeconomic policies and by helping the crisis-stricken countries to address structural weaknesses, notably in the financial sector. In this respect, we welcome the joint World Bank-IMF Financial Sector Assessment Program, which is proving to be a valuable tool for identifying vulnerabilities, and the progress made in developing the Standard and Codes and promoting their adoption.

Despite the improved performance of the global economy, a number of countries are still facing poverty conditions. Widespread poverty

remains the unacceptable face of the global economic situation. Since relief initiatives are more easily implemented in times of good economic performance, we should take advantage of the present conditions. We support the enhanced HIPC and PRGF Initiatives, to which Greece has also made a contribution. We welcome the considerable progress achieved in the last year on this front, with the endorsement of relief packages for ten countries and the expectation of further countries participating until the end of the year. We also welcome the increased emphasis on the quality of adjustment of policies in the poorest countries and the provision of technical assistance by the Fund and the Bank. The developed world should intensify its efforts to combat poverty through the systematic application of relief and assistance policies.

At the moment, a shadow has been cast on this overall improved picture by the increase in the price of oil. At the Council of Economic and Finance Ministers meeting earlier this month, we expressed our concern regarding the current oil price and stressed the need for oil prices to return to a level that preserves robust worldwide growth. We should spare no efforts in the forthcoming weeks in seeking the cooperation of OPEC and other oil producing countries for ensuring adequate production levels leading to a lower price of oil. In the medium-term, the European Union countries have set themselves the goal of reducing their oil dependency.

More generally, increased globalization requires a reinforced international cooperation aimed at preventing or resolving crises, as well as promoting policies favoring financial stability, technological innovation, and equitable distribution of the gains from growth. Current successes and problems underline the need for such cooperation.

INDIA: YASHWANT SINHA
Governor of the Fund and the Bank

I would like to add my warm congratulations to those extended by other Governors for your election as Chairperson for these Annual Meetings. I am sure that our deliberations here will be greatly benefited by your rich experience, wisdom, and dynamism. I would also like to take this opportunity to thank the government of the Czech Republic for its exceptionally warm hospitality and superb arrangements for this Annual Meeting. As we all know, there were serious concerns regarding possible disturbances to the conduct of these meetings. The Czech government deserves very special congratulations and gratitude for effectively containing the potential problems.

I would also like to congratulate the Managing Director of the IMF and the President of the World Bank for their very constructive contri-

butions in reviving global economic prospects. Let me extend a special welcome to Mr. Horst Köhler, since this is the first Annual Meeting he is attending as Managing Director of the Fund.

It is indeed heartening that global economic expansion has gained momentum in the course of 2000 and that the prospects for 2001 are reasonably promising. There is, however, no room for complacency. First, the global economic environment remains vulnerable to large and persistent financial imbalances and performance asymmetries among the three largest economic regions: the United States, the euro area, and Japan. Second, we have been very concerned in recent times with the seeming lack of international coordination of macroeconomic policies among these major economies, which has amplified uncertainties in world financial and currency markets. Last week's welcome and coordinated intervention in support of the euro has allayed some of our concerns. Third, the current prosperity has not been evenly shared by all regions of the world. In particular, Africa's economic performance and prospects remain weak and beset by natural disasters and the HIV/AIDS pandemic. Fourth, a combination of lower projected capital flows (both private and public) to developing economies and the persistence of protectionist sentiments and practices in industrial countries could undermine the nascent economic upswing. These risks and vulnerabilities need to be at the top of our agenda for concerted global action in the interests of global stability and growth.

Above all, the extraordinary surge in international oil prices and continued weakness in nonfuel commodity prices have imposed a serious terms-of-trade burden on many developing countries and led to additional pressure on their external payments situation. The continued turmoil in oil markets has the potential to derail the prevailing upbeat prospects for the global economy. In this context, I feel that there is a strong case for expanding the scope of the existing Fund facilities to assist the oil-importing developing countries that need it in managing this extraordinary external shock. Equally important is the need to evolve a mechanism for continuing consultation on commodity prices so as to facilitate anticipation of similar shocks and enable the taking of preventive steps in time.

We welcome the broad-based efforts to strengthen the international financial architecture. The stability of the international financial system is rightly viewed as a "global public good." The substantial efforts that many developing countries have made to integrate themselves with the world economy must be supported, if the process of globalization is to move forward in a manner that ensures positive benefits for all members of the international community. For this to happen, plans and programs for strengthening the architecture need to be more responsive to the issues and concerns of special interest to developing countries, including

low and declining levels of official development assistance; low non-oil primary product prices; continued industrial country barriers to exports from developing nations; volatility and costly access to private international capital markets; and the persisting burden of external debt.

The Bretton Woods institutions, with their near universal membership, have a pivotal role to play in this regard. Indeed, there is an imperative need to reevaluate the role of the Fund and the Bank in the broader context of globalization. The Bretton Woods institutions must echo the voice of the poor and strive to extend the full benefits of globalization to all on equitable terms. In particular, the Fund and the Bank need to strive together to mitigate the downside risks of globalization, catalyze greater policy coordination among major industrial economies, and reverse the declining trends in ODA, which is crucial for supporting development and financing global public goods, such as the preservation of the environment and the elimination of infectious diseases. In this regard, we welcome the recent commitment by both these great institutions to more effective collaboration in the pursuit of shared goals without compromising their respective focuses and separate mandates.

Recent suggestions for reducing the concessional element of ODA (through various differential “pricing” procedures) are misconceived. As it is, the last 20 years have witnessed a steady decline in the percentage of contribution to ODA from industrial countries’ GDP, while at the same time the “conditionality” price of such assistance has ratcheted up.

The recent revisions of the scope and terms of IMF facilities have helped to strengthen the institution’s role in the prevention and resolution of financial crises. However, the administration of these facilities needs to be carefully managed to meet the diverse requirements of the IMF member countries, which are at very different stages of development and face a tremendous variety of financial and development challenges. I would also reiterate that IMF financing needs to be complementary to borrowing from private capital markets, and private flows cannot be expected to substitute for the IMF’s special role.

While considerable global effort has been directed in recent years toward crisis resolution, I feel that the timing is propitious to shift attention now to crisis prevention. Such concerted endeavors not only can reduce the probability of the occurrence of crises, but could also reduce the costs of crisis resolution, as and when crises do occur. Recognizing the indispensable role of official financing—especially IMF financing—in coping with financial crisis situations, I still feel that the existing provisions are not strong enough. It is for this reason that we continue to urge consideration of our suggestion to amend the Fund’s Articles to enable it to issue SDRs to itself to provide expeditiously adequate emergency financing to meet temporary financing requirements in crisis situations.

We have welcomed the establishment and implementation of internationally accepted standards and codes to promote financial stability.

However, we continue to urge that there should be a clear prioritization among the proliferating population of standards; that the acceptance and implementation of standards by countries remains voluntary; that the compliance with standards and codes should not be prematurely integrated into the regular IMF Article IV consultation process, and that standards must not become part of IMF conditionality.

We are deeply concerned by the decline in the World Bank's commitment levels to US\$ 10.9 billion in FY 2000, which is the lowest level in the decade. This decline must be swiftly reversed, and this will happen as the World Bank rededicates itself to its basic mandate of providing long-term development finance to member countries. Despite the growth of private capital flows, the vast majority of developing countries continue to rely on official assistance, where the Bank/IDA plays the leadership role. Even among those countries with some access to private capital markets, official lending provides critical complementary support, ensures against the notorious instability of private flows, and channels finance and investment to the crucial areas of human resource development and infrastructure, which underpin the long-term growth process.

The alleviation of poverty remains the central goal for us as well as for the multilateral institutions engaged in the enterprise of economic development. In fact, we feel that the Bank should emerge as the focal point of the global effort of assisting the poor. We welcome the refocusing of Bank/IDA programs on poverty alleviation. However, we would urge these institutions not to lose sight of the basic guiding principles of consultation and collaboration enshrined in their statutes and that their programs and approaches must strike a judicious balance between safeguard policies and accelerated development. Instruments such as the Poverty Reduction Strategy Papers have their role, but they should not attempt to duplicate or substitute for detailed plans and programs adopted by democratically constituted institutions at different levels of government in member countries. As we all recognize, the primary responsibility for accelerated development and poverty alleviation rests with each developing nation.

We note with satisfaction that the latest *World Economic Outlook* has described India's recent economic performance as "remarkable." Our program of economic reforms and commitment to macroeconomic stability continues to yield impressive rewards. India is likely to continue its robust performance and is expected to grow at about 6.5 percent in the current year. This makes India one of the 10 fastest-growing economies during the 1990s. Even better, the recent acceleration in India's growth has been accompanied by a decline in the inflation rate. Despite a number of difficult domestic and international developments, our balance of payments position remains manageable, and the external sector continues to exhibit strength. Our current account deficit has averaged about 1 per cent of GDP since 1992-93, and the debt service ratio has

more than halved to 16 percent from 35 percent over the same period. Furthermore, not only has the debt-GDP ratio declined to 22 percent in 1999–2000, from over 41 percent in 1991–92 short-term debt has been kept within prudential limits and now constitutes less than 5 percent of our aggregate debt. At US\$ 32.4 billion as of September 15, our foreign currency reserves remain comfortable.

I am happy to report that the evidence of further decline in Indian poverty is building up. The proportion of the population below the poverty line had fallen steadily to 36 percent by 1993–94 from 55 percent in 1973–74, and preliminary surveys confirm that the process has gained momentum in recent years. In addition to having realized this reduction through economic growth, our development strategy also visualizes a continued direct attack on poverty through the creation of wage and self-employment opportunities.

We are fully conscious that in order to maintain and improve upon a strong economic record we need to implement an ambitious agenda of second-generation reforms while continuing with our vigilant macroeconomic management. We are already pursuing a series of reforms covering the entire spectrum, including the revitalization of the rural economy, fiscal policy, the financial sector, trade, foreign investment, infrastructure, and industrial relations. One of our main thrust areas is the rightsizing of government, as well as the restructuring and privatization of public enterprises. We are confident that we will succeed in the challenging task of giving hundreds of millions of our people a decent standard of life in the first decade of the new millennium.

The financial crisis of two years ago is now behind us, but the scars of traumatic upheavals with the impoverishment of millions in the developing world are bound to linger. At this critical juncture, the need to reevaluate our policy perspectives should be balanced by the evolution of a representative negotiation process for a more rapid, sustainable, and broadly shared “ownership” of growth and development. Our Prime Minister, just a fortnight back, proposed a comprehensive Global Dialogue on Development. A situation that provides a comfortable living standard to one-third of the world’s population, but condemns the remaining two-thirds to poverty and want, is unsustainable. I feel that this first Annual Meeting of the twenty-first century can make a meaningful contribution toward this goal.

INDONESIA: PRIJADI PRAPTOSUHARDJO

Governor of the Bank

I am honored to have the opportunity as the newly appointed Minister of Finance of Indonesia to address the Annual Meeting of the Governors of the Fund and the Bank in Prague this year.

More than three years have now passed since the East Asian crisis engulfed the region that caused untold misery to millions of people in the affected economies, and it is, therefore, very encouraging to note that the measures taken by these countries in dealing with the crisis, have finally produced positive results. Slowly, but surely, they are emerging from the crisis, and some of them are beginning to attain pre-crisis levels of economic activity.

Indonesia, which was hit hardest by the crisis, is also showing vivid signs of recovery. Macroeconomic stability has been restored, and public confidence is on the rise – especially since the presidential election last October. The economy, benefiting from increases in exports, investment, and consumption, grew satisfactorily in the first and second quarters of 2000 by 3.6 percent and 4.1 percent, respectively, compared to the previous quarters. The general price level has been stable, largely due to the relatively low inflation rates. From January to August of 2000, the inflation rate was kept low at 4.7 percent. Moreover, unlike last year, investment has replaced consumption as the leading contributor to GDP growth. Investment grew by 14 percent and 21.1 percent in the first and second quarters of 2000, respectively. Both exports and imports showed an impressive rebound. From January to July of 2000, exports increased by 33.7 percent, compared to the same period last year, while imports, consisting mainly of raw materials and capital goods, increased by 18.8 percent in the same period. Furthermore, the resulting current account surplus contributed to an increase in the amount of gross foreign assets, reaching US\$27.5 billion in the second quarter of 2000, sufficient to fulfill non-oil imports and imports of gas for 11 months. With these favorable trends, we expect that the GDP will grow by 4.9 percent or more this year, exceeding our original target of 3.8 percent. While this rate is much lower than the average growth that we enjoyed for many years prior to the crisis, it is nevertheless a significant improvement from the negative 14 percent growth rate registered in 1998.

The encouraging economic performance was closely related to the positive developments experienced by the rupiah's exchange rate during the past 11 months. In September last year, the exchange rate was around Rp 9,000 per U.S. dollar. Although experiencing high volatility, the rupiah has recently shown a tendency to strengthen to around Rp 8,300. Indeed, this is a significant achievement if we consider that two and a half years ago the value of the rupiah was around Rp 15,000 against the dollar.

The strengthening of the rupiah, the relatively stable domestic prices, as well as favorable conditions in the global financial market provided breathing room for Bank Indonesia (BI), our central bank, to reduce interest rates through open market operations without jeopardizing macroeconomic stability. The interest rate of the one-month BI certificate of

deposit (SBI) has been brought down gradually to 13.2 percent in August 2000 from 46.4 percent in November 1998.

We are fully aware that one of the main causes of the financial crisis is the weakness of our banking system, which has exacerbated the problems faced by the corporate sector. Therefore, the success of our national economic recovery is very much dependent upon our ability to restore the soundness of the banking sector. However, restructuring the banking system is not only very complicated but also costly. But, despite the difficult environment, the effort to restructure our banking system has produced encouraging results. Most of the private banks that were taken over by the state (BTO banks) have now been recapitalized. Some of these recapitalized banks are presently in the process of being privatized, and for banks that are unable or unwilling to participate in the recapitalization program, the government is adopting alternative solution strategies including mergers or closures.

The assets of the liquidated banks have been taken over and managed by the Indonesian Bank Restructuring Agency (IBRA), which is given the task to carry out asset sales and debt restructuring, return assets to the private sector, and achieve collection targets to support the state budget. The IBRA continues to strengthen efforts to accelerate loan collection and asset recovery by all state and BTO banks so as to minimize the bank restructuring costs.

In the corporate sector, the government has intensified efforts to resolve the private debt problem, facilitated by the Jakarta Initiative Task Force (JITF), in close cooperation with IBRA. Presently, restructuring private debt is focused on big debtors. Until now, IBRA has succeeded in restructuring 40 percent of the debt of 21 of the largest debtors. As of July 31, 2000, the JITF has restructured private debt totaling US\$5 billion. The JITF plans to achieve a target of US\$12 billion by April 2001, and in order to speed up corporate sector restructuring, the government will provide the necessary incentives in the form of debt forgiveness, debt-to-asset settlements, and debt-to-equity swaps.

Despite the encouraging developments in the macroeconomic front, as well as in the financial and real sectors, we are aware that much remains to be done. In this respect, I can assure you that there is a strong commitment within the highest levels of the government and among leaders of the main political parties to undertake all the necessary reform programs so as to secure a speedy economic recovery that is so critical to the success of our long-term struggle in fighting poverty.

Turning to Fund and Bank matters, we are pleased with the new commitment made by Mr. Horst Köhler and Mr. James Wolfensohn to enhance the partnership between these two institutions in order to help improve the quality of life and reduce poverty around the world through sustainable and equitable growth. In this connection, we would like to

express our support and readiness for cooperation in the effort to achieve this great goal in the years ahead.

We are also encouraged by the progress achieved in the implementation of the HIPC Initiative and welcome the enhanced HIPC framework. However, we are concerned that the financing problem of this initiative remains unresolved. It is our view that the debt relief provided should not jeopardize the financial integrity of the multilateral institutions nor the assistance to other low-income countries, such as that provided under IDA. Therefore, we would like to urge all bilateral and multilateral donors to provide the necessary financial support to this initiative to avoid setbacks in providing debt relief to poor countries.

I would also like to take this opportunity to express our deep concern over the increasing tendency of the World Bank to involve itself in non-socioeconomic matters of its member countries. We believe that this is not a healthy development and can adversely affect its relations with its clients and, thus, its effectiveness in poverty alleviation. We, therefore, urge the Bank to adhere strictly to its mandate, as stated in the Articles of Agreement.

Finally, let me conclude by expressing our gratitude and appreciation for the support of the international community in helping us to implement our economic program. We are confident that, with your continued support and under the leadership of President Abdurrahman Wahid, we will emerge from the crisis much better prepared to face the challenges of globalization, thereby enabling us to embark on a more sustainable path of development.

IRAN: MOHSEN NOURBAKHSH
Governor of the Fund

I join my fellow Governors in congratulating you on your assumption of the chairmanship of the 2000 Annual Meetings. I wish to welcome and congratulate Mr. Köhler on his appointment as the Managing Director of the International Monetary Fund. I would also like to congratulate Mr. Wolfensohn on his second-term appointment. I am pleased to support the ideas that Mr. Köhler has presented in his vision of the IMF. I warmly welcome his expressed desire to strengthen the cooperative character of the Fund. This requires a greater role for the developing countries in the institution through a meaningful revision of the quota formula. I appreciate his understanding that the Fund must develop greater appreciation for the political and cultural processes and institutions of developing countries. An important element of his vision is his recognition that, for developing countries to grow, they must have better access to private capital markets as well as to the markets of the industrial countries for their exports.

We are also of the view that globalization must benefit all participants in the world economy. The Bretton Woods institutions must do their utmost to mitigate the adverse impact of globalization on the economies of developing countries.

It is imperative that the IMF play its effective role in crisis prevention through the provision of contingent financing and technical assistance to strengthen the economic and financial system of member countries. I also emphasize the oversight role and the central responsibility of the IMF for the stability of the international financial system and the importance of symmetry of surveillance of developing and industrial countries.

I welcome the ongoing dialogue between the Bretton Woods institutions and the nongovernmental organizations. However, such contacts must not undermine the accountability and responsibility of governments to their own people or weaken the existing institutional framework of member countries.

Finally, the global economy continues to perform well, with growth projected to strengthen in all major regions of the world. While these trends are reassuring, there is a risk that growing imbalances among the three major currency areas may have serious implications for the world economy if there is a disruptive readjustment of these imbalances. Therefore, the IMF must take a more proactive stance vis-à-vis closer policy coordination among the three major currency areas.

A word about the oil prices. We have always believed that stability in the oil market is crucial for consumers and producers. There is, however, something patently unfair about the present attempts to shift responsibility to oil producers. When the oil prices collapse, the producers are asked to adjust their economic policies to compensate for lower prices. At the same, the advanced countries increase the tax wedge rather than pass through the lower oil prices to their domestic consumers. When prices recover, the industrial countries push quantity adjustment on producers rather than symmetrically adjusting their economic policies by, for example, reducing the size of the tax wedge. The question is why do the international financial institutions acquiesce in this asymmetric stance.

Allow me to say a few words about recent economic developments in my country. Before proceeding, however, I wish to express my gratitude to Mr. Wolfensohn for his efforts in strengthening the cooperation of the World Bank with its members. Since the recovery of the world economy, the Islamic Republic of Iran has made substantial progress in addressing macroeconomic imbalances and underlying structural rigidities. Public finances have been placed on a sounder footing, which— together with improved confidence—has contributed to economic recovery. The foreign exchange regime has been reformed, aiming at emergence of a market-determined and unified exchange rate. The

external debt has reduced markedly, reserves have increased, and external vulnerability indicators have strengthened.

As of the beginning of this year we embarked on implementing the third Five-Year Development Plan, which addresses remaining financial imbalances as well as structural weakness. Under the plan, the government is committed to a balanced budget, a reduced government role, trade reform, privatization, and major improvement of the environment for private sector participation in the economy. The government is also committed to substantial reform and strengthening of the financial system. Within the plan period, the framework of regulatory, prudential, and supervisory norms will be strengthened substantially. We have already implemented policies to enhance the private sector activities in the banking system. All these measures are aimed at increasing investment, expanding employment opportunities, and accelerating growth. In conclusion, I take this opportunity to thank the government and the people of the Czech Republic for their warm hospitality.

IRAQ: ISSAM RASHID HWAISH

Governor of the Bank

I am honored to greet you on behalf of the Iraqi delegation and to express our wishes for continued success to you, Mr. Chairman, and to the Managing Director of the IMF, the President of the World Bank, and the governors attending this meeting today, in your efforts to achieve the goals pursued by the international community. I would also like to join my colleagues in thanking our Czech hosts for their warm reception and in congratulating the Managing Director, Horst Köhler, on the confidence he has earned. We hope that his efforts to help developing countries overcome their balance of payments problems will meet with resounding success.

Over the past 10 years, the Iraqi delegation has affirmed that one of the most important purposes of the IMF, as set forth in Article I, paragraph (iv) of its Articles of Agreement, is to eliminate restrictions that hamper world trade and to strive to achieve economic stability and prosperity. Today I repeat once again that the economic sanctions imposed on Iraq since 1990 are in conflict with the Fund's Articles of Agreement and its philosophy. Iraq participated in the Bretton Woods agreement and is a founding member of the IMF. This gives me the right to ask the Fund to raise its voice against the continuation of these unjust economic sanctions and the freezing of Iraqi assets, which contradict not only the Fund's principles but also the most basic humanitarian and social values. As the Fund's management is aware, we have tried to settle our obligations to the IMF using our frozen assets in the United States, but the fiscal authorities there have refused to allow this.

Ten years of continued sanctions have caused the Iraqi people unprecedented suffering. Mortality rates have risen among children and the aged, owing to the lack of medical supplies. The international humanitarian organizations acknowledge that the Iraqi people face great danger and that emergency measures must be taken soon. Life has become increasingly difficult as people are deprived of drinking water, sanitary facilities, and electricity in towns and cities across the country, while means of transportation deteriorate and flights in and out of Iraq continue to be banned.

Although what is called the “oil for food and medicine” program has been in effect for nearly five years, it has failed completely—in economic, social, and technical terms—to reduce the suffering of the Iraqi people. It has been transformed from a humanitarian program, as called for by certain groups, to an oil exchange deal used to cover United Nations expenditures and compensation, rather than the needs of the Iraqi people. Large amounts of money are tied up in suspended contracts or are otherwise unusable, owing to the policies of certain countries that claim to defend human rights but whose actions are actually aimed at increasing suffering and death among the Iraqi people. In accordance with this program, Iraq has exported oil valued at \$32.9 billion, of which the United Nations has received \$10.1 billion, while \$10.2 billion remains on account as at August 31, 2000. The value of food and humanitarian goods reaching Iraq has not exceeded \$12.6 billion over a period of five years, or an average of \$2.5 billion per year.

The Secretary General of the United Nations recently stated in a speech before the General Assembly that the program is hindered by the delay in approving the contracts signed for delivering humanitarian goods to Iraq, in addition to 1,151 suspended contracts valued at over \$2 billion, either with no reason for the suspension or for insubstantial and illogical reasons.

The policy of blocking or suspending contracts for medicine and medical goods has increased the suffering of Iraqi patients and caused the death of hundreds of thousands of them, children in particular, in addition to the spread of various diseases and epidemics. The suffering of the Iraqi people will be reduced not through a memorandum of understanding, but only through the total lifting of sanctions against Iraq and implementation of Article 22 of UN Security Council Resolution 687 of 1991.

The suffering of my people and humanitarian concerns demand that the international community raise its voice to rectify the deteriorating situation in Iraq, which could result in an enormous human disaster if appropriate measures are not taken soon, as Iraq has warned many times in the past.

In view of Iraq’s tragic situation and the suffering of its people that I have described, I stand before you today in this respected international

forum, asking the IMF and the World Bank, in the spirit of their Articles of Agreement, to call for an end to the economic sanctions against Iraq and the release of its assets. I likewise call on the distinguished governors to spare no effort in urging their governments to help end the suffering of the Iraqi people and restore balance to our relations with the international community. I call for a joint effort to end economic sanctions and airspace restrictions, which are unsupported by any Security Council resolution, international endorsement, or legal justification.

IRELAND: CHARLIE MCCREEVY

Governor of the Fund and the Bank

Ireland's general views on current issues relevant to the Bretton Woods institutions are reflected in the statement made on behalf of the European Union by the French Presidency and I will not repeat them here. I would like to highlight the respective roles of the Fund and the Bank in the development process and the extent to which we are delivering on the poverty agenda in the developing world.

Role of the Bretton Woods Institutions

The role of our institutions remains central to international stability and development. I am encouraged by the extent of debate on this in the last year and on the progress made in defining the respective roles of the Fund and the Bank in the developing countries.

In particular I am encouraged by the attitude expressed by the Fund's Managing Director on concentrating on the Fund's core functions, avoiding micromanagement of the developing economies and on fully integrating the Fund's input into the development process. Equally, the Bank has been broadening its approach to development and helping to bring together all the stakeholders in the process.

These approaches come together in the Poverty Reduction Strategy process which we adopted last year and which we are now trying to implement on the ground. The effective involvement of all stakeholders in the formulation of these strategies and their subsequent implementation is a major yardstick by which the overall development effort will be judged.

Transparency

Our initial efforts at increasing transparency in the operation of the institutions are now bearing fruit. I expect that over time peer pressure will lead to an even greater freeing up of information. Nevertheless, we need to bear in mind that this is not the same thing as participation, though it greatly facilitates it.

Debt and Development

Clearly the issue of debt relief for the poorest developing countries is still with us. We have all supported an initiative, the aim of which was to enable the poorest debt-burdened countries to get off the debt treadmill and, thereby, devote more of their resources to poverty reduction and growth enhancement. We promised wider, faster, and deeper relief, and it is against this yardstick that our efforts must be judged.

We have begun to deliver on this promise, but there are a number of serious problems that must be addressed and resolved. The delays in overall financing and processing of eligible applicants are regrettable. It is vital that the impact of the initiative is not diluted by these factors. I support greater speed and flexibility in implementing the present initiative. The linkage between debt relief and the Poverty Reduction Strategy Papers needs particular attention in this regard. The Papers must not become a vehicle for additional conditionalities that stand in the way of early access to debt relief. Moreover, full credit should be given for a track-record of implementing sound policies.

There are deserving cases where natural disasters have thrown development off course or where conflict has prevented indebted countries availing of the initiative. These situations require a proactive approach. The anomalies that exist have to be faced and dealt with otherwise the initiative itself risks being undermined.

More generally, we cannot have a situation where countries that are committed to good governance and tackling poverty reduction are, after full Initiative for Heavily Indebted Poor Countries (HIPC) relief, still spending a significant proportion of their budget on debt servicing, or more on this than on their social programs. In those cases where debt relief does not reduce the actual amount of debt service paid, from where are to come the additional resources to tackle poverty? Accordingly, the parameters of the initiative should be kept under review, with a view to appropriate remedial action.

Ireland has willingly contributed to this initiative and we want to see it work to full effect. Let me say at this stage that I fully support the position of my Canadian colleague, Paul Martin, on the subject of debt relief.

None of the HIPC countries are indebted to Ireland so as a government we do not have a direct role to play in that respect. But as a signal of our willingness to share part of our improved prosperity with the underdeveloped world, we have recently committed ourselves to achieving the UN development aid target of 0.7 percent of GNP by 2007. This is a major commitment on our part and I intend to deliver on this.

In conclusion, I would like to refer to the contributions made in the opening session. I am sure that Chairman Manuel's remarks, notably in relation to the plight of sub-Saharan Africa, made a deep impression.

We should all be encouraged by the addresses of Managing Director Köhler and President Wolfensohn. These provide evidence of a positive approach by both the Bank and the Fund to ensuring that the most needy countries get the assistance that they urgently require. I can ensure the institutions of Ireland's full support for these efforts.

ISRAEL: DAVID KLEIN

Governor of the Bank

Ten years ago the government of Israel decided on a strategic change in its economic policy. The change was designed to prepare the economy for a new era of deeper integration with the world economy, and was composed of two major elements. First, commitment to inflation targeting and declining fiscal deficits; and, as a result, declining government debt-to-GDP ratio. With regard to the first two, we are on the threshold of attaining the EU criteria. Last month the government decided to attain price stability, defined as annual inflation in the range of 1–3 percent by the year 2003, and reach a general government deficit ratio of 3 percent at the same time.

In the current year 2000, we are already in the neighborhood of these two goals. Our medium-term aim is, thus, to learn to live within these goals.

In terms of the government debt ratio, we are still behind. We had a ratio of 140 percent at the beginning of the 1990s; we start the new millennium with a ratio of 100 percent. A linear extrapolation implies that it is going to take us another decade until we reach the 60 percent mark. Nevertheless, it is not impossible that we will make it more quickly.

The second element of the strategic change was liberalization on two fronts:

extensive deregulation of the domestic financial markets and liberalization of the capital account; lifting, on a large and wide scale, barriers to trade: custom duties and nontariff barriers.

In this sense too we are almost at the end of the road. At the same time, we were able to absorb a large wave of immigrants that brought the average annual change in our labor force to 3.9 percent in the last decade to an economy that keeps restructuring itself.

This policy, shared by all Israeli governments, was cemented by a series of international agreements—bilateral and multilateral—with the U.S. government, the IMF, the European Union, and the WTO. By adding its signature to the latest financial services round under the auspices of the WTO, Israel reconfirmed its policy to grant equal treatment to whoever wishes to compete in the domestic market.

Since Israel became a member of the IBRD and the IMF in 1954, the nature of our participation in the Bretton Woods organizations has

undergone a significant change — from a country that receives support to being a member, although on a small scale, of the donor community. Until the second half of the 1970s, Israel benefited from World Bank loans for infrastructure projects. In 1975, based on its economic achievements, Israel “graduated” from being eligible for World Bank assistance. More than two decades later, the country’s further economic achievements allowed it to raise its status to becoming a donor country in the World Bank group. Starting in the late 1990s, Israel announced its commitment to joining the efforts of the International Development Association (IDA-11 and IDA-12) in providing concessional resources to low-income countries to help them in their efforts to reduce poverty and achieve sustainable growth. Since 1996, Israel established also Consultant Trust Funds, one at the IBRD and the other at the IFC. In addition, Israel recently announced its participation as a donor country to HIPC, by writing off a portion of these countries’ debt to Israel.

Furthermore, Israel willingly shares its economic experience and accumulated knowledge with other policymakers and actively participates in providing technical assistance to other countries. In recent years, the Bank of Israel has become involved in the international effort to assist the transition process of economies that formerly were centrally planned. Staff members of the Bank of Israel took part in technical assistance missions of the IMF to the countries of the former Soviet Union and Eastern Europe. More recently, Israel agreed to provide technical assistance also to IMF-IBRD missions that assess financial stability.

The growth of the economy of Israel, at an annual rate of 4–5 percent is now built around advanced industries and advanced technology. This is the driving power behind the surge in foreign direct investment in Israel, the leading force in our exports, the active factor in the restructuring of our traditional industries, the pushing element in designing our educational programs at all levels. As far as we can see, this is the way forward in a globalized world.

ITALY: VINCENZO VISCO

Governor of the Fund

Let me first express my thanks and great appreciation to President Havel and the Czech authorities for their hospitality and excellent organization of these meetings. Let me also wish Horst Köhler that his vision on the role of the Fund come true, in the interest of all the international community and especially the developing countries. He is embarking on a tough task at a time of great challenges but also on the solid ground laid down by his predecessor, Michel Camdessus, to whom I would like to express my appreciation for the relentless efforts and dedication over

his 13-year tenure. I would also like to manifest my gratitude to Jim Wolfensohn for his leadership and hard work during the last six years to achieve what should be our major objective: the fight against poverty. We also welcome the new member of our constituency in the World Bank, the Republic of San Marino.

Global economic conditions justify a certain degree of optimism, since world output is expected to grow this year at one of the highest rates since the mid-1970s (4¾ percent), and the steep rise in oil prices has had a limited impact on inflation. Progress continues to be made on a global scale in improving economic management and promoting structural reforms.

Sound economic policies are the decisive factor in eliminating or containing the remaining imbalances. In the United States, the authorities must continue to guide the economy toward a soft landing. In Europe, they should avoid procyclical shifts in fiscal policies and foster the process of structural reforms, notably in the labor, capital, and product markets. In Japan, the deepening of restructuring efforts in the corporate and financial sectors must be coupled with a continued policy support of the still-fragile recovery. In the emerging markets, policies need to continue to focusing on strengthening economic fundamentals to enhance resilience to external shocks.

We are encouraged by the significant progress that has been made in recent years toward a reform of the international financial architecture, but our task is not completed yet. Our attention should focus on the volatility of global financial markets and its potential consequences for emerging and developing countries, as well as on the inability of vast parts of the world to benefit from the process of globalization.

The Fund, as the guardian of international monetary and financial stability, must be at the center of financial sector issues, whereas the Bank must remain the torchbearer in the struggle against poverty. But to make our action most effective on both fronts, it is essential that the two institutions further strengthen their collaboration. The experience gained in those areas where this partnership is already at an advanced stage, namely the HIPC Initiative and the Financial Sector Assessment Programs has been very positive so far and proves how important collaboration is in order to maximize results.

In its own domain, the Fund must continue to pursue prevention as the first line of defense against financial instability. The development and implementation of international standards and, more generally, the strengthening of Fund surveillance is central to such an effort. Both Fund surveillance and Fund programs are now devoting substantially greater attention to financial sector issues, which have been at the root of many crises in emerging markets. The experience obtained so far with the Financial Sector Stability Assessment program has been very positive.

We look forward to the integration of this exercise into the surveillance activity of the Fund and to follow-ups for the World Bank program aimed at institutional strengthening and capacity building.

We strongly welcome the recent agreement to reform Fund facilities. This is an important step in adapting the structure of the Fund financing to the reality of mobile and volatile international capital flows. The strengthening of the Contingent Credit Line should boost the incentives to adopt preventive measures by offering added financial support to countries with first-class policies. Similarly, the modifications in the repurchase policies and in the structure of the rate of charge of the stand-by and the extended arrangement go a long way in strengthening the revolving character of Fund resources. They will better ensure that the Fund has the necessary resources to assist countries with balance of payments difficulties.

It goes without saying that we must at the same time refine our tools to manage financial crises so as to minimize both their disruptive effects on our economies and the moral hazard that is inevitably associated with the use of public resources. The design of a clear framework for the involvement of the private sector is essential: we must strive to achieve an appropriate balance between rules and discretion.

The Fund has also a role to play in preserving the international financial system's integrity and transparency. We have supported the work and the conclusions of the Financial Stability Forum, the Organization for Economic Cooperation and Development, and the Financial Action Task Force, which have examined the role of offshore financial centers within the current system of globalized capital markets, including their relation to money laundering and harmful taxation. The Fund has been forthcoming with regard to the call of the international community to take responsibility for developing and performing assessments of OFCs, and we welcome the Fund's newly established module approach, which is to be carried out with the help of national and international experts. However, we believe that more can and must be done in this field, particularly with regard to the implementation of the relevant codes and recommendations in these areas, since they have a significant bearing on the stability and the transparency of the financial sector worldwide. The World Bank should contribute to this process within its programs on governance by assisting countries in developing the institutional capacity that is needed to comply with the international recommendations.

Our second major objective is "making the global economy work for everyone." Our renewed effort at fighting the plague of poverty responds to this guiding principle. Indeed, the enhancement of the HIPC Initiative, endorsed at the last Annual Meeting, is allowing us to address the external debt problem in a manner that is consistent with the fight against poverty. The objectives of providing broader, faster, and deeper

debt relief for qualifying countries are being met, and we are committed to bringing as many countries as possible to their decision point by the end of 2000, provided that the quality, strength, and principles of the initiative are preserved.

The way in which the initiative has been implemented so far strikes a good balance between two objectives: a quick delivery of debt relief, and the assurance that resources freed by the initiative are effectively and transparently channeled toward poverty reduction. We cannot ignore that a continuing commitment to sound policies is essential to ensure that debt relief be effective in promoting growth and reducing poverty. The trade-off between speed and quality should not be allowed to deteriorate while we are progressing with our efforts to ensure that a large number of countries reach their decision point. Only if the relief comes together with an ambitious program of structural reforms and macro-economic stabilization, and with a credible and comprehensive poverty-reduction strategy as well, can it provide a permanent exit from the debt overhang.

All creditors must be prepared to contribute their fair share and ensure that regional development banks in which they have a stake will also do their parts. Italy's contributions to the initiative have been complemented by a bilateral debt relief initiative that will provide relief up to 100 percent of both official and commercial debt. Cancellation will be granted on condition that the countries involved be committed to the respect of basic human and civil rights; to the peaceful resolution of conflicts; and to the pursuit of social and human development aimed, in particular, at poverty reduction. Moreover, Italy has pledged \$70 million to the HIPC Trust Fund and has signed the contribution agreement during these meetings.

In order to make significant and lasting progress in the fight against poverty, the debt relief initiative should go hand in hand with actions on two equally important fronts. First, the official concessional assistance provided by bilateral donors or multilateral institutions should be reformed according to the following broad principles: better donor coordination and policy harmonization, performance-based allocations, and better alignment between conditionality and country priorities. We support the comprehensive framework developed by the World Bank and the new lending instrument aimed at strengthening the programmatic approach to poverty reduction.

The second front is that of trade liberalization. Only a wider and deeper access to the markets of industrial countries will provide the poorest countries with the means to permanently exit from the debt trap and from dependency on development assistance. We need to press ahead with the launching of a new round of trade negotiations within the framework of the WTO that would result in a substantial liberalization of trade with the poorest countries.

JAPAN: MASARU HAYAMI
Alternate Governor of the Fund and the Bank

Introduction

I am very pleased to have this opportunity today to address the IMF-World Bank Annual Meetings as Alternate Governor for Japan. Before moving on to the main part of my address, I would like to offer a warm welcome to Mr. Köhler, who is attending the Annual Meetings for the first time since taking on the important role of Managing Director of the IMF. Japan fully supports Mr. Köhler's vigorous efforts to reform the IMF, and we hope that he will continue to show leadership in tackling important challenges, such as IMF reform, in close cooperation with the member countries.

The World Economy

We are very pleased to note that the world economy is continuing its strong growth and moving into a new century of prosperity. Robust growth in the United States has been leading the world economy, supported by expansion in Europe and Japan's nascent recovery. The IMF has revised upward its world economic growth forecast by 0.5 percent to a 10-year high of 4.7 percent. New fields, such as information technology, have emerged that are expected to accelerate new growth and trigger explosive economic development.

Unfortunately, the recent volatile movement in crude oil prices may have an undesirable effect on the growth of the world economy. I believe the stabilization of oil prices is an indispensable condition for the continued growth of the world economy. In light of rising world demand, we call for appropriate increases in supplies and other necessary measures to promote long-term price stability, as this is in the mutual interest of oil-producing and oil-consuming countries.

In order to avoid abrupt macroeconomic adjustment while maintaining the conditions for the current favorable world economy, we think that the continued implementation of appropriate macroeconomic policies in each country—as well as efforts to promote the kinds of structural reforms that can bring about the growth and development of new fields—will be essential.

The Japanese economy continues to improve gradually, thanks to various policy measures. There have been some encouraging signs of recovery in the corporate sector. Reflecting these developments, the IMF has revised the Japanese growth forecast upward to 1.4 percent from 0.9 percent, the figure predicted in the spring. The supportive macroeconomic policy will be continued to put the economy on a self-sustaining recovery track led by private demand, which is expected to take

over the current role played by public demand. As for fiscal policy, the Prime Minister has instructed the government to formulate a package of economic measures. Accordingly, the cabinet will submit a supplementary budget to the current session of the Diet. On the monetary policy front, we intend to continue the current accommodative policy stance.

The Asian economies received a severe blow during the currency and financial crises, with many recording significant negative growth rates in 1998. In 1999, however, almost all of these countries achieved positive growth rates. Their recovery has been remarkable, even though the speed of recovery has varied somewhat from country to country.

The Bretton Woods system was established about 55 years ago. Since then, the rapid development and economic success of the Asian economies have dramatically changed the relative weight of various regions in the world economy. For example, the Asian economies' share of total world GDP accounted for only about 10 percent in the early 1950s but has now reached about 25 percent, according to IMF statistics.

Toward the Prevention of International Financial Crises and the Enhancement of Policies and Measures Against Crises

Strengthening the international financial architecture. With the changing international financial environment and the increased importance of the role of private capital markets in meeting the funding needs of developing countries and emerging market economies, it is vital for us to continue to review the role and functioning of the international financial institutions. To cope with these changes, the IMF will have to maintain, or even strengthen, its function as a kind of international lender of last resort in crises caused by temporary shortages of liquidity. It is also important for the IMF to continue to perform its traditional cooperative function of supporting the structural reform efforts of members with balance of payments difficulties, but who are not facing a crisis.

Substantial progress has been made recently in strengthening the international financial architecture, including reform of the IMF. Under the leadership of Mr. Köhler, major issues, including reform of the IMF, have been intensively discussed. The Interim Committee was replaced this spring by the new, permanent International Monetary and Financial Committee. As the current chair of the G-7, Japan issued a report on strengthening the international financial architecture at the Kyushu-Okinawa Summit Meeting and has been making a substantial contribution to the efforts of the entire international community toward architecture reform. While I appreciate the efforts made so far, I would like to emphasize the need to intensify our efforts.

First, strengthening IMF surveillance is crucial in crisis prevention. Surveillance should focus on the following four core areas: macroeconomic policy, capital flows, structural issues related to macroeconomic stability, and exchange rate regimes.

Second, in promoting the implementation of internationally agreed standards and codes, it is essential that the IMF, in close cooperation with the other international institutions and forums, take a leading role in the coordination of standards assessment in broad areas.

Third, the streamlining and rationalization of the IMF's facilities are necessary in order to improve the functioning of the IMF. We welcome the recent developments in the review of facilities, such as the elimination of unused facilities and the enhanced effectiveness of the Contingent Credit Line.

Fourth, discussion continues on private sector involvement (PSI) in crisis prevention and resolution. I hope that any agreement that will be reached on a PSI framework will be sufficiently flexible to be workable in future crises.

Finally, efforts to promote increased accountability and transparency of the IMF should be encouraged. In this context, I welcome the enhanced disclosure of IMF documents in recent years, and I would like to call for further efforts toward enhancing the IMF's transparency.

Support to the IMF in providing technical assistance. To prevent financial crises and secure the stability of the international monetary and financial systems, we should strengthen the frameworks in developing countries that will enable them to conduct sound macroeconomic and financial supervising policies. For this purpose, it is essential that developing countries show strong ownership in implementing those policies, and, of course, they need to have the ability to formulate policies with high standards and a well-organized implementation framework. To this end, we intend to further upgrade our support to the IMF in providing technical assistance to developing countries.

A review of quotas, voting power, and Board representation. In considering the issue of enhancing the IMF's transparency and improving its governance and accountability, we cannot avoid a review of the allocation of quota shares and voting powers, as well as representation on the Executive Board, to more appropriately reflect the realities of the international economy. In light of the fact that emerging market economies, including those in Asia, have increased their importance in the global economy, their present quota shares, voting shares, and Board representation are significantly limited. An immediate review and correction are called for.

I welcome the ongoing effort in the IMF to review the quota formulas so that they better reflect changes in the world economy. However, changing the formulas is not sufficient. We need to reconsider the convention in past general quota increases that gave more weight to the component that is distributed according to the existing quota than to the component that is based on the quota formulas. This convention has seriously slowed the adjustment necessary to bring quota shares in line

with economic realities. With regard to voting power, the 250 basic votes allocated to each member have not been changed since the original Articles of Agreement came into effect in 1945. As a result of a number of increases in quotas, the ratio of basic votes to quota-based votes has decreased significantly. In light of this situation, I think it is worth considering raising the number of basic votes in order to increase the voting power of countries with small quota shares.

I believe we must also review the current situation in which one region is overrepresented on the Executive Board. I believe the time has come to reconsider the regional distribution of the elective Executive Directors, giving due consideration to interregional balance to better reflect economic realities.

I believe an immediate review of quota allocation, voting power, and Board representation to reflect the changes in the relative importance of member countries' economies is urgently needed to further enhance the IMF's effectiveness and governance, to increase the transparency of its activities and decision-making procedures, and to strengthen the cooperative relationship among member countries.

Regional cooperation. In addition to these global efforts to promote reform of the IMF, in order to prevent another currency crisis and to stabilize the international currency and financial systems, it will be essential to strengthen intraregional cooperation. In East Asia, a region of growing importance in the world economy where the nations are becoming even more interdependent, we need to promote regional cooperation aggressively in order to supplement and enhance the role of the IMF, recognizing the common advantages that these nations can gain from international trade and investment and the common concern they share about the risk of contagion should a crisis erupt within the region.

In view of the importance of regional cooperation in East Asia, with the aim of establishing a regional financing arrangement to supplement the existing international facilities, we have agreed to strengthen the cooperative frameworks among the monetary authorities in the region through the "Chiang Mai Initiative." This initiative involves expanding the ASEAN Swap Arrangement and constructing a network of bilateral swap and repo arrangements among the ASEAN countries, China, Japan, and the Republic of Korea (ASEAN + 3). This is an extremely meaningful step toward stabilization of the currency and financial markets in the region.

Based on this agreement to strengthen the cooperative frameworks within the region, specific discussions are currently under way between the countries involved concerning the basic items needed for the conclusion of bilateral cooperative financial agreements. Japan plans to take an active role in ensuring that these bilateral agreements are concluded as soon as possible.

In order to guarantee financial stability in the East Asian region, we should also move forward with closer cooperation on monitoring capital flows, developing a regional surveillance mechanism through the "ASEAN + 3" framework, and researching other appropriate financial support mechanisms for the region's financial stability.

Issues in Development

Fight against poverty. Turning to development issues, we find that, during this century, the world has made remarkable strides toward reducing poverty and raising the quality of life. Amid a dramatic increase in the world's population, great leaps in science and technology and the spread of basic medical care have led to increases in food production and a marked decline in infant mortality. As a result, life expectancy is 20 years longer on average than in 1960. In addition, the importance of access to education, irrespective of family status or wealth, is now widely recognized as being vital for the equitable growth and development of society. Just since 1980, net primary school enrollment has increased by 13 percent. As a result, 90 percent of children throughout the world are now able to receive basic instruction in reading and writing.

Despite this remarkable progress, the fact remains that 1.2 billion of the world's 6 billion people live on less than one dollar a day, and 2.8 billion live on less than two dollars a day. In spite of vigorous efforts to promote the spread of protective inoculations and basic medical care, the tragedy of infant mortality is played out again and again. In fact, six of every 100 children do not see their first birthday. Mankind has made unprecedented progress in this century, and it glories in its prosperity; but we cannot forget the very serious problems of poverty lurking in the background. Poverty is one of the biggest challenges we must take on in the coming century.

Japan is mindful of the urgency of this task. This year, Japan contributed \$10 billion to both the World Bank and the Asian Development Bank, and expanded its support in close coordination with these multilateral development banks. Japan is considering continuing this support next year.

Reform of the World Bank. Over the past half-century, the World Bank, with its outstanding expertise has taken a leading role in tackling development issues. Aiming at economically, socially, and environmentally sustainable growth, it has taken the lead in efforts to reduce worldwide poverty, adopting the approach of focusing on structural and institutional problems, social policies, and ownership of developing countries. In our struggle for reducing poverty, the World Bank has been one of the most valuable institutions that humanity has developed in this century. As we move into the twenty-first century, we anticipate that the

World Bank will play a major role in reducing world poverty even more effectively and efficiently.

In order to meet these anticipations and increase its effectiveness in reducing poverty, the World Bank must first enhance its efforts at supporting structural and institutional reform in recipient countries and improving social sector operations. We need to recognize the importance of the policies adopted in developing countries and the structural and social issues that underpin these policies, so that developing countries may secure sustainable development as well as achieve a fair and stable society. Needless to say, there is no disagreement on the importance of growth in development. Taking the Asian experience as an example, we can see that the Asian economic development has been assisted largely by the World Bank and Japanese strategy, which put the highest priority on growth. Thus, it is crucial to pay due attention to the importance of growth while pursuing a comprehensive approach focusing on structural and institutional problems aimed at poverty reduction.

Second, unless developing countries—which have the primary responsibility for reducing their poverty—commit themselves to formulating and implementing programs for poverty reduction, we cannot expect to see much progress. We hope that the World Bank will provide the best possible support for developing countries' own efforts to reduce poverty. We also urge the World Bank to extend assistance for capacity building in a variety of fields, so that developing countries themselves can identify the factors that hinder their efforts to reduce poverty and solve problems effectively.

Third, it is important for us to place greater emphasis on good governance in developing countries. Good governance will not only support the effectiveness of development aid but will also enable growth to be sustainable. We believe that strengthening support for countries with good performance in a variety of areas, including governance, will increase the effectiveness of the World Bank's overall operations.

Fourth, we urge the World Bank to improve its accountability and transparency. The World Bank's holistic approach has led to an expansion in the range of stakeholders, and effective collaboration with these stakeholders will be necessary to enhance the World Bank's operational effectiveness. Dialogue and cooperation with these stakeholders will surely contribute to upgrading the quality of the World Bank's activities. In addition to these efforts, the World Bank must enhance the efficiency of its operations.

The increasing magnitude of private capital flows into developing countries requires the World Bank to enhance selectivity of its operations so as not to supplant these private capital flows. In particular, investment operations in the private sector should have a clearer focus on development impact.

It will also be important for the World Bank to promote cooperation with regional development banks and other aid agencies. In pursuing better cooperation, it must fully take into account the expertise and comparative advantage of other organizations. For example, the Asian Development Bank has contributed greatly to development in the Asia-Pacific region by carrying out effective and efficient operations with deeper insight and wider expertise in the region.

HIPC Initiative and poverty reduction strategies. As we move into the next century, another significant challenge will be the speedy and effective implementation of the enhanced HIPC Initiative—a debt relief initiative for heavily indebted poor countries that are carrying unsustainable levels of debt. Since the endorsement of this initiative at last year's Annual Meetings, 10 countries so far have reached their decision points under the enhanced framework. However, in order to expeditiously secure the link between debt relief and poverty reduction in as many HIPC countries as possible, the international community still must take further steps toward speedy and effective implementation of the Initiative. The World Bank and the IMF should make full use of the Joint Implementation Committee established this May and redouble their efforts to this end. Japan as the largest bilateral donor among creditor countries has committed to extend 100 percent debt reduction of non-ODA claims and 100 percent debt reduction of ODA claims. Moreover, in order to ensure speedy implementation of the initiative by supporting the debt reduction efforts of multilateral development banks, Japan has pledged up to \$200 million to the HIPC Trust Fund, part of which has already been disbursed. It is crucial for countries that have already pledged to contribute to the HIPC Trust Fund to make their contributions in a timely manner to enable smooth implementation of the initiative. In addition, HIPC countries themselves need to tackle more actively their economic reforms and expeditiously develop their poverty reduction strategies. We should note that military conflict hampers effective poverty reduction in some HIPC countries.

Poverty reduction strategies based on the ownership of developing countries are a powerful means of alleviating poverty. What must remain foremost in our minds during the formulation process is to ensure the participation of all parties concerned, including civil society, local communities, and bilateral donors. Without this, developing countries cannot claim that they have successfully ensured their ownership, nor will they be able to reap the full benefit of international aid. In response to the needs of developing countries, Japan stands ready to support the formulation of poverty reduction strategies, with a particular focus on participatory process.

Development and information technology. It is the revolutionary progress of information technology that contributes greatly to the cur-

rent growth in the world economy and drives us to move into the new century of prosperity. While information technology offers “digital opportunities” in every area of the economy, there is a concern that it also gives rise to the problem of “digital divide,” both within and among nations. The “digital divide” problem becomes so imperative that urgent efforts are required in response to the rapid technological advances and their growing spread beyond national boundaries.

To address this problem, Japan announced—just prior to the Kyushu-Okinawa G-7 Summit—a comprehensive cooperation package based on official financial assistance. Japan urges the World Bank, the Asian Development Bank, and other multilateral development banks to help bridge the digital divide. We expect that the multilateral development banks will provide effective support in information technology by making use of their expertise and their experiences in global and regional programs. Japan is willing to support these efforts.

Conclusion

As we stand at the threshold of the twenty-first century, the international community in all its wisdom strongly expects reform of the IMF and the World Bank. Reforming the existing rules and structures will inevitably be painful but cannot be avoided if we are to cope effectively with the rapidly changing new realities. Only by bravely tackling the necessary reforms will we be able to look forward to bright prospects in the twenty-first century.

KIRIBATI: BENIAMINA TINGA

Governor of the Fund

*(on behalf of Federated States of Micronesia, Kiribati,
Marshall Islands, Samoa, Solomon Islands, and Vanuatu)*

It gives me great pleasure and honor to address these 2000 Annual Meetings of the International Monetary Fund and World Bank Group on behalf of the Pacific Constituency comprising Kiribati, Marshall Islands, the Federated States of Micronesia, the Republic of Palau, Samoa, Solomon Islands, and Vanuatu. We welcome Mr. Horst Köhler as the new Managing Director for the Fund and thank the outgoing Managing Director, Mr. Michel Camdessus for his wonderful services to the Fund and the international community. We also welcome San Marino into the membership of the Bank Group.

Allow me first of all to express our deep appreciation and gratitude to the government and the people of the Czech Republic for the hard work put into preparing the venue for these 2000 Annual Meetings of the Fund and the Bank and to express to you, Mr. Chairman, our warm

congratulations on your election. Our thanks also go to the management, staff and Boards of the Fund and the Bank, whose tireless efforts have contributed to the successful preparation of these meetings.

It is not an easy task to speak on behalf of the Pacific, as the Pacific, contrary to the beliefs of many international agencies, is not a homogeneous region. There are wide differences in our customs and cultures, as well as in our states of development, our geography, and our resource endowments. It is therefore encouraging to note that these differences are recognized by the World Bank in its Pacific Regional Strategy Document. This document is to be commended for its insightful and concise summary of the state of development in the region and the specific problems, constraints, and challenges faced by the diverse countries of the Pacific.

As the Bank's Strategy Document notes, collectively, the Pacific countries do not have a good record in utilizing the available development resources. We recognize that there have been shortcomings in both our choice of projects and in the efficiency of implementation. We recognize that there is a need for us to be more focused on our own development objectives. The Performance Budgeting and Strategic Planning approaches to development that are now being adopted by many Pacific member countries should help us to achieve better results for our efforts in the future.

It is also necessary for our development partners to recognize that our small administrations find it difficult to cope with a constant stream of missions, many of which want to analyze and report on the same issues. Our economies and shortcomings are studied to death. Servicing these missions often detracts our hard-pressed officials from ensuring that projects are properly chosen and efficiently implemented. Doing business with the Bank is not only complex but also costly. Therefore, we urge the Bank to simplify its procedures and to investigate more flexible lending instruments better suited to the special circumstances and institutional capacities of the Pacific member countries. Providing support to us in these tasks would be more productive than telling us afterward that we have failed.

This is important to us. We need our development partners to stay the course with us, particularly in the implementation of the economic and public sector reforms, which we all realize are necessary. Institutional strengthening and capacity building to help us to come to terms with these new developments is not a "quick-fix" process. It requires patience and a commitment by our development partners to provide an ongoing level of support. We cannot afford to be marginalized and left behind by the march of globalization and liberalization in the rest of the international economy. We therefore welcome the collaborative and partnership initiatives, which are being developed among the World

Bank, the Asian Development Bank, and other major partners in our development efforts. The move of the Bank's Country Management Unit to Sydney is to be welcomed. It will consolidate further the Bank's operating focus in Asia and the Pacific Region.

It is commendable that the Bank has tried to clearly define its strategy for the region. It demonstrates that the Bank is trying hard to adjust itself to properly understand and gear its support to the special needs of the Pacific region. We welcome the coverage of the Comprehensive Development Framework and on poverty in the strategy. However, recognizing the limited institutional capacities of the Pacific member countries, we would like to urge the Bank to carefully work through how it will further operationalize CDF principles in the Pacific region.

The role of offshore financial centers (OFC) in the economies of Pacific countries, and the associated issues of money laundering and harmful tax competition, are matters that have exercised the deliberations of regional meetings in recent months. We do not take lightly the fact that a number of Pacific countries have been put on the "black and uncooperative" lists without being told precisely why. Nor have they been offered the opportunity to either face their accusers or to explain their positions in an open forum. Even worse, after putting these countries on the "black and uncooperative" lists, these international organizations cannot tell them how to get off.

At the recent Pacific Forum Economic Minister's Meeting in Niue, it was agreed that the region would further strengthen its commitment to implement the legislative priorities of the Honiara Declaration and the Financial Action Task Force recommendations. It was also agreed to develop modalities for financial intelligence sharing and to study the scope for cooperation and coordination in financial sector reform and regulatory supervision.

We welcome the offers of both Australia and New Zealand to assist with these initiatives from the Pacific Forum Economic Minister's Meeting. We also welcome the efforts that the Bank and the Fund have taken to support work in this area.

Many Pacific countries have undeveloped domestic financial systems, even it has to be admitted, some of those which offer OFC services. In an increasingly competitive international economy we must, nevertheless, make the most of any comparative advantages that we might possess. In doing so we must equally acknowledge that we have obligations to ensure that we do not encourage money laundering and other illegal practices. We therefore need the Fund and other qualified agencies to assist us in identifying our areas of vulnerability and to work with us in putting into place suitable systems and processes to enable us to counter these weaknesses.

We have been working steadily toward strengthening our financial systems, by adopting accepted best practices in their design and application.

It must be remembered that the initiators of money laundering and other illegal financial practices frequently originate in developed countries. Banks and financial intermediaries in metropolitan centers are frequently instrumental in channeling funds to OFCs. We must work together to counter these practices and not just point the finger at the Pacific OFCs because they seem an easy target, while ignoring the much bigger problems that may be closer to home.

We welcome the Bank's initiatives in respect to the alleviation of poverty as a key strategy for its future operations. We would however, wish to ensure that the Bank is sensitive to the particular nature of poverty that exists in the Pacific region. This may not necessarily be comparable to the generally accepted definitions of poverty in other parts of the world. Poverty for many Pacific countries originates from geographical and natural resource constraints and the lack of comparative advantage that would enable our countries to generate income-raising opportunities. Many Pacific countries have very fragile economies and environmental conditions. External shocks, be they caused by natural disasters or man-made events, can very quickly change sound economic and environmental conditions into ones where poverty becomes a major problem.

We would therefore urge the Bank to ensure that any poverty alleviation programs for Pacific member countries are directed toward both strengthening basic economic infrastructure and reducing vulnerability by improving preparedness for coping with external shocks.

The Pacific member countries wish to record their full support for the initiatives being taken by the Bank and the Fund in respect of the highly indebted poor countries. Fortunately the debt issue is not a major problem in itself for the Pacific Region, although many countries in the region have seen their external debts rise significantly in recent years, with their investment in strengthening economic and social infrastructure. We recognize that the burden of debt servicing is like a millstone around the necks of the highly indebted poor countries. The debt relief afforded to them under the Bank and Fund initiatives will assist those countries to direct more resources to key priority areas of health and education. This in itself will help them to address the poverty issue through their own efforts.

Let me now make some comments on the Small Island States Report. We commend the Bank and the Commonwealth Secretariat in completing this report. There are many important policy issues addressed in this report. It is pleasing that the Bank has, in fact, focused on a number of these in the Pacific Regional Strategy Paper. The economic and environmental vulnerability issues are of particular concern to the smaller atoll countries, which are disproportionately affected by these twin problems. We welcome the Bank's growing recognition that managing risk and

reducing vulnerability is a critical aspect of poverty reduction. This is something that the Pacific member countries have long known and is behind our conviction that issues of graduation need to be based on more than crude measures of average per capita incomes. Therefore, I would like to urge the Bank to pay more attention to the unique situation and problems faced by the small island states when establishing eligibility criterion for the Bank and IDA lending facilities.

We are also thankful for the IDA resources that have been provided to us on concessional terms, although my own country, Kiribati, has not received any concessional loans since it joined the Bank and the Fund in 1984. It is hoped that this facility will continue and that Kiribati's needs will be considered when it can identify suitable projects for loan financing in the future. We also welcome new lending instruments that have been developed by the Bank and look to a continuing dialogue to improve their applicability to suit the different needs of small member states.

Before closing, I would like to express our appreciation to the Bank and the Fund for the services extended to the Pacific in running seminars and providing technical assistance. The establishment of the Singapore-IMF Training Institute has been a great benefit to us. I also would like to acknowledge with appreciation the continued support of the Bank and the Fund by the donor member countries.

KOREA: NYUM JIN

Governor of the Fund and the Bank

Introduction

It is a great pleasure and honor for me to represent the Republic of Korea at this fifty-fifth Annual Meeting of the International Monetary Fund and the World Bank Group. I would like to take this opportunity to express my gratitude to the Bretton Woods institutions and to member countries for helping Korea overcome the financial crisis and regain economic vitality. I would also like to thank the government of the Czech Republic and the people of Prague for their gracious hospitality in hosting this meeting.

Global Economic Growth

It is encouraging to see how the world economy has recovered from the aftermath of the Asian financial crisis of 1997 and how its economic growth has been recently solidifying. The task ahead is to make this growth more sustainable and widely shared.

A robust performance of the U.S. economy and a sustained economic rebound by Japan and EU member countries are important factors in

realizing global stability. In addition, I believe strengthened policy coordination among the major economies would contribute significantly to this goal. We must also seek to reduce risks that undermine international economic prospects and, in this regard, I would like to highlight the urgent need to stabilize oil prices at sustainable levels.

As for promoting harmonized growth among countries and social groups, I welcome the international community's growing dedication to poverty reduction. I sincerely hope the World Bank and regional development banks expand their roles in this capacity. I particularly appreciate the World Bank's attention to the problem of the digital divide.

Korea's Economic Reform and Recovery

The Korean economy has experienced a solid recovery while keeping inflation under control, thanks to the structural reform and appropriate policy measures that we have implemented for the past two-and-a-half years. After growing at a brisk pace, our economy is moderating toward a more sustainable level over the medium term. In light of the improved economic situation, Korea hopes to be included in the IMF's quarterly financial transaction plan as a creditor country again from December 2000. Likewise, we intend to make early repurchases of the remaining Fund credit balance.

Despite such favorable developments, we are also aware that many challenges still remain in the economy. Instability in the financial market lingers, and the development gap between different social groups persists. On the external front, our trade surplus has been on a declining trend, with import growth outpacing export performance this year. The surge in short-term capital flows poses another potential threat.

In order to cope with these vulnerabilities and to establish an efficient market system with greater transparency and competitiveness, we are placing the highest priority on carrying out financial and corporate restructurings. In addition, we are pursuing a knowledge, information, and digital-based economy by building a solid foundation of relevant laws and systems, while nurturing venture businesses equipped with innovative ideas and technology.

Economic Cooperation with North Korea

Let me now bring your attention to the important developments on the Korean peninsula. Following the historic North-South Summit this past June, more tangible progress has been made in further enhancing peace and cooperation in the region. This includes the reconstruction of the north-south railroad system, the first meeting of defense ministers on both sides, and the discussion of investment guarantees and tax exemption treaty. In this context, I hope the international community actively supports North Korea in expanding its economic cooperation with the rest of the world.

Reforming the International Financial Architecture

I would now like to turn to the issue of reforming the international financial architecture. Korea welcomes the recent discussions in various international forums to strengthen the international financial system. We recognize the progress made so far in areas such as the observance of standards and codes, indirect regulation of highly leveraged institutions, and sharpening the role of international financial institutions. I look forward to further progress in other areas that include reducing the volatility of short-term capital flows and specifying the framework for private sector involvement in crisis prevention and resolution.

In conjunction with the reform of international financial institutions, I would like to note that the IMF's quota and representation systems need to be adjusted to more adequately reflect the current world economy. In my view, the IMF's current policy does not properly weigh the economic influence of Asian emerging economies, including Korea.

Conclusion

This Annual Meeting is the first IMF and World Bank Annual Meeting of the new millennium. I believe the economic crisis at the end of the twentieth century served as an opportunity to turn the international financial system into a more resilient one. Korea is fully committed to playing an active role in promoting global economic prosperity. To this end, we will push forward major reforms for our goal of achieving an efficient market economy.

LAO: BOUNGNANG VORACHITH

Governor of the Bank

I have the greatest honor to represent the government of the Lao People's Democratic Republic at the fifty-fifth joint Annual Meetings of the World Bank and International Monetary Fund. First of all, I would like to congratulate the management of the Bank and the Fund on the excellent preparation of this Annual Meeting, and to thank the host government for the warmest welcome extended to our delegation. I would like to take this opportunity to congratulate Mr. Horst Köhler for his recent assumption of the very important and challenging post of Managing Director of the Fund.

This joint Annual Meeting is being held in the midst of the improved global economic environment with a higher economic growth. Most of the Asian countries hit by financial crisis three years ago, including ours, are now experiencing a better path toward growth. The pace of recovery is different in countries. As for the Lao People's Democratic Republic, despite the generally weak economic fundamentals, the pace is faster.

At the annual discussions in 1999, I reported on crisis and its implications for the economic situation of the Lao People's Democratic Republic: GDP growth was at 4 percent, inflation was at an unprecedented high, and the value of the kip had depreciated more than twice. However, following strong efforts in several areas, the measures undertaken by our government—including prudent fiscal and monetary policies, and the trade policy aiming at reducing the trade deficit by promoting exports and opening up trade—started to bear fruits. As a result, inflation in August 2000 was 6.7 percent, while in August 1999 it was 140.2 percent. The value of the kip has appreciated and remained stable ever since. The economy registered 7.3 percent growth in 1999.

The reduced inflation and the more stable kip were the result of the intensification of revenue collection and expenditure-management efforts. Expenditures were strictly confined within the capacity to collect revenue without borrowing from the central bank. Capital expenditure was financed primarily by issuance of treasury bills and by external grants and loans.

On the monetary policy side, the Bank of the Lao People's Democratic Republic has adhered to a tight monetary stance to control the money supply. Since the end of October 1999, we have intensified savings mobilization in order to mop up excess liquidity. At the same time, strict control was exerted on commercial bank credit to restrict it within the capacity to recover past debt, and new lending was confined to efficient projects and to those capable of repaying. Central bank credit to the budget was banned.

With regard to trade, the government continued to expand foreign trade by striving to diversify trading partners, paying closer attention to neighboring countries, and promoting the export of products for which our country has comparative advantage, with the aim of gradual and continuous reduction of the trade deficit.

However, we realized that the macroeconomic stability achieved is still fragile. There are several issues revolving around our economy that need our attention. For instance, the production base and the exploitation of the country's potential are yet to be improved. To sustain the stability, the government will continue to maintain strict and prudent fiscal and monetary policies. In this connection, the government, within the framework of the 2000/01 budget, is going to exert efforts toward fiscal consolidation, with a revenue collection target of about 13 percent of GDP, an increase of 1 percent compared with the 1999/2000 fiscal year. Strict expenditure management will be adhered to, and we expect to realize a budget deficit not exceeding 8 percent of GDP while maintaining investments in priority sectors within the range of 12 percent of GDP. In implementing our investment projects under the budget, we will not resort to advances from the central bank, but will turn to domestic borrowing in the form of medium-term bills.

With regard to monetary policy, a prudent stance will be pursued to contain inflation within a range of not more than 10 percent (average for 2000/01) and to maintain, stability of the exchange rate, allowing it to fluctuate in accordance with supply and demand in the market. Toward this end, the Bank of the Lao People's Democratic Republic will stick to strict control of the money supply by restricting credits and continuing the use of the existing instruments, such as treasury bills with shortened maturity and lower interest rates in line with reduced inflation. Success in reducing inflation and stabilizing the exchange rate will restore the foreign and domestic investors' confidence in our economy.

In the area of international cooperation and trade, the government continues to follow an open door policy to foreign direct investment, to encourage domestic production for the purpose of import substitution, to promote exports with efforts put on raising quality and volume, to strive to have diverse and enduring trading partners, to concentrate our effort on developing products with which the country has comparative advantage. All of these steps are important to enable Lao People's Democratic Republic to obtain a favorable environment for development and poverty reduction and to be able to exit from the least-developed country status by 2020. In addition, we will make our membership in ASEAN more meaningful and will continue the preparation for the purpose of accession to WTO membership.

The future of the macroeconomic conditions and economic growth of the Lao People's Democratic Republic and other developing countries is inseparable from the overall factors of growth in the global economy. At the same time, it depends upon the capability of the developed or industrialized countries to maintain a sustainable growth. More important depends upon the decision of the industrialized countries to open the markets for the goods produced in developing ones. This will result in strengthening and expanding the production base in these countries, thereby helping to gradually reduce poverty, which affects about 50 percent of the world population. Moreover, the decision of the industrialized countries to implement the debt relief initiatives based on the resolution of the G-7 Summit in Cologne in 1999 and that of Okinawa in 2000 will enhance and help to expedite the reduction of the debt burden of the heavily indebted poor countries and contribute to the speedy realization of the poverty reduction strategy of the Bretton Woods institutions.

We commend and support Mr. Horst Köhler for his vision on the reform of the Fund. We truly believe that the reform to be undertaken will permit the member countries in need of financial support to fulfill the streamlined and focused conditionalities that better fit and reflect the actuality of each country, while ensuring a more level playing field for its members.

Our government always regards highly the continued support of the international community, including bilateral and multilateral donors,

non-governmental organizations international financial institutions—in particular, the Bank and the Fund—as one of the important factors contributing to the success of the Lao People’s Democratic Republic socio-economic development. At present, 12 loans and 6 technical assistance projects of the Bank are being implemented in our country, and the preparation of the interim Poverty Reduction Strategy Paper is being intensified. These will serve as a basis for cooperation with the Bank and the Fund, especially for the preparation of the Poverty Reduction and Growth Facility to be supported by the Fund. The PRSP will make the projects and programs with the Bank and the Fund more focused and more efficient in impacting on poverty, and this is consistent with the strategic goal of the government of the Lao People’s Democratic Republic.

I would like to take this opportunity to express our sincere thanks to our bilateral donors, international financial institutions, other international organizations, non-governmental organizations, and foreign investors for their support, assistance, and interest in investing in different sectors of our economy, which have contributed to our country’s socioeconomic development. We strongly hope that such support and assistance will continue to be forthcoming to enable the Lao People’s Democratic Republic exit from least-developed country status by 2020 as anticipated. In conclusion, I wish the fifty-fifth Bank-Fund Joint Annual Meeting a great success.

LEBANON: GEORGES CORM
Governor of the Bank

Fiscal Reform Dynamics in a Post-Conflict Emerging Economy

I would first like to congratulate Mr. Köhler, the new Managing Director of the IMF, for his election and for all the efforts he has already devoted to listening to the member countries he has visited. We have heard his expression of a strong will to promote ownership of Fund programs and to study new policy options that are better adapted to the specifics of each country. We are looking forward to the prompt implementation of this new direction, which might change some of the negative views or criticism to which the Fund has been exposed, especially in the aftermath of the East Asian and Russian crises.

We are also happy to see Mr. Wolfensohn continuing in a second five-year term as President of the World Bank Group. His refocusing of the Bank Group on the alleviation of poverty is already having a positive impact on the ground. His attention to redefining the role of the World Bank to better serve the needs of middle-income countries is equally welcome. We also welcome the attention that the World Bank and the inter-

national financial community have been placing on helping alleviate the pain of conflict and post-conflict situations in the world. Lebanon was very encouraged by the immediate statements of support from the President of the World Bank and the Secretary General of the United Nations after the withdrawal of the Israeli army on May 24, 2000 from south Lebanon. After 32 years of political and military conflict on our soil, much of which was due to factors beyond Lebanon's control, Lebanon is today in urgent need of the assistance of the international community.

As is well known, Lebanon's economy has dramatically suffered since the end of the 1960s from different types of violence and armed conflicts linked to the Arab-Israeli conflict, the Cold War, Middle Eastern geopolitical rivalries, and the disfunction of its own sectarian socio-political system. Famous for being "the Switzerland of the Orient," the financial center and the commercial entrepôt of the Middle East, the Lebanese economy has been exposed to a succession of destructive blows. The first took place in December 1968, when an Israeli attack on Beirut International Airport destroyed the Middle East Airlines civilian fleet. The last took place successively in June 1999, February 2000, and May 2000, with Israeli attacks on Lebanon's electricity infrastructure. These attacks heavily damaged Lebanon's economic potential and its regional role. The Israeli army occupied parts of south Lebanon in the spring of 1978; Beirut was besieged and bombed during a second Israeli invasion in the summer of 1982 to uproot the Palestine Liberation Organization's presence in Lebanon. When it withdrew from central Lebanon in 1984/85, the Israeli army enlarged its occupation of south Lebanon. Between 1975 and 1990 domestic armed militias inflicted continuous economic damages to both private and public sector institutions. Attacks on private and public property, ransoming the private sector, and depriving the public sector of its revenue sources have occurred in all parts of the country.

During the last 32 years, Lebanon has shown an amazing resilience by maintaining the functioning of its political and economic systems. The political system of Lebanon as a parliamentary democracy has resisted all the years of turmoil, ensuring political continuity and the survival of the Republic of Lebanon regionally and internationally. In 1989, the constitution was renovated after the Taef Agreements. The Lebanese free enterprise system has also survived and Lebanese businesspersons have shown a great sense of patriotism and great management capabilities under the most difficult circumstances. This represents one of the most valuable assets for future economic development.

Over the years, the Republic of Lebanon never defaulted on its domestic or international debt, no exchange controls were introduced, and the economic and financial system remained free of any government restrictions. The country's banking system has resisted all the turmoil of

the last 30 years and is back to its pre-war dynamism and vitality, with the renewed presence of international banks. After a dramatic decline of banking assets between 1984 and 1989 from \$12 billion to \$4.5 billion, banking assets today stand at \$40 billion. Deposits represent 220 percent of GDP. The central bank of Lebanon continued to operate daily without any interruption during all the period even in the worst days of fighting. Gold reserves were preserved. A law adopted by Parliament in 1985 and which has not been repealed prohibits the government from disposing in any form of the central bank gold assets. Central bank reserves of foreign currencies have now reached the historical level of \$7 billion (excluding gold holdings), representing more than one year of imports.

However, there is a price to be paid for all these years of turmoil and destruction. The reconstruction efforts deployed since 1992 by previous governments were undertaken at a high cost, owing to inflation that has only been subdued in the last four years—and a lack of fiscal discipline. In 1992, it was assumed that peace was imminent on all fronts of the Arab-Israeli conflict through the Madrid peace process and that Lebanon would immediately recover its pre-war position in the Middle East by rebuilding and enlarging its traditional physical infrastructure centered in its capital Beirut. The dramatic economic changes that had taken place in the region and in the world economy were not sufficiently taken into account. Continuous conflict and hostilities caused by the Israeli occupation of south Lebanon also contributed to a decreasing growth rate in the economy.

After an outburst of high growth rates (1991–95) centered on the luxury segment of real estate sector, flows of foreign direct investment by Lebanese expatriates, and Arab and international corporations and individuals, began to dwindle. At the same time, the increasing financial needs of the government led to higher real interest rates as inflation was decreasing. However, in 1997 and 1998, in spite of difficult conditions in the international markets due to the Asian and the Russian crisis, the government, was able to mobilize substantial amounts of foreign funding through Eurobond issues. These borrowings were at cheaper cost for the government than domestic borrowings. Since the election of President Lahoud in October 1998 and the nomination of a new government in December 1998, several changes in economic policies have taken place to address the main macroeconomic imbalances that have negatively affected economic growth in the last decade. These are explained below.

The Reform of Public Finances

We have produced a fiscal consolidation plan aiming at bringing the level of domestic and foreign debt under 100 percent of GDP and the level of the budget deficit from 14 percent to 5 percent of GDP. This plan

has received the support of international financial institutions, including that of the World Bank. Support has also been expressed by the European Union, which has contributed a grant of EUR 50 million to the Republic of Lebanon as budget support.

We have implemented a legal framework through which all arrears owed by the state to the private sector are to be recognized and cleared. Law 95 of June 1999 has established such a framework and 80 percent of such arrears have now been paid by handing three-year treasury bills to the beneficiaries of the arrears. Most of these treasury bills have been discounted by the beneficiaries to the banking system. We have thus relieved the economy from this very burdensome situation for the private sector.

We are now preparing another legal framework to clear arrears inside the public sector between autonomous public entities and between the central government and the entities and the municipalities. We have begun to implement a full modernization of our outdated and inefficient tax system. The main elements of this modernization are the introduction of value-added tax and the creation of a global income tax system. This will allow decreasing dependency on custom duties and a number of cumbersome excise taxes and stamp duties. The value-added tax law has been prepared and forwarded to the Parliament in the hope to begin implementation in year 2001. In addition, an amnesty on tax penalties was introduced last year to improve relations between the taxpayer and the tax administration. Substantial amounts of tax arrears have thus been recovered. We are also preparing a restoration of the status of limitation in relation to tax controls. This status has been waived during the war and not restored by the previous governments. We believe that this tax policy contributes greatly to improving the investment climate in Lebanon.

We raised very moderately the various income tax rates that were lowered to minimal levels in 1994 in spite of all the financial needs of reconstruction. At the same time we have been granting substantial tax incentives. Some of these incentives are targeted to help overcome the deep sluggishness of the real estate sector; others are designed to induce family owned business to introduce shares on the Beirut Stock Exchange or to open their share capital to foreign companies whose shares are quoted on the stock exchange.

Privatization Plans

Our government has also committed itself to implement privatization in a clear and transparent legal framework. In fact, Lebanon's public sector was never a large producer of goods and services, unlike in most Arab countries. Rather, the role of the Public sector in Lebanon was traditionally confined to providing for major public services, such as

water, electricity, and telephone. Airport transport was in the hand of a private company (MEA) until a few years ago, when the central bank of Lebanon had to recapitalize the company and land transport has been mainly in the hand of the private sector, especially when train and tramways facilities came at a stop before the war. The previous government introduced the BOT formula to create and develop a cellular phone network, postal distribution, and new services at the Beirut International Airport. However, no overall legal framework has been put in place to regulate the development of private sector financing capabilities and management skills in the supply of public services. This is why our government since taking office has prepared a general privatization law, which was recently approved by parliament. The law provides general rules and procedures for transferring the ownership and/or management of public services to the private sector. It also stipulates that all receipts accruing from privatization should be applied to reducing the public debt. In addition, our government has prepared three regulatory laws for the water, electricity, and telecommunications sectors, so that strategic investors interested in the management and partial ownership of public entities to be privatized would know how the concerned economic sectors will be opened to private competition and regulated by the state. The law on water has already been approved by parliament.

We also finalized an agreement with the IFC to assist the government and the central bank in divesting of their shareholding assets in MEA. In addition, the World Bank is appraising a support loan to privatization to assist in the financing of compensation schemes to be paid to redundant personnel in public entities to be privatized.

We feel that substantial preparatory work has now been conducted for implementing the few privatization operations that will take place in the coming years. We hope that the clear legal and regulatory framework that has been prepared will optimize privatization receipts. Those were conservatively estimated at 4.5 billion dollars in our fiscal consolidation plan for 1999–2003. We now feel that the privatization and development of the telecom sector alone could yield 7 to 8 billion dollars in the next few years, allowing a substantial reduction in indebtedness.

Interest Rates and Indebtedness

As mentioned earlier, Lebanon suffers from a high real interest rate on its domestic debt—presently about \$17 billion, with an average cost to the treasury of 13.67 percent. However, since our government took office and began to implement its fiscal reform plan, domestic interest rates have been on the decline and the balance of payments turned positive after a sharp deterioration in 1998. Yields on two-year treasury bills declined nominally from 16.6 percent to 14.6 percent, while on an effective basis, they declined from 21.5 percent to 14.6 percent.

Today, the domestic debt represents 75 percent of total indebtedness and foreign indebtedness about 27 percent, equivalent to \$6 billion. Bilateral official debt represents only \$456 million and borrowings from international financial institutions is equivalent to \$760 million. In total, long-term concessional loans represent only \$1.2 billion, while the rest of the foreign debt consists of international bond issues. For a country that has been torn by War and regional conflict for so many years, efforts to raise grants and concessional funding have not yielded enough tangible results. We believe that the liberation of southern Lebanon should now open access to more concessional loans and grants, so as to reduce the burden of servicing more private domestic and international debt at high interest rates each year. We also anticipate that the use of privatization proceeds to reduce part of the domestic debt will alleviate the burden that this debt is putting on economic growth. Interest rates will decline, thus reducing the high budget deficit, which is equivalent to the amount of debt service.

Our government has also made efforts to diversify and lower the cost of our foreign debt issued on international markets. Last year, we were the first Arab borrower to tap the euro sector of the bond market, and we intend to issue on the Samurai bond market in the near future. Our policy for foreign borrowing is quite conservative. We do not want to increase our foreign indebtedness above our capacity and, in fact, last year, we reduced the amounts borrowed through international bond issues from 1.5 billion in 1998 to 1.2 billion. This year we have proceeded with our first international bond issue at the beginning of July for the amount of \$500 million, and we were able to reopen the 2009 issue of September 1999 for an additional amount of \$250 million. In continuing to diversify its debt instruments, in September 2000 Lebanon raised a year double tranche dollar bond (half of it floating rate, and the other half fixed rate) for an amount of \$450 million. Although interest rates on the dollar and the euro have been on the climb affecting also domestic interest rates on the Lebanese pound and preventing a further decline in rates, we believe that the withdrawal of Israeli troops from Lebanon after 22 years of occupation will definitely have a strong impact on the level of interest rates on the domestic market. The political risk attached to the persistence of conflict, violence and occupation in the South being waned, spreads paid above LIBOR for dollar deposits in Lebanon and the high spreads existing between interest rates on dollar deposits and those paid on Lebanese pound deposits will inevitably have to be reduced. This will require productivity adjustments on the part of the Lebanese banking system that have been accustomed to high interest rate environment to secure substantial level of profits.

Foreign banks are welcome on the domestic banking market to stimulate competition inside the sector. As we are anticipating an upsurge in

foreign direct investment and in Arab and international aid, we believe that decline in interest rate will continue, thus reducing the high cost of financing for both the State and the Private sector.

It is to be noted that our government has developed a substantial plan to improve liquidity management in the public sector and the management of the domestic public debt which is highly rigid and which is still linked to monetary policy. A gradual shift to the separation between monetary policy and domestic debt policy has begun in coordination with the central bank. The Ministry of Finance has signed a structural adjustment loan with the Arab Monetary Fund to assist this shift and develop a secondary market for the domestic debt and a new system for organizing auctions and primary markets. We have also been extensively consulting with both the World Bank and the IMF on these issues. To be successful, any assistance package should recognize the importance of the fiscal consolidation plan that has been implemented very successfully in 1999 but delayed in 2000 due to the elections. In addition, Lebanon needs to keep its access to international markets open as a regular issuer of international bonds.

Investment climate: the One-Stop Shop

Although legislation is very liberal in Lebanon and do not differentiate between domestic and foreign investor (except in relation to land holding), investors suffer from the weight of bureaucracy and of outdated regulations in many areas that have not been yet modernized. Conscious of this fact and pending legal and administrative reforms to modernize outdated administrative procedures, the government has established the "one-stop shop" system for domestic and foreign investors. IDAL, the government agency in charge of investment promotion has been entrusted with the sole function of assisting investors in getting through the various administrative procedures required to complete an investment. It has already been successful accelerating quite a few investment operations that were encountering administrative difficulties.

The government is also preparing special legislation to encourage investment in media, electronics and computers activities. In addition to the tax incentives and policies described previously, tax holiday are available for investment in rural areas or investments for the production of new products. An economic conference of expatriated Lebanese businessmen was also held on the June 5 in Beirut that has attracted many prominent Lebanese from the four continents.

International Aid Packages Adapted to Prolonged Conflict and Post-Conflict Situation

As a country that has been victim of an intractable regional conflict for 32 years, we feel that we have not received our fair share of interna-

tional assistance, especially in the form of grants. We are faced today with two types of needs: the first relates to the immediate post-conflict needs of liberated south Lebanon. The population of the south is in need of assistance to help alleviate poverty, provide basic infrastructure, rehabilitate its health and education sectors, and revive economic activity. A preparatory conference for donor countries was held in Beirut on July 27, 2000 at which the government presented a plan for both emergency needs (approximately \$250 million) and for a full five year development period (approximately \$1.4 billion). A tripartite Committee consisting of the World Bank, UNDP, and the Arab Fund for Social and Economic Development, was formed to assist the government and its High Level Committee to raise and monitor funds.

The second need relates to larger macro-economic assistance to help complete and properly implement the fiscal consolidation plan that our government has put in place. The implementation of this plan, unfortunately, has met resistance. The population, trade unions and political opposition were expecting an expansionary policy, which would stop the decline of the growth rate, create more employment, and allow for an overall increase of salaries. As in any democracy, our government has had to deal with these tensions. Although we did increase civil service salaries, which has been blocked for the past seven years, we did not encourage increases in the salaries of the private sector, which was already suffering from high production costs, and lack of competitive capacity.

The relatively tight-fisted stance of our government has resulted however in a return of old-guard political figures through the recent parliamentary elections, which took place August/September 2000. The years of the old-guard brought about widening budget and current account deficits. We believe that this could have been avoided if Lebanon had received, within the framework of its fiscal consolidation plan, a substantial package of grants and financial support at reasonable costs to reduce the very heavy burden of its domestic debt. However, we do hope that such package of assistance would be forthcoming in the near future, with no political conditions attached, and with a well-designed macroeconomic framework that will fully take into consideration the 32 years of prolonged conflict that Lebanon has suffered. No package should inflict additional austerity measures on the poorest strata of the population. In addition, any aid package should be realistic about the time frame Lebanon would need to restore fiscal balance, given the numerous constraints of the domestic economy, and the present additional pressure on the fiscal position coming from the increase in oil prices and the payment of arrears left by the previous government to the private and public sectors. The recent temporary degradation of our credit rating has also been due to the delay in implementation of the fiscal consolidation plan and

the fear that a new government would return to the practice of widening budget deficits. We believe that this warning is sufficient and that any new package of aid (with or without the constitution of a Consultative Group) should adequately take into consideration progress already achieved and should not depart from the sound foundation of the present fiscal consolidation plan.

As for south Lebanon again, the government and people of Lebanon have been very disappointed that the initiatives of the World Bank and the United Nations to help the people of the south have not yielded to date any tangible results. Help has been extended outside the mechanism of a donor's conference only by the Islamic Development Bank and various other Arab development funds. Some good intentions have been expressed by larger donor countries but it has also been implied that the donor's conference should now wait until an undefined period of time. We hope that assistance to Lebanon does not once again become hostage to wider regional uncertainties or be linked to any delays in the peace process.

LITHUANIA: VYTAUTAS DUDENAS

Governor of the Bank

(on behalf of the Bank Baltic Group)

It is a great honor to address the Annual Meetings of the International Monetary Fund and the World Bank Group on behalf of Estonia, Latvia, and my own country, Lithuania. I would like to take this opportunity to express my gratitude to the Czech authorities and the officials of the beautiful city of Prague for their warm hospitality. This is a great occasion to share our views about recent economic and social developments in our countries, to assess the progress made by the World Bank in alleviating poverty, and to discuss the challenges, still ahead.

This Annual Meeting takes place at a time when the global economic and financial outlook is generally healthy, which in turn, positively influences the economic development in middle-income countries such as ours. The current economic situation in our countries shows that the year 2000 is a turning point from an economic downturn to significant growth. The first signs of an economic upturn appeared in Lithuania in the last quarter of 1999 and even earlier in Estonia and in Latvia. The results of the first half of the year 2000, such as an increase in the growth rate of GDP, a reduction of the current account deficit, low inflation, and a strong increase in exports based on the successful reorientation of producers toward Western markets is evidence of a gradual economic upsurge and proof that we are well prepared to overcome regional financial, economic, and structural disturbances (problems).

The recent IMF mission in Lithuania, which finished its work a few weeks ago, also reported positive trends in economic development and concluded that Lithuania is following the requirements of the memorandum that was signed at the beginning of this year. The mission acknowledged that the strategy of the government and the Bank of Lithuania—to strengthen public finances and accelerate structural reforms—is working in key areas.

Let me point out the important contributions of the World Bank to Lithuania, Latvia, and Estonia. The three countries have been working with the World Bank since 1992. Especially during the last months, we have seen lively Bank activity in our countries. This includes setting out recommendations for structural reforms, maintaining macroeconomic and financial stability, and focusing on social and human development needs.

Since joining the World Bank, the Bank's commitments to Lithuania total approximately \$446 million for 15 projects; to Latvia, \$357 million for 19 operations; and to Estonia, \$136 million for 8 operations.

In July of this year, the World Bank approved a second Structural Adjustment Loan of EUR 108 million to support reform programs of the government of the Republic of Lithuania. The loan aims to reduce poverty by putting the economy on a path of rapid and sustainable growth and to ensure smoother integration into the European Union. More important, the loan will facilitate structural reforms and institutional development, in particular in the agricultural and social security sectors, where further reforms are much needed.

In March of this year, a programmatic Structural Adjustment Loan program of \$40 million was approved for Latvia. This innovative instrument, being only the second PSAL in the history of the Bank, aims to improve the reliability, efficiency, and effectiveness of the public sector; to support private sector growth; to make the economy less vulnerable to external shocks; and prepare for EU accession.

We welcome coordination between World Bank, International Monetary Fund, and European Union programs. Adjusting the contents of the SAL programs to support the efforts of Latvia and Lithuania in their accession to the European Union is a good example of the World Bank's constructive role. In the future, we see the Bank's priority in gearing its activities towards EU accession programs of the countries and we urge for coordinating its operations with the European Bank for Reconstruction and Development and other international institutions that are active in our region.

We would also like to thank the World Bank for its excellent economic research in the Baltic countries and in the entire ECA region. We have just received the Bank's Report on Poverty and Inequality in Europe and Central Asia, which is essential to avoiding further hazards

of transition in our countries. The World Bank investment projects implemented in our countries contribute to fostering growth and ensuring social development through improvement in infrastructure, environmental protection, and enhanced access to credit resources for small businesses and community social service development. Moreover, we would like to see the International Finance Corporation play an even more active role in further strengthening the private sector in our three countries. We particular value IFC activities in facilitating the flow of foreign direct investment and its contribution in developing strong and sustainable business units with sound corporate governance practices. In our view, growth led by the private sector is the most important factor in facilitating exports, generating jobs, correcting social imbalances, and eliminating poverty in middle-income countries.

In closing, I would like to congratulate the World Bank and the International Monetary Fund for their achievements over the last year and to thank them for their cooperation and assistance in meeting our goals. I wish them every success in the implementation of future projects.

MACEDONIA: NIKOLA GRUEVSKI

Governor of the Bank

Allow me first of all to greet you and express my gratitude to the government of the Czech Republic and Prague for their hospitality and excellent organization of the fifty-fifth Annual Meeting of the Board of Governors of the World Bank and IMF.

During their fifty-five years of existence, the World Bank and IMF, as the most influential international financial institutions, have supported the development of the transition countries and have considerably contributed to the progress of their market economies. The former Yugoslav Republic of Macedonia, since its independence and up to now, has been constantly supported and assisted by these financial institutions, and there is no doubt that they will continue their tradition to be reliable, constructive, and long-lasting partners with the government of the former Yugoslav Republic of Macedonia.

The government of the former Yugoslav Republic of Macedonia has a complex and comprehensive program of reform activities that will be carried out in the coming midterm period. The fast and serious implementation of the structural reforms is the key factor in the dynamics of economic growth, and it is also important from the perspective of the preparations for association with the European Union. The priority objectives of the macroeconomic and institutional plan in the coming midterm period are as follows:

- maintenance of the achieved price stability on a permanent basis;

- acceleration of the structural reforms;
- realization of high rates of economic growth;
- high level of social protection; and
- harmonization of legal regulations with the EU standards.

Projected macroeconomic goals for the forthcoming midterm period are:

- targeted average GDP growth rate of 5–6 percent per annum;
- 7–8 percent export increase per annum;
- labor productivity to increase at an annual average rate of 3 percent and overcome the wage increase;
- inflation to remain at an annual level of 5 percent;
- downsizing the public revenues and expenditures to GDP to 33–34 percent from the current 36–37 percent;
- on a long-term basis, the central budget to be generally balanced, the public sector deficit not to exceed 1 percent of GDP on average; in the short term, some deviations of the balance are possible;
- the current account deficit of the balance of payments, which in the period 1995–98 was on average 8 percent of GDP, is forecast to decline below 5 percent of GDP by 2005; and
- gross investments are expected to increase to 27 percent of GDP, from the current 21 percent and a similar increase is expected for gross domestic savings.

Monetary and Fiscal Policy

The main goal of the monetary policy so far, but also in the future, is maintaining a low inflation level that would not exceed 3–4 percent per annum. The exchange rate of the denar is expected to remain the main intermediary target of the monetary policy, with the possibility of careful introduction of more flexibility with respect to the existing, practically fixed regime of the exchange rate.

The development of the banking system has been determined by the banks' rehabilitation and reconstruction and breaking up of the banking system oligopoly structure. The participation of a foreign strategic investor in a few of the Macedonian banks, and the announcement for sale or merger of banks, are huge steps in the direction of reforming the banking system, increasing its efficiency, and creating sound competition. Stronger competition among the banks and the expected increase of savings will enable the reduction of active interest rates and faster growth of investments and of the economy as a whole.

Reform Activities

The main goals of reform activities in the coming midterm period are:

- Completion of the privatization process and creation of a dynamic, efficient, and fast- growing private sector;
- Progressive liberalization of the trade policy oriented toward integration into the common European market and a more dynamic inflow of foreign capital; and
- Creation of efficient and contemporary legislative and institutional frameworks that will be harmonized with the European standards.
- In order to achieve these goals, it is indispensable to carry out a set of compatible reforms in the three key sectors of the economy: the monetary (foreign exchange system and banking), fiscal, and real sectors. The main objectives of the reforms in the monetary sector, foreign exchange system and banking are:
 - introducing an up-to-date banking system to perform effective allocation of financial resources;
 - strengthening and promoting competition in the banking system by giving incentives to foreign banks;
 - liberalizing foreign exchange operations; and
 - increasing domestic savings as a condition for higher investments.

Anticipated reform activities are:

- adopting a new modern Banking Law that will be in compliance with the EU directives and the International accounting standards;
 - regaining and strengthening depositors' confidence has been made by enacting the Law on Frozen Foreign Exchange Savings Deposits, frozen in the National Bank of Yugoslavia. Still, this will not be the only measure for regaining savers' confidence. An upgrading of the deposits insurance system (fund), the law on a state-owned deposit insurance fund has already been enacted. Also, a complete reconciliation of the supervision standards of the National Bank of the former Yugoslav Republic of Macedonia with the Basel principles is planned, as well as strict application of the supervision standards by the National Bank, especially toward the banks that operate in a risky manner with citizens' and companies' funds;
 - adopting of a new Law on Foreign Exchange Operations is anticipated;
 - adopting a new Law on Foreign Trade Operations and a new Law on Foreign Credit Relations in the reform packet; and
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- implementing payment operations reforms by which payment operations of economic entities will be transferred in the banks.

The main objectives of the reforms in the fiscal sector are:

- rationalization of the state functions and placing them within the frameworks that correspond to the economic possibilities of the country;
- reduction of public expenditures and creation of a greater space for the private sector;
- creation of a small, modern and efficient public administration;
- establishment of a modern tax system for development of the economy and creation of jobs and higher economic growth; and
- reduction of tax evasion and strengthening of tax control.

Anticipated reform activities: The reforms of the public administration present a complex project, which will be supported financially and technically by the World Bank through the Public Sector Adjustment Loan Arrangement (PSAL). These reforms have become legitimate by enacting the Law on Civil Servants, the Law on the government of the Republic of Macedonia, and the Law on Organization and Operation of the Public Administration Bodies. At the same time, the following activities are set as priorities:

- reduction of the excessive number of employees in the public sector;
- separation and privatization of specific activities and institutions from the public sector that have enough special revenues and are not of essential importance for the function of the ministries;
- establishment of a complete control over public expenditures by creating a treasury system;
- pension system reforms forecasting the existence of a private system beside the mandatory state system;
- establishment of a macroeconomic unit and budget planning unit within the Ministry of Finance; and
- tax system reform. The initial and most important step has been made with the introduction of the value-added tax in April 2000. The government plans for the tax reforms to continue in the direction of reorientation from direct to indirect taxes.

The main objectives of the reform activities in the enterprise sector are:

- creation of a sound and dynamic private sector as a generator of the economic growth;

- unemployment rate reduction, which is the key problem in the Macedonian economy; and
- protection of ownership relations.

Anticipated reform activities are:

- Protection of ownership relations. The government has passed the two key systemic laws in this field: the Law on Denationalization and the Law on Payment of Frozen Foreign Exchange Savings Deposits. Thus, not only one decade of injustice has been redressed, but also clear signals to the international public have been sent that private property in the former Yugoslav Republic of Macedonia is guaranteed.
- Private sector development and new employment. If the forecasted labor productivity average growth of 3 percent is realized, it still leaves enough space for an employment average annual growth of around 2.5 percent.
- The process of selling/closure of loss-making enterprises has begun, and it is an integral part of the FESAL Arrangement with the World Bank, which is approved and will be signed in November this year. At the same time, the government supports the privatization process only of the enterprises that really experience ongoing difficulties and losses, but are estimated as profitable in the long term.
- With respect to improvement of financial discipline, a set of laws has been passed: the Law on Bankruptcy, Law on Modification and Amendments to the Law on Executive Procedure, Law on Contractual Mortgage. The Law on Money Laundering Prevention and the Law on Moveable Pledge are in process. The Central Register is established, which, inter alia, will register the shares and debts of firms toward the banks and the collateral issued by them to each bank and similar items.
- With respect to simplifying the procedure for registering enterprises, modifications of the existing legal procedures are in progress. At the same time, the new electronic register of companies and trade associations will be put in place.
- The basic problem that the small- and medium-sized enterprises are faced with is difficult access to financial funds. In order to solve this problem, apart from intensifying some special credit lines for these enterprises, the government is making efforts to agree with IFC and EBRD on the establishment of a special bank for credit support for micro and small enterprises.
- The government is not satisfied with the extent of foreign direct investments in the former Yugoslav Republic of Macedonia so far,

although the situation in the last two years is a bit more favorable compared to the period 1992–97. In order to attract and promote investments, new solutions regarding the speed and the procedure for registering companies are planned, as well as protection of the industrial property rights and other ownership rights, while stimulating tax deductions have already been conveyed.

Other reform activities are:

- pension system reform, which anticipates establishment of two pension pillars: public (already existing) and private. The private pension fund will be functioning by the end of 2001; and
- capital markets (the stock exchange). The Law on Issuing and Trading with Securities has been adopted, which, together with the Law on Investment Funds and settlement of the problem regarding the frozen foreign exchange savings through electronic records (bonds), will move the capital market.

Finally, allow me once again to express my pleasure from the World Bank and IMF activities in the former Yugoslav Republic of Macedonia concerning the implementation of the reforms in the economy and to convey my gratitude to the host city, and the Bank and the Fund employees for the successful organization of the 2000 Annual Meetings.

MADAGASCAR: TANTELY R.G. ANDRIANARIVO

Governor of the Fund

(on behalf of the joint African Group)

Introduction

It is my privilege to address this meeting on behalf of my fellow African Governors. At the outset, I thank the Czech authorities for hosting us in their beautiful country, and I would like to let them know that during our stay, we have also learned important lessons from their successful economic transition. I take this opportunity to congratulate and welcome Mr. Horst Köhler, the new Managing Director for the IMF. We extend our highest appreciation to Mr. Wolfensohn, who has worked tirelessly in promoting Africa's development agenda. Let me reiterate that, in the fight against poverty and for development, our governments will continue to cooperate with the international community, and in particular, the two Bretton Woods institutions.

That Africa is facing major challenges needs no further elaboration. As we seek solutions to these challenges, cross-fertilization of ideas with our development partners is essential. I therefore extend an open invitation to

Mr. Köhler and Mr. Wolfensohn and our other partners to maintain a permanent dialogue with the Follow-up Committee set up in Libreville and with our political leadership.

In my statement, I will begin by emphasizing that Africa values the new partnership between the IMF and the World Bank in fighting poverty. I will then identify the major development challenges we face within the context of globalization and outline Africa's agenda for the future, spelling out the effort that will be required of us and the assistance that will be needed from our development partners.

Relevance of the IMF-World Bank Partnership in Poverty Alleviation

We are concerned about the call being made by a small segment of the international community for the IMF to abandon its current poverty alleviation effort. In contrast, we in Africa feel that the role of the IMF and the World Bank continues to be crucial. The new partnership between the Fund and the Bank in promoting macroeconomic stability, accelerating debt relief, and strategizing on poverty alleviation undoubtedly provides a strengthened platform with which the international community can help move Africa forward.

We find the Fund uniquely positioned to mobilize concessional balance of payments support to low income countries, thereby creating the necessary conditions for high growth and poverty reduction. In this context, we feel the PRGF is the most suitable framework within which the Fund can assist low income members. We urge the IMF and the World Bank to pursue and intensify their assistance to conflict or post-conflict countries, in particular, those that are in arrears with the multilateral institutions.

Africa's Voting Power in the IMF

The new emphasis on country ownership of programs requires that program countries have a greater say in defining development priorities. This objective is not consistent with the mechanical determination of quotas that would result in the erosion of Africa's relative voting power. To maintain the cooperative character of the Bretton Woods institutions, Africa's voice in these institutions needs to be enhanced. We also encourage the two institutions to increase staffing of our Executive Directors' offices so that our countries are better represented.

Factors Behind Africa's Poor Economic Performance

Several factors had an adverse impact on Africa's economic performance during 1999 and 2000: we witnessed a growing number of our countries afflicted by conflicts and natural disasters, with immense losses of human life and damage to basic physical and economic infrastructure. Those of our countries that made impressive progress in economic,

social, and political reforms continued to face low commodity prices, weak institutional and human capacities, and natural disasters. In addition, the combination of falling commodity prices and increasing oil prices have resulted in a sharp decline in the terms of trade of non-oil producing countries, putting pressure on their balance of payments.

Consequently, economic growth rates in Africa have remained grossly inadequate to reverse the steep decline in real income, rising unemployment, and deepening poverty. Worse still, and unlike many other regions, Africa's full recovery from the Asian financial crisis will remain a long haul, as many commodity prices are anticipated to remain depressed. We are therefore concerned about whether Africa can benefit from the globalization process.

Social Stability and Good Governance, the Keys to Economic Development

Against this background, let me emphasize that in Africa, there is growing realization that peace, social stability, and good governance are major prerequisites for realizing economic development and integration. At the continental, regional, and national levels, the issues of maintaining social stability, deepening democracy, and enhancing transparency and good governance are being accorded the highest priority. African heads of states, at their Libreville Summit in January 2000, reiterated their commitment to this effort and to spearheading and owning the reform process. We believe that with this effort, and supported by greater concessional financial flows, direct investment and support for strengthening human and institutional capacity building, Africa can meet the daunting challenges of social and economic development, and integrating into the global economy.

Economic Integration in Africa

We strongly believe that, collectively, Africa represents a big market with untapped human and natural resources. To realize this potential, and as expounded in the Abuja Treaty, economic cooperation and regional integration should be promoted within Africa as an effective means of enhancing Africa's competitiveness and successful integration into the global economy. If implemented in a sound environment, economic cooperation and regional integration will indeed prove to be a powerful leverage for the improvement of the competitiveness of African economies. We welcome the recognition of the relevance of the principles spelled out in the Abuja Treaty reflected in the positions adopted by the European Union, and more recently by the U.S. administration making economic integration a priority for Africa.

We would urge the international community, including the Bretton Woods institutions and the WTO to lend strong support for this

approach, by developing the appropriate resources and instruments for the attainment of this regional objective. This regional dimension must also be taken into account in implementing our adjustment programs.

Developed Country Trade Restrictions on African Exports

The importance of trade to development and poverty reduction is now widely acknowledged; hence, the importance of integrating developing countries into the global economy. However, despite substantial progress made in trade liberalization, our countries have not been able to benefit from expansion in world trade because of trade restrictions prevailing in developed countries' markets. We want to reinforce the specific request already made by some Directors at the Bretton Woods institutions that the management of both institutions urgently undertake a study on trade restrictions imposed on developing countries and come up with recommendations that can be quickly implemented. We urge the industrial countries to meet and fulfill previous commitments they made in the context of the Uruguay Round accords toward developing countries.

Initiating special arrangements of a preferential nature for major exports from developing countries, particularly textile and manufactured products, will boost incomes in those countries. In this context, we welcome the concrete steps taken by some countries or groups of countries, including the EU/ACP agreements, aimed at enhancing market access for our countries. However, attaching many conditions to such offers might make it difficult for many countries to benefit. In this regard, we call on the international community, particularly the Bank, the Fund, and WTO to pay special attention to assisting poor African countries in improving their capacity for international trade negotiations.

Declining Trend in Official Development Assistance Flows to Africa

We are fully aware of the need to accelerate the mobilization of our domestic resources to promote higher investment rates in our countries. However, the provision of additional external resources is crucial to augment resources available for our priority sectors. In this regard, we are concerned that ODA flows to Africa continue on a declining trend. Moreover, ODA is becoming increasingly allocated according to stricter conditionality that is making it difficult for some of our needy countries to access. Also, the diversion of ODA to nontraditional purposes such as emergency humanitarian aid, financing debt reduction, and funding nongovernmental organizations' activities is undermining the principle of additionality in ODA flows. We urge the donor community to address these issues with a view to accelerating development in Africa. Equally important is the need to reduce the multiplicity of conditionality in bilateral disbursements. In this regard, we recommend the formulation of international standards for the disbursement of donor aid. On our part,

we are firmly committed to rebuilding our efforts to ensure effective use of ODA resources to be allocated as a matter of priority to poverty reduction, especially to the improvement of the delivery of basic social services and the enhancement of basic infrastructure.

Need for Speeding Up Debt Relief

It has been widely agreed that debt overhang is a stumbling block to both growth and poverty reduction in Africa. This is why we have embraced the enhanced HIPC Initiative. Linking debt reduction to poverty alleviation through the newly established Poverty Reduction Strategy Paper process will likely result in a more broad-based and equitable distribution of the benefits of debt relief. Unfortunately, however, implementation of the HIPC Initiative has fallen short of our expectations, with only Uganda having reached its completion point in early May 2000. We wish to express our disappointment at these delays, which will impact negatively on our ability to reduce poverty. Also, the indebtedness of middle-income countries, where major pockets of poverty still exist, and small landlocked and island economies remains a major concern, which deserves close attention and calls for innovative solutions.

We are equally concerned about the current arrangements for burden sharing among creditors, which remains a significant obstacle to the HIPC implementation. Many creditor developing countries, including some HIPCs and regional institutions have expressed their inability to provide relief on their claims. Strict adherence to the principle of comparable treatment by other creditors is therefore imposing delays in the implementation of the HIPC Initiative. We urge the industrial countries and international financial institutions to be more flexible in applying this principle to expedite the debt relief process.

Poverty Reduction and Growth Facility and the Comprehensive Development Framework

The PRGF and CDF have elevated the status of poverty reduction and social concerns in setting development policy priorities and strategies. Both rightly stress the importance of ownership of the reform process by borrowers as stated in the Libreville Declaration. We particularly welcome the formation of an IMF/World Bank Joint Implementation Committee to strengthen coordination in debt relief and poverty reduction policies.

While we fully appreciate the linkage between debt relief and economic performance, we feel too numerous and onerous conditionality lead to unnecessary delays. For example, the requirement that the PRSP be implemented for one year before a country is considered for debt relief should be eliminated. The conduct of household, consumer, business, and social sector surveys needed for PRSP preparation as well as

monitoring data on poverty on an ongoing basis, consume substantial human and financial resources. We call upon the Bank, Fund, and the rest of the donor community to provide all necessary assistance for these exercises. We would also urge that due consideration be given to specific circumstances of countries within the context of PRSP preparation and that standardization of consultative processes be avoided.

Assistance to Conflict and/or Post-Conflict Countries

We acknowledge that conflict and violence are among the pressing problems of many of our countries. We also acknowledge the fact that the Bank and the Fund have attempted to respond to the challenges facing conflict/post-conflict countries in a number of ways, including preparing transitional support strategies and prioritizing intervention during transition from war to peace. We note, however, that the post-conflict fund established by the Bank in 1997 has yet to benefit African countries in a meaningful way.

We would urge the two Bretton Woods institutions to broaden their involvement and increase their assistance in both conflict and post-conflict countries. In this regard, we would like to emphasize the importance of both institutions remaining engaged with countries in conflict and continuing to provide assistance to those areas of the countries that are not affected by the conflicts.

Challenges for Small Land-Locked and Island Economies

The challenge of development in a globalized world is daunting for small states, whose unique characteristics make them even more vulnerable to external shocks and natural calamities. We therefore welcome recent efforts by the World Bank and the Commonwealth Secretariat aimed at directing particular attention to the special characteristics and needs of small states. We urge that the agreed agenda to help small states to combat poverty and reduce their vulnerability through the application of the general principles of flexibility, regional integration, and disaster mitigation while paying special attention to capacity building, be taken seriously by all parties involved. In this regard, we further urge the World Bank to continue working more diligently on the Commodity Risk Management Strategy for small economies as well as large low-income economies that remain dependent on commodity production.

Africa, Lagging Behind in the Information Technology Revolution

As the world makes major strides in the development of technology, Africa continues to lag behind, particularly in the use of basic information technology. This ongoing digital divide is due to a combination of factors: the high cost of acquiring information technologies, a lack of infrastructure adaptable to low-income users, and the scarcity of a well-

educated and computer-literate work force that can help disseminate these technologies.

It is in this regard that we would like to call on the World Bank to help fund alternative and affordable technologies for accessing the global information network by the poor countries. Although the private sector already plays a dominant role in the infrastructure involved in telecommunications and the information highway, the World Bank Group, in particular, could help to modify and expand system capacities for use by developing countries.

Intensifying Action Against HIV/AIDS and Malaria

The HIV/AIDS epidemic has emerged as one of the greatest threats to Africa's development, which already faces other diseases, such as malaria. A growing number of our governments have begun to address it with renewed vigor, having recognized its far-reaching implications on the social fabric and our economies. Although somewhat belated, the international response to this epidemic has also regained momentum, as the U.S. Administration has stepped up its campaign against HIV/AIDS, and within the Bretton Woods institutions, the topic was placed on the Development Committee agenda for discussion at the Spring 2000 Meetings. Also, Mr. Wolfensohn has embarked on a crusade aimed at mobilizing international assistance in the fight against AIDS, for which the World Bank has allocated US\$500 million. These are commendable efforts.

Moreover, dealing with the HIV/AIDS and Malaria in developing countries is the most daunting challenge. Developing countries are already disadvantaged because they have fewer doctors specializing in HIV/AIDS management. The infrastructure, including reliable supporting services from modern laboratories, does not exist. The already poor nutritional status of many patients in developing countries not only impairs the effectiveness of AIDS drugs, but also further compounds the side effects of AIDS treatments. Very important, developing countries have very limited financial resources to cope with both HIV/AIDS and Malaria.

We commend the major drug manufacturers for their intention to make HIV/AIDS drugs affordable. Nonetheless, an effective combination of drugs that can prolong and improve the quality of life will remain unaffordable for most patients in Africa. Moreover, these drugs do not cure the disease; they only control it. We believe that the search for a vaccine, and indeed a cure, must be intensified. Meanwhile our countries will continue to direct most of their limited resources toward prevention.

Need for more Technical Assistance and Strengthening Capacity Building

To maximize the long-term impact of technical assistance on recipient member countries, it is important that technical assistance be integrated

in a broader policy framework that aims at capacity building. In this context, we welcome the recent Fund initiative to define an overall policy for technical assistance. We recommend strongly that the Fund's technical assistance be consistent with the Partnership for Capacity Building in Africa (PACT) recently established with World Bank assistance and with Fund contribution. The development of domestic administrative and technical capacity involving the training of local officials should be clearly specified in the mandate of experts. It is critical to associate recipient authorities in the planning, selection, and evaluation of technical assistance projects. Finally, we would urge that the recruitment of experts be carried out in a more open and competitive setting that also provides an opportunity for qualified African nationals to serve their continent.

We also urge the Managing Director of the IMF and the President of the World Bank to pursue transparent and dynamic policies in the recruitment and promotion of African nationals in the two institutions, building on the efforts already under way at the World Bank.

Concluding Remarks

Africa faces several development challenges as it enters the twenty-first century. While we acknowledge that such challenges are daunting, we also recognize that they are surmountable. Over the last three decades, we have not only undertaken painful economic reforms, but also made significant gain in civil liberties and democracy. This notwithstanding, Africa today accounts for less than 2 percent of world trade, which is predominantly in primary products.

In spite of these problems, we are strongly convinced that Africa can make a contribution to the global development platform. To achieve this objective, it is imperative that Africans and donors work together in a new partnership that focuses, among other things, on reducing poverty and putting Africans in charge of their development agenda. Living together in this global village requires our cooperation for one and all. Hence a setback in the development of Africa is a setback for the rest of the world. Similarly any success for Africa is a success for the rest of the world.

MALAYSIA: SHAFIE MOHD. SALLEH

Governor of the Fund and the Bank

It is indeed heartening to see that global economic and financial conditions have improved markedly in the course of 2000. All the major regions of the world are expected to record increased growth in 2000. The crisis-affected East Asian economies in particular have made remarkable progress, and prospects in the near term look even more promising.

In tandem with these developments, the economic performance of the Malaysian economy has been good. Allow me to give an update of current developments in the country. The measures undertaken by Malaysia in dealing with the financial crisis consisted of an expansionary fiscal and monetary policy, adoption of a fixed exchange rate and selective exchange controls, and a longer-term program of restructuring of the corporate and financial sectors. As a result of these policies and strong external demand, Malaysia's GDP growth rebounded from a contraction of 7.5 percent in 1998 to record a strong positive growth of 5.8 percent in 1999, with overall strengthening of macroeconomic fundamentals. The strong rebound in economic activities in 1999 was achieved with low inflation and accompanied by a strengthening of the balance of payment position and a buildup of external reserves. External debt, which has traditionally been low, declined further.

We are indeed happy that the approach that we have adopted continues to yield impressive rewards. In 2000, the Malaysian economy strengthened further. In the second quarter of 2000, real GDP recorded another strong performance of 8.8 percent, compared with 11.9 percent in the first quarter. Growth in the first half of 2000 is now estimated at 10.3 percent against 1.8 percent in the first half of 1999. Growth was broad based across both aggregate supply and demand. The strong external demand, the fiscal stimulus, and the positive domestic economic and financial environment continued to support growth. Further progress in banking reforms and corporate restructuring, and the improved employment prospects strengthened domestic demand. Investment activities expanded further, with a marked increase in real gross fixed capital formation in terms of both new investment and expansion of existing capacity to meet higher demand. Despite the strong economic expansion, inflation moderated further to only 1.5 percent. With expectations that strong external demand will be sustained and domestic demand will strengthen further, economic growth for the year as a whole is anticipated to be significantly higher than the earlier forecast of 5.8 percent.

The external sector remained strong in 2000. While the trade surplus has narrowed, it has remained large at RM 29 billion (\$7.7 billion), and has contributed to the increase in the international reserves of Bank Negara Malaysia to \$33 billion at end-August 2000. Reserves are sufficient to cover 5.4 months of retained imports and are 6.4 times the amount of short-term external debt.

The favorable performance of the real sector had contributed toward enhancing the health of the financial sector and facilitating efforts in restructuring the corporate sector. The banking system strengthened further with a risk-weighted capital ratio of 12.8 percent and a net non-performing loan (NPL) ratio of 6.4 percent as at end-June 2000. *Dana-harta* (the assets, management company set up to acquire NPLs and

subsequently manage in order to maximize recovery on the acquired assets) has made further progress, particularly in rehabilitating and restructuring of viable loans. *Danaharta* has restructured and disposed a total of RM 31.5 billion of loans and assets, with an average recovery rate of 73 percent. Capital injection by *Danamodal* (the special purpose vehicle set up to recapitalize banking institutions) in the banking sector also declined further following the repayment of loans, bringing the total capital injection to RM 4.9 billion at end-June 2000 in five banking institutions. Similarly, the Corporate Debt Restructuring Committee has completed the restructuring of corporate debt in 27 cases, involving debts totaling RM 23.6 billion at end-July 2000.

Our strong belief in the appropriateness of the approach taken in dealing with the economic crisis, even though it was discredited by many international agencies at that time, has spared us the worst of the economic crisis, such as widespread business failures, economic hardships, and social upheavals. We persisted with our approach despite dire predictions of total failure, because we believed that the special circumstances prevailing in our economy called for a different policy prescription and above all, that human cost and misery must be minimized. While our approach initially drew severe criticisms and predictions of doom, including from the IMF, the rapid recovery of the Malaysian economy from the severest recession in its history has proven that our policy approach has indeed been successful. It is gratifying to note, and we feel vindicated as well, that some of the measures that we undertook—such as selective capital controls—in dealing with the crisis have now gained position, recognition, and support from the international community, including that of institutions such as the IMF and the World Bank.

Lately, however, there has been some debate on whether the Malaysian economy would have shown the same strong recovery with or without its selective exchange controls. For us, who have been managing the crisis and witnessing its destabilizing effects across the region, we remain convinced that the Malaysian approach was not only appropriate, but also necessary to prevent further instability. Without the selective exchange controls, the economic recovery would not have occurred, as speculation on the Malaysian ringgit was still active after the LTCM crisis, given the ease of access to Malaysian ringgit in offshore markets. More important, the Malaysian policy approach resulted in recovery at a much lower cost, in both financial and social terms. Financially, the cost of restructuring the banking sector was less than 10 percent of GDP. The outturn in the total cost of restructuring and fiscal stimulus in Malaysia was less than 15 percent, and 30 percent lower than earlier estimates. In social terms, Malaysia was also able to minimize the social costs of the crisis in terms of unemployment and poverty levels. As a result, the social fabric was not disrupted.

While Malaysia will continue to persevere with measures to strengthen its domestic economic and financial system in order to ensure sustainable growth and reduce its vulnerability to the risks of another crisis, our efforts alone would not be sufficient to guarantee that the Malaysian economy will be spared from external shocks. Sound domestic policies can be negated by adverse external developments. It is essential, therefore, that reform measures at the national level be complemented by global efforts to ensure greater stability in the world economic and financial system. Currently, the misalignment among the major currencies and the risks associated with overvaluations of U.S. equities could create risks for emerging markets. In this regard, closer policy coordination among the G-3 countries is essential to reduce the risks of an abrupt and disorderly adjustment in foreign exchange markets and the adverse consequences for the global economy.

The IMF must also influence G-3 economic policies. For this to happen, the conduct of IMF surveillance must be more even handed. Indeed, IMF surveillance must place emphasis on the major industrial economies, and not only on developing countries that are under IMF programs. Surveillance would not be effective unless the IMF focuses more attention on developments in the major industrial countries, as they have systemic implications on the rest of the world.

There have been many studies and debates on measures to reform the international financial architecture (IFA). Current discussions on the IFA have tended to focus more on ideological rather than practical issues. The value of free and unregulated markets as reflected in free floating exchange rate regimes and free capital flows is constantly being reiterated. There is nothing wrong with this approach, and we do not dispute the merits of free market principles. We must, however, ensure that markets function efficiently. We have seen during the Asian crisis, the effects of the failure of free but inefficient markets that have destabilized world markets as well as misallocated resources and misaligned exchange rates.

Under the present situation, the global financial system clearly does not provide a level playing field, as large players can overwhelm small markets. Reforms are therefore needed to ensure that, as small emerging markets liberalize capital account transactions, such liberalization will not result in unstable markets arising from excessive foreign exchange speculation by owners and managers of capital. The current period of relative calm in the financial markets should not detract the international community from expediting IFA reforms to promote more responsible behavior by the private sector. Private market participants have an equal role with governments in effecting good practices that contribute toward maintaining efficient and stable markets.

Many developing countries are already responding to the challenges of globalization by strengthening their economic and financial systems,

liberalizing their markets, and disengaging their governments from many economic activities. Many have also embraced the adoption of codes and standards and good market practices as set out by the developed countries. However, the unevenness of the starting point and the backlog of deprivation and inequity of the past decades are significantly constraining the developing world in benefiting from the gains of globalization. In fact, rapid globalization and integration is paradoxically widening the economic and social gap between rich and poor nations. In our eagerness to liberalize our market, it is therefore, critical for us to reduce this globalization divide such that the benefits of globalization are equitably distributed. Some “management” of globalization is required to maximize its benefits. We cannot accept that globalization must be pursued at any cost. The new IFA should seek to manage globalization to ensure efficient markets, but with equitable rules applied to both the owners of capital and the host countries where these capital are being invested. The rules should accord equal emphasis to how owners of capital can maximize profits and to how host economies can safeguard their domestic interests.

The overall objective of globalization should then be directed at bringing additional benefits to all concerned, with adequate systems in place to protect those who are likely to be affected adversely by global developments. Effective participation of all parties—that is, from both the developed and developing countries—is necessary if policies related to globalization are to be accepted globally. A one-sided approach in this matter, with the domination of the developed countries, would not lead to a global system that is acceptable to all; nor would it meet global objectives for mankind.

While countries need to continue with their own reforms, reforms are also of paramount importance at the international level. Specifically, I wish to draw your attention to the need to impose some form of direct regulation on highly leveraged institutions and hedge funds to ensure stability in the global financial system. Unfortunately, IFA reforms in terms of actions by to promote more efficient and stable market conditions remain limited, particularly on the important issue of activities of over-the-counter (OTC) derivatives and other trades of highly leveraged institutions (HLIs) and hedge funds. The recent IMF *Capital Markets Report* showed that market transactions for OTC derivatives had \$3 trillion in credit exposures at the end of 1999. This amount is the same value of global trade in goods. Hence, even if there is some control in bank lending to HLIs, the volume of funds available to them remains large relative to the size of the foreign exchange and capital markets of emerging economies. The reluctance to accept the damaging role of HLIs in the Asian crisis is again reflective of the belief among developed economies in the supremacy of the free market system. The concern that

large HLIs can dominate or manipulate markets, especially in smaller economies, is a very valid and serious one. We fail to see why developed countries are so protective of these institutions. The issue is not that these institutions cannot exist. Rather, they should be subject to prudential regulations like other financial institutions and take responsibility for ensuring stability in financial markets.

In the absence of action by the international community to address the risks associated with globalization in a comprehensive manner, individual countries will need to fend for themselves or look toward regional cooperative efforts. In Asia, efforts are under way to promote a regional self-help and support mechanism that could respond quickly to avert or deal with a possible crisis in the future. A regional financing mechanism modeled to complement and supplement the role of the IMF to support any regional currency under attack but with a regional bias and flexible procedures could be one of the approaches that could be considered by countries in the region. We have suggested the setting up of the Asian Monetary Fund to provide funds to member countries with more flexibility and less stringent conditions with a view to ensuring a more speedy and timely response. We will continue with our efforts to make such regional self-help and support a reality.

Efforts to ensure orderly and stable conditions in the international financial system must also include measures for substantive and meaningful reforms in the operations of international financial institutions. The IMF, in particular, needs to enhance its own transparency and accountability, just as it insists that member countries be transparent and accountable for their policies. There is a need for the IMF to get back to basics, to focus on its core functions, and to avoid being too intrusive in its relations with its members. The IMF should also resist the temptation to overload its lending programs with issues that are not relevant to the problem at hand. In this regard, we look forward to the first report of the Independent Evaluation Office on a review of IMF operations.

To the extent that crises will continue to happen, the IMF must also strengthen its capacity to engage actively in the effective management and resolution of crises. This should be part and parcel of a comprehensive review of the existing IMF financial facilities, in conjunction with a review of the role and functions of the IMF. While unduly prolonged use of IMF resources should be discouraged, proposals designed to make access to IMF resources more difficult and punitive could be counterproductive to the health of the international monetary system. The IMF should not deny countries access to much-needed financial resources for economic and financial adjustments. Reforms of the IMF should also include a revamp of the program design, to be more attuned to local conditions, especially the capacity of the countries concerned to implement the program and meet the conditionality.

The recent crisis has highlighted the dangers and implications of inappropriate IMF policy recommendations. The failure of the IMF to make correct prescriptions has led to the collapse of domestic economies in some countries and set back decades of development efforts and progress. Malaysia had emphasized repeatedly that the IMF needs to strengthen its diagnostic capabilities and resist the tendency to adopt a “one-size fits all” approach or the “father-knows-best” attitude. In this regard, we are encouraged by the new Managing Director’s commitment to listen to the views of the members and to work more closely with other international financial institutions to ensure that IMF policy recommendations suit country-specific circumstances.

To date, proposals for IFA reforms have tended to focus on ensuring that countries become more transparent, adhere to international standards and codes, and adopt better risk management policies. Such measures are supposed to enable markets to make better-informed decisions and reduce a country’s vulnerability to unexpected shocks. In this context, we fully support many of the initiatives under way to encourage countries to adopt the international standards and codes. I must also add, however, that the plethora of these standards, codes, and principles are overwhelming and highly demanding of manpower and financial resources, as well as time. They also have a potential to become overly intrusive vis-à-vis national authorities. Moreover, we need to ensure that the observance of these standards and codes, many of which are at the experimental stage and voluntary in nature, do not prematurely become part of IMF conditionality. It is also important that whatever codes are developed, they are applied equally to all member countries, including industrial countries.

At the same time, a review of IMF quotas is important to ensure that the IMF decision-making process is more inclusive and better reflects members’ relative economic and financial strength in the world economy. As the IMF quota formulas were last modified in 1982–83, a revamp is long overdue, in view of the rapid changes in the world economy. Since then, many developing economies have expanded significantly and are able and willing to contribute more to IMF resources, and should therefore have a proportionate share in the decision-making process.

We welcome the new initiatives by the World Bank and the IMF relating to the intensification of work on social sector issues. In this regard, the recently developed proposals by the Bank and the Fund to strengthen the link between debt relief under the Initiative for Heavily Indebted Poor Countries (HIPC) and poverty reduction, and to judiciously blend policies of poverty alleviation with structural adjustment and other reforms, are especially noteworthy. We hope that the necessary financing for the enhanced HIPC Initiative will be forthcoming and that the funding embodies genuine additions and will not be obtained at

the expense of non-HIPC developing countries. We must not lose sight of the debt problems of low-income non-HIPC countries.

Some progress has been made in involving the private sector in resolving financial crises. As was evident, private sector lenders and borrowers have been heavily involved in these recent crisis episodes. It must also be noted that, the official sector has had to bear a disproportionate burden in resolving the crises. The sums involved have been so large that the requirements have exceeded the availability of financing from official sources. The Fund could, therefore, help to catalyze private sector participation. In devising a framework for this, there is a need to ensure that obligations of the private sector of the industrial countries do not involve sacrifices by the developing country official creditors. The role of creditors should be accurately reflected, since there is evidence of imprudent lending in the runup to recent crises. There is a strong risk of moral hazard unless there is significant penalty on imprudent lending practices by private creditors. I note that various proposals have been made to increase private sector involvement in crisis resolution. However, the lack of practical implementation of these proposals in involving the private sector remains a main stumbling block in pursuing further this effort. It is therefore imperative that a framework that allows for effective implementation be designed.

In concluding, let me reiterate that defining the new IFA is a matter of urgency. The international community has been dragging its feet far too long. There is a need to achieve progress in several core areas in the reform process, and in this context, the regulation of highly leveraged institutions and hedge funds is important. And finally, work has to begin on how to operationalize the various proposals that are emerging. There has been continuous debate on various issues but little discussion on their implementation.

MALTA: JOHN DALLI
Governor of the Bank

It is an honor and a pleasure to address the Annual Meetings of the World Bank and the International Monetary Fund. I would like to begin by thanking the government and the people of the Czech Republic for their warm welcome and hospitality during our stay in this beautiful city of Prague. I would also like to join other Governors in welcoming San Marino as a new member of the World Bank. This is also the first Annual Meeting presided by the new Managing Director of the Fund, Mr. Horst Köhler. I take this opportunity to congratulate him on his appointment and to wish him all success during his five-year term.

We meet here today against a generally optimistic economic background. The outlook for the global economy has continued to improve,

as most regions of the world have registered satisfactory growth rates. The United States has succeeded in maintaining its momentum, and the expansion in Europe has gathered pace, while Japan's economy appears to be on the road to recovery. It is also encouraging to note that fundamentals in the emerging economies have improved considerably and that economic activity has generally accelerated. We are glad to see that forecasts for world economic growth have been revised upward once again this year and that prospects remain relatively bright. On the other hand, we cannot but show our concern at the threat of inflationary pressures, particularly those emanating from the escalation in oil prices. At the same time, it is important that more attention be focused on addressing economic and financial imbalances, which could pose serious threats to global expansion in the future. We must also ensure that globalization is managed in ways that reduce the threat of marginalization and lead to greater stability, growth, and poverty reduction across countries.

Addressing macroeconomic imbalances is indeed a difficult but essential task, which my country is presently pursuing with determination. While Malta's level of inflation remains relatively low through the use of a prudent monetary and exchange rate policy, the fiscal deficit remains at an unacceptably high level. Our medium-term objective is, therefore, to reduce the fiscal deficit to a sustainable level. A deficit-reducing program has been put into effect, and this is proceeding satisfactorily. As a result, it is expected that the budget deficit, as a percentage of GDP, will be reduced for the second year in succession. It is the intention of the government to narrow the deficit to the 3 percent level by the year 2004 while maintaining a government debt-to-GDP ratio below the 60 percent level.

Malta is preparing itself for accession into the European Union, and so its economic and financial reforms are also being implemented with membership in mind. The country's legislation is, to a large extent, being amended to bring it in line with the European Union's *acquis communautaire*. I am pleased to say that, following the commencement of negotiations earlier this year, the first few chapters have already been closed, and discussions have started on a number of others. We are hoping to conclude negotiations by the end of next year so that we will be able to join the European Union in the next enlargement.

The government's fiscal strategy is to increase its revenue sources, mainly by ensuring proper tax compliance rather than through a rise in taxation rates. At the same time it is endeavoring to reduce wasteful expenditure, particularly where this involves the outlays on the social security program. Pension reform is one of the government's top priorities, and a commission set up for that purpose is expected to make policy recommendations before the end of this year.

Macroeconomic policy measures have been accompanied by structural reforms to enhance the market mechanism in Malta. We are grad-

ually removing subsidies and protective levies and, where possible, exposing public utilities to competition, particularly those in the telecommunications sector. In fact, a plan for the gradual liberalization of the latter sector was announced in the early part of the year and is coming on stream from the beginning of next month. Details of the government's privatization program will also be announced soon, while the privatization of Malta's free port zone is already under way. In this regard, I would like to thank the World Bank for the valid technical assistance it has been providing to us over the last year.

In the financial sector, interest rate liberalization has now been completed, and very soon legislation will be introduced in parliament to strengthen the independence of the central bank. The bank is already responsible for the formulation and implementation of monetary policy, but the proposed amendments to the Central Bank Act will enhance its monetary policy responsibilities by declaring the maintenance of price stability as the primary objective of the bank.

The process of capital control liberalization has reached an advanced stage, following the significant liberalization measures that were introduced from the beginning of this year. We are, however, proceeding more cautiously on the liberalization of short-term capital movements, since we want to ensure that our financial system has the capacity to adjust smoothly and efficiently to large capital movements. We are, therefore, placing more emphasis on the data compilation process where capital flows are concerned to ensure that these do not pose a threat to the balance of payments.

Here I would like to say a word about my country's efforts to enhance the quality and timeliness of economic and financial data in line with the standards established by the Fund. Over the last year, Malta has taken a number of steps to improve its statistical standards, particularly in the area of government finance. A new chart of accounts is being introduced from the beginning of next year to ensure that government finance statistics data are consistent with the standards set out in the European System of Accounts 95. Malta is a participant in the Fund's GDDS and its metadata were recently posted on the Fund's Dissemination Standards Bulletin Board. Malta is in fact the twelfth country to be listed on the DSBB. Our ultimate aim, of course, is to comply with the more demanding requirements of the SDDS.

Malta supports the Fund's initiatives to improve the transparency and accountability of its members' policies. It is endeavoring to adhere as much as possible to the Fund's recommendations as set out in the Code of Good Practices on Transparency in Monetary and Financial Policies and the Code of Good Practices on Fiscal Transparency. Other Fund initiatives aimed at strengthening financial systems are strongly endorsed by my country, particularly recent proposals to develop and

disseminate of macroprudential indicators, which are important indicators of the health and stability of financial systems.

I am pleased to say that Malta's financial system is well regulated by our supervisory bodies, the central bank and the Malta Financial Services Centre. For many small developing countries such as Malta, shorn of natural resources or sizeable domestic markets, the provision of financial services has proved an attractive and successful option. Yet we fully understand that the success of an international financial center depends to a large extent on its ability to earn a reputation of efficiency, stability and credibility. Malta has, therefore, striven to establish itself as an international financial services center of repute, based on the highest regulatory and supervisory practices. It has established a comprehensive legal and institutional framework to combat money laundering and financial crime and has declared its willingness to cooperate on tax issues.

Although we were pleased that the OECD excluded Malta from the list of uncooperative countries in its harmful tax initiative, we remain concerned that initiatives have been taken in many forums that have thrown a negative light on the reputation of certain international financial centers in small states. It appears that recommendations and prescriptions have been made on the basis of subjective perceptions. Malta would like to see a fair and transparent process that would include all interested parties in an effective consultative environment. Malta considers that these issues should be dealt with by the appropriate international institutions where all interested parties are represented.

I will now briefly turn to a much-debated topic over the last year. That is the role of the World Bank and the International Monetary Fund in the global financial system. There is a view that the operations of both institutions should be scaled back. In the case of the Fund, while there appears to be general agreement that it carries out a useful surveillance function, the case has been put forward that, by providing liquidity in emergencies, the Fund is bailing out imprudent investors and governments and thus worsening a moral hazard problem. Somewhat paradoxically, the opposite concern has also been voiced, namely that in a world where international capital flows can destabilize economies in a very short time, the Fund is ill-equipped to act as an international lender of last resort. This gives rise to the danger that the Fund's resources will be stretched to the limit in an emergency.

The World Bank's role as lender to developing countries has also come under fire, particularly in the case of middle-income countries that have raised funds successfully from private investors. The argument is that the Bank should cease operations in these countries. In contrast, support for the Bank's role in channeling concessional assistance to low-income countries remains critical for increasing growth and reducing poverty.

However, it is clear that an exclusive dependence on market forces would imply that a large number of developing countries would be perceived to be too risky and would be unable to attract private sector investment. Furthermore it should be mentioned that much of the work financed by the Bank in areas such as the provision of health and education are in the nature of public goods that are unlikely to attract much private finance. Other market imperfections also exist. Asymmetric information, investor myopia, and, sometimes, plain greed may lead to a buildup of capital inflows. We have seen cases when bad news then prompts a belated reassessment of risk and a rush to liquidate investments, with a sudden reversal of capital inflows. There is thus a strong argument in favor of global public sector intervention to dampen the impact of volatile markets on member states.

Malta supports both the IMF and the World Bank in their advisory and financial roles and is willing to participate in any new allocation of SDRs that would provide the Fund with additional resources to meet financial crises situations.

Malta also appreciates the professional work undertaken by the Fund and the World Bank to strengthen the global financial system and enhance international cooperation. While it is not a debtor country, Malta has, over the past year, continued to seek technical assistance from both the Bank and the Fund. This has been forthcoming and has contributed positively to our program of economic reforms particularly in the fiscal sphere. In conclusion, I would like to thank the Executive Directors who have represented Malta on the Executive Boards of the Bank and the Fund for their continual assistance and support.

MYANMAR: U KHIN MAUNG THEIN

Governor of the Bank

I am pleased to take this opportunity to address the fifty-fifth Annual Meetings of the International Monetary Fund and the World Bank. First, I would like to express our heartfelt thanks to the government and the people of Czech Republic for the warm hospitality extended to my delegation and the excellent arrangements made for the meetings in this splendid and beautiful city. I would also like to extend our congratulations to the new Fund's Managing Director, Mr. Horst Köhler and the Bank's President, Mr. James Wolfensohn, for their keen awareness in the phenomena of global economic change.

As you all are aware, with globalization, the world economic order is changing substantially, with momentum, propelled by the information technology all over the world. We need to step forward with a great vigilance in the twenty-first century to witness the emergence of unfettered

globalization—the process of economic integration where different societies are widely interchangeable and interdependent, together with the new technologies, information advances, and knowledge revolution without effecting the country's identity, cultural, and natural heritage. The information technology age is virtually accelerating the integration of the global economic environment in the twenty-first century. In this new environment, the Fund and the Bank need to prove their abilities to be just and fair for tangible assessment of its members. Thus, international organizations like the Fund and the Bank should consider seriously restructuring their respective roles to cope with ever-changing world economic developments through globalization and the advancement of information technology.

With such determination and effort the government has been endeavoring since late 1988 to develop the economy—in consonance with the market-oriented economic system—to fulfill the basic needs of the people, such as food, clothing, and shelter. All Myanmar endeavors are within the internationally pronounced and adopted framework for basic human needs, poverty alleviation, and environmental protection. It is the obligation of the Bank and the Fund to render necessary assistance to such a country. I would like to underline that all the people of Myanmar are standing on their own feet and striving hard not only for the development of the state, but also for sustainable economic growth and the improvement of their living standards. It is undeniable that what all the people wish most is to enjoy the fruits of prosperity, stability, peace, and tranquility—keeping abreast with other nations.

May I now touch upon the relationship between Myanmar and the Bank and the Fund. As Myanmar has been a legitimate member of the Bank and the Fund since 1952, we have tried to normalize our relations with these institutions, to have better understanding and cooperation in the existing situation and in the development of our country for our mutual benefit, as before. Although Myanmar is fully eligible for IDA concessional development credits, the Bank has knowingly suspended its assistance to Myanmar over the past 12 years, even though Myanmar had regularly serviced its outstanding payments to the Bank until the end of 1997—more than 10 years.

Based on our continued discussions with Bank senior officials, the Bank sent a mission to Myanmar to come up with a balanced economic assessment report. However, our endeavors for progress and understanding, with a subsequent exchange of views based on the report, have not met expectations owing to the Bank's failure to adhere to the protocol of not disclosing a confidential report to the news media without the prior consent of a member country. We have no experience of such an action by the Bank in the past, and we understand that it is not in conformity with the Bank's normal procedure—this is a cause for concern

for the mutual trust, respect, cooperation, and coordination between the Bank and its members. Furthermore, we would like to reiterate to the fact that according to the Bank's charter there should be equal treatment among the members of the Bank without political influence and consideration.

In conclusion, I would like to urge the Fund and the Bank to have constant discussion and collaboration with their member countries, including the developing and underdeveloped countries. At the same time, the institutions should be flexible enough to cope with the changing world economic order through globalization and information technology.

NEPAL: MAHESH ACHARYA

Governor of the Bank

I feel honored and privileged to have this opportunity to address the first Fund-Bank Annual Meetings of the new millennium. At the outset, I would like to congratulate Mr. Köhler on his appointment as the Managing Director of the IMF. I would also like to express my gratitude to Mr. Michel Camdessus for his valuable service to the Fund and support to the cause of developing countries. I express my sincere appreciation to President Havel's thoughtful observations in his inaugural address and I thank the government and people of the Czech Republic for hosting the Annual Meetings and extending warm hospitality to us in this beautiful city of Prague.

Let me begin with the recent changes in the world economy. The world economy has shown signs of recovery. The growth rate reached 3.4 percent in 1999 and is expected to further rise to 4.7 percent in 2000. Likewise, world trade volume is expected to rise by 10 percent in 2000. However, the current oil price rise could pose difficulties in maintaining the current level of growth at the global level. The smaller and low-income economies would be more adversely affected by the multiplier negative effects created by the oil price hike. In South Asia, a region that has witnessed higher levels of economic growth during the past couple of years of economic liberalization, entrenched poverty and associated social conflicts have forced government to divert resources toward countering such conflicts. I would, therefore, like to draw the attention of the global community, especially the Fund and Bank, to pay attention to help governments address these social and economic challenges.

Since our last Annual Meeting in Washington, D.C., I am pleased to note that the Fund and Bank are trying to move in close collaboration with increased commitment toward reducing poverty, achieving growth, and maintaining international financial stability. The Fund and Bank leadership deserve our appreciation for the initiatives taken in this

regard with a view to avoid possible duplication of efforts as the roles of two institutions are evolving over the time.

Poverty has become the core issue touched upon by all of us, but our response to this issue has been weak in relation to the actual transformation of poor. Unless we make concerted efforts by providing more resources to the poor countries, it is clear that targets will not be achieved, and poverty reduction will remain rhetoric rather than the reality. I, therefore, would call on the global community to redouble its efforts to achieve the international development goal of halving the global poverty level by 2015 and its efforts to achieve other international development targets.

We would like to express our appreciation to the Fund and Bank for their efforts toward implementing an enhanced HIPC initiative for faster, deeper, and broader debt relief. May I also remind you of the concern that I raised as the Chairman of the Annual Meeting of the Bank and Fund last year: the need for the wider inclusion of poor countries like Nepal under this initiative. I particularly appreciate the determination of the Fund and Bank to include additional member countries under this initiative. However, we are equally concerned with the slow progress in this process.

The Fund and Bank initiative on poverty reduction is an encouraging step in developing pro-poor strategies and helping member countries evolve their own coherent and consistent policy and allocation framework. The poverty reduction strategy would definitely help developing countries to do away with conventional barriers and open new vistas of reforms in poverty reduction programs. We are of the view that the Poverty Reduction Strategy Papers should not become the international blueprint across the board but should provide a framework to include the indigenous experiences and distinct settings of the respective countries. The Comprehensive Development Framework has indeed provided early reference to such a strategy and to the approach of partnership and involvement of beneficiaries at large.

Poverty reduction and global public goods do not compete—they, in fact, complement. Public goods should be stretched and seen from global as well as regional and local perspectives. Peace, knowledge, trade, environment, sound financial systems and prevention and eradication of communicable diseases are common public goods. In order to distribute these goods equitably across the globe, especially in developing countries, judicious investment in these sectors is a must. The Fund and Bank should be proactive and take the lead in safeguarding the interests of small and poor countries.

Let me now briefly touch upon some of the economic development indicators of my country. The economic liberalization policies and programs of the past decade have been important in greater private sector

participation and improving the resource allocative efficiency of the economy. The gains from liberalization are further strengthened by deregulating and decontrolling several state-controlled entities.

Nepal attained economic growth of 6 percent last year, the highest for the last six years. Despite high export growth and remittance inflows, merchandise trade deficit/GDP ratio remained at 15 percent and the current account turned into a huge deficit due to growth in import and decline in net services income. Inflation dropped to an annual average of 3.3 percent from a double-digit rate observed during the previous year. Total investment and national saving as percentages of GDP during the fiscal year have been higher than that of the previous year. The revenue/GDP ratio reached 11.4 percent, up from 11.0 percent during the previous year. The Macroeconomic framework seems stable but its fragile export sector coupled with big import dependency indicates its vulnerability.

The reforms have been intensified recently. The government is working toward creating a prudent expenditure framework by curtailing existing unproductive expenditure and limiting its scarce resources to viable and feasible projects. The recently constituted Public Expenditure Review Commission is reviewing the current expenditures and will recommend ways to trim the size of the recurrent expenditure and create a healthy expenditure framework. In order to meet the increasing expenses of the government and development expectations, the base of internal resources is being widened. The government is simplifying and enforcing tax-related procedures to increase government receivables to achieve an annual increment of 0.5 percent revenue/GDP ratio in the medium term.

Our reform agenda encompasses wider issues of economy and governance. The government has developed a financial sector strategy that focuses on reform and restructuring of ailing commercial banks. We have also developed a multi-faceted civil service reform program to introduce the reform measures at organizational, functional, and ecological levels. Legal, institutional, and procedural guidelines have been created to ensure transparency, predictability, accountability, and sincerity in administration. The legal framework is being consolidated to guarantee financial autonomy to the local bodies, thereby completely devolving authorities and functions to them. Under good governance, our focus is on strengthening the institutions that could adequately perform the vital State functions of peace and security, efficiency, consistency, predictability in service delivery, and combating corruption. Civil societies have gained an increasing role and recognition in socioeconomic development issues in general and poverty reduction efforts in particular.

The daunting challenges of the Nepalese economy are low agricultural productivity, high population growth, a burdensome public sector,

a low level of social development, and poor infrastructure. These structural impediments have handicapped the scope of our economy, resulting in massive poverty.

The poverty situation in Nepal is unique—spatially uneven, socially skewed, and gender discriminatory. The government has taken various measures to address this complex and interlocked issue of poverty. The intensification and diversification of agriculture to enhance farm productivity has been adopted as a broad-based growth strategy to improve the status of median- and low-income groups. Emphasis has been placed on infrastructure and utility services in remote and rural areas to create rural-urban linkage, and reduce regional disparities. Similarly, empowerment and social uplift programs to the socio-economically underprivileged groups have been launched as targeted programs for the poor.

Nepal urgently needs to develop an integrated poverty reduction program with wide geographical and demographic coverage. For this, the Poverty Alleviation Fund (PAF) that has recently been created by the government at the center helps not only to streamline all poverty related programs but also helps diffuse poverty reduction programs to the needy areas and people through nongovernmental organizations, community-based organizations, savings and credit groups, and other civil society organizations. The government is in the process of finalizing PAF modality and procedures.

We are also in the process of preparing of a home-grown comprehensive poverty alleviation strategy that will be based on the experience of the existing poverty reduction framework and will also look into the new poverty alleviation tools available in the regional and global environments. This strategy will be further consolidated with additional exercises and broad-based participation that would be enlisted for the preparation of the forthcoming Tenth Plan (2002–07).

There should be a match between what developing countries expect and what the Fund and Bank offer. It has been noticed in the past that the Fund and Bank lending priorities, conditions, and resources have not matched the priority and needs of the recipients. It is, however, heartening to note that both Mr. Wolfensohn and Mr. Köhler have renewed their commitment during their inaugural statements to narrow the gap between the donors' commitment and recipient's expectations.

Building a genuine partnership between the government and its development partners, and enhancing national ownership of development programs are seen as essential prerequisites for effective aid management. Underscoring these considerations, the government has recently brought out a draft foreign aid policy aimed at integrating external assistance with the development priorities of the country. The policy also claims government leadership in aid coordination and focuses on improving mutual responsibility. More important, we are of

the view that the resource flow for policy-related and institutional considerations that are mainly of the cross-cutting nature should not affect the critical resource requirements of core investment areas, such as the physical and social infrastructure and poverty reduction programs at large.

We have no doubt in our mind that the only way to bring prosperity to our people is to move ahead with our reform agenda. But our experience suggests that management of reform in a young democracy is difficult and painful. No doubt this difficult public policy choice needs commitment at the top level but it equally requires support from the grassroots. Despite commitment at the policy level, the structural- institutional- and capacity related constraints and paucity of resources thwart the successful implementation of the reform strategy. Since some of the institutional and capacity related constraints arise due to paucity of resources, the inadequate resource backup delays the benefits of such reforms reaching the poor. During such a difficult and long transition and stalemate are the skeptics who denounce reform and undermine institutions. Then we witness strong resentments and social conflicts. I would, therefore, like to encourage the Fund and Bank management to seriously look into such difficult dimensions of reform management in poor and low income economies.

Today, Nepal is in transition and the forces of change and development have become more active and visible in our society. More and more people are coming forward with entrepreneurial zeal and dynamism to transform the life of our nation. Although we have been witnessing moderate growth in our economy at present, the future definitely looks much brighter. The increased scope created by the reform process the mutual cooperation and interactions among the government, donor community, civil society, and people at large ensures huge opportunities and potentialities for the transformation of Nepal.

NETHERLANDS: GERRIT ZALM

Governor of the Bank

Introduction

Who could have thought, just about 10 years ago, that we would have our Annual Meeting in 2000 here in Prague? In the past decade, the Czech Republic has made tremendous efforts to transform its economy. Such a transformation process is never easy and requires difficult policy decisions as well as endurance. The Czech authorities have effectively worked with the international financial institutions in their efforts to adapt to changing circumstances. Now that the Czech Republic is preparing for accession to

the EU, I have full confidence that this process will continue. Similarly, the IMF and World Bank have to keep adjusting themselves to a globalizing environment. The current positive global economic outlook creates a favorable climate for making significant advances in refocusing the roles of both the IMF and the World Bank. I can subscribe wholeheartedly to the views Horst Köhler and Jim Wolfensohn expressed in their recent joint statement on the division of labor between the IMF and World Bank. I endorse the views Mr. Köhler has put forward on adapting the Fund to a changing environment. In the first months of his tenure, he has shown a great capacity of bringing different views together and of being receptive for the need to critically review the mission of the IMF.

The Fund should be at the core of the discussions on the international financial system. First, because we need the expertise of the Fund staff. Second, the universal membership of the Fund enables each country to make its voice heard in the decision-making process.

Continuing the Process of Reform

Clarity on the future role of the IMF is needed to give guidance and maintain progress on issues like conditionality and private sector involvement. Let us not make the mistake of changing everything: the Fund should stay concentrated on crisis prevention by promoting macroeconomic stability and on effective crisis management. The Fund's contribution to crisis prevention can be enhanced by paying more attention to surveillance of financial sectors and continuing the work on early-warning indicators.

At least as important in crisis prevention is the involvement of the private financial sector. As far as this is concerned, I welcome the initiative of the Managing Director to establish a Capital Markets Consultative Group. The regular and informal dialogue with the private sector will facilitate the exchange of information and so increase transparency. The private sector also has a role to play in crisis resolution. While recognizing the fact that every crisis is different, I believe there is a need for further operationalizing our framework in this area.

I welcome, therefore, that with every meeting we are able to elaborate our framework a bit further. I consider the IMFC communiqué as another step forward. The differences between those who advocate rules and those who prefer the case-by-case approach seem to have given way to a constructive discussion on how to put private sector involvement into practice. It is now up to the IMF and its shareholders to operationalize these principles in the design of programs.

I welcome Horst Köhler's attention for the scope of IMF conditionality. In some program countries, Fund conditionality has been too detailed. Therefore, in the months ahead we should take time to analyze and review the role and scope of conditionality in IMF programs. We

should strive to make conditionality more effective by focusing on macroeconomic and financial issues. Furthermore, we should ensure equal treatment of countries and prevent micromanagement through an excessive number of conditions. In this regard, the Fund and the World Bank should complement, rather than overlap, each other.

In the World Bank, I appreciate recent initiatives to adopt an approach toward working with borrowing member countries, in which the country's own vision on economic development and poverty-reduction strategy is the starting point. The Bank's involvement is determined by an analysis of this vision. I appreciate the attention given to the World Bank's role in middle-income countries, including transition economies, where poverty is often still prevalent. Once again, recent experience has shown that, also within middle-income countries, crises hit the poorest groups most severely. This shows the significant tasks the Bank still has in middle-income countries in strengthening the economic, financial, institutional, and corporate structures and in formulating policies that address the needs of the poorest. While I believe that World Bank financing should be additional and should catalyze private financing where possible, I strongly support the World Bank's development role in these countries.

IMF/World Bank and Poverty Reduction

Let me now turn to the subject of pro-poor growth and poverty reduction. The World Bank is leading in this field with the promotion of institutional and governance policies, which are essential for pro-poor growth and poverty reduction. In tandem, the Fund can contribute with its expertise on creating an environment conducive to macroeconomic stability and sustainable economic growth. The necessary stabilization measures will of course, have to be designed in such a way that the negative effects on the poorest segments of society are minimized and that opportunities for inclusion of the poor are increased. Furthermore, both institutions have to work closely with the poorest countries to improve debt management. All this means that close and ever-improving cooperation between the World Bank and IMF remains of utmost importance. In this context, I welcome the initiatives of Horst Köhler and Jim Wolfensohn that further this coordination, also by attempting to place conditionality of lending within the framework of a PRSP with the institution where it is most appropriate.

Ongoing debt relief shows the commitment of the international financial institutions to improve the situation of the highly indebted poor countries. We support the objective of Horst Köhler and James Wolfensohn to bring 20 countries to their decision points by the end of 2000. At the same time, donors want to be assured that countries' savings stemming from debt relief are used for pro-poor spending. A balance

must be struck between speedy debt relief on the one hand and the assurance that resources are appropriated for pro-poor growth, while maintaining macro-economic stability. The establishment of the Joint Implementation Committee of the IMF and World Bank should prevent delays on the part of the financial institutions. Moreover, since we can expect that an increasing number of HIPC countries will reach the completion point next year, donors will have to deliver quickly on their pledges about concrete and full financing. In addition, the recent terms-of-trade shock must not jeopardize the achievements we have set ourselves with the HIPC Initiative and makes the call for full—and even additional—financing all the more urgent.

Representation

The Netherlands finds itself privileged to be part of a constituency that consists of a mix of IDA-only countries, countries with a Stand-By Arrangement, borrowers from the Bank, and donors of official development aid. The success of the formula does not only show in the fact that our constituency has won the largest number of gold medals at the Olympics in Sidney to date. Such a constituency also provides a rich mix of experiences, views, and interests, which leads to balanced positions in Bank and Fund discussions. The Netherlands is happy to assist the borrowing member countries of our constituency in their dealings with the Bank and Fund, to support their reform efforts with grants and technical assistance and to represent their views in the Executive Boards. I believe that this type of cooperation in a constituency contributes in a constructive way to a better balance in the Bank and Fund between debtors and creditors, and avoids polarization.

Final Remark

I have talked about the role of both the IMF and World Bank in middle- and low-income countries. Here in the Czech Republic, I also have to mention the significant contributions made by the international financial institutions to the transition economies. Now let me end by thanking the IMF for the assistance they provide to a part of the Kingdom of the Netherlands, namely; the Netherlands Antilles. We highly appreciate this.

NEW ZEALAND: MICHAEL CULLEN

Governor of the Fund

Fellow governors and delegates, I am delighted to be able to participate in this meeting, particularly given the balance, humanity, and passion of the opening speeches.

New Zealand's Economic Outlook and Direction

Economic growth in New Zealand is forecast to average around 3 percent over the next three years. The expansion comes on the back of a robust world economy and a favorable exchange rate for exporters. Importantly, this growth is broader based than in the previous business cycle, with stronger contributions from exporting and less dependence on private consumption. This is forecast to contribute to a decrease in the current account deficit to 4.7 percent of GDP by 2003–04. Government policies are being developed to improve on these forecasts as far as growth and the current account deficit are concerned.

My government is fiscally prudent. We are forecasting growing fiscal surpluses over the next three years. Net debt is just above 20 percent of GDP and will soon fall below that level. We will move simultaneously to partially prefund the New Zealand pension scheme and thus prepare better for an aging population. As an exporting nation, we are committed to lowering trade barriers around the world because they inhibit our ability to compete. Trade liberalization is important to New Zealand, but it is also a critical part of any genuine effort to alleviate global poverty. New Zealand has had a closer economic relations agreement with Australia for over 15 years and we recently initialed a closer economic partnership with Singapore.

A Robust International Financial System

The international community has undertaken numerous initiatives to reform the international financial architecture, many of which are being implemented by the IMF and the World Bank. Much of this work is still experimental or in its pilot stages, but clear direction and tangible progress is evident in several key areas. These include in particular

- the promotion of transparency and accountability;
- the development of internationally recognized standards and codes; and
- the work to strengthen domestic financial systems and to assess financial sector stability in many countries.

New Zealand supports reforms to the international financial system that build on existing institutions and is practical and realistic.

International Financial Reform Must Be Inclusive

Reforms to the international financial system also should be inclusive. The establishment of the Group of 20 will improve dialogue with the emerging economies. Inclusiveness and cooperation will be important in the reform of offshore financial centers. New Zealand supports a

collaborative, multilateral effort to improve the supervision of OFCs, including through the development of technical assistance programs. New Zealand recognizes a particular responsibility to assist in the Asia-Pacific region in this and related matters. More generally, we welcome the positive role the World Bank has resumed in the Pacific region.

Reform of the IMF and the World Bank

Both the IMF and the World Bank must become more focused and inclusive. New Zealand considers that while growth and poverty reduction may be seen as the ultimate objectives of both organizations, their specific contributions to these ends must differ.

The objective of the IMF should be to identify problems early through better data transparency and more effective vulnerability analysis, and to seek to prevent problems through the promotion of internationally agreed standards and codes for sound monetary, financial, and fiscal policy. The Fund must be candid in its advice to members. But it is important that its advice is not based on excessively narrow and rigid adherence to a one size fits all model of economic orthodoxy.

New Zealand has experienced a mixed record of success through the most zealous pursuit of such orthodoxy in the developed world over the last decade or so. That fact should give the IMF and its staff a useful lesson in what can happen when a model is applied with insufficient intelligence, common sense, and understanding of the limitations and opportunities created by particular circumstances.

It is for that reason that the present New Zealand government has engaged in a modest rebalancing of policy. This still leaves us as one of the most open and lightly regulated developed economies. Meanwhile, the government is developing a strong program to lift performance in skills development, savings, and development of a knowledge-based economy. These are our clear structural imperatives.

HIPC

An early decision of the new government was to agree to a contribution to the HIPC Initiative at the IMF and World Bank in an effort to support debt relief for the poorest countries. New Zealand considers that the international community should press forward with the HIPC initiative with pragmatism and common sense over qualifying conditions to ensure that as many of the target countries qualify as soon as is possible.

It should never be forgotten, however, that the gains to developing countries from trade liberalization would swamp those that accrue from debt relief. Further agricultural trade liberalization is of particular importance to developing countries. In common with New Zealand, agriculture is a mainstay of many developing countries' exports, but they face the highest of trade barriers in their main markets. The unjustifiable

existence of such barriers, and of the subsidies that often accompany them, must be at the forefront of any new round of multilateral trade negotiations.

Conclusions

An emerging theme in national and international affairs is inclusion. Governments in both the industrialized and developing countries are identifying with domestic economic and social policies that are more inclusive while emphasizing fiscal conservatism and the many benefits of the market economy. Inclusion, dialogue, public accountability, and cooperation on standards and transparency are emerging themes in international economic policy.

But these concepts must be matched by a determined commitment to greater equality, the elimination of poverty, and the pursuit of socially, economically, and environmentally sustainable development. Excellent systems of governance are essential but not ends in themselves. Excellent governance in support of morally inadequate ends merely improves the efficiency with which those ends are achieved. The challenge for my small country is to match excellence in governance with inclusive and morally just objectives. It must also be the challenge for the world at large and for the institutions meeting here.

PAKISTAN: SHAUKAT AZIZ

Governor of the Bank

It is a great pleasure and privilege for me to address the fifty-fifth Annual Meetings of the World Bank Group and the International Monetary Fund in this beautiful, historic city of Prague. I would like to join other colleagues in expressing our deep appreciation to the Czech authorities for their warm welcome, gracious hospitality and excellent arrangements for the Meeting.

May I extend to you, Mr. Chairman, my sincerest felicitations on your election to chair this year's Annual Meetings. I would also like to wish Mr. Horst Köhler, the new Managing Director of the Fund, success in his new endeavors. Most commendably, he has been making extraordinary efforts to listen to members of the Fund with an open mind. His bold vision for the Fund takes into account our needs and concerns; supports a home-grown, bottoms-up approach; articulates a clear intention to move away from micromanagement; gives due weight to differing economic and political circumstances of the countries accessing IMF resources; and recognizes the social and political implications of adjustment programs. I am sure his vision will get translated into actual practice by the Fund in its dealings with borrowing countries.

Let me also congratulate Mr. James Wolfensohn on the commencement of his second term as the President of the World Bank. He has shown outstanding leadership and charted new directions for the Bank by making the mission of the fight against poverty central to the Bank's operations. His far-sighted leadership has made the Bank a different institution today—more focused on its objective to fight poverty and committed to a holistic, country driven, and participatory approach as set out in the Comprehensive Development Framework.

At the threshold of the twenty-first century, we live in a world of profound contrasts. Unprecedented affluence and extreme poverty coexist. The average income in the richest 20 countries is 37 times the average in the poorest 20. The widening gap has, in fact, doubled in the past four decades. Both relative poverty and absolute poverty are increasing. The lingering issue of grinding poverty in the midst of plenty in this global village is difficult to defend ethically and morally. It poses a huge threat to world peace and security. Fighting poverty in all its manifestations has become imperative, requiring action, not words. We need unreserved commitment, not mere expressions of sympathy. Since human destiny is indivisible, poverty alleviation has become an inescapable responsibility of all the nations. By the same token, the touchstone for measuring the validity and efficacy of all efforts aimed at economic cooperation, and all bilateral and multilateral policies, plans, and programs will be their impact on poverty reduction. Whether globalization is a positive force, whether policy prescriptions for stabilization and growth suggested by the international financial institutions are appropriate, whether trade liberalization merits endorsement, whether policies and institutions of different countries are right all must be judged by this yardstick. Such an approach provides a clear framework for not merely evaluating past actions but also for formulating future direction, imparting a pivotal focus to national and international policies.

It is the primary responsibility of countries to improve their own lot. However, some important factors are beyond their control. A sustained flow of resources, both commercial and concessional, is manifestly necessary to enable sustained economic growth in developing countries.

The capacity of oil importing developing countries to combat poverty has been adversely affected by the recent spike in oil prices. Earlier, large cyclical swings in the price of oil posed oil exporting developing countries with severe economic problems, thereby highlighting the need to set up a system for moderating the wide fluctuations in the prices of commodities and oil.

Today, oil importing countries need external assistance to meet the increased oil import burden. Therefore, the IMF should consider setting up an oil facility or making access to the Compensatory Financing Facility and PRGF more flexible and speedier. We welcome the initiation of dia-

logue, as mentioned in the communiqué of the IMFC, between oil producers and consumers, to promote greater stability in the market for oil.

All these positive actions will not, however, yield optimum results unless the debt burden of developing countries is substantially lightened. The international community has taken significant steps to help the heavily indebted poor countries under the enhanced HIPC Initiative. However, there is no similar willingness as yet to deal with the problems of other developing countries that also have high debt-to-exports and debt-to-budget-revenue ratios but are cut off from HIPC eligibility on the basis of the per capita criterion. It is important that we begin to think constructively about radical changes in the framework for the management of the debt overhang of non-HIPC-eligible countries that are willing to apply the debt relief to programs for poverty alleviation by diverting debt repayments for poverty alleviation projects. This could be a major initiative to enhance the capacity of developing countries to fight poverty, and it needs concerted efforts on the part of donors, borrowers, and the Bretton Woods institutions.

Let me share with you the highlights of Pakistan's economic performance over the last year. Pakistan has displayed positive economic performance over the last year, particularly since October 1999, when the present government took over. As a result of sound economic policies, including fiscally important initiatives, the economic situation has stabilized, and growth has been restored. Market-based incentives and deregulation of the economy have meant that, after a decade of economic stagnation, Pakistan is again seeing significant economic growth. During 1999–2000, the Pakistan economy grew by 4.8 percent, led by an unprecedented increase in agricultural production and textile manufacturing. Inflation was below 4 percent, while the current account deficit declined to 1.6 percent of GDP, compared to 2.8 percent last year. This was achieved despite the doubling of oil prices. If oil prices had not changed, Pakistan would have been in balance on its current account. Simultaneously, Pakistan moved to refocus its economic development program toward reducing poverty. As a result, Pakistan has one of the strongest poverty alleviation programs in the region, including microfinance and food support programs, as well as pro-poor rural and urban development programs.

Pakistan's significant efforts to restore good governance, eliminate corruption, and alleviate poverty needs the support of the international community and the International Financial institutions. I have every reason to believe that this support will be forthcoming with the new vision of the IMF under Mr. Köhler and with the support of the World Bank's antipoverty agenda under Mr. Wolfensohn.

In conclusion, let me say I am encouraged by the focus on poverty reduction during the proceedings of the Annual Meeting. However, we

need to translate our words into tangible action. We need a significant shift in our thinking, a new approach that is realistic, effective, and has traction in order to attack poverty. All stakeholders have to change their thinking process—developing countries, donors, Bretton Woods institutions, nongovernmental organizations and the public at large. This will allow us to bridge the gap between the rich and poor and make the world a better place to live in for all of us and our future generations.

PAPUA NEW GUINEA: JOHN R. KAPUTIN

Governor of the Bank

I would like to join my fellow Governors in congratulating Mr. Horst Köhler on his appointment as Managing Director of the International Monetary Fund, and Mr. James Wolfensohn for another successful year in office as President of the World Bank Group. I thank you for allowing me an opportunity to address the Annual Meeting of the IMF and the World Bank Group.

I would like to outline the economic experiences of Papua New Guinea in the period September 1999 to the present. My country has taken great strides to improve the economic and general environment since the last change of government in July 1999. We have moved away from the lonely edge of an economic precipice where very few development partners were willing to come to our aid.

The economic and structural policies adopted subsequent to the new government's coming into power cleared the way for fruitful discussions with the International Monetary Fund and the World Bank. Since coming into power, my government has been working to improve the financial and economic stability of the Papua New Guinean economy and to improve the country's social indicators.

This time last year, I was in Washington for continuing discussions with both the Fund and World Bank with the objective of obtaining their sponsorship of our structural reform program. During this year, both institutions, following much achievement by the authorities, approved financial assistance with a Stand-By Arrangement and a Governance Promotion Adjustment Loan.

To give you some idea of our progress to date, I will mention only 10 of the major structural changes that we have introduced since July 1999.

- We instituted a major adjustment to the fiscal position, bringing the fiscal deficit onto a sustainable course. At end June 1999, the fiscal deficit was running at an annualized rate of 5 percent of GDP. By the end of 1999, we had greatly changed the fiscal course, ending the year with a deficit of 2.2 percent of GDP.

- We carried out an assessment of the degree of transparency in our fiscal practices and published the report for all to see. Various recommendations of the report are largely presentational issues, and these are to be implemented in this year's presentation of the 2001 budget.
- We enhanced the transparency and improved the efficiency of the use of development funds through new guidelines and management procedures for disbursement of our District Development Program. These were endorsed by the IMF and the World Bank in March 2000. In the remainder of this year, we will disburse the funds, focusing on building classrooms, aid posts in rural areas, and infrastructure maintenance.
- We retired over K 1 billion (approximately \$400 million) of domestic debts between July 1999 and today. The resultant savings in debt service payments will free up resources for greater public investment in 2001. The settlement of debts with the private sector is helping to reestablish strong business confidence.
- We restored and bolstered the independence of the central bank through the introduction of a new Central Banking Act. Prior to introduction of the new act, we instituted a transparent and commercially based relationship between the government and the central bank.
- We enhanced the ability of the central bank to adequately supervise and regulate the financial sector through the introduction of an improved Banks and Financial Institutions Act. Systemic risk was reduced through the closing down of fast money-making schemes, while industry was fully consulted on the draft legislation to ensure consensus.
- In mid-1999, Papua New Guinea's gross international reserves stood at only US\$89 million, or enough to cover less than one month of nonmineral imports. By mid-2000, we had rebuilt the reserve level to \$254 million, or more than two-and-a-half months of nonmineral imports.
- We introduced amendments to the Privatization Commission Act to ensure impartiality and transparency in our privatization process that has now been rejuvenated. To date, we have divested one major asset and fully expect to bring the state bank and associated companies to the point of sale by the end of this year.
- We initiated a comprehensive public sector review to identify more appropriate and efficient structures for the improved operation of

the government. Much work has been done to date, and we will be incorporating a large volume of structural change in the 2001 national government's budget. The government in its two budgets to date has set out its priority sectors for funding. They are health, education, law and order, infrastructure maintenance, primary industry, and revenue-raising activities. Funding to these sectors has been increased in the two budgets to date.

- We completed a National Health Plan designed, as a framework for the direction of funds, toward improving the health of Papua New Guinea's people. Our ultimate objective is to improve the welfare of our population through higher funding and improved targeting of funding. With assistance from the Asian Development Bank, we have supplemented health funding for investment purposes and improved the efficiency of the use of funds.

We have achieved a great deal in a short period of time and have been supported by our development partners both morally and financially. In September 1999, the "Friends of Papua New Guinea Group of Countries" was established as a means of supporting our reform efforts. Of the group's member countries, Australia, Japan, and the People's Republic of China have all financially assisted the national government in its reform efforts. This assistance is greatly appreciated, and I take this opportunity to commend Papua New Guinea's friends for their support. I also want to take this opportunity to thank all those involved from our two major international financial institutions for their expert advice and personal commitment. In this regard, I would also like to acknowledge the assistance of the Asian Development Bank. Papua New Guinea has many challenges ahead, not least meeting the conditionalities of the program with the IMF and World Bank. However, we believe the foundations for macroeconomic stability are in place. There is now a momentum to reform and great confidence that Papua New Guinea is on the path to achieving its potential in wealth and standard of living.

PARAGUAY: FEDERICO ANTONIO ZAYAS CHIRIFE

Governor of the Bank

It is a very great pleasure and honor for me to address this gathering on behalf of the government of the Republic of Paraguay, at this fifty-fifth Annual Meeting of the International Monetary Fund and the World Bank. We wish to express special thanks for the hospitality and facilities provided by the authorities of the Czech Republic and, in particular, of the beautiful, historic city of Prague, and for the efficiency and smooth organization of this meeting.

I have learned from studies carried out by the United Nations Development Program that in the year 2000 GDP growth in the developed economies is expected to average 3.5 percent, compared with 2.7 percent in 1999. This trend is driving a global economic recovery of major proportions, especially as the United States will continue to lead economic growth worldwide, along with other developed regions of the world that have low rates of inflation and unemployment. The beneficial effects of this will undoubtedly be felt in varying degrees in the various regions and countries making up the world economic system.

It is predicted that in 2000 the Latin American economies will continue to face deterioration in their terms of trade and a reduction of capital flows, which began in 1988. However, it is hoped that world economic trends and the pursuit of prudent policies will enable Latin America to end the year with growth of the order of 2.7 percent.

Paraguay is located in the heart of MERCOSUR between the two South American giants, Brazil and Argentina, which account for much of its intrazonal foreign trade. Following a recessionary process in the past three years, during which it experienced negative growth rates in overall GDP and an obvious decline in per capita output, it is estimated that for 2000 the country's overall economy will grow by about 2 percent, signaling the start of Paraguay's economic recovery, given the efforts of the government and the people to regain the levels of growth required for achieving the objectives of prosperity and poverty reduction. It is expected that the rate of inflation in 2000 will be in the single digits and that this trend will continue in 2001, with overall GDP projections of the order of 2.5–3 percent.

In light of probable developments in the global economy and in Latin America, the prospects are encouraging. Even so, according to the authors of the *World Economic Outlook 2000*, there are risks that should be taken into account, such as the current and fiscal account deficits in a number of developing countries, the U.S. trade deficit and Japan's budget deficit, the highly restrictive monetary policies of various developed and developing countries, the sharp corrections occurring in the U.S. stock market and their impact worldwide, and the current dramatic rise in oil prices.

The rapid pace of globalization in the world economy poses an increasingly serious challenge to the ingenuity and creativity of the member countries of the Fund and the Bank, because at the same time— notwithstanding the benefits of globalization—according to the Joint Statement by Messrs. Köhler and Wolfensohn in early 1999: “We live in a world with severe deprivation and inequality,” where “poverty is a threat to global security and welfare,” inasmuch as one-fifth of the world's population, according to studies, lives on less than a dollar a day, and “per capita incomes in some countries have been declining for decades.”

These poignant observations make it superfluous to comment on the vital importance of reaffirming the objectives of the Bretton Woods institutions. In other words, member countries must be helped to develop their potential and the productivity of their resources as a basis and cornerstone for sustainable economic development.

As a member country of the Fund and the Bank, Paraguay shares the general principles espoused by these institutions on the basis of more than 50 years' experience, as well as their focus on the multidimensional facets of the sustainable growth and poverty reduction strategy, which places great emphasis on "macroeconomic stability, open markets and a vibrant private sector; investment in resources (especially through basic health and education); good governance and sound institutions (free of corruption); protecting the environment and nurturing the natural resource base; respecting and preserving cultural heritage; an attractive climate for both domestic and foreign investors; and going beyond poverty to address the issues of empowerment and security." Obviously, there is a great need for transparency in all administrative and operational actions, to ensure clarity and accountability with respect to roles and outcomes.

Here, I would like to state that we fully endorse the viewpoints expressed by the President of the World Bank Group, James D. Wolfensohn, who at the previous meetings made the following observations:

"Corruption is a daily fact of life as the poor try to access public services and make a living."

"We have learned that the causes of financial crises and poverty are one and the same. Countries may come up with sound fiscal and monetary policy, but if they do not have good governance, if they do not confront the issue of corruption, if they do not have a complete legal system which protects human rights, property rights and contracts, which gives a framework for bankruptcy laws and a predictable tax system; if they do not have an open and regulated financial system and appropriate regulation and behavior that is transparent, their development is fundamentally flawed and will not last."

These arguments, taken together, amply justify the implementation of transparency policies in all member countries of the Bretton Woods institutions, the adoption of anticorruption manuals and codes of transparency in economic and fiscal policy in the developing and developed worlds, and the Code of Good Practices on Monetary and Financial Policies.

The state reforms pursued by the government of Paraguay are designed to result in official policies and government directives which,

as part of a broad-based effort, allow for transparent and systematic state administration, reduce uncertainty, enhance efficiency in meeting social demand, strengthen the production framework, and protect environmental equilibrium. To achieve these objectives, we require a regulatory state that guarantees the proper functioning of democracy and a market economy, regulates the delivery of services and the provision of public goods, creates an environment in which opportunity is accessible to all, promotes certainty as to the law, and fosters the establishment of macroeconomic stability.

We know that these overall objectives require specific goals for the various countries, which vary according to their respective scenarios and stages of development. This is why IMF and World Bank assistance in implementing the development policies of member countries requires a high degree of coordination and more effective backing in terms of technical and financial assistance.

One decade into its transition toward democracy, the Republic of Paraguay is still engaged in strenuous efforts to reform the country's production, economic, financial, and fiscal frameworks; moreover, it is seeking to overhaul its social structure, which bodes well for the future living standards of our people. The tradition of government paternalism, historically entrenched in our country's overall economic policy decisions, has changed.

We fully endorse the view that in the near and medium terms, the responsibilities currently shouldered by the Fund and Bank should be defined more broadly than in the past if these organizations are to fulfill their objectives; this in turn will mean a better quality of life for the inhabitants of the member countries. We also believe that governments should take up the challenge and commit themselves to designing and implementing policies that will ensure sustainable growth and reduce poverty.

The principles underlying this sustainable growth and poverty-reduction strategy should be embraced by all member countries—developed countries, countries with average levels of development, and countries with the lowest levels of relative development. This approach will help make the challenges far more rewarding for all our countries.

With respect to the challenges facing member countries mentioned in the Joint Statement by the Managing Director of the IMF and the President of the World Bank, we trust that the proposals and recommendations pertaining to the responsibilities of the developed countries can be carried out in full, while preserving the dynamism of their respective economies, thereby helping to achieve global economic growth that is truly beneficial to all nations of the world.

Accordingly, we look to the developed countries to:

- Open their markets. Especially for agricultural products and textiles, to developing countries. This would bring major benefits—greater

than the benefits they receive from current levels of aid—to developing countries.

- Provide more aid. “Aid flows” from the developed countries have declined sharply as a percentage of GDP. The record shows that aid works in countries that pursue good policies.
- Donors should increase the overall level of aid, and concentrate the increase on countries that pursue good policies.
- Provide debt relief. The funding for debt relief is not yet fully assured. We urge our member governments to act to ensure that we are able to deliver debt relief” to the poor countries, and in particular, the heavily indebted poor countries.

These observations reflect the ideals and aspirations of a developing country that is striving to take its rightful place in the process of globalization and market integration—a country that is endeavoring to implement structural reforms and poverty reduction, and to provide a better future for its people through perseverance and consistent actions.

PHILIPPINES: JOSE T. PARDO

Governor of the Bank

Allow me, first, to express my delegation’s gratitude to the government of the Czech Republic and the people of this wonderful country for the excellent preparations for this year’s Annual Meeting of the International Monetary Fund and World Bank Group. This is the first Annual Meeting of the millennium, and the choice of the Czech Republic is a most fitting recognition of its successful efforts in transitioning to a robust market economy on the one hand, and the important role played by the Bretton Woods institutions in these transition efforts on the other. The Czech Republic today is a good model of a country successfully preserving and enhancing its rich culture and history, and facing the modern economic and social challenges of the times.

For the World Bank and the IMF, this year’s meetings offer a unique opportunity to have a fresh appreciation of the many important lessons of the past decade and a wiser view of the challenges that lie ahead. Global economic and financial conditions have significantly improved from the Asian crisis years, and global growth prospects continue to be encouraging. The United States economy remains robust while fundamentals in the euro area support a healthy growth momentum. Encouraging signs early this year give hope that the Japanese economy is recovering from recession years. Growth in Latin America and Eastern Europe is expected to be on the upturn, while the Asian economies are

rebounding strongly. These bright signs however should not reduce our vigilance against threats that loom in the horizon. With the world presently enduring the pains of successive oil price increases, the worrisome foreign exchange volatility, the sputtering corporate and financial restructuring in East Asia, and debt overhang still threatening Japan and Latin America, a concerted but well-targeted multilateral effort is very much needed to put in place more efficient stabilization and adjustment arrangements.

While the realities of an increasingly global economy are clearly providing significant benefits to all countries, these have likewise made the economies of developing countries, in particular, more vulnerable to external shocks. Given that the structural transition of many developing economies is in various stages of progress, the more efficient transmission of adverse market disruptions—as well as the severe deterioration in terms of trade of non-oil developing countries, as oil prices rise amid the continuous decline in non-oil commodity prices—have made it more difficult for these countries to pursue structural reform while confronting external shocks. More responsive international financial mechanisms need to be instituted to allow real economic complementation between developed and developing economies in a liberalized international environment.

In this light, we welcome the progress being made in strengthening the architecture of the international financial system and reform of the IMF. An important feature of this exercise is the adoption of policy and regulatory standards based on best practices. For this exercise to be credible, it should entail meaningful consultation with developing countries, and the application of codes and standards to be adopted must be prescriptive rather than coercive in nature—serving more as beacons to navigate the financial sector of a country towards safer waters. Built-in measures must be present to encourage good performers in pursuing deeper reform. Nonetheless, the nature of involvement by multilateral agencies in such initiative should be contingent on their institutional specialization and mandate to avoid duplication and waste of resources.

As we continually review the current international arrangements, many of us are becoming convinced that regional initiatives may offer better monitoring of regional economies and financial relief may be provided more efficiently by regional institutions in responding to external disruptions. The ASEAN Surveillance Process and Swap Arrangement, whose establishment was agreed by Finance Ministers of ASEAN and three major East Asian economies, are notable examples of regional cooperation directed to provide closer regional surveillance and short-term liquidity support for member countries that experience balance of payment difficulties. As we continue to be perplexed by the conundrum and note that investors remain unresponsive to good fundamentals, we

are also coordinating efforts toward creating a more favorable climate to attract greater foreign direct investments.

In the area of financing development, the debate continues on how the World Bank can best mobilize development resources amid overwhelming demands from poorer member countries. In this regard, while we welcome and encourage recent initiatives in the World Bank to focus resources on the poorest countries, we view with concern the inability to mobilize adequate resources to finance these initiatives as well as the tendency of the Bretton Woods institutions to increase charges on the use of their financial resources to partly make up for such inadequacy. Middle-income developing countries are contributing to a growing share in international economic expansion and markets. While their development requirements are becoming more complex, the open and market-oriented environments provide more opportunities for private sector participation. The Bretton Woods institutions must be able to demonstrate its readiness to nurture this trend by providing adequate financial and technical assistance.

Given the socioeconomic disparities between and among the middle- and lower-income groups of developing member countries, development interventions will necessarily vary depending on individual circumstances of each economy. The approach therefore prescribed in the Country Development Framework presents the flexibility for extending the appropriate assistance package that is truly relevant to the development priorities of a member country and is more likely to result to optimal impact. For middle-income developing countries, meeting the twin objectives of sustained economic growth and equitable distribution requires a more complex mix of development intervention. For lower-income countries, emphasis to augment capacity for the delivery of basic social services and providing social safety nets will more likely take precedence in development work. Thus, we fully subscribe to the Bank's reorientation towards a more holistic approach that seeks to strike the right balance for achieving macroeconomic stability and market-friendly reforms on one hand, and improving access to basic services and social protection on the other.

It is in this light, that we take cognizance of this year's excellent report by the Bank on *Attacking Poverty*, which validates the approach under the Comprehensive Development Framework and recommends key actions for success in fighting poverty through global, national and local efforts. The action themes that the study extensively developed—namely, promoting opportunity, facilitating empowerment, and enhancing security—convincingly validates the balance between growth and equity as essential for genuine development. As you may already be aware, the medium-term development plan of the Philippines is very much driven by the pursuit of this balance between growth and equity.

Before closing, allow me to present a short brief on the recent developments in the Philippines. For the first semester of the year, gross national product grew by 4.0 percent, substantially higher than 3.5 percent growth forecast by private sector analysts and the 3.6 to 3.8 percent growth target of government. The industry and services sectors, which expanded by 4.1 and 4.4 percent, led the economic growth. Inflation for the first eight months remained within the lower single digit level at 3.7 percent, well within the full year inflation target of 5 to 6 percent. Exports increased by 11.7 percent in the first seven months, continuing its sterling performance of double-digit growth for the past several years. The fiscal sector however remains vulnerable, owing to weak internal revenue performance. While strong revenue enhance measures are being put in place, the fiscal deficit forecast is being reviewed and may be adjusted to reflect a more realistic target for the whole year.

A more efficient government decision-making process is currently functioning, with the creation of the Economic Coordinating Council headed by no less than the president. Significant progress has been achieved in many areas. In procurement administration, government has installed processes and procedures that are transparent and fair. In the area of structural reform, the Philippines has achieved great advances in modernizing the economy to compete in an increasing open and electronic international economy. We have passed key legislation that has transformed the financial, corporate, and trade sectors into ones that are open, market oriented, and private sector led. We have passed legislation to integrate the economy in the digital age through the Electronic Commerce Law. The forthcoming passage of landmark legislation on the power sector will enable the largest privatization endeavor in the history of the country and establish a competitive environment in power generation and distribution. Other reform priorities of government include those on financial sector taxation aimed at deepening the financial and capital markets and rationalizing taxation of the sector.

While first semester figures reflect an overall broad-based growth in our economy, our favorable macroeconomic performance, is however, threatened by the continuing rise in oil prices. As we are among the few non-oil developing economies that have fully deregulated the domestic oil sector in pursuit of our structural adjustment, we are now especially vulnerable to the continuing rise in oil prices. Our oil import bill has caused a rapid deterioration in our terms of trade. And political pressures to go back to regulation and control of domestic prices of oil products prevent us from focusing on other items in our reform agenda. I would therefore appeal to our oil-exporting countries and industrialized countries to undertake cooperative efforts to stabilize and lower oil prices. Perhaps, it would be timely to once again establish a facility to provide assistance to members adversely affected by higher oil prices.

In closing, let me convey and reiterate to you the deep commitment of the Philippine government to the completion of its economic reform agenda. The Philippines has long demonstrated its capacity to withstand setbacks and crises. It has unfailingly rebounded to rebuild and take the next step forward.

POLAND: JAROSLAW BAUC
Governor of the Fund

Let me extend a warm welcome to the new Managing Director, Mr. Horst Köhler, and to President Jim Wolfensohn, who has just begun his second term in office. I would like to wish them a very fruitful cooperation and all the energy that is needed to implement their ambitious visions of the Fund and the Bank in the new millennium. Good cooperation is much easier to achieve when there is a clear definition of roles and a precise delineation of responsibilities. I thus welcome Mr. Wolfensohn's and Mr. Köhler's joint statement of September 5 that aims exactly in that direction. I support the intentions to refocus the Fund on its core responsibilities in monetary, fiscal, and exchange rate areas. To achieve this goal, I would like to call on the Fund's shareholders to resist the temptation to abuse the IMF's global reach by entrusting it with too many new responsibilities. Such an approach could only lead to reducing the effectiveness of this institution. The IMF cannot at the same time play the roles of a fireman, global doctor, law enforcer, accountant, and economist. Clear priorities must be set, and I agree with the Managing Director that the Fund should focus on its main objective of preserving the stability of the international monetary system.

I strongly endorse the IMF's further involvement with its less-developed members through the PRGF and HIPC processes. Since reducing poverty has been now universally acknowledged as being of paramount importance, I believe that all assistance provided to these countries by the Fund and the Bank—and ideally also by other international and bilateral donors and lenders—should be targeted at supporting the objectives that will be specified in the Poverty Reduction Strategy Papers. I thus welcome the proposal to introduce the new PRSP-linked IDA instrument in the form of the Poverty Reduction Support Credit.

My country, Poland, has already provided the bulk of its declared bilateral contribution to the PRGF-HIPC Trust Fund. We are also ready in principle to offer more support by agreeing to the reduction of our bilateral claims on countries qualifying for assistance under the HIPC Initiative. However, we would clearly prefer to have the opportunity to directly participate in deciding on the scale of the bilateral debt relief. This could be accomplished either by granting us formal Paris Club

membership or by creating a new decision-making process that would be open to all non-Paris Club creditors.

It is beyond any doubt that poverty reduction should remain the main focus for the World Bank Group. To avoid any duplication of efforts, the Bank's assistance should be mainly targeted at promoting structural and institutional reform, as well as assessing the needs and progress in reaching development objectives, while the Fund should be entrusted with helping the countries to set up proper macroeconomic frameworks. The Joint Implementation Committee could serve as a good model for advancing the broader PRSP-based cooperation. The Bank should also continue its work in the middle-income countries, including the countries in transition, but its involvement with this group of countries should be based on a true partnership, with an appropriate role also given to nonlending activities.

Speaking in Prague, the charming capital of one of the most successful transition countries, I feel almost compelled to focus the rest of my remarks on issues affecting this group of countries. I am deeply convinced that the transition process, which started in the summer of 1989 with the victory of the Solidarity movement in Poland, represents one of the most important economic and political developments of the last decade. While a lot has already been achieved in advancing the transition, it is also quite clear that this historic journey from central planning to modern market-based economies is still far from being completed. The recent return of growth to virtually all transition economies is very encouraging. However, this relatively high average rate of growth masks the existence of large differences between more- and less-advanced transition countries. I find it very worrying, or even alarming, that in many countries from this group the results of transition can be more easily associated with drastically reduced levels of GDP, large increases in poverty, and mushrooming external debts than with improvements in the quality of life and in achievement of sustainable and equitable growth. It becomes increasingly clear that, even with the best of policies and strongest adjustment effort, several less-advanced transition countries will not be able to achieve sustainable growth without extraordinary support for reducing their external debt burdens.

Thus, I call on the Fund, and on the other multilateral and bilateral creditors of the deeply indebted transition countries, to consider the possibility of designing a new debt relief initiative that would address the special concerns of this group of countries. Such an initiative could be designed using the positive experience of implementing the HIPC Initiative, while avoiding its often-perceived inflexibility. Alternatively, the option of extending the HIPC Initiative to include the most-indebted transition countries could also be considered. Under any of these options, the provision of debt relief would have to be linked with adequate conditionality

that would also aim at improving governance. The often-quoted proximity to the western markets and the prospects of EU membership clearly contributed to the better-than-average performance of the Central European and Baltic countries. However, the role of these factors should neither be underestimated nor overestimated, as they started having a really strong impact only at a later stage of the transition process. From now on, however, it seems to be natural that the EU assume a leading role in bringing to a successful closure the process of transition in the pre-accession countries. There is no doubt that achieving this goal could be made easier by an acceleration of internal reforms within the EU.

My final comment is on the recent changes in the external value of the euro. I believe that both the EU decision makers and the Fund, in its analytical work, should devote more attention to evaluating the impact of a weaker euro on the trade performance and financial vulnerability of the pre-accession countries. It is in that context that I welcome last week's decision to support the common European currency. I would like to conclude by expressing my sincere thanks and admiration to our Czech friends and neighbors for their exceptional hospitality and for the very efficient organization of our meetings.

PORTUGAL: JOAQUIM PINA MOURA

Governor of the Bank

I would like to thank the Czech authorities for their warm welcome in this beautiful city of Prague. I would also like to welcome our special guests today: the delegations of North Korea and East Timor. I take this opportunity to reaffirm our full commitment to assist in the birth of the new nation of East Timor. I believe I am not alone; the international community is united and committed to supporting the fulfillment of the aspirations of the East Timorese people, who have continuously fought for their rights. Welcome to the community of free and democratic nations. You can count on our support.

We are meeting here at the center of Europe, where major transformations have taken place over the last decade. The process to join the European Union is well under way. In the near future, we will have an enlarged European Union. We encourage the World Bank to continue assisting the candidate countries in their efforts toward achieving the accession requirements.

Europe is enjoying a strong economic recovery with low inflation and some gains in the employment front. Sustained growth with higher employment remains our major economic objective. Structural reforms would be accelerated to remove rigidities and consolidate public finances along the lines of the Lisbon Summit conclusions.

In Portugal, growth will remain slightly above 3 percent, in response to stronger exports and a weaker domestic demand. The budget deficit target for 2000 will be met at 1.5 percent of GDP, and further reduction will be achieved in 2001.

The world economy has emerged from the financial crisis and is enjoying boom conditions. Vulnerabilities and risks exist; in particular, high oil prices can put into question the present growth potential. Wide disparities between countries are growing. Industrial countries are enjoying sustained strong growth. Emerging economies hit by the Asian financial crisis have recovered faster than expected and are resuming the fight against poverty. Many countries, however, have experienced little or no progress in meeting their poverty-reduction goals.

To fight global poverty is the main challenge of our time. We have the responsibility to help those who are more vulnerable and to ensure the expansion of benefits of growth to all. Our shared objective of a safe, secure, and stable world for all in a global and interlinked world requires greater support for bringing to all the benefits of growth and ensuring that globalization works for the poor as well.

This brings me to the commitment we have agreed upon to provide debt relief to the poorest countries. I welcome progress so far in implementing the HIPC Initiative and urge all efforts to further strengthen the process. We have to meet expectations for a deeper, broader, and faster debt relief to eligible countries. Jointly we have to ensure the financing of the initiative.

I congratulate Mr. Horst Köhler for his vision for the IMF as a universal institution playing a central role in promoting macroeconomic and financial stability. This is a precondition for sustainable economic growth, which, in turn, is key to poverty reduction. Crisis prevention should be at the core of the IMF's work. Strengthening the stability and soundness of the financial system requires enhanced surveillance of economic and financial conditions and policies. I support the proposals he has made, including the reform of IMF facilities, to better respond to members' needs of our global institution.

I welcome the renewed emphasis the World Bank is giving to poverty reduction and sustained growth. The Bank, working with others, also has an important role in the provision of global public goods. Promoting good governance, curbing the spread of infectious diseases, preserving the environment, and sharing information and knowledge are means to reduce poverty. They complement well the Bank's mandate in assisting member countries to pursue their strategies to achieve equitable and sustainable growth. A multilateral international public-private partnership should be the way to implement and finance these challenges.

RUSSIAN FEDERATION: ALEKSEI KUDRIN

Governor of the Fund

World Economic Outlook

Compared to our last meeting, the situation in the world economy has improved. The upward revision of global growth for the current year is due primarily to stronger growth forecasts for industrial countries, and in particular for the U.S. economy. At the same time, it is noteworthy that growth forecasts have been revised upward for all of the major regions in the world, with the exception of Africa. It is worth mentioning that this year, for the first time, economic growth is anticipated in all transition economies. Correspondingly, their growth forecasts for 2000 have been adjusted upward (for Russia, for example, this forecast has been revised to 7 percent from 1.5 percent).

Nevertheless, some uncertainties and risks remain. The long-standing divergence in growth among the leading industrial countries led to significant imbalances in their current accounts, which sooner or later should lead to a serious correction in exchange rates among the three major currencies. And here there is certainly a risk that the correction will be too sharp, which could lead to destabilization of the world economy. There is a danger of an abrupt reevaluation of prospects for the U.S. economy, which may lead to a global and large-scale price correction on stock, foreign exchange, and money markets. This, in turn, could carry the risk of an international financial crisis. Given this situation, the continuing challenge is to pursue a flexible macroeconomic policy aimed at achieving a "soft landing" for the U.S. economy.

At the same time, the assessment of risks associated with high world oil prices seems to us somewhat exaggerated. High oil prices reflect, on the one hand, a high demand for oil owing to rapid growth in the global economy and, on the other hand, the existing limits on increasing supply, since the majority of oil exporting countries have now almost exhausted their capacities for increasing output. To a certain extent, the rise in world oil prices plays the role of an automatic stabilizer that helps to prevent overheating of the world economy.

International Capital Markets

The outlook and risks in international financial markets reflect to a significant degree more general trends in the world economy. For example, the dynamic development of the U.S. economy, against the backdrop of continuing uncertainty about prospects for growth in the euro area and Japan, led to a significant shift in capital flows in the direction of the United States. The large current account deficit in the United States is being financed by significant capital flight from Europe and Japan. At

the same time, capital outflows from Europe could be one of the reasons for the prolonged weakness of the euro against the U.S. dollar. Under these conditions, the main risk for advanced financial markets is the possibility of a “hard landing” for the U.S. economy, which was already mentioned earlier.

The situation in the financial markets of emerging market economies continues to be contradictory. On the one hand, there is a clear revitalization in the stock markets, exchange rates are stabilizing, and volatility in the value of their debt instruments is diminishing. On the other hand, the financial markets of developing countries are heavily dependent on market conditions in advanced economies, with all the attendant risks. In addition, the net inflow of private capital to emerging market economies is at a much lower level than it was before the crisis, while borrowing costs are much higher. If net private financing of the emerging market economies remains limited, this will pose a great risk to a number of them, particularly those that depend heavily on private capital markets for the refinancing of external debt (Latin American countries, for example).

Transition Economies—Lessons from the Past Ten Years

Ten years of economic reforms to make the transition to a market economy in a number of countries have allowed for the accumulation of enough experience to make some preliminary generalizations. Below we will focus on an analysis of events in the countries of the Commonwealth of Independent States (CIS) and also in the countries of central and eastern Europe (CEE). We concur with the view that the difference in the results that have been achieved in CEE and CIS countries can be explained to a certain extent by different starting conditions. Without a doubt, 70 years of a centrally planned economy did more damage than 40 years, from the standpoint of erasing the institutional memory of a market economy, the creation of large imbalances, and the development of inadequate motivation for economic behavior. At the same time, we should not overstate the significance of this factor.

An important reason for the discrepancy was the diametrically opposite impact of the collapse of the Soviet Union and CMEA for these two groups of countries. Freed from their ideological and political dependence, the CEE countries moved quickly to restore their historical ties with western Europe through the development of trade and the exchange of people and ideas, among other things. Accession to the EU became for them an obvious long-term goal, and this determined the nature and pace of reforms. The CIS countries that emerged from the wreckage of the former Soviet Union started, on the contrary, from practically nothing. Their leaders were faced not only and exclusively with the challenge of creating the institutions of a market economy, but

mainly with the need to create genuinely independent states, including the establishment of administrative structures, the introduction of a national currency, the strengthening of borders, and adaptation to the loss of large-scale subsidies. It is not surprising that under these conditions their progress in the transition to a market economy was much more modest.

The continuing close trade and cultural ties with Russia played a significant role in the development of CIS countries. Accordingly, all of the ups and downs in Russia had a direct impact on how events developed in these countries. The geographical factor also plays a major role for a number of them, including their distance from important markets. In addition, the availability of natural resources is of great importance; in their absence (and accordingly, in the absence of their own sources of financing) reforms inevitably become more painful and their results very fragile.

Prospects for Economic Growth in Russia

Two years after its severe financial crisis, Russia is experiencing robust economic growth. In the period immediately following the financial crisis, the main factor in economic growth was import substitution, which was a consequence of a significant depreciation of the ruble. Later on, however, this factor lost some of its previous impact, since the real exchange rate of the ruble has increased substantially over the two-year period. Growth can be seen in all sectors of the Russian economy now, which is to say that we have broad-based economic growth.

The implementation of responsible macroeconomic policies, which made it possible to restore relative financial stability fairly quickly, was of great importance in overcoming the financial crisis and reviving Russian economic growth. It is particularly important that over the past two years we managed to resolve the problem of the federal budget deficit, which had appeared to be intractable. This year we expect that the primary fiscal surplus will be around 6 percent of GDP, and for the first time since the beginning of the reforms the overall federal budget balance will be in surplus. A large current account surplus creates significant difficulties for the implementation of monetary policy. Nevertheless, the central bank of Russia has managed so far to ensure rapid accumulation of foreign exchange reserves, without permitting either an excessive strengthening of the real exchange rate of the ruble or a noticeable increase in inflationary pressures.

This said, we certainly understand that continued vigorous economic growth is not possible without a decisive acceleration of structural reforms. The Russian government recently approved a new economic program that encompasses a broad spectrum of far-reaching structural transformations. Specifically, we have already managed to obtain the

Russian parliament's approval of an extensive tax reform package, although a great deal still remains to be done in this area. We also intend to speed up considerably the process of restructuring the Russian banking sector. Another important focus of the government's economic policy is a sharp reduction in barter transactions and nonpayments in the Russian economy. We have already managed to achieve significant progress in this area.

Strengthening the Architecture of the International Financial System

We share the desire to make Fund facilities more effective and avoid prolonged and excessively large use of IMF resources in the future. At the same time, we believe that the existing instruments allow us to achieve these goals without radical modification of Fund facilities. In particular, measures, such as enhancement of Fund programs by improving conditionality, more caution in granting access to resources, establishment of the appropriate length for programs, and more efficient use of the Supplemental Reserve Facility (SRF) and Contingent Credit Lines, will help achieve greater effectiveness within the framework of the existing facilities. In this connection, we have reservations about the idea of reducing the length and amount of use of Fund resources by introducing repurchase expectations and the graduated rate of charge.

We would also like to touch upon the issue of pricing the new lending instruments of the World Bank. It is not a secret that introduction of new instruments, or modification of existing ones, is often linked to increases in the prices of lending products. In our view, these two issues should be treated separately. The analysis of pricing must be done not in the context of Bank's activities in borrowing countries but in the general framework of its financial instruments, its financial performance, and the demand for its products. Let me also mention the issue of the World Bank financial situation. We think that the financial capacity of the Bank is already stretched beyond the limits and that funding the new initiatives out of its net income may negatively affect the Bank's viability as a credit institution.

We welcome the Fund's initiatives on transparency and international standards. The joint project of the Fund and World Bank involving the development and voluntary publication of Reports on Observance of Standards and Codes is an important step in the area of international standards. A number of countries, including Russia, have taken part in this project. When developing standards, a reasonable balance should be found between their complexity and feasibility. We also believe that standards and codes should be developed very thoroughly, with suggested decisions being cross checked in the course of multilateral consultations. Otherwise, it may appear that the standards and codes appropriate for some specific countries will actually be imposed on all countries.

We endorse the steps taken by the Fund jointly with the World Bank to enhance stability and promote transparency in the financial sector. Here it is important to note the work done on the Financial Sector Assessment Program. Preliminary results from the program's experimental phase have demonstrated that it may become a useful instrument in the performance of the Fund's surveillance functions. We agree with the decision to continue work on this program in 2001. Russia is currently examining the possibility of its own participation in this program.

Like other Fund members, Russia is concerned by the role of off-shore financial centers in the international financial system. Russia is one of those countries that suffers from the large-scale use of OFCs by commercial and financial entities, and it is seeking effective means of controlling and regulating activity in that sector. In this connection, we welcome the start of the Fund's cooperation with OFCs. The Fund's first task should be to analyze in detail the existing and potential risks. In turn, Russia is taking steps in the direction of establishing a system for surveillance and controls on the activities of its own commercial and financial entities in OFCs. In particular, work is currently under way to strengthen the law aimed at fighting money laundering. We anticipate that the new text of the law will be submitted to the parliament for its approval by the end of this year. We are also discussing amendments and additions to the law on foreign exchange regulation, which will help improve controls on suspicious transactions.

We endorse the framework adopted by the Executive Board for elaborating decisions on private sector involvement. We find that this framework is still far from being a set of clear rules. However, one can hardly expect automaticity in the adoption of this type of decision, because the Fund has to rely on very imprecise forecasts of capital movements when calculating overall financing needs. Now it is already apparent that difficulties in forecasting the balance of payments, the existing variety of debt instruments, and rapidly changing economic conditions require a case-by-case approach to PSI in specific countries. Nor is it very advisable to peg PSI firmly to a predetermined level of access to Fund resources, because this will deprive the PSI mechanism of needed flexibility. The proposal that the Fund officially sanction standstills hardly seems constructive. In practice, this may represent Fund interference in relations between creditors and the debtor on behalf of the latter. The Fund's existing policy for lending into arrears is a sufficiently strong mechanism for exerting influence on intractable creditors.

Progress in Implementation of the HIPC Initiative

We support efforts aimed at turning the initiative into an effective instrument for reducing the long-term debt burden and providing for the social and economic development of the poorest countries. We would

like to emphasize, however, that debt relief does not by itself ensure stable economic growth and poverty reduction for these countries. What is required of them, in turn, is effective fulfillment of programs that have been agreed with the Fund and the Bank and are based on Poverty Reduction Strategy Papers developed by the countries themselves.

We, therefore, welcome a comprehensive approach adopted jointly by the Fund and the Bank and aimed at addressing the poverty problem in the context of PRSPs. It is important that the poorest countries will be drafting these strategies mostly themselves and will consider them as their own programs of action, and not as the externally imposed conditions for official credits. Within this general framework, however, the administrative capacities of these countries should be taken into consideration. We think that a new mechanism now under construction in the World Bank—the Poverty Reduction Support Credit—will be a useful complement to the Fund's Poverty Reduction and Growth Facility. Together these two instruments will allow significant improvement in the coordination of the Fund and Bank's work in the countries implementing poverty reduction strategies.

In conclusion, we would like to mention that we have highly appraised the recent joint statement by the heads of the Fund and the World Bank, which proclaims common goals and principles of their future work. Along with showing the spirit of cooperation and the desire to work together on achieving the strategic goals, this statement provides a good background for a more efficient distribution of responsibilities between the two institutions in their common activities aimed at poverty reduction and promoting sustained economic growth.

SAN MARINO: CLELIO GALASSI
Governor of the Fund and the Bank

It is a great honor for me to take the floor for the first time as Governor of the World Bank for the Republic of San Marino, shortly after the formalization of membership of my country in the International Bank for Reconstruction and Development. Therefore, also on behalf of my government, I wish to thank first of all the Bank's staff for having assisted San Marino negotiators in fulfilling all the necessary formal procedures, the Board of Governors for having adopted the Resolution that allowed San Marino membership, and all colleagues for having welcomed wholeheartedly the Republic of San Marino.

Participation in the International Monetary Fund since September 1992 has enabled San Marino to progressively align its economic and financial growth with the transparency and accountability standards, for the promotion of which the IMF has always played a crucial, authoritative, and universally recognized role.

Membership in the World Bank now represents for San Marino a further step in getting closer to the Bretton Woods institutions. The benefits that will derive with the course of time will become all the more evident through the increasingly qualified participation of San Marino in the world economic and financial system, a system that is moving toward globalization—an irreversible process, however controversial, that is the inevitable consequence of scientific and technological development—and greater integration in all sectors, not only economic and financial, but also civil and social.

The Republic of San Marino—a member state of major international organizations—has already taken a clear stance in other qualified forums with regard to the imbalance between North and South, and in particular, the external debt burdening least developed countries. Debt relief must form an integral part of the contribution made by the international community to fair and just universal development.

Therefore, San Marino shares and supports the plans and programs announced by creditor countries and major institutions—starting with the United Nations—aimed at addressing this serious issue and taking effective measures toward debt reduction and hence poverty eradication, as poverty afflicts more than half of the world population and is one of the main causes of conflict, exploitation, and underdevelopment. My country will make firm commitments, and for all the limits inherent to its small territorial size, it will not spare any effort.

In the Republic of San Marino, whose economic and financial system is marked by a positive trend, the government action is targeted to greater transparency and alignment with the international standards fixed, *inter alia*, by FATF and the OECD, and advocated also by the IMF, the World Bank, and other major regional organizations such as the Council of Europe.

The direction we intend to follow also includes extending bilateral relations in the economic field, by supporting and promoting the conclusion of agreements on double taxation and investment protection. Conversely, as regards the fight against money laundering, appropriate legislation has been enforced in line with the most recent international guidelines and the provisions of relevant international conventions, like the UN Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances and the Council of Europe Conventions on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime, recently ratified by the San Marino Parliament.

It is in this spirit that the Republic of San Marino, forming an integral part of the euro zone and willing to play its role in fostering a global economy, will actively participate—starting from today—in the work of the International Bank for Reconstruction and Development and attentively follow the activities of the other institutions headed by the IMF and the World Bank Group.

SPAIN: RODRIGO DE RATO FIGAREDO

Governor of the Fund and the Bank

To begin, I would like to greet the IMF's new Managing Director and to express my support and my wishes of success at its helm. I hope the joint initiatives of the Fund and the Bank will enable us to reach the objectives we all want.

During last year's Annual Meetings, general opinion was that the worst of the international financial crisis was already over. We were correct then, but we were far from realizing that—as could have been foreseen—we would now find ourselves in a global economic boom. I would like to stress two positive aspects of this scenario. First, the envisaged growth will occur in all geographical regions of the world. Second, we are pleased because our economy is playing a prominent role in this phase of prosperity.

We share the view of the IMF and other institutions on the objectives for continuing global growth this year and next. Thus, the gradual deceleration of the external imbalance of the U.S. economy, which seems to be affecting world growth, should be more than offset by the expected expansion in European and Asian economies, and notably by the recovery in Japan.

Both this year and next, the Latin American economies—which were so afflicted in the past by the contagion of a financial crisis that was not justified by their macroeconomic fundamentals—can expect to join in that growth, and Spain wishes to stress the responsibility demonstrated by Latin American societies in adopting policies that make them stronger.

Nevertheless, these good prospects are not free of risk. In our view, the greatest risk in this context is the adverse impact that the continued rise in world oil prices may have on growth. A worldwide increase in inflationary pressures that required the adoption of severe adjustment measures could force the U.S. economy to cool down faster than expected while limiting the expansion in Europe, with the consequences that entails for the rest of the world. Accordingly, we stress that domestic policy measures must be accompanied by coordinated action on the short-term demand for oil, in which the strategic reserves can play an important role.

In this context, the Spanish economy will continue to follow the path of sustainable growth without macroeconomic imbalances. This does not imply that our economy is immune to the higher international price of oil. We are indeed in a good starting position to cope with this increase, but, of course, changes are occurring in relative prices, which we believe will have but limited consequences. Reduction of the inflation differential vis-à-vis the EU is an essential objective for continued growth in Spain.

This favorable starting position will not be used to set aside the multiyear fiscal consolidation strategy now being pursued. Much to the contrary, to prevent the increases in the more volatile prices from spreading to the rest of the economy and to increase domestic saving, it is envisaged that the objective of reaching a budgetary balance will be reached in 2001, for the first time in 24 years. This bold fiscal adjustment will restrain demand in order to keep temporary price hikes from becoming structural increases. This strategy will be complemented by full implementation of the structural reforms in the goods and services markets which were approved last June, leading to the complete elimination of the monopoly situations that had traditionally weighted down on the Spanish economy. The modernization of the labor market should continue to reduce structural unemployment.

The combination of these high rates of economic growth in the past four years with historically low interest rates has placed Spanish firms in such a sound financial position as to enable Spain, from 1997 on, to become a capital exporting country. Thus, last year our firms' direct investment abroad made Spain the fifth largest investor country, and the first in Latin America, with investment equivalent to 5 percentage points of GDP, 70 percent of which destined to Latin America, roughly \$24 billion.

We are very much aware of this international takeoff of Spanish firms. In fact, it obliges and encourages us to play an active role in the ongoing reform of the international institutional framework, to which I would now like to turn. There has been criticism of the international institutions that make up the international financial system, including in particular the IMF, for their lack of leadership in preventing the spread of a crisis like the one of two years ago. The institutional arrangement derived from the Bretton-Woods agreement was the object of much criticism. We think that this arrangement remains valid, provided the appropriate adjustments are made in response to the profound changes in the world economy. Accordingly, we attach great value to the initiatives now being designed by the IMF to enhance its surveillance function, basically by designing codes and standards of conduct for voluntary implementation. Nevertheless, one must not lose sight of countries' different levels of development and institutional capacity constraints.

The legitimacy of the institutions has also been the object of criticism. The changes now being discussed within the multilateral financial institutions should be pursued, in order to achieve a truer representation of countries in their management bodies and decision-making, reflecting their responsibilities in the global economy.

The IMF has continued to work toward reviewing its financial instruments with a view both to adapting their design and use to the Fund's mandate and purposes and to make them more effective for borrowers

and more suited to the new market circumstances. We still believe that the fundamental objectives of the IMF are to ensure international economic and financial stability and thus to help achieve sustained and balanced overall growth, which is the basis for poverty reduction.

To this end, official development aid and growth support policies should not be limited solely to the financing of specific investment projects. Since macroeconomic stability is a prerequisite for growth, financial support for the prevention and management of potential crises is, in our view, the basis of the strategy for that aid. Accordingly, the instruments for short-term financial assistance should be retained at the same time as medium- and long-term financial resources are made available both to allow implementing the needed structural reforms and to obtain the results expected from them.

In spite of this, official resources are no longer sufficient. Private capital flows are many times larger than official ones in financing the external needs of countries. We must continue to work in seeking mechanisms that will make it possible to bring the private sector into the prevention and resolution of potential future crises, and guarantee instruments can play a catalyzing role in this regard.

The reform proposals should aim simultaneously at greater overall stability in the financial system and to assure that economic growth will reach that part of the world's population that still lives in poverty. Attaining both these objectives requires close cooperation between the Fund and the Bank. To this end, the HIPC Initiative is a good strategy, which should be based on the principle of equitable burden-sharing, leading to an effective reduction of poverty rather than simply redistributing it.

We appreciate the work being done jointly by the two institutions to enable as many countries as possible to start receiving debt relief by the end of this year, if their circumstances so allow. Spain, for its part, expects to make a bilateral contribution of \$772 million to the HIPC Initiative, to which must be added the \$55 million it has already forgiven under the HIPC framework, for a total contribution of \$179 million at the multilateral level. This means that Spain has contributed and expects to contribute more than \$1 billion for the debt of the most indebted poor countries. In addition to this joint strategy, the World Bank should strengthen its actions to provide relief to the most disadvantaged people, both in the world's poorest countries and in middle-income countries, where in fact most of them live.

For all these reasons, we are concerned by the sharp drop in lending by the World Bank, which declined to one-fifth the envisaged amount. In our view, the World Bank has the financial capacity to once again inject much higher amounts into the developing world than it is furnishing this year. We believe this is essential, not so much because of its

direct effect, but because of its impact on the quality of the economic and structural reform policies of the borrowing countries.

Lastly, the new topic of global public goods now under discussion also merits our full recognition, especially insofar as it will allow the institutions to adopt strategies of regional scope.

SRI LANKA: FAIZ MOHIDEEN
Alternate Governor of the Fund and the Bank

The delegation from Sri Lanka joins other delegations in congratulating you, Mr. Chairman, on your assumption of Chairmanship of the 2000 Annual Meeting. We also congratulate Mr. Horst Köhler on his appointment as the Managing Director to steer the affairs of the IMF. We are confident that his rich experience and creativity will provide the necessary stewardship to the Fund at this crucial juncture in international monetary and financial affairs. We wish him all success in his most challenging tasks ahead.

World Economy and Policy Challenges

It is encouraging that the world economic expansion and conditions in the international financial market have improved since our last Annual Meetings and prospects for 2001 are promising. Continuation of high growth in the United States, robust growth momentum in Europe, recovery in Asia and Latin America, and improved economic activity in Africa are all contributory factors. We are particularly encouraged by the fact that this strong performance owes much to the concerted efforts of policymakers across the globe, including sound macroeconomic policies in industrial countries, prudent macroeconomic management and continuation of structural reforms in developing countries, and determined adjustment efforts by crisis-affected countries.

There is, however, no room for complacency. The rather positive world economic outlook is in fact masking many disparities that exist today, both among regions and within regions. Furthermore, significant risks and vulnerabilities emanating from large and persistent economic and financial imbalances remain high, posing challenges to policymakers. These include lopsided growth patterns among industrial countries, resulting increases in their external sector imbalances, misalignment among the major currencies, and overvaluation in asset markets. The recent sharp increases in oil prices, along with sluggish recovery in most other primary commodity prices, may hamper global economic growth prospects and increase inflationary pressures, with severe terms-of-trade shocks for oil importing developing countries. Furthermore, despite recent improvements, net capital flows into developing countries and

transition economies still remain low and costly. Meanwhile, continuation of tariff and non-tariff barriers in industrial countries creates difficulties for expansion in developing country exports.

These concerns underscore the necessity of strengthening macroeconomic policy coordination among major industrial countries and opening their markets for developing country exports. Similarly, the international community should make every effort to minimize large fluctuations in commodity prices, as they create severe terms-of-trade shocks, resulting in unbearable difficulties in developing countries.

Sri Lanka

Turning to my own country, Sri Lanka registered an economic growth of 4.3 percent in 1999, despite the continuation of the adverse effects of the international financial crises and depressed global market conditions on the country's major exports, reflecting improved resilience in the economy and the benefits of prudent macroeconomic management. The inflation rate further declined, owing to improved domestic food supplies, lower import prices, and the containment of monetary expansion. The unemployment rate continued its downward trend for the seventh consecutive year, reflecting expansion of job opportunities mainly in the private sector and demonstrating the benefits of economic liberalization. The investment-to-GDP ratio further increased, augmenting the country's production capacity. Meanwhile, domestic savings continued to increase, containing the investment-savings gap. The budget's deficit-to-GDP ratio, both current as well as overall, declined in 1999, while the external current account deficit-to-GDP remained at a sustainable low level, reflecting the benefits of prudent macroeconomic management.

Economic recovery, which began in mid-1999, continued, recording an impressive growth of about 7 percent during the first half of 2000 and responding positively to the improved external economic environment. Accordingly, the economy is expected to register an annual growth of 6 percent in 2000. The rate of unemployment further declined in early 2000, reflecting the benefits of expanding economic activities. However, the declining inflationary trend, which continued in the first half of this year, is expected to turn around temporarily in the second half, reflecting the impact of rising petroleum prices, upward revisions of other administered prices, and depreciation of exchange rates. The inflation rate for the year as a whole is expected to be at around 7.5 percent.

Even under difficult conditions, improvements in macroeconomic management and implementation of structural reforms have been continued. Economic management has been made more open, fair, and transparent. The role of the government in economic development has been clearly defined, concentrating its economic activities only in areas where market mechanisms fail to function effectively, such as education,

health, the environment, rural and small sector activities, safety needs for the poor, and social and cultural development. During the second half of 1999, the government reiterated its market-friendly economic policy framework when it outlined the Vision for the Twenty-First Century.

On the fiscal front, the budget 2000 has been designed to further consolidate the recent fiscal improvements within a sustainable medium-term framework. Further measures have been taken to expand the tax base and improve tax administration. On the monetary front, reliance on more market-oriented policy measures have been further strengthened by expanding open market operations activities. Meanwhile, the exchange rate band was broadened in June 2000 in order to further improve the market orientation in the determination of the exchange rate. Despite the challenging circumstances, implementation of structural reforms has been continuing, as we strongly believe that they are crucial in improving the country's economic performance and future prospects as well as in strengthening the resilience of the economy against external shocks. These reforms mainly include continuation of public enterprise reforms, further liberalization of trade and foreign investment, encouragement of private sector participation in infrastructure development, improvement in tax administration, rationalization of government expenditure, and strengthening of financial sector regulation and surveillance.

In the political sphere, further progress has been made in building consensus through the continuation of the discussions with all parties on major issues in order to ensure broader support for the proposed constitutional reform package designed to find an effective political solution to the ongoing conflict. In this context, we greatly appreciate the increasing support of the international community for this challenging but necessary endeavor.

Bretton Woods Institutions

Turning to the Bretton Woods institutions, we commend their efforts to facilitate world economic expansion and improve stability in the international financial system. Similarly, we welcome their tireless efforts to strengthen the architecture of the international monetary and financial system and undertake reforms in their own institutions. In this context, the initiative to define their vision for the Fund and the Bank is a timely step, as it would provide an opportunity to identify necessary changes in their activities in order to strengthen their role in the international monetary and financial system by taking into account changes in the world economy, financial markets, and member country requirements. However, we underscore the necessity of preserving their basic principles as defined in their Articles of Agreements.

We understand the need to review Fund facilities from time to time in order to improve their efficiency and effectiveness by taking into

account changes in requirements of member countries. However, we strongly underscore the necessity of making available facilities with a sufficient flexibility to meet the diverse demands of the heterogeneous membership. Similarly, attention has to be given to capacity limitations in member countries, particularly when specifying program conditions, in order to strengthen the members' ownership of programs and ensure feasibility of effective program implementation.

The necessity of adequately augmenting the overall size of the quota and improving its distribution by taking into account developments in the world economy, and changes in international trade and financial flows is well recognized. The recent Report of the Quota Formula Review Group provides an excellent opportunity for a correction that has long been overdue.

We also welcome the progress made in enhancing the Fund's surveillance activities, developing a private sector involvement strategy, macro-prudential indicators, and standards/codes in order to prevent financial crises and resolve them when they occur. However, in implementing them it is necessary to preserve the principle of voluntary participation by member countries, giving due consideration to capacity limitations in developing countries and providing the necessary time and resources for them to build up required institutions and skills. While accepting the usefulness of transparency, we cannot underestimate the potentially adverse impact of it on the role of the Fund as a confidential and candid policy adviser to member countries.

We welcome the Fund's efforts to expand evaluation of its activities, with a view to identifying weaknesses, and improve efficiency and effectiveness of its activities. The decision to establish an Independent Evaluation Office is a further step in the right direction, as it would enable the institution to better understand lessons for improvement in its future work.

We strongly support the efforts for improving the effectiveness of the Poverty Reduction and Growth Strategy and accelerating the implementation of the HIPC Initiative. I am happy to state that Sri Lanka has granted its balance in the SCA-2 as an interest-free deposit for the HIPC financing.

Recent efforts to strengthen the collaboration between the Bank and the Fund in their activities and their collaboration with other institutions are steps in the right direction. While welcoming the World Bank Group's increasing efforts to address poverty issues and strengthen institutional capabilities in member countries, we underscore the necessity of continuing the Group's role in assisting in the development of infrastructure facilities in developing countries and encouraging private capital inflows to them. In this context, we welcome the work under way in the World Bank to better customize its assistance to the specific conditions of different groups of clients in light of their changing requirements. It is

also essential to explore all equitable options, including a general capital increase of the Bank Group, in order to ensure availability of sufficient resources to meet the increasing demand for its resources.

SWEDEN: BOSSE RINGHOLM

Governor of the Bank

*(on behalf of the Fund and the Bank Nordic Countries,
and the Fund Baltic Countries)*

Introduction

I am pleased to address the joint Annual Meeting 2000 on behalf of the Nordic-Baltic constituency for the Fund and the Nordic members in the Bank. Let me begin by thanking the Czech authorities for hosting the Annual Meeting in this beautiful and historical city.

Current prospects for the world economy are favorable. Strengthened implementation of sound policies in many countries around the world, as well as the progress achieved in addressing weaknesses in the international financial architecture, have improved our preparedness to deal at an early stage with financial, macroeconomic, and structural threats. Despite this encouraging progress, continued efforts are called for in order to secure stability over time. While important gains have been made in poverty reduction and in advancing the social agenda of the world's poor, the number of people living in poverty has increased. The Bank and the Fund face an enormous task in addressing poverty and social issues, and the renewed emphasis thereon is welcome.

The concerns that are manifested in the streets constitute a challenge for us as members of the Bretton Woods and other multilateral institutions. To meet this challenge, we must engage in a constructive, clear, and balanced debate. We must better explain to our constituents the crucial role of the institutions in assisting countries in their endeavors to exploit the opportunities and avoid the pitfalls that globalization entails. We must underline the Bank's and the Fund's contributions in leveraging private capital flows for productive investments and in diminishing the low- and middle-income countries' vulnerability to financial crises. The Bretton Woods institutions are also significantly contributing to the implementation of nationally owned poverty-reduction strategies and to assisting countries to better integrate into the world economy.

The HIPC Initiative is a good example of how the Bretton Woods institutions have taken the lead in tackling a difficult issue in a way that assists poverty-reduction efforts. The contributing countries in my constituency recently decided to provide more than US\$100 million in an additional contribution to the HIPC Trust Fund over the next two years.

The Nordic countries have so far provided a fair share of the burden, and we are waiting for all the G-7 countries to provide theirs.

We support the establishment of a formalized replenishment process for the HIPC Trust Fund. Our credibility is at stake. Our recent contribution to the World Bank HIPC Trust Fund was triggered by the agreement reached at the IDA meeting in Lisbon that a replenishment process would soon be put in place. We urge the Bank to ensure that such a mechanism is established.

I am convinced that globalization of capital markets brings considerable opportunities for growth and development for poor and rich countries alike. However, adaptation, so as to reap the benefits of today's globalized world, must be dealt with in a careful and sequenced manner. The Bretton Woods institutions need to be reformed in order to sharpen their tools to promote stability and to prevent large-scale crises.

Reform of the Bretton Woods Institutions

This leads me to focus on two particular areas with respect to reform of the IMF and the Bank: the increased role of standards and private sector involvement.

The development of internationally accepted and well-designed standards and codes is an obvious and important task for the Fund. They should have an increasingly important role in IMF policy advice and lending arrangements. The Fund, as well as the Bank, should, within their present mandates, also continue to actively promote member countries' implementation of agreed standards, such as ILO Core Labor Standards.

Appropriate measures must also be taken to prevent the abuse of the international financial system. It should be an important element in the work of the international financial institutions. Where applicable, the IMF should include in its surveillance and program reports a specific section on market integrity and corruption, including the fight against money laundering, on the basis of information and assessment supplied by national authorities and relevant organizations like the Financial Action Task Force on Money Laundering and the Organization for Economic Cooperation and Development. The Executive Board could be asked to consider the possibilities for such involvement.

The financial crises of 1997 and 1998 led the Bank to a welcome focus on structural issues in the financial sector at the country level. We are particularly supportive of the joint approach the Bank and Fund have taken to resolve problems in a number of countries through the Financial Sector Assessment Program.

The Fund is responsible for crisis management and surveillance. The Bank has the lead in providing policy advice on structural reforms, including governance issues in the financial sector. This will assist in reducing country vulnerability to crises.

The Bank's poverty focus also entails a responsibility to assist countries to mitigate the effects of a financial crisis. My constituency welcomes the Bank's focus on social protection within that context. It also welcomes the Fund's efforts to reduce the social costs linked to financial crises.

Private sector involvement in the prevention and in the handling of international financial crises is crucial. Appropriate participation by the private sector has become all the more important, given its dominant role in global financial operations. Furthermore, insufficient participation from the private sector might over time lead to a reduction in official financing, including from the Fund. In fact, private sector involvement should be a regular feature in all Fund programs, with details worked out on a case-by-case basis.

Against this background, it is important that we continue to explore all possibilities to secure constructive contributions by the private sector. One way forward could be to establish legal formalities for orderly standstill arrangements, including considerations regarding a possible role for the Fund.

Let me turn now to the Bank's future role and instruments. The declining trend in World Bank lending poses questions regarding the relevance of the Bank's loan instruments. The consequences regarding the Bank's financial strength and ability to finance a number of important initiatives should not be neglected.

The Bank must examine how it can better assist middle-income countries that often face severe problems of inequality and poverty. We wish to see flexible instruments that are priced and tailored to meet these countries' needs. We are anxious to see a renewed and deeper commitment to promoting private sector development, notably in the transition economies. The IFC has a particular role to play in providing equity financing and in leveraging foreign private capital flows.

There is also a need to examine the role and instruments of the Bank in the poorest countries. IDA lending has declined, and we are not reaching the 50 percent target for Africa. Regional integration and emerging regional markets are fragile, and support is needed.

Against this background, the discussion that has been initiated regarding the Bank's future role and strategic directions is critical, and we look forward to innovative proposals from management as a basis for the next Development Committee meeting.

Transparency

Another central issue with respect to the functioning of the international monetary and financial system is transparency. I welcome the impressive moves forward that have been undertaken by the Bretton Woods institutions, as well as by member countries, during recent years:

for example, by the publication of IMF evaluations of individual economies, the Bank's governance strategy, and the World Bank Institute's country work on corruption. These measures are important in order to facilitate participation by the private sector and to make the contents of economic reform programs known to the general public.

One aspect of transparency—or rather lack of transparency—is the recent cases of misreporting to the Fund. These cases underline the need for further efforts to safeguard the resources of the Fund. It should be a requirement for financial support from the Fund that annual financial statements, audited by independent external auditors according to internationally accepted standards, be published.

The Bank Has Improved

Turning back to the issue of reforming the Bank, let me say that the Bank has recognized certain shortcomings and has worked hard to overcome them. My constituency strongly supports the new focus on poverty reduction and partnerships through the principles of the Comprehensive Development Framework and the Poverty Reduction Strategy Papers.

In particular, we support the notion of country ownership of the development process, the interplay between economic structural and social dimensions of development, and finally the increased importance attached to donor coordination. We now have a broader understanding of what poverty is, reflected in *Voices of the Poor* and this year's *World Development Report*. In fighting poverty, we must be aware that necessary reforms can threaten current power structures. The Bank must maintain its efforts in the area of corruption and nontransparent government procedures, as they are harmful to the poverty-reduction efforts.

Yet the Bank has failed to effectively mainstream gender into its operations. Good policy and intellectual work have not been followed up at the operational level. Strengthened efforts must be made to achieve this. We know that a gender perspective increases the efficiency of our development efforts and reaches the most vulnerable among the vulnerable. The Nordic countries look forward to the upcoming discussion of a new gender strategy for the Bank Group. A *World Development Report* devoted to the gender issue is long overdue.

The HIV/AIDS pandemic kills more people than conflicts and threatens to wipe out an entire generation in several African countries. Achievements made in development and poverty reduction over the last decades are at risk both in Africa and Asia. The situation calls for immediate action by the World Bank. The Global Alliance for Vaccines and Immunization (GAVI) is an example of a useful initiative that brings together multilaterals, governments, and the private sector in a broad alliance. But other measures are needed to keep up the momentum from the spring meetings. Conflicts in the poorest countries have wiped out

years of development. The issue of adequate Bank instruments and global partnerships to tackle all of the above questions has to be addressed in the upcoming IDA replenishment.

The Revision of the Quota System

Finally, I would like to touch briefly upon the revision of the Fund's quota system. Any new quota formula should produce a quota distribution that is credible and acceptable for the whole membership. The formula should preferably contain only widely acknowledged economic variables, with a close relation to the purpose and operation of the Fund. A country's quota in the IMF should be guided by the country's ability to contribute to the Fund's resources as well as by need-related factors.

Conclusion

The Bretton Woods institutions have a crucial role to play in managing globalization so that it benefits all countries and all people. The Bank and the Fund have realized the need for them to reform. Work remains, and we look forward to working together to ensure global macroeconomic and financial stability and to help the poor in their efforts to benefit from globalization.

SWITZERLAND: KASPAR VILLIGER

Alternate Governor of the Fund

It is a great pleasure and honor for me to address the Board of Governors of the Bretton Woods institutions in the city of Prague. There are two important reasons that make this venue most suitable for this year's Annual Meetings. The first, and foremost, is the splendor and rich cultural heritage of Prague and the hospitality of its population. I would like to take this opportunity to thank the Czech authorities for their invitation, the excellent organization of this event, and the effective protection of participants.

The other reason making this venue even more extraordinary is that it underscores the universality of the membership of the International Monetary Fund and the World Bank. The accession of the Czech and Slovak Federal Republic 10 years ago and the membership of all eastern European countries, including the states of the former Soviet Union, were historic moments for these institutions. It is only since then that the Bretton Woods institutions have become truly universal.

Undoubtedly, the IMF and the World Bank have played an important role in assisting these countries in the difficult transition process leading to a market-oriented economy. Representing several transition countries in the Executive Boards of the IMF and the World Bank, Switzerland has

had the privilege of closely following the experiences of some of these countries. It is fair to say that the transition process has proved in many ways to be more daunting than expected at the outset. Only when we look in detail at the individual cases, we notice the host of factors—like natural endowments, trade linkages, debt situation, political systems, and institutional capacities—that determine the pace of each country on the path toward a pluralistic and market-oriented system.

The scope and depth of structural reforms that are necessary on this path are impressive. They have a direct impact on the foundations of the socio-political frameworks in these countries. The break with the past has quite often caused great suffering for the most vulnerable members of the society. Many of these people may still feel that market reforms, liberalization, and the sudden integration into a globalized economy have hugely benefited only a few and caused immense hardship for many.

The demonstrators on the streets of Prague underscore that it is crucial for the IMF and the World Bank to deal openly with the mistrust about a globalizing world that civil society often voices. It is paradoxical that at a time of vibrant economic activity in most regions we are not able to convince people of the benefits of globalization.

Although globalization helps to create great opportunities, it also opens the door to new risks. These range from financial instability to disease transmission. The need for global action is compelling. Therefore, the IMF and the World Bank have a more demanding mandate. To fulfill this mandate, they have to do two things: cooperate more effectively and focus on their core functions. I welcome that working relations have already improved significantly. I am convinced that the joint statement by the Managing Director of the IMF and the President of the World Bank will lead to a further strengthening of these ties.

As regards focus, an important element is that the World Bank prepares a long-term strategy. This strategy must define in operational terms how to support countries in their fight against poverty.

Strengthening the International Financial System

Significant efforts have been made in strengthening the international financial system. The financial crises of 1998 underscored the risks associated with globally integrated capital markets. Sudden shifts in market perception and the volatility of capital flows had serious economic and social repercussions. In some crisis-hit countries, years of improvement in the overall living standards were wiped out within months. I have always insisted that better data and policy transparency are important to smooth market expectations. I welcome the significant progress our institutions have made in this area. The IMF has also focused more strongly on external debt and international reserves management. Furthermore, its advice has increasingly taken into account the vulnerability

associated with fixed exchange rate regimes. While we will hardly be able to completely avoid financial crises, these measures should at least help to reduce their frequency.

The reform of the IMF's credit instruments should also help strengthen crisis prevention and ensure that sufficient resources are available for members facing a crisis. The modifications of the Contingent Credit Lines should allow members with solid policies to strengthen their preventive framework. Given the lack of experience with this instrument, we will have to carefully assess the first cases. The refocusing of the Extended Fund Facility should help reduce the use of long-term IMF financing. These changes, together with a clear understanding regarding the necessity of private sector involvement in resolving financial crises, will improve the efficiency of the use of scarce IMF resources.

I am convinced that a member's crisis resilience depends crucially on a strong domestic financial system. The IMF and the World Bank have strengthened their focus on these issues and they have shown their capacity to cooperate effectively under the Financial Sector Assessment Program. While I consider emerging and transition countries to be the main targets for the FSAP, I also expect all major financial centers to undergo such an assessment.

Debt Reduction and the Fight Against Poverty

Poverty reduction must remain at the top of our agenda. I am encouraged to see how the IMF and the World Bank have stepped up their efforts to fight poverty. The new Poverty Reduction Strategy Papers are an essential element in these efforts. I find particularly important that they are country driven and rely on broad internal consultations. This approach puts a high demand on the institutional capacities in member countries and takes time. Both donors and international institutions should support the technical preparations of poverty strategies without undermining country ownership. While I highly value ownership, I give equal importance to a critical analysis of poverty strategies by the IMF and the World Bank. We have to make sure that the strategies are feasible and fundable.

I continue to be a strong supporter of comprehensive debt relief that will help countries reach a sustainable level of debt. I note with satisfaction that substantial progress has been made in implementing the enhanced framework. One of my main concerns is to make the HIPC Initiative's exit strategy sustainable. We need to strike the right balance between speed of delivery and quality of the process. And it is crucial that countries qualifying for the initiative adhere to sound economic policies, implement measures to fight poverty, and improve governance. To make the HIPC a full and sustainable success, we need to have the

means to finance it. I urge all countries to fulfill their financial pledges. This appeal also includes non-Paris Club members.

Improving Governance and Accountability

The IMF and the World Bank have also focused on improving governance and accountability. It is difficult to bring the benefits of structural reforms to the whole population in countries with governance problems. To improve governance, members should adopt the best practices developed by the Fund and the World Bank in the areas of fiscal, monetary, and social policies. Furthermore, the stronger focus on governance issues during program design and the publication of program documents has already sent clear signals to members: accountability is a condition for receiving assistance.

Of course, accountability is also crucial for the institutions. In this context, I welcome the progress made by the IMF in increasing the transparency of its operations. I am convinced that the principle of voluntary publication for all country papers and the publication of policy papers will improve the understanding of the Fund's policy advice. It should also help market participants to better assess a member's economic policies. Furthermore, the establishment of an independent evaluation unit is an important step to increase the accountability of the institution.

To conclude, let me underscore the importance of ensuring that the membership as a whole can benefit from market reforms and an integrated global economy. Let us use the currently favorable global economic situation to deepen the institutional reforms that we have launched. I would like to thank both, the President of the World Bank and the Managing Director of the IMF for their commitment to this cause. And I wish Mr. Köhler all the best in his new and challenging position as Managing Director of the IMF.

THAILAND: PISIT LEEAHTAM
Governor of the Bank

It is a great pleasure and privilege for me to address the 2000 Bank-Fund Annual Meetings of the Boards of Governors. First of all, on behalf of the Thai delegation, I would like to extend our heartfelt congratulations on the appointment of the new IMF Managing Director, Mr. Horst Köhler. Under his leadership and his vision on IMF reform, I am confident that the IMF and the World Bank will continue to help member countries to achieve financial stability, sustain growth and reduce poverty. In addition, I also would like to thank our host, the Czech Republic, for the very warm welcome and the excellent arrangements for the Meetings.

On this occasion, I would like to report to you about our progress in bringing the Thai economy out of the financial crisis. Having bottomed out in the second half of 1998, the Thai economy began to recover in the first quarter of 1999. Positive growth is continuing for the last six consecutive quarters, with a 6.6 percent growth in the second quarter of this year. We expect sustained growth rounding off to around 5 percent for the whole year. In addition, exports grew by over 20 percent in the first half of this year, which helps maintain a sizable current account surplus, although imports are increasing rapidly. This was partly caused by a significant increase in direct foreign investment. Despite the oil price pressure, inflation is kept below 2 percent. As of now, our macroeconomic performance is well in place, and Thailand has exited from the Fund program since the middle of this year. At present, all the international rating agencies have placed Thailand back to the investment grade.

The government continues with the restructuring of both the financial and real sectors. Banking sector restructuring is near completion. The disposal of the 56 finance companies' assets is complete. Five out of twelve retail commercial banks have been open to international banks. Recapitalization of commercial banks is close to completion. At present, solving nonperforming loans (NPLs) is the central point of financial restructuring. The government has provided all the necessary supports, except the use of public money to directly buy private sector bad debt. In this connection, the commercial banks are making full provisions for the bad assets and have set up their own Asset Management Companies (AMCs) to deal with NPLs. During this month, Krung Thai Bank has completed its transfer of bad assets, amounting to about 10 percent of GDP, to an AMC, thereby turning the state-owned bank into a clean bank. The cabinet has also endorsed the modality for handling the bad debt of Bank Thai, another state-owned bank. By separating the management of problem loans from ongoing bank activities, the banks should be able to refocus on new lending, thus helping revive the economy. We believe that Thailand's market-based approach to banking sector restructuring and corporate debt restructuring is more effective to revitalize the Thai economy in the long run.

Another key challenge facing us today is to sustain economic recovery with restructuring in the real sector. We are enhancing transparency and accountability both in the public and the corporate sectors. The work on economic and financial adjustment programs in Thailand goes hand in hand with the improvement in our political process introduced by the new constitution, with more checks and balances vis-à-vis the executive branch and greater awareness of civil rights among the mass population. In this connection, we are undertaking a public sector reform program with the support of the World Bank to increase efficiency and effectiveness in the bureaucracy. It is the first time that the

number of government employees has declined. The privatization of the Rachaburi power plant is starting by the end of this month, and several others are following. Apart from this, a major legal framework is in place. We have revised all the major laws involving bankruptcy codes, and the government has provided full resources to the judicial branch together with full independent status. The challenge is now implementation. The recent conclusion of a major petrochemical company deal should be evidence that the system is working. I would like to emphasize that, throughout the last three years since the crisis, Thailand has never resorted to measures to protect weak industries. On the contrary, several rounds of tariff reductions and trade liberalization have been carried out with the view to enhance the country's competitiveness, while consumer protection is gaining more weight. I believe that all these should provide a strong foundation for the Thai economy for recovery in a sustainable manner together with a more mature civil society.

Despite all the work in the last three years, certain sectors in the country have not benefited from the economic recovery. The drastic decline in non-oil commodity prices has adversely affected the livelihood of our farmers, and they are further squeezed by the higher oil price. Moreover, the financial crisis has caused a loss of about 800,000 jobs in the formal sector. Thus far, the recovery has only returned about 600,000 jobs. In this connection, fiscal policy has been our major instrument to mitigate the social impact of the crisis. We are keen to restore fiscal integrity once the economy is fully back on track, as was in the case in the period before 1997.

As mentioned earlier, we strongly support the World Bank Group to help countries reduce poverty. In particular, the incorporation of the Bank's financial support to the Poverty Reduction Strategy Papers (PRSPs) will provide immediate efforts on addressing the structural and social agenda, improving the investment climate, and coping with market volatility among member countries. It is also important that the Bank share the same core set of principles with the Fund. On our part, we fully support the Bank to play a leading role in international communities in the direct fight against poverty. As for the middle-income countries, I support the World Bank to play a greater role in providing technical assistance, even though loans are not needed. In this connection, I would like to thank the Bank for its support in the privatization forum of the Asia-Pacific Economic Cooperation, and I request the Bank to support the initiative of the ASEM Finance Deputies to create a public-debt management forum.

Let me turn to the proposed review of Fund facilities, which has recently gained considerable interest. As we believe that the Fund should retain the wide array of facilities to suit the differences of member countries, the Fund should keep the Stand-By Arrangement as the

core facility, complemented by the Supplemental Reserve Facility, Contingent Credit Lines, and Extended Fund Facility. We support a strengthened Fund surveillance, which is centered on its traditional core areas of macroeconomic assessment. Regarding the Fund's proposed amendments of quota formulas, we believe that they do not adequately reflect the increasing role of emerging countries. Consequently, we urge Fund staff to further study this salient and sensitive issue to accommodate the interests of all members.

On the Fund's role in the Special Data Dissemination Standard (SDDS), we welcome the third review held in March, and we wish that more members would join the SDDS. We support the transformation of the ESAF into the PRGF, as the debt burden of HIPC countries ought to be dealt with in a more systematic and rigorous manner.

Once again, I would like to call on the IMF to continue the policy on supporting Regional Financing Facility as a supplement to the Fund's financing support. Recently there was the "Chiang Mai Initiative," a joint effort among the central banks in the ASEAN and China, Korea and Japan ("ASEAN + 3"). I believe that with the support of the IMF and the Bank, the Chiang Mai Initiative could be a proper mechanism to provide financial support for countries in need in the region.

In conclusion, I would like to see closer cooperation among the Bank, the Fund, and various regional and international organizations in helping countries facing urgent needs. Various arrangements and facilities that are in the pipeline could enhance stability and safeguard the international community. I believe that sustainable growth can only be achieved if the whole community is better off, without leaving anybody behind, and I hope that the outcome of the Prague meetings will be a milestone in the path of the world's sustainable growth.

TONGA: KINIKINILAU TUTOATASI FAKAFANUA

Governor of the Bank

It is an honor and a great pleasure for me to address the fifty-fifth Annual Meeting of the Governors of the International Monetary Fund and World Bank Group for the year 2000. This is an important meeting for it is the first meeting of this new millennium. This is an important opportunity to reflect on what we have accomplished to date and to chart our future direction in addressing the challenges that lie ahead. We would like to begin by congratulating and welcoming Mr. Horst Köhler for his first attendance at this Annual Meeting in his capacity as Managing Director of the IMF. We would also like to extend our deep appreciation to the government and people of the Czech Republic for the arrangements and hospitality extended to us. We also join other speakers in welcoming San Marino as the latest member of the IMF and World Bank.

It is encouraging that we start this year on an optimistic note because of the overall positive performance of the world economy. However, there are apparent risks in this forecast associated with economic development in the United States and the high level of oil prices. Therefore, all member countries in association with the IMF and the World Bank should continue to work together to ensure macro stability, and strong and uniform distribution of world growth.

We commend the effort of the IMF in addressing the financial crises that occurred in the recent past and the World Bank's initiatives to alleviate poverty and to lift the standard of living of people in developing countries. Nevertheless, past experience suggests there is scope for further improvement and we welcome the resolve on the part of international financial institutions to make necessary changes to serve effectively the needs of member countries, especially small developing countries. The introduction and implementation of the Comprehensive Development Framework by the World Bank is fully supported.

The globalization of the world trading system is an issue that we need the full support of the international financial institutions to ensure that the interest of small developing countries such as Tonga is well served, not marginalized. In that respect, we appreciate the special efforts made by the World Bank and other institutions to pay special attention to the unique characteristics of small states that culminated in the production of a report on small states. We look forward to a program of action to address and overcome the challenges and constraints of small states as set out in the report. We expect this exercise will lead to greater access to advisory technical assistance and concessional resources. Such assistance from both bilateral and multilateral sources is needed to enable us to build a stronger and resilient economy on equal footing with that of much larger economies.

On poverty, we are pleased to note that the program is more pro-poor focused and strives toward incorporating social concerns. Moreover, we also support the guiding principles that seek to develop wider tools to be used by the international community to promote sustainable development and poverty reduction as well as to strengthen the initiatives for debtor countries to adopt and implement economic and social reforms.

Touching on the Poverty Reduction and Growth Facility and the HIPC Initiative, Tonga continues to encourage and support these initiatives, especially the efforts to make the initiatives flexible, broader, deeper, and faster with a clear link between debt relief and the goals of sustainable development and poverty reduction. The financial resources required for this commitment should not compromise the requirement for providing more development assistance to developing countries. We support the call for developed countries to increase their aid grant assistance to the target level of 0.7 percent of their GNP.

The role played by the two Bretton Woods institutions continues to be important against a background of an ever more fast and complex world. This calls for the provision of adequate resources to enable the two institutions to carry out surveillance and the ability to provide liquidity to member countries when needed.

Furthermore, we join those who see a need for a realignment of quotas to better reflect current economic weights of countries and to better balance the decision-making process of the institutions by giving developing countries greater decision-making power in the two organizations. Regarding the private sector, improved cooperation and better focus among institutions should strengthen the different facilities and allow for savings in resources.

On surveillance, we continue to support the policies that aim to reduce the risks associated with capital flows and to put in place a mechanism that could include the private sector in the prevention or orderly resolution of financial crises. Moreover, we continue to support the efforts toward sequencing of capital account liberalization with the refinement of a country's use of capital controls. Likewise, we welcome the efforts toward developing, disseminating, and monitoring the implementation of internationally recognized standards, given the contribution that the observance of those standards will make to strengthen the international financial system. However, having said that, we join those who believe that transparency should not be permitted to undermine the role of the Fund as a confidential advisor to members.

Turning to the economic developments in the South Pacific, the recent political crisis in some countries in the region has to some extent adversely affected the economic development in other countries, especially tourism and other goods and services that come through those countries. However, such instability highlights the need for proper ownership and sequencing of reforms, especially on sensitive issues.

For Tonga, the latest economic data is encouraging, with relatively stronger GDP growth and exportable agricultural production showing signs of returning to more favorable trends. Inflation has been affected by higher fuel prices. Fiscal and monetary policy is oriented toward maintaining macro stability and accelerating economic growth.

In conclusion, we wish to acknowledge with gratitude the technical and financial assistance that IMF and the Bank have provided so far to the government of the Kingdom of Tonga, and look forward to continue such partnership in the future.

TURKEY: RECEP ONAL

Governor of the Fund

We welcome the World Bank's efforts to incorporate Comprehensive Development Framework principles and endorse the Bank's role as

presented in the papers “Poverty Reduction and Global Public Goods” and “Supporting Country Development: World Bank Role and Instruments in Low and Middle Income Countries.”

We see ownership by the country as an essential ingredient of successful and sustainable development and durable poverty reduction. We also believe that a programmed approach is essential if development assistance is to be effective. But the report on the CDF pilots reveals that the very difficult task of incorporating the CDF principles into the culture of the Bank and the larger development community has yet to be accomplished, and without it there can be little progress on the ground. Also, the implications of this reorientation for the modalities of the Bank’s assistance to middle-income countries need further clarification.

In addition, while there is no question that the shift in emphasis from projects to programs, the focus on countries as the basic unit of development, and the effort to addressing global externalities that threaten to destroy countries’ developmental gains are steps in the right direction, the probable financial implications of these changes must be further explored and determined. We urge the management and the Board of the World Bank to consider effective burden-sharing arrangements between borrowers and shareholders, and not to recoup the extra financial burden solely by increasing the costs of borrowing. In this connection we look forward to seeing the upcoming report of the task force on middle-income countries.

Three years after the outbreak of the financial crises in Asia, the IMF has made substantial progress in applying the lessons of those and other difficult experiences to its work. Many steps have been taken to enhance the Fund’s ability to identify and reduce the vulnerabilities of the financial markets. Today, we are in a much better position to deal with the systemic implications of a financial crisis.

Much has been done to increase the Fund’s attention to vulnerabilities. Data at the national and sectoral levels have been improved, vulnerability indicators and techniques for stress testing have been developed, and compliance with standards and codes of best practices have become part of the IMF’s surveillance. But it is essential for us to recognize that these standards have to be supported by technical assistance, without which developing countries cannot build up their administrative capacity and take advantage of these advances. The observance of standards and codes should become a goal for all members. But rather than simply setting timetables for achieving this goal, the Fund should assess countries’ progress toward the compliance with these standards in light of each country’s particular situation.

There has also been progress in developing a framework for involving the private sector in preventing and resolving crises. The inclusion in bond contracts of collective action clauses is an important step toward

this goal. But larger numbers of developed countries must follow the examples of the United Kingdom and Canada by introducing such clauses in their bond issues, before it will be possible for developing countries to follow suit. The developing countries must proceed with caution, in this matter as in others, to avoid triggering a general increase in their borrowing costs as a group. We broadly agree on the current framework for involving the private sector in crisis resolution.

We also support the initiatives aimed at promoting countries' ownership of Fund-supported programs. Appropriate consultations with all social partners in a society, leading to a common diagnosis regarding the country's problems agreed by the staff and the authorities, are essential to the success of a program.

To achieve the goals of constructively engaging the private sector, promoting global financial stability, and meeting countries' needs in a rapidly evolving world, the process by which policy is made by international organizations must give more heed to the voice and views of the systemically important developing countries. We support Mr. Köhler's strong position in this matter.

Overall, we support the recent efforts to achieve an effective coordination and division of labor between the Bank and the Fund and wish every success to the managements and Boards of these institutions in their efforts to achieve the goals set for them during these meetings.

Finally, I would like to brief you on Turkey's disinflation program. This program, which is supported by an IMF Stand-By Arrangement, has three pillars:

- front-loaded fiscal policies, consisting of a set of revenue-raising and expenditure-cutting measures, aimed at eliminating fiscal imbalances;
- continuous implementation of structural reforms in key areas to ensure the sustainability of the fiscal adjustments; and
- a fixed exchange rate policy coupled with a consistent incomes policy to break the inertia of inflation.

So far, progress has been encouraging on all these fronts. The inflation rate has fallen substantially, and the central government's debt stock has been reduced, partly with a push from an over performance of the public sector primary surplus. The program's credibility is reflected in the substantial decrease in interest rates. The Treasury's average borrowing cost has fallen from well over 100 percent to 35–40 percent since the program began.

There have been negative external factors: higher-than-expected oil prices; and the euro's depreciation against the dollar, which has reduced the value of Turkish exports. But we have weathered these problems so far without any major disruption of the disinflation program.

The government has also been implementing massive structural reforms. The social security reform has succeeded in reducing the deficit of social security institutions. The first stage of the agricultural reform has been implemented successfully. And the constitution has been amended to speed up privatization by permitting international arbitration for disputes between the government and foreign investors.

The government has also embarked on an ambitious privatization program that is generating revenues that exceed the total amount of privatization revenues accrued since privatization was launched in 1985.

Turkey's successful program implementation has strengthened the confidence of both domestic and international markets, and increased the government's credibility in the eyes of the public. Turkey's ultimate goal is to join the European Union. Our immediate goal is to meet the EU's requirements by the end of the present three-year program.

TURKMENISTAN: SEITBAY KANDYMOV

Governor of the Fund and the Bank

It is a great honor for me to address the Annual Meeting of the World Bank and the International Monetary Fund. The issues being discussed today are of great importance for participating states and, in particular, for the countries in transition.

Economic rehabilitation is ongoing. Countries in transition during this process were "learning by doing." Each of them developed and introduced their own program of reform. Some of them made greater mistakes than others, some were faster in reform implementation, but all of these countries were following the path toward a market economy.

As one of the countries in transition, we appreciate and support the main principles and strategies of the international financial organizations aimed at assisting the process of transition and reform. The experience has already changed the perception of many international organizations on the issue of the transition process. There is a greater understanding that each country in transition is unique, both in nature and in its approach, to the reform, and the conditions of each country at the beginning of transition were very different.

In this regard, we welcome the *World Development Report*, which is being widely discussed today, as it represents the new understanding of the development process, new approaches and strategies aimed at achieving economic growth, and establishes an agenda for the new role and actions of the international development organizations. We welcome the increased attention of the World Bank and IMF to the developing countries' view on development issues. In the years ahead, we hope to see successful implementation of these new strategies.

Diminishing flows of international development assistance represent a growing concern in most of the transition countries. Cuts in development assistance occur at a time when such assistance could be most efficient, based on experiences accumulated during the transition period. Another concern is that priority is given to the countries most advanced in the transition process, while for those that did not take a path of “shock therapy” due to their cultural, economic, and political basis, assistance programs are being drastically cut. I would like to express our sincere hope that the new focus of the international financial organizations will result in sound programs of assistance for the developing countries.

Turkmenistan, following its own way to solve problems related to the process of transition, is undertaking significant steps to foster economic growth and advance the reform process. The economy is steadily growing, with GDP growth rising to 16 percent in 1999 from 5 percent in 1998 and a preliminary estimate for GDP growth in 2000 of 14 percent.

This represents the results of consistent economic policy measures being undertaken by the government. These positive developments were achieved despite the significant external shocks facing the country: the fall of world prices for major export items of Turkmenistan, a slowdown of economic activity in the region after the Russian and world crises, and nonpayment of debts by major debtor countries.

Factors, such as nonfulfillment of international agreements, impede any country’s efforts aimed at achieving growth and economic stability. Therefore, we would welcome more active implementation by the international financial organizations of their roles and mandates: to help strengthen and promote trade and economic cooperation between member states.

In conclusion, I would like to express the sincere appreciation of the government of Turkmenistan for the assistance provided by international donors and international development organizations and the continuous dialogue related to the reform process.

UKRAINE: IGOR MITYUKOV
Alternate Governor of the Fund

The agenda for discussion at these meetings is important but in some respect divisive. The situation in the world economy has turned out to be better than expected at previous meetings or even this past April. Though some regions and countries are experiencing difficulties to a different extent—stemming from volatile energy and commodity prices—most of the world, and transition economies in particular, seem, on balance, to benefit from the surge of global demand. The volatility of energy prices, combined with the significant economic recovery, may

influence the growth and/or inflation as well as the current account projections for many member countries, including Ukraine. But let us not overdramatize the problem, as we may just aggravate it by excessive publicity. We would appreciate it if affected members would receive some clarification about possible mechanisms and instruments for alleviating their hardships stemming from the volatility of energy prices.

We would like to note that capital flows to emerging markets have not resumed to a healthy extent despite renewed prudence in conducting macroeconomic policies and additional and enhanced surveillance by the markets themselves, as well as by multilateral institutions. A deep and frank analysis of the recent crises, as well as a radical shift toward better transparency and accountability by member countries and multilateral institutions might inadvertently have produced a short-term reaction of the capital markets, major investors, and creditors that remain on the side of caution for a while. Digesting all assessments made in public of the various risks may indeed take time for market players.

It is unfortunate that an exposure of international financial institutions (IFIs) to emerging markets under conventional facilities may be steadily decreasing also. We do not doubt the positive effect and importance of the enhanced initiatives toward contingency credit lines, poverty reduction, and debt forgiveness. But important social initiatives coming at the expense of important stabilization and infrastructural development programs may often constitute only the second-best option.

The amount of resources available to international financial institutions may seem sufficient only for the current times of relative global stability, but the overall decrease of both private and official flows to many middle-income countries is regrettable. The almost forgotten SDR allocation may serve as an important cushion in case of any new international emergency. It may be wiser to be prepared for a global liquidity need in advance, as the ratification process is time consuming. The international community may also try to give additional consideration to finding creative ways of securing additional resources for IFIs without adversely affecting their traditional mandate in helping all members with justifiable needs.

An overall direction toward better informing the markets seems to be productive and correctly chosen. To this end, we fully support the idea of a better cooperation and improved dialogue between official and private sectors. This cooperation may decide against a premature establishment of rigid rules for crises resolution, when we may not fully understand as yet how exactly new highly mobile global capital markets work. Asymmetric information could pose a problem too, especially in cases of weaknesses of domestic public institutions.

Ukraine appreciates the valuable assistance received from the Bank and the Fund for institutional development and expects a continuation of the fruitful cooperation with IFIs in this area. We have to admit that it is probably taking a long time to make our institutions fully operational according to modern standards.

In our opinion it would be prudent for both the Bank and the Fund, while paying attention to new and important initiatives, not to sideline their core responsibilities in promoting sound development policies, strengthening the international monetary and financial system, and helping to sustain momentum for the acceleration of international trade. Resistance to the forces of globalization, even during good times, seems to be already on the high side and the risks for reversal of productive interdependence factors may increase if the challenge of worsening times should reemerge at the beginning of the new millennium. Preservation of a cooperative nature in international financial institutions is, in our view, of utmost importance at the turn of the century of the information revolution. It may be the most important guarantee against a repetition of the situation that occurred during the first decades of the outgoing century, when globalization of the industrial revolution was reversed, which resulted in prolonged poverty and major conflicts.

We are observing the discussions about reforming international institutions with great interest and hope that the interests of all borrowers are taken into account in this process. We would call upon the Bank and the Fund to find the right balance between the universal nature of facilities and lending instruments and the specific needs of all various classes of users, including transition economies with an, as of yet, incomplete transformation process. As has been rightly pointed out in the chapter of the *World Economic Outlook* devoted to the accumulated experience of the transition decade, the countries with the most disadvantaged initial conditions happen to receive the least amount of external financing intended to offset these conditions. Some of the blame for that lies with the late start of meaningful reforms, but some of it has stemmed from a scarcity of assistance sources, and even staff shortages at IFIs, or from a lack of attention. This trend seems to continue. Two years after the Russian crisis of 1998, for example, some of the most affected smaller neighboring countries appear to have received less official financing than during the corresponding period before the crisis.

Ukraine has finally reached the point of decisive economic recovery, and we are proud to be overperforming in terms of growth, even if compared to the recently published World Economic Outlook projections for our country. For the first time in the history of cooperation with the Fund, we are meeting mutually agreed quantitative fiscal targets with substantial margins while clearing accumulated social spending arrears from the previous years ahead of schedule. Fiscal improvement has been sustained for almost two years now, and we are working hard toward making the

growth recovery driven more by healthy domestic demand than by predominantly global demand, which is currently the case. Confidence is returning, money demand is growing and economic activity is again coming out of the shadows, while dedollarization has also been sustained. Structural reforms have accelerated to the extent that we firmly believe in resuming the Extended Fund Facility with the Fund in the near future.

We are working hard on improving the transparency of our economic management and privatization and fighting red tape and corruption for the sake of improving the business climate for domestic and foreign investors. It is highly regrettable that even reputable nongovernmental organizations are causing substantial damage to the current Ukrainian authorities by publishing self-invented governance ratings based on data that are perhaps legitimate but long outdated. Ukraine, as many other countries, has been trying hard to be transparent about its institutional weaknesses and existing challenges, and this open attitude should not be discouraged or even punished. We would encourage major legitimate international NGOs and the media to consistently apply the criterion of accountability, not only toward the outside world, but toward themselves, too. At the following stage of the information revolution, more effective mechanisms for evaluating the credibility and reliability of information providers shall inevitably emerge.

From the first day of independence, Ukraine has been very enthusiastic about information technology possibilities. Practically every approved piece of legislation and decision adopted by the executive authorities has been put on the Internet. It helps to launch public discussion and to achieve a necessary openness in order to continuously improve the quality of governance. We are ready to participate in the corresponding pilot initiatives by the World Bank in order to enhance the use of information technology in health care and various other important infrastructural development projects. The strategy of our cooperation with the World Bank until 2003 will also help us with institutional development and environmental protection, solving some new challenges in public health and addressing the problem of poverty. We are looking forward to realizing an array of opportunities coming from this mutually developed document.

We would like to express our great appreciation to the Czech authorities for their hospitality and this wonderful possibility to have these meetings in one of the most ancient, yet modern, and definitely one of the most beautiful cities in the world.

UNITED KINGDOM: GORDON BROWN

Governor of the Fund and Alternate Governor of the Bank

These meetings in Prague provide us with an opportunity to reaffirm our support for the ideals of international cooperation. To send a mes-

sage to the world that in the new world of open capital markets the proper course is not to retreat from global cooperation but to enhance cooperation.

It is fitting that these meetings are held in Prague, this great international city, in a country—the Czech Republic—that is making a success of integration in the world economy. That same spirit of internationalism needs to drive change at the global level—to forge a new year 2000 consensus for growth, stability, and poverty reduction.

When we are next confronted with a challenge to the stability of the global financial system people will not be satisfied by being informed of who had been at which meeting. They will want to know whether we have learned the lessons of the financial crises we faced in 1997 and 1998 and put in place the necessary reforms, from effective early warning procedures to a framework for crisis resolution.

Times of prosperity test our character as much as times of adversity and if we are to use this period of relative stability to best effect we must seize the opportunity to make the reforms we all know are essential. While over the last two years we have made great progress in agreeing on a framework of codes and standards, this framework will work well only if there is a transparent, effective, and authoritative surveillance mechanism at the heart of which is coordination through the Article IV process by the IMF.

If globalization is to work it must work for the poor. We welcome the reforms proposed to enable 20 countries to secure debt relief by the end of this year. But we also know that our goal is a virtuous circle of debt relief, poverty relief, and economic development. In the run up to the spring meetings we must look at how, by all our efforts, we can take new measures to move this process forward.

The lesson of recent decades is that no country, rich or poor, can secure high and sustainable growth without pursuing policies for monetary and fiscal stability. That is what we are doing in the UK. In our first three years in government we concentrated on building a platform of economic stability—the only sound platform for an enterprise culture in a global economy, the precondition for all we can achieve.

In a global marketplace with its increased insecurities and volatilities, no nation can secure high levels of sustainable investment without ensuring both monetary and fiscal stability. Achieving lasting stability requires a credible framework with clearly defined policy objectives, maximum openness and transparency, and clear and accountable divisions of responsibility.

That is why in Britain we have set a new monetary framework based on consistent rules (the symmetrical inflation target), settled and well understood procedures (with Bank of England independence), openness, and transparency. Side by side with this, and as important, is a new

fiscal discipline with, again, clear and consistent rules (the golden rule for public spending and the sustainable investment rule to ensure long-term fiscal sustainability), well understood procedures (our fiscal stability legislation), and here, too, a new openness and transparency.

Every event, national and international, tests our resolve to end short-termism and to steer a course for long-term stability. I understand the concerns of our exporters about the exchange rate with the euro, and I understand the concerns about world oil prices and petrol prices. When the price of oil shifts from \$10 to over \$30, we should recognize a shared global interest in increased production and a lower more sustainable price. But the proper national response to the volatility and uncertainties of today's global economy is not to lurch, between budgets, from one quick fix or soft option to another. The proper response, together with our international partners, is to maintain a course for long-term stability to ensure economic growth.

We are already enjoying the benefits of our pre-emptive action—a strong and stable economy with low inflation and sound public finances. Inflation has averaged 2.5 percent since we introduced the new monetary framework three years ago and 10 year inflation expectations have fallen from over 4 percent to 2.5 percent, in line with our inflation target. The enhanced credibility of our monetary policy framework has also allowed interest rates to be lower and more stable than in the past. Official interest rates are less than half the level seen a decade ago. We have reduced public debt from 44 percent of GDP in 1997 to around 34 percent and by cutting debt we have cut debt interest payments—releasing money for public services not just for one short year but year on year and in a sustained way. Extra public spending that comes not at the expense of prudence but because of our prudence.

And this stability has allowed the creation of over one million jobs since we came to power in 1997. Unemployment is now the lowest it has been for 20 years. We will continue to take a tough and prudent approach to monetary and fiscal policy based on low inflation and sound public finances.

And while we are achieving stability, now is not a moment for complacency but a time of challenge and opportunity for Britain. Our challenge is through a national productivity drive to bridge the 30 percent productivity gap with our competitors that still exists. We must overcome the old problems of under investment and inadequate skills by reforming our capital and product markets, encouraging innovation and an enterprise culture open to all, as well as building a modern skills base. We said in 1997 that our aim was high and stable levels of growth and employment and that our objective was to raise the trend rate of growth of the UK economy. And this year in our Public Service Agreements, the treasury set the objective of raising the trend growth rate of the UK economy over the next four years.

We can achieve this objective. We have much to learn from the experience of the U.S. economy over the past decade, which has shown how combining stability and fiscal prudence with high levels of investment particularly in the new information technologies can lead to sustained productivity improvements and more higher skilled employment.

But we will not fall into the trap of basing our approach to economic policy, including fiscal policy, on the potential for improvement in trend growth before this has been demonstrably achieved. So we will continue over the coming year with the same deliberately prudent approach to the public finances. We will not make the old British mistake of assuming that a cyclical improvement in the public finances automatically means a structural improvement. And in the Pre-Budget Report we will announce further measures to encourage enterprise, competition, and high quality long-term investment as we steer a course for stability, growth, and rising employment.

UNITED STATES: LAWRENCE H. SUMMERS

Governor of the Bank

As we gather for these meetings we can take some satisfaction that the global economic environment is in many ways more favorable than it has been for some time. Growth in most of the industrial and emerging market economies has strengthened and become more broad-based, and there is the prospect that the imbalance in global demand that has prevailed in recent years will recede. This stronger external environment, in turn, must greatly enhance the outlook for the developing economies in the coming year.

But we must not let these improvements lull us into complacency. In the near term, the sharp rise in the price of oil is an important concern for consumers and businesses around the world and has the potential to hit developing countries particularly hard. Stability in oil markets, around reasonable long-term prices, is strongly in the mutual interest of both oil producing countries and oil consuming countries. In that context, we are pleased that these meetings have afforded an opportunity for countries representing both groups to unite behind this objective.

More broadly, we continue to face the overarching economic and humanitarian challenge of our time: building a successful, truly global economy that works well for all of our peoples. The World Bank and the IMF are at the forefront of global efforts to make globalization work and ensure that it reaches the very poorest. Over the years they have made vital contributions to that goal. But all now recognize that they need to reform and strengthen themselves as institutions to rise to the new challenges that a twenty-first century global economy presents.

Important reform efforts have already begun. This is a reflection of the efforts of the directors, shareholders and staff of these institutions, and the strong leadership of President James Wolfensohn and former Managing Director Michel Camdessus. But we all know that there is a great deal more to be done. And we especially welcome Managing Director Horst Köhler's commitment at these meetings to continuing the work of reform.

Let me briefly address our two central preoccupations as we meet here this week: the creation of a strong and more stable system for capital to flow between nations and into sustainable investment and growth; and the development imperative for the world's poorest countries.

Reform of the International Financial Architecture

In Prague we have taken important further steps toward building an IMF that is more attuned to the dynamics of modern capital markets and able to play a more effective role in the prevention and resolution of financial crises. We especially welcome:

- Confirmation of the IMF Board's agreement to reform the pricing and structure of IMF facilities to enhance the focus on very short-term emergency finance, priced to enhance the incentive to repay.
- The commitment to strengthening further the IMF's surveillance apparatus, with concrete efforts to reorient surveillance toward issues of leverage and financial soundness that have been sources of vulnerability in recent crises.
- Agreement on the need for a review of the scope and nature of conditions in IMF programs, a goal that Managing Director Köhler has strongly endorsed.

We have also begun an important discussion on the continued development of the World Bank's role in the emerging market economies, with agreement on an internal review of the Bank's role in these countries. We believe that this should afford an important opportunity to evaluate the pricing of the Bank's products and to focus the Bank's activities more squarely on activities where it can add value that the private markets cannot.

The Development Imperative in the Poorest Countries

The debt relief issue has given unprecedented global prominence to the plight of the world's poorest countries. This moment of heightened moral energy in support of raising the living standards of the poorest is as welcome as it is rare, and it is incumbent upon all of us who are committed to the global development effort that we use this moment to maximum effect.

That is why it is so vitally important that the HIPC Initiative work, and that it make a real difference to people's lives. To be sure, in order to make a real difference, debt relief has to be provided. To that end we welcome the commitments that the institutions have made here in Prague to doing everything possible to ensure that 20 countries qualify by the end of the year, and to minimize the risk of a needless bureaucratic delay.

At the same time, in order to make a real difference, debt relief has to result in a change of policies and resource flows in these countries that will actually work to reduce poverty and lay the basis for more enduring and inclusive economic growth. We would do a grave disservice to all those who believe in this effort, and ultimately to these countries' own people, if debt relief were to be provided without a credible basis for assuring that the savings will be effectively rechanneled into health care, education, and other central priorities.

For HIPC to succeed over the longer term it must also represent a change in a country's position in the international financial system. We must ensure that the debt is reduced enough to assure sustainability going forward. That is why President Clinton, at these meetings in Washington last year, led the call for providing 100 percent relief of bilateral debt to countries that qualify for HIPC. It is also essential that we assure that countries that have received debt relief are not burdened with new debts that recreate old problems of sustainability.

To that end, as we consider how concessional assistance to the poorest countries can best be provided in the future, the United States is today calling for serious consideration to the creation of a 100 percent concessional window for the provision of pure grant finance within IDA. Grant finance would have three crucial advantages:

- It would obviate concerns about future repayment.
- It would allow for a broader range of channels through which support can be provided in contexts where existing government institutions are poorly placed to deliver results.
- And it would provide an especially effective way of channeling support to crucial human development projects—such as the fight against HIV/AIDS—whose benefits will not be measured in dollars and cents.

More broadly, if we are truly to realize the special significance of this millennial moment, we must redouble our efforts to ensure that its spirit lives on, not just in the official support that is provide the HIPC countries, but in all our efforts to support development in the poorest countries going forward.

In that context, we believe that the Bank's shareholders need to reaffirm and act on their commitment at the Dakar education summit last

April to a global initiative in support of primary education, especially for girls. The Bank can and must play a central role in making this initiative a reality. We also welcome the agreement here in Prague to expand the Bank's support for global public goods, such as the development of effective treatments and vaccines for infectious diseases, such as HIV/AIDS and malaria; protecting the environment; and support for promising agricultural research. In that context we call on Ministers to support an early increase in Development Grant Facility funding, targeted to these three areas, and to work to identify internal funds for this vital objective.

Concluding Remarks

In these and other ways, we can work to ensure that this renewed global focus on the world's poor has an impact well beyond the accident of the calendar that has helped give it such force. But at a time when the broader challenge of globalization is also much in everyone's minds, let me end by reemphasizing one crucial development lesson of the century just completed.

That lesson is that there can be no single development today with greater potential to set back the prospects of the world's poorest than a rejection of the goal of successful global economic integration. The world set itself on that course in the late 1920s and 1930s and countries have spent more than 50 years undoing the effects. The great and troubling divergence in national incomes that we see today is not because so many countries are effectively integrating themselves with the global economy—it is because so many countries are not. That is not an argument for integration without rules or an argument for allowing people to be left behind: as President Clinton has said many times, we must build a globalization that works for all of its people. It is the strongest possible argument for our task of making global economic integration succeed.

VIETNAM: LE DUC THUY

Governor of the Fund

On behalf of the delegation of the Socialist Republic of Vietnam, I would like to express our gratitude to the management of the IMF and the Bank, the Joint Secretariat, and the host government of the Czech Republic for facilitating the attendance of delegates from member countries at the IMF/WB Annual Meetings in the beautiful city of Prague. Let me take this opportunity to warmly congratulate the new Managing Director, Horst Köhler, and James Wolfensohn on his second term.

These Annual Meetings take place in the context of the rapid recovery of the world economy in late 1999 and the prospect of stronger

growth in 2000. Economic and financial conditions in most regions of the world have improved, and many developed and developing countries have been continuing their reform and implementing sound and proper macroeconomic policies. There have been significant signs of growth in Asia, especially in those countries hit by the recent financial crisis. This pace of recovery will provide important momentum for further growth in the future. The Annual Meetings this year are even more important given the fact that the world is entering into a new millennium with both the opportunities and challenges of globalization. In the period ahead, macroeconomic policies directed toward accelerating reform, developing open and competitive markets, and improving developing countries' access to the markets of industrial countries will help maintain and foster the sustainable growth.

Since the previous Annual Meetings, the IMF and the Bank have focused on amending their policies in order to strengthen the international financial system and expand assistance and support to developing countries, especially the poor ones. Over one year of implementation, the Poverty Reduction and Growth Facility, with the aim of further directing economic programs to the objectives of poverty alleviation, has been warmly welcomed by developing member countries and supported by the international community. It is clear that the PRGF will be lending a hand to the Bank's Comprehensive Development Framework and the Initiative for Heavily Indebted Poor Countries (HIPC) which has been implemented over the past years. However, the PRGF, the CDF, and the HIPC will only be brought into full play if their conditionality is closely associated with the specific circumstances of the program countries. In addition, it is my hope that the Fund and the Bank will make further efforts to reform their organization and working procedures and to launch new initiatives, thus contributing to the building of a sound financial world and facilitating the efforts of underdeveloped and developing countries to deal with poverty, overcome the challenges of globalization, and enjoy the appropriate benefits to be brought about by this process.

Over the past year, by adopting wise policies and implementing proper measures, Vietnam has significantly limited the impact of the financial crisis, and gradually restored the growth rate, with noteworthy achievements in many areas, such as bumper rice crops in spite of natural disasters, a marked increase in export, and satisfactory results in poverty reduction. The signing of a Bilateral Trade Agreement with the United States and the ongoing negotiations to join the WTO are evidence of my country's commitment to accelerating reform and actively taking part in global integration, with an appropriate roadmap. The Vietnamese government is focusing all its efforts on overcoming the current difficulties so as to create prerequisites for faster and more sustainable development in the first decades of the new millennium.

In conclusion, I would like to express my belief that, thanks to the enormous efforts of the state and people of Vietnam and the support and assistance of the international community, including the Fund and the Bank, my country will be able to surmount difficulties, to bring internal resources into full play, and to make the best use of external assistance in order to ensure political and socioeconomic stability and to promote economic development with every passing day. May I wish you all the best of health and success in your work.

YEMEN: AHMED MOHAMED SOFAN

Governor of the Bank

(on behalf of the Arab Governors)

It is my honor to deliver, on behalf of the Arab Governors, the statement for the group of Arab countries at the Annual Meetings of the International Monetary Fund and the World Bank for the year 2000. I would like to congratulate you on your election as chairman of the Boards of Governors, and to thank the government and people of the Czech Republic for their kind hospitality in this beautiful country and historic city, and for their successful preparations for this important meeting, which we hope will be most fruitful. We also congratulate Mr. Horst Köhler on his appointment as Managing Director of the International Monetary Fund, wishing him success in his mission and looking forward to his effective leadership at the helm of this important international organization. We also thank Mr. James Wolfensohn, the President of the World Bank, for his sustained efforts to achieve the goals of the World Bank Group in fighting poverty and fostering sustainable growth in the economies of the developing countries.

It is gratifying that our entry into the twenty-first century is being heralded by a general improvement in global economic and financial conditions. Notwithstanding the persistence of large imbalances in the external sectors of the three major currency areas, it is notable that the rebound in the global economy following the 1997–98 slowdown has gained considerable momentum and global growth for 2000 appears to be stronger than projected earlier. Capital flows to emerging markets have also improved, and an increasing number of developing countries continue to move forward in their efforts to better integrate their economies into the global system.

We welcome the Fund's efforts to enhance the efficacy and stability of the global financial system and underscore the importance of active participation by all players in the current debate surrounding the reform of the global financial architecture. Developing countries, including the Arab countries, feel that, despite their growing role in the global economy,

their views and needs are not accorded sufficient attention in the ongoing debate. We call for a strengthened dialogue between industrial and developing countries, and underscore that the International Monetary Fund, in view of its universal membership, should remain the appropriate venue for global consultations and dialogue on global financial issues. Here, it is well to highlight the importance of reviewing the quota calculation formula in order to reflect the increasing role of developing countries in the global economy.

It is disappointing that in this era of global prosperity, development aid from industrial countries continues to decline as a share of GDP and industrial countries continue to maintain barriers in the face of developing countries' exports, thereby fostering increased disillusionment with the fairness of the global system. At the same time, the HIPC Initiative is not proceeding as speedily as we all hoped it would. We call on the international community to strengthen its efforts to provide assistance to eligible countries in a timely manner. However, it is essential that the provision of resources for debt relief to the HIPC countries should not be made at the expense of aid provided to other developing countries. It is also important to maintain the financial integrity of regional financial institutions as we assess their possible contribution to the HIPC Initiative. We hope that attention will also be paid to the problems faced by the heavily indebted middle-income countries. We also call on the industrial countries to meaningfully open their markets to the exports of developing countries, and to implement the obligations agreed to in the Uruguay Trade Round. The entry of developing countries into the World Trade Organization should also be facilitated, and the continuous addition of conditions for membership should be avoided. Industrial countries should also refrain from excessive use of antidumping duties, so that these do not become a disguised form of protection.

The Arab countries endorse the efforts directed at enhancing the functioning of the global economy and increasing the effectiveness of the Bretton Woods institutions in their support of member countries' development efforts. We particularly endorse the joint vision advanced by the management of the two institutions, which refocuses the functions of each institution within its mandate. As we continue to develop and build the new global architecture, however, we would emphasize the importance of not undermining the Fund's primary role in assisting its members in their adjustment efforts—bearing in mind that the availability of the Fund's general financial resources to meet members' temporary balance of payments needs is a fundamental right of all members. The Fund should encourage countries to seek assistance at an early stage of their difficulties. We therefore caution against setting up disincentives that may discourage members from seeking early Fund assistance.

At the same time, it is important for the Fund to foster greater ownership of reform programs by giving reforming countries a larger role in set-

ting program objectives and in designing the policy measures needed to achieve them, as well as allowing more flexible timetables for agreed policy measures. Conditionality should focus on measures considered crucial for the success of programs. As to the Fund's role in developing and disseminating standards and codes, while welcoming Fund involvement, we would emphasize the need to take into consideration the specific circumstances of member countries in determining the appropriateness of these standards and codes and the speed with which they should be introduced.

While still on the implementation of internationally accepted standards and codes, we would like to draw attention to the risks surrounding the proliferation of bodies charged with the task of assuring widespread implementation of codes aimed at preventing international financial abuses. We favor assigning one international institution with global representation with the task of coordinating international efforts in this area. In this connection, we would like to express our dissatisfaction with the recent report of the Financial Stability Forum, which included an unfair classification of offshore financial centers.

Allow me to turn to issues related to the World Bank, where a number of commendable initiatives have been undertaken to diversify and expand the World Bank Group's activities aimed at reducing poverty, which remains widespread in too many parts of the world. We would like to commend the Bank's efforts aimed at enhancing the quality of project financing and welcome the positive results achieved so far. However, we would like to express our concern with regard to the drop in the volume of loans and credits, which fell by half during the past year. The drop in loans to countries in the Arab region has been even larger. While it is clear that the main reason for the drop in global lending operations was the improvement in the economies affected by the global financial crisis, other factors also appear to have played a part. We note, in particular, the increased cost of borrowing, partly as a result of the rise in charges paid by the Bank's borrowers. We urge the Bank's management to accord increased attention to these factors in order to enable the Bank to achieve its comprehensive development objectives.

We support the expansion by the World Bank Group in providing nonlending services to developing countries, including the Arab countries. This approach will strengthen our countries' abilities to benefit from the various international developments in the fields of information and technology as well as from the experience of the World Bank Group in the areas of training, and information technology. We also call on the Bank to enhance the quality of the technical assistance provided to non-borrowing countries that bear the cost of these services, to allow these countries to benefit from the consultative services of the Bank in setting their social and economic policies.

We are fully supportive of the increasing importance accorded by the World Bank Group to private sector development and to the general improvement of the investment climate in the developing countries. In this regard, we would like to see the Bank focus more of its activities and investments in the Arab region on financial sector development, the promotion of small and medium enterprises, basic infrastructure development, and the promotion of industries that would increase trade and employment. This should have a positive impact on our economies, especially as many Arab countries have taken wide-ranging measures to liberalize their economies and to improve their investment climates.

In view of the large potential for regional integration among Arab countries, the expansion of the Bank Group's activities on a regional level should enhance growth and employment opportunities in the region as a whole. In this regard, we call on the World Bank Group to pay greater attention to irrigation and water projects while taking full account of the historical rights to water sources based on international law.

Allow me to turn now to some developments in the Arab region. Structural reform programs are being implemented in many countries in the region and have succeeded in diversifying the sources of national income and expanding the base of economic activity. Private sector participation in economic activity has also increased significantly, as many Arab countries have allowed private sector investment in infrastructure and have accelerated privatization of state enterprises. Reform programs have also included the strengthening of banking sector supervision and the modernization of stock market regulations. These reforms have resulted in an improved investment environment in many countries in the region.

Progress in the search for a just, lasting, and comprehensive regional peace agreement is also contributing to an improved investment climate in the Arab region. The conclusion of a comprehensive and just peace is obviously essential for the well-being of all the peoples of the area, particularly the Palestinian people, who have been suffering for a long time under occupation. We therefore urge the international community to intensify its efforts in support of reaching a just and comprehensive peace that ensures the right of the Palestinian people to return to their homeland.

In this connection, we commend the World Bank Group for its role in support of post-conflict countries, and while noting in particular, its effective role in support of the Palestinian National Authority, we call on the Bank to increase the assistance directed at improving the living conditions of the Palestinian people. We also urge the World Bank Group and the donor community to take an active role in supporting the reconstruction of southern Lebanon, which has also suffered from occupation that has resulted in the displacement of the population, the destruction

of the area's infrastructure, and an attempt to economically separate the region from the rest of the country.

Before I conclude, I would like to touch on the recent developments in the international oil market. While emphasizing the importance we attach to stability in the international oil market, it is well to note that the responsibility for maintaining this stability lies with both oil producers and consumers. The oil-producing countries have undertaken the necessary measures to increase production. There is also scope for the oil-consuming countries to contribute to the stability of prices by lowering the high taxes imposed on oil products and by equalizing the taxes on the various sources of energy. However, it should be noted that stability should apply to both sudden excessive drops in price as well as sudden excessive increases, so that the interests of both the producing and consuming countries are protected.

**CONCLUDING REMARKS BY JAMES D. WOLFENSOHN
PRESIDENT OF THE WORLD BANK GROUP**

Mr. Chairman, Governors, ladies and gentlemen, let me start by adding my personal thanks also to the government of the Czech Republic, the authorities of Prague, Mr. Hrubý, Mr. Vodička, Police President Kolář, and all those that have done so much to make these meetings such a great success.

I share with my colleagues the feeling of distress as to the problems that have arisen in the streets. But try to take some comfort from the fact that there were many among them who really cared, and how much they regret, and we regret, that there were those whose sole purpose was destruction, which colored the occurrence outside these buildings.

For us, these meetings have been extraordinarily valuable. The interchange that we have had with you bilaterally and in this room have enriched our deliberations at the Bank and have given us confidence that we are moving on the right track. What I took from this meeting was that there is a consensus that is shared between the Fund and ourselves but also with all of you that poverty is central to our mission, that globalization presents both opportunities and challenges, and that our task is to maximize the advantages of globalization and help those who are challenged by it.

But through it, we must never forget that the benefits must accrue to an ever-broadening number of people, those that are in poverty and those that are disadvantaged, because the issue of poverty is, I believe, the issue of our future peace.

I was also very encouraged by your support of the approach that Horst Köhler has referred to, and which has come through in the meetings so well, the Poverty Reduction Strategy Papers and the Comprehensive Framework, which contain some very important elements.

The first is that the programs themselves should be country owned and country led, that the notion of imposition of conditions or of preset plans is not acceptable, although the issue of appropriate conditions seemed to be accepted by all. We have a task to ensure that the necessary conditions are understood by, accepted by, and indeed embraced by our client countries, and that the programs that we develop are owned in a cooperative way and country led.

I was also much encouraged by your recognition of the need for cooperation, not only between the Bank and the Fund—and I share with Horst a feeling of gratitude to all of you for your recognition of our joint statement—but that that feeling of cooperation should expand further and should include bilateral and multilateral institutions of the United Nations system and all those involved at the official level in the issue of

development, but going beyond that to embrace the private sector and many facets of civil society.

I think there was significant support for the belief that development is not an easy issue, that, as Horst has said, the stability of the financial system and growth are fundamental, but beyond that, the issue of equity must be protected, and the way in which we can be effective must include participation by all. Surely we in our institution—working with the Fund—will be looking for further outreach and further participation under the leadership of the governments of the countries with whom we deal, seeking to weld a consensus and to address development not as an overnight issue but as a long-term consistent process in which continued support is required in good times and in bad.

I was also grateful for the many references to the work that needs to be done in the field of information technology as a means of reaching out and enfranchising people in poverty—but more than that, as a means for accelerating development throughout the world. Certainly we are committed to pressing forward in the area of information technology and to making it a true tool for enhancing the effectiveness of the development programs that we put together. In this context, of course, building capacity among our client governments becomes an issue that has a broader possibility, and one in which we and our institution will be seeking to take advantage of it.

Another thing that became clear in these meetings is the recognition that the development contract has two sides, the side of the governments of the countries that are developing, and that this responsibility and accountability to the peoples of those countries is widely recognized. We also commented, I believe, on the many advances that have been made in the developing countries through these recent years.

But focus has also been placed on the responsibility of developed countries to not only provide assistance in the form of increased official development assistance, but also to provide other forms of assistance and support beyond money, and particularly in the areas of trade and the opening of markets.

We have also commented on the type of problems that come forth when there are commodity price fluctuations, notably in oil, but also in export prices, to which special attention needs to be given by the global community.

Indeed, these meetings were very rich. Horst Köhler has already commented on our joint efforts on HIPC and our joint commitment for the end of this year to advance as many countries to the decision point as possible within the framework of appropriate understandings as to their poverty reduction strategy and to the direction and use of funds.

And finally, I was pleased that so many Governors referred to the challenge of HIV/AIDS, as well as other communicable diseases. On the

issue of HIV/AIDS, there was a general recognition that, in many parts of the world and notably Africa, the issue of HIV/AIDS is not just another health problem. It is at the core of the development problem and an issue of enormous human proportions. We should recall the President Havel's introduction, an introduction that I shall long remember, since he lifted the debate to the level of humanity and ethical values. And in that context, we must surely think in terms of the challenge of HIV/AIDS.

This now gives me a chance, Mr. Chairman, to commend you on your chairmanship. The fact that you were able to encourage people to speak so eloquently and in such a focused manner, that you got through 47 speeches in record time is surely a record, but one that I know the incoming Chairman of the Board of Governors may be counted on for next year. I want to welcome you, Mr. Governor, and Costa Rica, and indeed your whole constituency, to the chairmanship of the Bretton Woods institutions. I look forward to working with you in this coming year. May I finally wish you all a safe trip home. I appreciate very much the friendship and the support that you have offered to me and to my colleagues while you have been here, and I look forward to seeing you at coming meetings.

CONCLUDING REMARKS BY THE CHAIRMAN THE HONORABLE TREVOR ANDREW MANUEL

Fellow Governors, ladies and gentlemen, we concluded these meetings—the first of the new millennium—in record time. Three weeks ago our heads of state and government convened at the United Nations in New York for the Millennium Summit. Key among the issues under discussion were issues relating to global governance, and one of the important themes was, indeed, the financing of development. Also, very strong appeal was made for us to do things differently in the millennium, and I think it is important to reflect on our current meetings within that context also.

These Annual Meetings opened with four addresses that resonated very strongly and contained very strong threads throughout. As both Mr. Wolfensohn and Mr. Köhler just reminded us, President Havel in his contributions yesterday lifted the debate. Importantly, those four speeches focused largely on people and on elaborating a grander vision for our endeavors. There are six broad areas that we need to constantly remind ourselves of: first, values; second, the benefits of globalization; third, the reality of inequality and poverty that obtains; fourth, our mutual responsibility to deal with these issues as they exist; fifth, the need for institutional support in dealing with this challenge; and, sixth, that this is a moment in world and economic history that we need to understand in order to act appropriately.

From the addresses by Governors, I have noted that eight broad themes emerged. First, on the role of the Bank and the Fund, there was commendation for the joint statement of the Managing Director at the Fund and the President of the Bank. Issues were also raised about matters relating development financing and, as one Governor put it, the cost of doing business with the institutions. Governors also discussed issues that are outstanding in efforts to address global governance, such as the matter of money laundering.

Second, there was much discussion on the need for reform of the institutions. A number of Governors mentioned the need for a stronger voice for developing countries. A variety of views were expressed on matters relating to the important work on the review of the calculation and distribution of quotas. Also, many Governors addressed matters relating to the programs and products delivered by the Bretton Woods Institutions to its members.

Third, matters of domestic governance were raised, and it is interesting to note that we, as Finance Ministers and Central Bank Governors, share with our colleagues the progress we are making toward democratization of our own countries. The degree of similarity that now obtains

in respect to governance is remarkable and welcome. Related to this was the theme of regional governance, and in this context, I commend the Governors who spoke on behalf of regions. The disconcertible similarities and economic convergence that takes place when different countries work closely together is clear.

Fourth, issues concerning stability were raised. Just two years ago, there had been much focus on issues relating to financial stability, and this year the issue of stability was addressed through matters relating to the oil price. It received a fair amount of attention certainly in the report by the Chairman of the IMFC, but it was also raised by a number of Governors from both oil-producing and oil-importing countries. The similarities between the issues we discussed two years ago on financial flows and now on the oil price certainly stand out as something that we need to take account of going forward. But very importantly, there was a salutary message from some Governors that, on financial flows, we should not forget about the associated risks, despite their apparent remission over the past two years. In this regard, Governors stressed that there was no room for complacency, and that we should take advantage of the current, positive economic conjuncture to implement much-needed reforms. Part of the objectives of both the Bank and Fund is to provide greater stability, and the commitment that Mr. Köhler made yesterday to strengthen crisis prevention is important in this context.

Fifth, Governors have shared with us developments in their own countries, and it is striking to see the similarities in macroeconomic development and change within countries. However, there was a very timely warning from the Governor of New Zealand this morning, that we must guard against the notion that “one size fits all” when providing advice on economic reforms. And here, we come back to one of the other themes raised in the four opening speeches—that of the benefits of globalization. In this regard, an important question to address is who is inside and who is outside. Let us recall that we also had Governors talk about the ongoing challenges of being commodity producers, often of individual agricultural commodities. CARICOM’s statement in this regard was exceedingly important. In this context, where countries start out poor, where they are commodity suppliers to large markets, where access to trade opportunities is a problem, where the level of poverty has meant that human capacity development has not been adequately attended to, I think we arrive back to this issue of who is benefiting fully from globalization and who is not. As countries try to implement macroeconomic change and understand that macroeconomic sustainability is a necessary but not sufficient condition, we come back to the role of the Bank and the Fund.

The sixth broad theme that emerged dealt with the importance of immediate and substantial debt relief. In this regard, it is important not

just to deal with the past, but also to deal with the future, and here I would like to welcome the calls across the board for faster and deeper debt relief and also welcome the new commitments made by a number of countries to speed up the provision of bilateral debt relief.

The seventh theme dealt with equity, especially in respect to interdependence, but also dealing with the issues relating to oil, foreign direct investment, trade and official development assistance.

The last of the themes that emerged very strongly related to the importance of effective communications. What is wrong with what we do? What distinguishes us here from those on the streets? I would like to add my voice to the distinction made between, on the one hand, peaceful activists and non-governmental organizations, some of whom have been present through these meetings, and on the other hand, those who were bent on destruction. That distinction was made by a number of speakers today, but echoed very strongly by both Mr. Köhler and Mr. Wolfensohn.

Issues regarding communications are exceedingly important. The commitment from Mr. Wolfensohn and Mr. Köhler to turn these Bretton Woods institutions into listening organizations is one that we must welcome. We have all said that these institutions need to be responsive to our needs, and they need to develop strong threads so that we take the development challenge forward very strongly. What was also very encouraging was the degree of support from all Governors for the vision raised by both Mr. Köhler, in describing the IMF that he would like to construct under his tenure, and the new set of commitments made by Mr. Wolfensohn. But effective communication must also carry through to a series of difficult issues. We must recognize that some of those tough issues were raised as disagreements between Governors, so these meetings were not just about consensus.

The approach to the oil price was raised. Debt relief was raised. Globalization and its benefits, who is in and who is out, and what the causalities are were raised. Also, comments about how true we remain to the Articles of Agreements of the Bank and the Fund were raised.

The philosopher, Richard Rorty, who has argued that we no longer live in a world of certainties, but one in which the truth that we seek and follow are truths that we arrive at through dialogue, debate, and discussion. Truth is a point of view for which we can make the most convincing argument, Rorty says. I believe that the Fund and the Bank have an important role to play in ensuring that we arrive at a more equitable set of outcomes so that we improve the quality of life for all. Yet, to do this, we need to hear the voices of those who sometimes have been silenced in the quest for truth. The voice of developing and emerging countries must now be heard. We will look to the continued strong and very capable leadership of Horst Köhler and Jim Wolfensohn to deliver that truth to this and the next generation.

Let me conclude by firstly thanking all of the Governors for the collaboration that has made the task of chairing these meetings as easy as it has been. I would like to thank the staff of the Joint Secretariat, and especially Ms. Patricia Davies, for their role, in conjunction with the Czech authorities, in ensuring such excellent arrangements for our meetings.

I would also like to thank the staff who were assigned to me in the Office of the Chair, who were very capable, pleasant, and efficient. I would like to again thank the government and the people of the Czech Republic, in particular those from Prague. I would like to congratulate the Governor from Costa Rica, who succeeds me as incoming Chairman of the Boards of Governors. In closing, I would like to remind all of us of what we said yesterday, that our task is to turn words into deeds, and in this, we cannot and must not fail. Before adjourning, I would like to wish all the Governors and Delegates a safe journey home, and I hereby adjourn the 2000 Annual Meetings of the Boards of Governors of the International Monetary Fund and the World Bank Group.

COSTA RICA: EDUARDO LIZANO FAIT

Governor of the Fund

On behalf of the countries of Latin America and my own country, Costa Rica, I wish to express my sincere gratitude having been honored with the appointment as a Chairman of the Boards of Governors of the World Bank Group and the International Monetary Fund for the coming year. I would also like to express my gratitude to the Honorable Trevor Andrew Manuel, Minister of Finance of the Republic of South Africa, for the notable contributions he has made as Chairman of the Boards of Governors. His interest in so many issues has been remarkable, and his commitment to allow the voice of all members to be heard is an example I plan to follow.

On behalf of the Latin American region I would like to greet Mr. Horst Köhler, Managing Director of the Fund, and express our support and wishes for his success. We welcome the attention he has given to the participation of developing countries in the shaping of the new financial architecture. In this respect, his decision to visit our region almost immediately after taking office was especially important to us.

During the past year, Latin America has continued to consolidate its rebound from the crisis that affected emerging markets in 1997, 1998, and 1999. After applying strong adjustment programs, economic performance in the region has improved, supported mainly by a positive export performance. Inflation has remained in the single digits in most countries, and the current account deficit for the region, relative to GDP, is expected to narrow somewhat in 2000.

Over the past few years, the region has made considerable efforts to reduce its external sector vulnerabilities. Even though the dependence on external capital flows has been reduced, mainly by strengthening the fiscal stance and improving debt management, the region will continue to demand foreign resources on a net basis. The region's governments are aware of the volatility of such flows, which explains in part their concerted effort to rapidly improve the economic fundamentals, relying mostly on fiscal consolidation, monetary prudence, better supervision, and regulation of the financial sector, and trade liberalization.

Notwithstanding the general improvement of the region, economic development in Latin America has been uneven. Some countries have been particularly affected by a substantial worsening of the terms of trade, by the fluctuations of the exchange rates among the three main currencies of the world, and by natural disasters. These events have in many cases affected adversely the external positions, put pressures on the foreign exchange markets, and aggravated poverty conditions. These developments have forced countries to undertake restrictive policy measures, as they sought to maintain stable macroeconomic conditions, but

the net cost has been high in terms of undermining possibilities for achieving faster growth and improving the living conditions of the poor. The incidence of these problems has been concentrated among the low and very low-income countries, including the HIPC countries of the region.

For these reasons, among others, we are concerned with the slow progress in the financing of the HIPC Initiative, a situation that could imply delays in providing debt relief to countries that have already qualified for such assistance. It is also worrisome that a solution has not been found to a structural problem that the HIPC Initiative has, namely, that it calls upon poor countries, including in some cases HIPC countries, to provide substantial debt relief to the poorest countries. These issues deserve in our view major attention from the international financial community.

Developing countries—not only from my region—could benefit greatly from a further opening to trade by the industrial countries. Both Mr. Köhler and Mr. Wolfensohn have emphasized this issue in their opening statements of this Annual Meeting. In this respect, it is essential to move from words to deeds, as Mr. Manuel demanded in his statement at the plenary session two days ago. The efforts by the poor countries to bring their economies to a path of sustainable growth with low inflation will not be completely possible if the size of the markets for their products is not enlarged. At the same time, the opening of the markets of the industrial countries would allow poor countries to benefit from goods, investments, and technology transfers from abroad, entering into a virtuous circle that would represent a tangible example that globalization can benefit everybody, not just a privileged group of countries or individuals.

The cooperative spirit that should prevail in the world would also be enhanced if industrialized countries would consider more seriously the consequences on developing countries of their actions, in particular in respect to exchange and monetary policy actions.

As I assume the responsibility as Chairman of the Boards of the Governors of the Bretton Woods institutions for the coming year, I am conscious of the need to broaden the agenda in order to strengthen global cooperation. While the overall outlook of the world economy is encouraging, we have to remind ourselves constantly that risks and uncertainties remain, and that there is no room for complacency. I share the view that the Fund and the Bank have an important role to play in ensuring an effective functioning of the international financial system, and to improve the quality of life of the world population through better serving the needs of the poor countries. The strategy for moving forward that Mr. Köhler and Mr. Wolfensohn presented to us during these days in Prague is aggressive, but at the same time consistent and well thought out, a factor that allows us to envisage some light at the end of the tun-

nel. I am confident that the joint commitment of our two institutions, coupled with the valuable personal commitment of both Mr. Köhler and Mr. Wolfensohn, will ensure that the benefits of globalization not only will be enlarged, but more important, that it will reach everybody in the globe, especially the poorest among us.

There is still much that needs to be done. Let me invite all of you to continue working as partners in forging a better world for tomorrow. I look forward to working for you and with you as we move toward next year's Annual Meeting in Washington D.C.

**DOCUMENTS OF THE BOARD OF GOVERNORS
SCHEDULE OF MEETINGS^{1,2}**

<i>Tuesday</i>		
September 26	10:00 a.m.	Opening Ceremonies Address from the Chair Annual Address by Managing Director, International Monetary Fund Annual Address by President, World Bank Group ³
	3:00 p.m.	Annual Discussion
<i>Wednesday</i>		
September 27	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
<i>Thursday</i>		
September 28	9:30 a.m.	Annual Discussion
	Following the conclusion of the Annual Discussion	Procedures Committees Reports Comments by Heads of Organizations Adjournment

¹ *This schedule of meetings represents the original plan of meetings. However, the schedule was amended to bring the meetings to a close at 5:36 p.m. on Wednesday, September 27.*

² *All sessions were joint sessions with the Board of Governors of the International Monetary Fund.*

³ *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 MEETINGS¹

ADMISSION

1. Sessions of the Boards of Governors of the International Monetary Fund and the World Bank Group 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.

PROCEDURES 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 Managing Director of the International Monetary Fund, the President of the World Bank Group, 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 Managing Director of the International Monetary Fund and the President of the World Bank Group will communicate to the press such information concerning the proceedings of the Annual Meetings as they may deem suitable.

¹ *Approved on March 22, 2000, pursuant to the By-Laws, IBRD Section 5(d), IFC Section 4(d) and IDA Section 1(a)*

BANK AGENDA¹

1. 1999/2000 Annual Report
2. Financial Statements and Annual Audit
3. Allocation of FY2000 Net Income
4. Administrative Budget for FY2001
5. Annual Report of the Development Committee
6. 2000 Regular Election of Executive Directors
7. Selection of Officers and Joint Procedures Committee for 2000/01

IFC

1. 1999/2000 Annual Report
2. Financial Statements and Annual Audit
3. Administrative Budget for FY2001

IDA

1. 1999/2000 Annual Report
2. Financial Statements and Annual Audit
3. Administrative Budget for FY2001

MIGA²

1. 1999/2000 Annual Report
2. MIGA Review of 2000 in Accordance with Article 67 of the MIGA Convention
3. 2000 Regular Election of Directors
4. Selection of Officers and MIGA Procedures Committee for 2000/01

¹ *Approved on August 11, 2000 pursuant to the By-Laws, IBRD Section 5 (a), IFC Section 4(a), IDA Section 1(a).*

² *Approved on August 11, 2000 pursuant to Section 4(a) of the MIGA By-Laws.*

**REPORT OF THE
JOINT PROCEDURES COMMITTEE**

REPORT II¹

September 27, 2000

At the meeting of the Joint Procedures Committee held on September 27, 2000, items of business on the agenda 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. *2000 Annual Report*

The Committee noted that the 2000 Annual Report and the activities of the Bank and IDA had been discussed at these Annual Meetings.

2. *2000 Regular Election of Executive Directors*

The Committee noted that the 2000 Regular Election of Executive Directors of the Bank had taken place and that the next Regular Election of Executive Directors will take place at the Annual Meetings of the Boards of Governors in 2002.....²

3. *Financial Statements, Annual Audits, and Administrative Budgets*

The Committee considered the Financial Statements, Accountants' Reports, and Administrative Budgets contained in the 2000 Bank and IDA Annual Report, together with the Report dated June 29, 2000.

The Committee recommends that the Boards of Governors of the Bank and IDA adopt the draft resolutions....³

¹ Report I related to business of the Fund.

² See page 265.

³ See page 266 and 271.

4. *Allocation of FY00 Net Income of the Bank*

The Committee considered the Report of the Executive Directors, dated August 1, 2000, on the Allocation of FY00 Net Income....¹

The Committee recommends that the Board of Governors of the Bank adopt the draft resolution....²

The Committee submits the following report and recommendations on IFC business:

1. *2000 Annual Report*

The Committee noted that the 2000 Annual Report and the activities of the IFC had been discussed at these Annual Meetings.

2. *Financial Statements, Annual Audit, and Administrative Budget*

The Committee considered the Financial Statements and the Accountants' Report contained in the 2000 Annual Report, and the Administrative Budget attached to the Report, dated June 22, 2000.

The Committee recommends that the Board of Governors of IFC adopt the draft resolution....³

Approved:

/s/Trevor Andrew Manuel
South Africa— *Chairman*

/s/Ahmed S.M. Alosaimi
Saudi Arabia— *Reporting Member*

(This report was approved and its recommendations were adopted by the Boards of Governors on September 27, 2000)

¹ See page 290.

² See page 267.

³ See page 270.

REPORT III

September 27, 2000

The Joint Procedures Committee met on September 27, 2000 and submits the following report and recommendations:

1. Development Committee

The Committee noted that the Report of the Chairman of the Joint Ministerial Committee of the Boards of Governors of the Fund and the Bank on the Transfer of Real Resources to Developing Countries (Development Committee) has been presented to the Boards of Governors of the Fund and Bank pursuant to paragraph 5 of Resolutions Nos. 29-9 and 294 of the Fund and Bank, respectively¹

The Committee recommends that the Boards of Governors of the Fund and the Bank note the report and thank the Development Committee for its work.

2. Officers and Joint Procedures Committee for 2000/01

The Committee recommends that the Governor for Costa Rica be Chairman and that the Governors for Egypt and the Russian Federation be Vice Chairmen of the Boards of Governors of the Fund and of the World Bank Group, 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: Chile, China, Republic of Congo, Costa Rica, Croatia, Egypt, Finland, France, Germany, Italy, Japan, Lao People's Democratic Republic, Madagascar, Namibia, Palau, the Russian Federation, St. Vincent, Saudi Arabia, Tanzania, Trinidad and Tobago, Turkmenistan, the United Kingdom, and the United States.

¹ See page 24.

It is recommended that the Chairman of the Joint Procedures Committee shall be the Governor for Costa Rica, and the Vice Chairmen shall be the Governors for Egypt and the Russian Federation, and that the Governor for Palau shall serve as Reporting Member.

Approved:

/s/Trevor Andrew Manuel
South Africa—*Chairman*

/s/Ahmed S.M. Alosaimi
Saudi Arabia—*Reporting Member*

(This report was approved and its recommendations were adopted by the Boards of Governors on September 27, 2000)

**REPORT OF THE
MIGA PROCEDURES COMMITTEE**

REPORT I

September 27, 2000

At the meeting of the MIGA Procedures Committee held on September 27, 2000, 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. *2000 Annual Report*

The Committee noted that the 2000 Annual Report and the activities of MIGA had been discussed at this Annual Meeting.

2. *MIGA Review 2000 in Accordance with Article 67 of MIGA Convention*

The Committee considered the report by the Board of Directors of MIGA dated July 25, 2000 concerning the comprehensive review of the activities, current situation and possible future directions of MIGA in accordance with Article 67 of the MIGA Convention....¹

The Committee recommends that the Council of Governors of MIGA adopt the draft Resolution....²

3. *2000 Election of Directors*

The Committee noted that the 2000 Election of Directors of MIGA had taken place and that the next Election of Directors will take place at the Annual Meeting of the Council of Governors in 2002.

¹ See page 304.

² See page 273.

4. *Officers and Procedures Committee for 2000/01*

The Committee recommends that the Governor for Costa Rica be Chairman and the Governors for Egypt and the Russian Federation be Vice Chairmen of the Council of Governors of MIGA to hold office until the close of the next Annual Meeting.

It is further recommended that a Procedures Committee be established to be available, after the termination of this Annual Meeting and until the close of the next Annual Meeting, 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: Chile, China, Republic of Congo, Costa Rica, Croatia, Egypt, Finland, France, Germany, Italy, Japan, Lao People's Democratic Republic, Madagascar, Namibia, Palau, the Russian Federation, St. Vincent, Saudi Arabia, Tanzania, Trinidad & Tobago, Turkmenistan, the United Kingdom and the United States.

It is recommended that the Chairman of the Procedures Committee shall be the Governor for Costa Rica and the Vice Chairmen shall be the Governors for Egypt and the Russian Federation and that the Governor for Palau shall serve as Reporting Member.

Approved:

/s/Trevor Andrew Manuel
South Africa – *Chairman*

/s/Ahmed S.M. Alosaimi
Saudi Arabia – *Reporting Member*

(This report was approved and its recommendations were adopted by the Council of Governors on September 27, 2000)

**RESOLUTIONS ADOPTED
BY THE BOARD OF GOVERNORS OF THE BANK
BETWEEN THE 1999 AND 2000 ANNUAL MEETINGS**

Resolution No. 531

*Transfer from Surplus to Fund an
Emergency Reconstruction Fund for East Timor*

RESOLVED THAT:

1. The Bank transfer from surplus \$10 million as of the effective date of this resolution to the Trust Fund for East Timor (TFET), established by the International Development Association (the "Association"), such transfer to be drawn down by the Association immediately and used in accordance with the resolution establishing the TFET;
2. The amount of such grant may be converted in whole or in part into other currencies as may be needed for the purposes of the TFET.

(Adopted on March 13, 2000)

Resolution No. 532

Remuneration of the President

WHEREAS the Executive Directors have reviewed the remuneration of the President and have recommended that the salary of the President be adjusted annually on the basis of the Washington metropolitan area consumer price index.

NOW, THEREFORE, the Board of Governors hereby RESOLVES that:

The annual salary of the President shall be adjusted effective July 1, 2000 and each July 1 thereafter by the percentage increase in the Washington metropolitan area consumer price index for the twelve months ending in the preceding May. The applicable index for this purpose shall be the U.S. Bureau of Labor Statistics Regional (Washington, Baltimore, Maryland, Virginia, West Virginia) Consumer Price Index for All Urban Consumers, or the equivalent replacement index.

(Adopted on June 14, 2000)

Resolution No. 533

Membership of the Republic of San Marino

WHEREAS the Government of the Republic of San Marino 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 the Republic of San Marino, have made recommendations to the Board of Governors regarding this application;

WHEREAS, the Republic of San Marino is a member of the International Monetary Fund;

NOW, THEREFORE, the Board of Governors hereby

RESOLVES:

THAT the terms and conditions upon which the Republic of San Marino 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) "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. *Subscription:* By accepting membership in the Bank, the Republic of San Marino shall subscribe to 345 shares of the capital stock of the Bank at par on the terms and conditions set forth or referred to in paragraph 3 hereof.

3. *Payments on Subscription:*
 - (a) Upon accepting membership in the Bank, the Republic of San Marino 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 345 shares subscribed pursuant to paragraph 2 of this resolution:
 - (i) Gold or United States dollars equal to 0.6% (six-tenths of one percent) of the said subscription price; and
 - (ii) An amount in its own currency which, at the appropriate prevailing exchange rate, shall be equal to 5.4% (five and four-tenths of one percent) thereof.
 - (b) The Bank shall call the amounts of subscription under paragraph 2 of this resolution payable under the said Article II, Section 7(i) which are not required to be paid under paragraph 3(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.
4. *Acceptance of Subscription:* Before the Bank shall accept the Republic of San Marino's subscription to the shares set out in paragraph 2 of this resolution, the following action shall have been taken:
 - (a) The Republic of San Marino 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 San Marino shall pay to the Bank the amounts set forth in paragraph 3(a) above.
5. *Representation and Information:* Before accepting membership in the Bank, the Republic of San Marino 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 paragraph 6(c) and (d) of this resolution and the Republic of San Marino shall furnish to the Bank such information in respect of such action as the Bank may request.
6. *Effective Date of Membership:* The Republic of San Marino shall become a member of the Bank with a subscription as set forth in paragraph 2 of this resolution as of the date when the Republic of San Marino shall have:
 - (a) made the payments called for by paragraph 3 of this resolution;
 - (b) furnished the representation, and such information as may have been requested, pursuant to paragraph 5 of this resolution;

- (c) 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
- (d) signed the original Articles held in the archives of the Government of the United States of America.

- 7. *Additional Subscription on Terms and Conditions of the 1979 Additional Capital Increase Resolution:* The Republic of San Marino 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 San Marino may subscribe such shares up to December 31, 2001 or such later date as the Executive Directors may determine.
- 8. *Limitation on Period for Fulfillment of Requirements of Membership:* The Republic of San Marino may fulfill the requirements for membership in the Bank pursuant to this resolution until December 31, 2001, or such later date as the Executive Directors may determine.

(Adopted on July 27, 2000)

Resolution No. 534

Direct Remuneration of Executive Directors and their Alternates

RESOLVED:

THAT, effective July 1, 2000, the remuneration of the Executive Directors of the Bank and their Alternates pursuant to Section 13(e) of the By-Laws shall be paid in the form of salary without a separate supplemental allowance, and such salary shall be paid at the annual rate of \$168,660 per year for Executive Directors and \$145,890 per year for their Alternates.

(Adopted on August 14, 2000)

Resolution No. 535

2000 Regular Election of Executive Directors

RESOLVED:

- (a) THAT the Rules...¹ for the 2000 Regular Election of Executive Directors are hereby approved; and
- (b) THAT a Regular Election of Executive Directors shall take place at the Annual Meeting of the Board of Governors in 2002.

(Adopted on August 28, 2000)

¹ See page 279.

**RESOLUTIONS ADOPTED
BY THE BOARD OF GOVERNORS OF THE BANK
AT THE 2000 ANNUAL MEETING**

Resolution No. 536

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 2000 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 on September 27, 2000)

Resolution No. 537

Resolution of Appreciation

RESOLVED:

THAT the Boards of Governors of the International Monetary Fund and the World Bank Group express their deep appreciation to the Government and people of the Czech Republic and the City of Prague for their warm and gracious hospitality;

THAT they express their gratitude for the outstanding facilities of the Prague Congress Centre made available for the meetings in Prague, and that they express particular appreciation to the Governors and the Alternate Governors for the Czech Republic and to their associates for the many contributions which they made toward ensuring the success of the 2000 Annual Meetings; and

THAT all Annual Meetings participants express their gratitude to the Czech authorities for so effectively ensuring their safety and that of the residents of Prague.

(Adopted on September 27, 2000)

Resolution No. 538

Allocation of FY00 Net Income

RESOLVED:

1. THAT the Report of the Executive Directors dated August 1, 2000 on "Allocation of FY00 Net Income" is hereby noted with approval;
2. THAT the addition to the General Reserve of the Bank of \$871 million, the addition to the General Reserve of the Bank of \$243 million and the addition to the pension reserve of \$166 million, of net income for the fiscal year ended June 30, 2000 (FY00), for the reasons given in the Report of the Executive Directors, are hereby noted with approval;
3. THAT the Bank transfer to the International Development Association, by way of grant out of the Bank's FY00 net income, an amount equivalent to up to \$320 million in SDRs in the component currencies of the SDR as of June 30, 2000, including up to \$20 million in reimbursement of the Association's share of the FY00 cost of implementing the Strategic Compact, such transfer to be made at the times and in the manner decided by the Executive Directors, which amounts may be used by the Association to provide financing in the form of grants in addition to loans;
4. THAT the Bank transfer to the HIPC Debt Initiative Trust Fund, by way of immediate grant out of the Bank's FY00 net income, \$250 million; and
5. THAT the Bank transfer to the Trust Fund for Kosovo, by way of immediate grant out of the Bank's FY00 net income, \$35 million;
6. THAT the Bank transfer \$30 million out of the Bank's FY00 net income for capacity building in Africa, \$5 million by way of immediate grant to the African Capacity Building Fund, \$18 million by way of grant to the financing mechanism, when established, for the Partnership for Capacity Building in Africa, and \$7 million to the Trust Fund for the African Virtual University, upon its establishment; and
7. THAT any excess of FY00 net income over \$1,915 million be retained as surplus.

(Adopted on September 27, 2000)

**RESOLUTION ADOPTED
BY THE BOARD OF GOVERNORS OF IFC
BETWEEN THE 1999 AND 2000 ANNUAL MEETINGS**

Resolution No. 231

Increase of Subscription by the Philippines to the Capital of the Corporation

WHEREAS by Resolution No. 179 (1991 General Capital Increase) adopted by the Board of Governors on May 4, 1992, the authorized capital stock of the International Finance Corporation (the Corporation) was increased by \$1.0 billion in terms of United States dollars, by the creation of 1,000,000 additional shares having a par value of one thousand United States dollars each, and the issuance of all of such shares was authorized as set forth therein; and

WHEREAS the last date as determined by the Board of Directors for subscription to additional shares under the 1991 General Capital Increase and payment therefor by member countries (other than countries for which payment was deferred due to economic hardship, in accordance with Section D.2(d) of the 1991 General Capital Increase) was August 1, 1999; and

WHEREAS the Philippines could not complete payment for the entire number of shares allocated to it for subscription under the 1991 General Capital Increase on or before August 1, 1999; and

WHEREAS in accordance with Section F of the 1991 General Capital Increase any shares of capital stock which remain unsubscribed after the last date prescribed for subscription and payment shall remain authorized and unissued, and issuable by the Corporation in accordance with its Articles of Agreement; and

WHEREAS it would be consistent with the objectives of the 1991 General Capital Increase to enable the Philippines to subscribe in the aggregate to that number of shares which it would otherwise have been authorized to subscribe on or before August 1, 1999;

NOW THEREFORE THE BOARD OF GOVERNORS RESOLVES THAT:

- A. The Philippines is hereby authorized to subscribe up to 1,201 shares of the Corporation on the terms and conditions provided for in this Resolution.

- B. 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.
- C. Payment of the subscription price for shares subscribed shall be made in cash in full upon subscription.
- D. Subscription and payment for shares as authorized hereunder shall be completed on or before December 31, 2000, and such shares remaining unsubscribed after December 31, 2000 shall remain authorized and unissued, issuable by the Corporation in accordance with its Articles of Agreement.

(Adopted on June 23, 2000)

**RESOLUTIONS ADOPTED
BY THE BOARD OF GOVERNORS OF IFC
AT THE 2000 ANNUAL MEETINGS**

Resolution No. 232

Financial Statements, Accountants' Report and Administrative Budget

RESOLVED:

THAT the Board of Governors of the Corporation consider the Financial Statements, Accountants' Report and Administrative Budget, included in the 2000 Annual Report and the Administrative Budget attached to the Report dated July 31, 2000 as fulfilling the requirements of Article IV, Section 11, of the Articles of Agreement and of Section 16 of the By-Laws of the Corporation.

(Adopted on September 27, 2000)

Resolution No. 233

Resolution of Appreciation

RESOLVED:

THAT the Boards of Governors of the International Monetary Fund and the World Bank Group express their deep appreciation to the Government and people of the Czech Republic and the City of Prague for their warm and gracious hospitality;

THAT they express their gratitude for the outstanding facilities of the Prague Congress Centre made available for the meetings in Prague, and that they express particular appreciation to the Governors and the Alternate Governors for the Czech Republic and to their associates for the many contributions which they made toward ensuring the success of the 2000 Annual Meetings; and

THAT all Annual Meetings participants express their gratitude to the Czech authorities for so effectively ensuring their safety and that of the residents of Prague.

(Adopted on September 27, 2000)

**RESOLUTIONS ADOPTED
BY THE BOARD OF GOVERNORS OF IDA
AT THE 2000 ANNUAL MEETINGS**

Resolution No. 196

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 2000 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 on September 27, 2000)

Resolution No. 197

Resolution of Appreciation

RESOLVED:

THAT the Boards of Governors of the International Monetary Fund and the World Bank Group express their deep appreciation to the Government and people of the Czech Republic and the City of Prague for their warm and gracious hospitality;

THAT they express their gratitude for the outstanding facilities of the Prague Congress Centre made available for the meetings in Prague, and that they express particular appreciation to the Governors and the Alternate Governors for the Czech Republic and to their associates for the many contributions which they made toward ensuring the success of the 2000 Annual Meetings; and

THAT all Annual Meetings participants express their gratitude to the Czech authorities for so effectively ensuring their safety and that of the residents of Prague.

(Adopted on September 27, 2000)

**RESOLUTION ADOPTED
BY THE COUNCIL OF GOVERNORS OF MIGA
BETWEEN THE 1999 AND 2000 ANNUAL MEETINGS**

Resolution No. 58

Election of Directors

RESOLVED:

- (a) That the 2000 Regular Election of Directors shall take place in accordance with the Rules...¹.
- (b) That the 2002 Regular Election of Directors shall take place during the 2002 Annual Meeting of the Council of Governors.

(Adopted on August 28, 2000)

¹ See page 296.

**RESOLUTIONS ADOPTED
BY THE COUNCIL OF GOVERNORS OF MIGA
AT THE 2000 ANNUAL MEETINGS**

Resolution No. 59

*Second Review of the Activities of the Agency
in Accordance with Article 67 of the MIGA Convention*

WHEREAS, Article 67 of the MIGA Convention provides that “the Council shall periodically undertake comprehensive reviews of the activities of the Agency as well as the results achieved with a view to introducing any changes required to enhance the Agency’s ability to serve its objectives”;

WHEREAS, on August 1, 1994 the Council of Governors adopted Resolution No. 48 entitled “Review of the Activities of the Agency in Accordance with Article 67 of the MIGA Convention”;

WHEREAS, the above Resolution No. 48 stated among other things: “THAT the next periodic review under Article 67 of MIGA Convention shall be undertaken during fiscal year 2000, unless circumstances require that such a review be conducted earlier”;

WHEREAS, the Board of Directors reviewed the activities of the Agency during the period starting August 1994 through June, 2000, as well as the results achieved, and recommended the actions to be taken in the future to enhance the Agency’s ability to serve its objectives and informed the Council of Governors accordingly;

NOW THEREFORE the Council of Governors hereby:

RESOLVES:

1. THAT, the Council expresses its satisfaction with the continuing growth of the activities of the Agency, including both its guarantee and its technical assistance programs, and the increase in the number of members that have benefited from these programs;
2. THAT, the Council welcomes the actions taken by the Agency to increase cooperation with the other members of the World Bank Group and other international development finance institutions, with the objective to supplement their activities and the interaction

by MIGA with the national and regional entities of members in the political risk investment insurance field, as well as the role played by the Agency in mobilizing guarantee capacity from private insurers, and encourages the Agency to continue its efforts in this regard.

3. THAT, the Council encourages members to subscribe to the capital increase approved by the Council of Governors on March 29, 1999, so that the Agency can continue facilitating the flow of investment for productive purposes to its developing member countries.
4. THAT, the next periodic review under Article 67 of the MIGA Convention shall be undertaken during fiscal year 2005, unless circumstances require that such a review be conducted earlier.

(Adopted on September 27, 2000)

Resolution No. 60

Resolution of Appreciation

RESOLVED:

THAT the Boards of Governors of the International Monetary Fund and the World Bank Group express their deep appreciation to the Government and people of the Czech Republic and the City of Prague for their warm and gracious hospitality;

THAT they express their gratitude for the outstanding facilities of the Prague Congress Centre made available for the meetings in Prague, and that they express particular appreciation to the Governors and the Alternate Governors for the Czech Republic and to their associates for the many contributions which they made toward ensuring the success of the 2000 Annual Meetings; and

THAT all Annual Meetings participants express their gratitude to the Czech authorities for so effectively ensuring their safety and that of the residents of Prague.

(Adopted on September 27, 2000)

REPORTS OF THE EXECUTIVE DIRECTORS OF THE BANK

December 9, 1999

Transfer from Surplus to Fund An Emergency Reconstruction Fund for East Timor

1. In view of the need for emergency reconstruction assistance for the territory of East Timor and in order to promote the purposes of the International Bank for Reconstruction and Development (the "IBRD") and the International Development Association (the "Association") in these circumstances, the Executive Directors consider that a program of assistance for East Timor should be undertaken forthwith as an initiative for the benefit of the members of the IBRD and of the Association. The Executive Directors recommend that the Board of Governors authorize the immediate transfer from surplus of \$10 million to the Trust Fund for East Timor.

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 March 13, 2000)

May 15, 2000

Remuneration of the President

1. As they had indicated to the Board of Governors in their report of June 23, 1999, when they last recommended an adjustment to the President's salary, the Executive Directors have reviewed the process of adjusting the President's remuneration as well as the issue of parallelism with the remuneration of the Managing Director of the International Monetary Fund. This review was conducted in light of recent changes in the remuneration of the Managing Director of the Fund. As described in the attached Annex entitled "Summary of the Proposals on the Remuneration of the President", the Executive Directors have taken into account the need for a systematic approach to adjusting the President's remuneration that reflects annual increases in costs, and the desirability of maintaining essential parity with the remuneration of the Managing Director of the International Monetary Fund.

¹ See page 261.

2. The President's current annual remuneration consists of a salary of US\$247,790 and an allowance for general expenses payable without certification of US\$115,870, for a total remuneration of US\$363,660. The Executive Directors agree that the balance between the two elements of the President's remuneration may remain unchanged. However, it is proposed that, rather than being reviewed at regular intervals by the Executive Directors as has been the practice so far, the two elements of the President's remuneration would be adjusted annually on the basis of the Washington metropolitan area consumer price index by means of an appropriate clause in his contract. The total remuneration, as well as the provision for the annual increase, would be disclosed to the public.

3. While the annual adjustment of the allowance falls within the competence of Executive Directors, the annual adjustment of the salary requires a decision by the Board of Governors.

4. Accordingly, the Executive Directors have approved the submission of the following resolution...¹ to the Board of Governors for a vote without meeting pursuant to Section 12 of the By-Laws:

“WHEREAS the Executive Directors have reviewed the remuneration of the President and have recommended that the salary of the President be adjusted annually on the basis of the Washington metropolitan area consumer price index.

NOW, THEREFORE, the Board of Governors hereby RESOLVES that:

The annual salary of the President shall be adjusted effective July 1, 2000 and each July 1 thereafter by the percentage increase in the Washington metropolitan area consumer price index for the twelve months ending in the preceding May. The applicable index for this purpose shall be the U.S. Bureau of Labor Statistics Regional (Washington, Baltimore, Maryland, Virginia, West Virginia) Consumer Price Index for All Urban Consumers, or the equivalent replacement index.”

(This report was approved and its recommendation was adopted by the Board of Governors on June 14, 2000).

¹ See page 261.

Summary of the Proposals on the Remuneration of the President

The terms and conditions of the current contract of the President remain substantially the same.

The President's current annual salary is US\$247,790, and his annual representation allowance is US\$115,870, for a total remuneration of US\$363,660.

In April 2000, the International Monetary Fund decided to keep the total remuneration of the Managing Director at the current level of US\$363,660, but adjusted the salary upward from US\$247,790 to US\$308,460, and the allowance correspondingly downward, from US\$115,870 to US\$55,200. The Fund also decided that the salary and allowance would be adjusted annually on the basis of the Washington metropolitan area consumer price index.

The Executive Directors agree that the balance between the two elements of the President's remuneration may remain unchanged. However, in light of the Fund's decision to include an annual adjustment in the Managing Director's remuneration and the desirability of maintaining essential parity with respect to the total remuneration of the Bank President, it is proposed that the President's salary and allowance would be subject to annual adjustments in accordance with the percentage increase in the Washington metropolitan area Consumer Price Index for the previous twelve months. Under these arrangements, the President's remuneration would no longer be reviewed at mid-term; however, in the event of any extraordinary events and circumstances, the Executive Directors may review the remuneration of the President. The provisions regarding the supplemental retirement allowance and termination allowance payable to the President upon completion of his service would continue unchanged.

June 14, 2000

Membership of the Republic of San Marino

1. In accordance with Section 19 of the By-Laws of the International Bank for Reconstruction and Development, the application of the Republic of San Marino for membership in the Bank is hereby submitted to the Board of Governors.

2. The draft resolution on membership in the Bank conforms substantially to the pattern for such resolutions.
3. Representatives of the Republic of San Marino have been consulted informally regarding the terms and conditions recommended in the attached draft resolution and they have raised no objection thereto.
4. The draft resolution...¹ is recommended for adoption by the Board of Governors of the Bank.

(This report was approved and its recommendation was adopted by the Board of Governors on July 27, 2000).

July 20, 2000

2000 Regular Election of Executive Directors

1. Pursuant to Resolution No. 522 of the Board of Governors, a Regular Election of Executive Directors will take place at the 2000 Annual Meeting of the Board of Governors.
2. The Executive Directors have noted that the size of the Board was increased to 24 in 1992, after a large increase in the membership, in order to preserve broad geographic representation which permits all major groups of countries to be represented. As in past years, there is strong feeling among the Executive Directors that, in the unlikely event that there was lack of such wide geographical and balanced representation, prompt corrective action would be called for.
3. The Executive Directors recommend that the maximum and minimum percentages of eligible votes required for election of an Executive Director be 10 percent and 2 percent, respectively. They believe that such percentages would provide a range that is broad enough in the circumstances.
4. The Executive Directors recommend that the date from which the 2000 Regular Election will be effective be November 1, 2000.
5. The Executive Directors note that under the Articles of Agreement of the International Finance Corporation (the Corporation) and the International Development Association (the Association) the elected

¹ See page 262.

Directors will serve *ex officio* as members of the Board of Directors of the Corporation and Executive Directors of the Association.

6. The Executive Directors recommend that the subsequent Regular Election of Executive Directors take place at the Annual Meeting of the Board of Governors in 2002.

7. The Executive Directors recommend the adoption by the Board of Governors of the attached Rules for the 2000 Regular Election of Executive Directors.

8. The draft Resolution...¹, embodying the above recommendations, is proposed for adoption by the Board of Governors.

(This report was approved and its recommendation was adopted by the Board of Governors on August 28, 2000).

Rules for the 2000 Regular Election of Executive Directors

DEFINITIONS

1. In these Rules, unless the context shall otherwise require,
 - (a) "Articles" means the Articles of Agreement of the Bank.
 - (b) "Board" means the Board of Governors of the Bank.
 - (c) "Chairman" means the Chairman of the Board or a Vice Chairman acting as Chairman.
 - (d) "Governor" includes the Alternate Governor or any temporary Alternate Governor, when acting for the Governor.
 - (e) "Secretary" means the Secretary or any acting Secretary of the Bank.
 - (f) "Election" means the 2000 Regular Election of Executive Directors.
 - (g) "Eligible votes" means the total number of votes that can be cast in the election.

DATE OF ELECTION

2. The election shall be held during the 2000 Annual Meeting of the Board.

¹ See page 265.

BASIC RULES—SCHEDULE B

3. Subject to the adjustment set forth in the Rules, the provisions of Schedule B of the Articles shall apply to the conduct of the election, except that:

- (a) “two percent” shall be substituted for “fourteen percent” in Paragraphs 2 and 5 and “ten percent” shall be substituted for “fifteen percent” in Paragraphs 3, 4 and 5 thereof; and
- (b) “nineteen persons” shall be substituted for “seven persons” in Paragraphs 2, 3 and 6, “eighteen persons” shall be substituted for “six persons” in Paragraph 6, and “the nineteenth” shall be substituted for the “seventh” in Paragraph 6 thereof.

EXECUTIVE DIRECTORS TO BE ELECTED

4. Nineteen Executive Directors shall be elected
5. (a) Any person nominated by one or more Governors entitled to vote in the election shall be eligible for election as Executive Director.
- (b) Each nomination shall be made on a Nomination Form furnished by the Secretary, signed by the Governor or Governors making the nomination, and deposited with the Secretary.
- (c) A Governor may nominate only one person.
- (d) Nominations may be made until 6:00 p.m. on Monday, September 25, 2000. The Secretary shall post and distribute a list of persons nominated.

SUPERVISION OF THE ELECTION

6. The Chairman shall appoint such tellers and other assistants and take such other action as he deems necessary for the conduct of the election.

BALLOTS

7. One ballot form shall be furnished before a ballot is taken to each Governor entitled to vote. On any particular ballot only ballot forms distributed for that ballot shall be counted.

BALLOTING

8. Each ballot shall be taken as follows:
 - (a) Ballots shall be conducted by deposit of ballot forms by Governors eligible to vote, in a ballot box located in the location designated for this purpose by the Secretary. The first ballot shall take place from 10:00 a.m. to 6:00 p.m. on Tuesday, September 26, 2000.
 - (b) When a ballot shall have been completed, the Chairman shall cause the ballots to be counted and shall announce the names of the persons elected as soon as practicable after the tellers have completed their tally of the ballots. If a succeeding ballot is necessary, the Chairman shall announce the names of the nominees to be voted on and the members whose Governors are eligible to vote.
 - (c) If the tellers shall be of the opinion that any particular ballot is not properly executed, they shall, if possible, afford the Governor concerned an opportunity to correct it before tallying the results; and such ballot, if so corrected, shall be deemed to be valid.

9. When on any ballot the number of nominees shall not exceed the number of Executive Directors to be elected, each nominee shall be deemed to be elected by the number of votes received by him on such ballot; provided, however, that, if on such ballot the votes of any Governor shall be deemed under Paragraph 4 of Schedule B¹ to have raised the votes cast for any nominee above ten percent of the eligible votes, no nominee shall be deemed to have been elected who shall not have received on such ballot a minimum of two percent of the eligible votes, and a succeeding ballot shall be taken for which any nominee not elected shall be eligible.

10. If, as a result of the first ballot, the number of Executive Directors to be elected in accordance with Paragraph 4 above shall not have been elected, a second, and if necessary, further ballots shall be taken. The Governors entitled to vote on such succeeding ballots shall be only:
 - (a) those who voted on the preceding ballot for any nominee not elected; and

¹ Paragraph 4 of Schedule B reads as follows:

4. In determining whether the votes cast by a governor are to be deemed to have raised the total of any person above ten percent of the eligible votes, the ten percent shall be deemed to include, first, the votes of the Governor casting the largest number of votes for such person, then the votes of the Governor casting the next largest number, and so on until ten percent is reached.

(b) those Governors whose votes for a nominee elected on the preceding ballot are deemed under Paragraph 4 of Schedule B¹ to have raised the votes cast for such nominee above ten percent of the eligible votes.

11. If the votes cast by a Governor bring the total votes received by a nominee from below to above ten percent of the eligible votes, all the votes cast by this Governor shall be deemed to have been cast for the benefit of that nominee without raising the total votes of the nominee above ten percent.

12. If on any ballot two or more Governors having an equal number of votes shall have voted for the same nominee and the votes of one or more, but not all, of such Governors could be deemed under Paragraph 4 of Schedule B¹ not to have raised the total votes of the nominee above ten percent of the eligible votes, the Chairman shall determine by lot the Governor or Governors, as the case may be, who shall be entitled to vote on the next ballot.

13. Any member whose Governor has voted on the last ballot for a candidate not elected may, before the effective date of the election, as set forth in Section 17 below, designate an Executive Director who was elected, and that member's votes shall be deemed to have counted toward the election of the Executive Director so designated.

ABSTENTION FROM VOTING

14. If a Governor shall abstain from voting on any ballot, he shall not be entitled to vote on any subsequent ballot and his votes shall not be counted within the meaning of Section 4(g) of Article V towards the election of any Executive Director. If at the time of any ballot a member shall not have a duly appointed Governor, such member shall be deemed to have abstained from voting on that ballot.

¹ Paragraph 4 of Schedule B reads as follows:

4. In determining whether the votes cast by a governor are to be deemed to have raised the total of any person above ten percent of the eligible votes, the ten percent shall be deemed to include, first, the votes of the Governor casting the largest number of votes for such person, then the votes of the Governor casting the next largest number, and so on until ten percent is reached.

ELIMINATION OF NOMINEES

15. If on any ballot two or more nominees shall receive the same lowest number of votes, no nominee shall be dropped from the next succeeding ballot, but if the same situation is repeated on such succeeding ballot, the Chairman shall eliminate by lot one of such nominees from the next succeeding ballot.

ANNOUNCEMENT OF THE RESULT

16. After the tally of the last ballot, the Chairman shall cause to be distributed a statement setting forth the result of the election.

EFFECTIVE DATE OF ELECTION

17. The effective date of the election shall be November 1, 2000, and the term of office of the elected Executive Directors shall commence on that date. Incumbent elected Executive Directors shall serve through the day preceding such date.

GENERAL

18. Any question arising in connection with the conduct of the election shall be resolved by the tellers, subject to appeal, at the request of any Governor, to the Chairman and from him to the Board. Whenever possible, any such questions shall be put without identifying the members or Governors concerned.

**INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
2000 REGULAR ELECTION OF EXECUTIVE DIRECTORS
STATEMENT OF RESULTS OF ELECTION,
SEPTEMBER 27, 2000**

Members Whose Votes			
Candidate Elected	Counted Toward Election	Number of Votes	Total Votes
Girmai ABRAHAM			53,962
	Angola	2,926	
	Botswana	865	
	Burundi	966	
	Eritrea	843	
	Gambia, The	793	
	Kenya	2,711	
	Lesotho	913	
	Liberia	713	
	Malawi	1,344	
	Mozambique	1,180	
	Namibia	1,773	
	Nigeria	12,905	
	Seychelles	513	
	Sierra Leone	968	
	South Africa	13,712	
	Sudan	1,100	
	Swaziland	690	
	Tanzania	1,545	
	Uganda	867	
	Zambia	3,060	
	Zimbabwe	3,575	
Khalid M. AL-SAAD			43,984
	Bahrain	1,353	
	Egypt	7,358	
	Jordan	1,638	
	Kuwait	13,530	
	Lebanon	590	
	Libya	8,090	
	Maldives	719	
	Oman	1,811	
	Qatar	1,346	
	Syrian Arab Republic	2,452	
	United Arab Emirates	2,635	
	Yemen, Republic of	2,462	

Candidate Elected	Members Whose Votes Counted Toward Election	Number of Votes	Total Votes
Yahya A. ALYAHYA			45,045
	Saudi Arabia	45,045	
Andrei BUGROV			45,045
	Russian Federation	45,045	
Neil F. HYDEN			55,800
	Australia	24,714	
	Cambodia	464	
	Kiribati	715	
	Korea, Republic of	16,067	
	Marshall Islands	719	
	Micronesia, Fed. States of	729	
	Mongolia	716	
	New Zealand	7,486	
	Palau	266	
	Papua New Guinea	1,544	
	Samoa	781	
	Solomon Islands	763	
	Vanuatu	836	
Finn JONCK			54,039
	Denmark	13,701	
	Estonia	1,173	
	Finland	8,810	
	Iceland	1,508	
	Latvia	1,634	
	Lithuania	1,757	
	Norway	10,232	
	Sweden	15,224	
Matthias MEYER			46,096
	Azerbaijan	1,896	
	Kyrgyz Republic	1,357	
	Poland	11,158	
	Switzerland	26,856	
	Tajikistan	1,310	
	Turkmenistan	776	
	Uzbekistan	2,743	
Terrie O'LEARY			62,217
	Antigua and Barbuda	770	
	Bahamas, The	1,321	

Members Whose Votes			
Candidate Elected	Counted Toward Election	Number of Votes	Total Votes
	Barbados	1,198	
	Belize	836	
	Canada	45,045	
	Dominica	754	
	Grenada	781	
	Guyana	1,308	
	Ireland	5,521	
	Jamaica	2,828	
	St. Kitts and Nevis	525	
	St. Lucia	802	
	St. Vincent and the Grenadines	528	
Franco PASSACANTANDO			55,938
	Albania	1,080	
	Greece	1,934	
	Italy	45,045	
	Malta	1,324	
	Portugal	5,710	
	San Marino	845	
Philippe PEETERS			76,720
	Austria	11,313	
	Belarus	3,573	
	Belgium	29,233	
	Czech Republic	6,558	
	Hungary	8,300	
	Kazakhstan	3,235	
	Luxembourg	1,902	
	Slovak Republic	3,466	
	Slovenia	1,511	
	Turkey	7,629	
Moises PINEDA			68,475
	Costa Rica	483	
	El Salvador	391	
	Guatemala	2,251	
	Honduras	891	
	Mexico	19,054	
	Nicaragua	858	
	Spain	23,936	
	Venezuela, Rep. Bolivariana de	20,611	

Members Whose Votes			
Candidate Elected	Counted Toward Election	Number of Votes	Total Votes
Jaime RUIZ			58,124
	Brazil	33,537	
	Colombia	6,602	
	Dominican Republic	2,342	
	Ecuador	3,021	
	Haiti	1,317	
	Panama	635	
	Philippines	7,094	
	Suriname	662	
	Trinidad and Tobago	2,914	
Ahmed SADOUDI			54,052
	Algeria	9,502	
	Ghana	1,775	
	Iran, Islamic Republic of	23,936	
	Iraq	3,058	
	Morocco	5,223	
	Pakistan	9,589	
	Tunisia	969	
Balmiki Prasad SINGH			54,945
	Bangladesh	5,104	
	Bhutan	729	
	India	45,045	
	Sri Lanka	4,067	
Mario SOTO			37,499
	Argentina	18,161	
	Bolivia	2,035	
	Chile	7,181	
	Paraguay	1,479	
	Peru	5,581	
	Uruguay	3,062	
Pieter STEK			72,208
	Armenia	1,389	
	Bosnia and Herzegovina	799	
	Bulgaria	5,465	
	Croatia	2,543	
	Cyprus	1,711	
	Georgia	1,834	
	Israel	5,000	
	Macedonia, FYR	677	

Members Whose Votes			
Candidate Elected	Counted Toward Election	Number of Votes	Total Votes
	Moldova	1,618	
	Netherlands	35,753	
	Romania	4,261	
	Ukraine	11,158	
Bassary TOURE			32,252
	Benin	1,118	
	Burkina Faso	1,118	
	Cameroon	1,777	
	Cape Verde	758	
	Central African Republic	1,112	
	Chad	1,112	
	Comoros	532	
	Congo, Dem. Rep. of	2,893	
	Congo, Republic of	1,177	
	Cote d'Ivoire	2,766	
	Djibouti	809	
	Equatorial Guinea	965	
	Gabon	1,237	
	Guinea	1,542	
	Guinea-Bissau	790	
	Madagascar	1,672	
	Mali	1,412	
	Mauritania	1,150	
	Mauritius	1,492	
	Niger	1,102	
	Rwanda	1,296	
	Sao Tome and Principe	745	
	Senegal	2,322	
	Togo	1,355	
Abdul Aziz Mohd. YAACOB			41,096
	Brunei Darussalam	2,623	
	Fiji	1,237	
	Indonesia	15,231	
	Lao People's Dem. Rep.	428	
	Malaysia	8,494	
	Myanmar	2,734	
	Nepal	1,218	
	Singapore	570	
	Thailand	6,599	
	Tonga	744	
	Vietnam	1,218	

Candidate Elected	Members Whose Votes		Total Votes
	Counted Toward Election	Number of Votes	
Xian ZHU	China	45,049	45,049

/s/ Renaldo Mandmets (Estonia) Teller
 /s/ Hugo Alejandro Castillo (Honduras) Teller

Allocation of FY00 Net Income

1. The General Reserve of the Bank as of June 30, 2000 was \$16,109 million. As of that date, the surplus of the Bank was \$85 million and the Special Reserve created under Article IV, Section 6 of the Bank's Articles of Agreement totaled \$293 million. The Bank's reported net income for the fiscal year ended June 30, 2000 (FY00) amounted to \$1,991 million.

2. The Executive Directors have considered what action to take, or to recommend that the Board of Governors take, with respect to FY00 net income. 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 \$871 million to the General Reserve;
- (b) the addition of \$243 million, representing the reduction in the Bank's Loan Loss Provision, to the General Reserve;
- (c) the addition of \$166 million, representing the difference between actual funding of the Staff Retirement Plan and Staff Retirement Plan accounting expenses for FY00, to the pension reserve;
- (d) the transfer to the International Development Association, by way of grant, of an amount equivalent to up to \$320 million in SDRs in the component currencies of the SDR as of June 30, 2000, \$300 million to be drawn down in FY05 at the end of the defined encashment schedule for donor contributions to the Association's Twelfth Replenishment, and up to \$20 million, in reimbursement of the Association's Twelfth Replenishment, and up to \$20 million, in reimbursement of the Association's share of the FY00 cost of implementing the Strategic Compact, to be transferred as an immediate grant, which amounts would be usable to provide financing in the form of grants in addition to loans;
- (e) the transfer to the HIPC Debt Initiative Trust Fund, by way of immediate grant, of \$250 million to be used to provide debt relief on debt owed to the Association under the HIPC Debt Initiative framework;
- (f) the transfer to the Trust Fund for Kosovo, by way of immediate grant of \$35 million;
- (g) the transfer of \$30 million to support capacity building in Africa, \$5 million by way of immediate grant to the African Capacity Building Fund, \$18 million by way of grant to the financing

mechanism, when established, for the Partnership for Capacity Building in Africa, and \$7 million to the Trust Fund for the African Virtual University, upon its establishment; and

(h) the retention as surplus of any excess of FY00 net income over \$1,915 million.

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 September, 27,2000).

¹ See page 267.

REPORT OF THE BOARD OF DIRECTORS OF IFC

May 10, 2000

Increase of Subscription by the Philippines to the Capital of the Corporation

1. The Board of Directors of the International Finance Corporation (the Corporation) has considered the Memorandum to the Board of Directors from the President, dated April 27, 2000 on the subject of an increase of subscription to the capital of the Corporation by the Philippines. This Memorandum is attached.
2. The Board of Directors, having duly considered the matter and having taken into account the President's Memorandum dated April 27, 2000, has found the proposals set out in paragraph 5 thereof 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 attached to this Report.
3. The Board of Directors recommends that the Board of Governors of the Corporation adopt such draft resolution....¹

(This report was approved and its recommendation was adopted by the Board of Governors on June 23, 2000).

¹ See page 268.

REPORT OF THE BOARD OF THE DIRECTORS OF MIGA

July 20, 2000

2000 Regular Election of Directors

1. Resolution No. 56, adopted by the Council of Governors on September 15, 1998, provides that the 2000 Regular Election of Directors shall take place during the 2000 Annual Meeting of the Council of Governors. This paper makes certain recommendations concerning the 2000 Regular Election.

2. Since the 1998 Regular Election of Directors, one Category One country, Australia; and four Category Two countries (Cambodia, Lao People's Democratic Republic, Mongolia and St. Kitts and Nevis) have ratified the MIGA Convention and completed all of their membership requirements. These five new members have subscribed to a total of 1974 shares (Australia, 1713; and the four Category Two countries, 261 shares) of the Agency's capital stock. A few other countries may join MIGA prior to the election.

3. The Directors have noted that there was some uncertainty as to the voting power certain members will have at the time of the election because members could subscribe shares under the 1998 General Capital Increase prior to the election. In view of this uncertainty, the Directors recommend that members expedite their subscriptions so that they are completed well before the election and that members would communicate their intention to subscribe shares as early as possible in order to facilitate the organization of the election.

4. The Report of the Ad Hoc Committee on the Rules for the 1998 Regular Election of MIGA Directors stated once again in paragraph 4 that:

The Committee expressed the view, as reflected in the Report of the Board of Directors, that at a time when membership in MIGA became equivalent to that of the Bank, the MIGA Board of Directors would become identical in size and composition with that of the Board of Executive Directors of the Bank and would be based on the same principles of preserving a broad geographic pattern of representation and of allowing all major groups of countries to be represented.

5. The Board is now composed of 24 Directors, representing roughly the same constituencies as in the Bank; these Directors represent 147 MIGA member countries (as opposed to 181 IBRD, 161 IDA and 174

IFC member countries), while, as stated in paragraph 2 above, at least another five member countries will participate in the upcoming election.

6. This increase in membership since 1998 indicates that efforts should continue toward achieving homogeneity among the Boards of MIGA and the other institutions of the World Bank Group. Moreover, the number of common issues being dealt with by the Executive Directors/Directors of the World Bank Group institutions have continued to increase in number and complexity.

7. In view of these developments and noting that Article 2 of the MIGA Convention mandates the Agency to complement the activities of other members of the World Bank Group, the Board of Directors makes the following recommendations.

RECOMMENDATIONS

A. Size of the Board

8. The Board of Directors recommends that the number of Directors remain at its present 24.

B. Composition of the Board

9. The Board of Directors urges the Governors to form, as closely as possible, the same constituencies in the MIGA Board of Directors as those for the Boards of other World Bank Group institutions.

10. During the informal meeting held on May 20, 1991, it was the consensus of Directors that, beginning with the 1992 Election of Directors, Governors should be urged to nominate candidates based in Washington, D.C., and all Governors complied with this suggestion in the 1992, 1994, 1996 and 1998 Regular Elections. Based upon the rationale in paragraphs 4–7 above, it is again recommended that Governors be urged to nominate the same persons as Directors of MIGA as those nominated to the Board of the other World Bank Group institutions.

11. It is further recommended that Directors, particularly those elected by more than one Governor, appoint the same persons as Alternate Directors of MIGA as those appointed to be Alternate Executive Directors/Alternate Directors to the Boards of the other World Bank Group institutions.

C. Term of Office

12. Article 32(c) of the Convention and Section 10 of the By-Laws provide that the Council of Governors shall determine the term of office of the Directors. In view of the reasoning set out in paragraphs 4–7 above, it is even more desirable that the term of office of MIGA's Directors should coincide with those of the Boards of the other World Bank Group institutions to facilitate elections of persons holding positions on these boards. Thus, the Board of Directors recommends that the Council continue this practice and that the 2002 Regular Election of Directors be held at the 2002 Annual Meeting of the Council of Governors.

D. Maximum and Minimum Percentages of Votes Applicable to the Election

13. For the purpose of Schedule B to the MIGA Convention, paragraph 8 of the Rules for the 1998 Regular Election of Directors set the maximum and minimum percentages of voting power applicable to the 1998 Regular Election at 15 and 3, respectively, of eligible votes. These percentages appear appropriate for the election of the number of Directors to be recommended in the attached report, and therefore the Board of Directors recommends that they be made applicable to the 2000 Regular Election of Directors. In the unlikely event that these percentages are inappropriate due to additional new countries having become members of the Agency and subscription to additional shares prior to the 2000 Regular Election, the Council of Governors could modify them before the start of the election.

14. Accordingly, the Board of Directors recommends that the Council of Governors adopt the attached Resolution...¹ and Rules for the 2000 Regular Election of Directors embodying the above recommendations.

(This report was approved and its recommendation was adopted by the Council of Governors on August 28, 2000).

¹ See page 272.

Rules for the 2000 Regular Election of Directors

DEFINITIONS

1. In these Rules, unless the context shall otherwise require,
 - (a) "Convention" means the Convention establishing the Agency.
 - (b) "Council" means the Council of Governors of the Agency.
 - (c) "Chairman" means the Chairman of the Council or a Vice Chairman acting as Chairman.
 - (d) "Governor" includes the Alternate Governor or any temporary Alternate Governor, when acting for the Governor.
 - (e) "Secretary" means the Secretary or any acting Secretary of the Agency.
 - (f) "Election" means the 2000 Regular Election of Directors.
 - (g) "Eligible votes" means the total number of votes that can be cast in the election of the Directors to be elected pursuant to the provisions of paragraphs 6 to 11 of Schedule B to the Convention.

DATE OF ELECTION

2. The election shall be held during the 2000 Annual Meeting of the Council of Governors.

BASIC RULES—SCHEDULE B

3. The provisions of Schedule B to the Convention shall apply to the conduct of the election. For this purpose:
 - (a) Twenty-four Directors shall be elected.
 - (b) Six Directors shall be elected separately, one each by the Governors of the six members having the largest number of shares. The person nominated by each of the said Governors shall be deemed to be elected upon being so nominated.
 - (c) The Directors not elected separately pursuant to paragraph 3(b) above shall be elected in accordance with the rules in paragraphs 4 through 11 below.

NOMINATIONS

4. (a) Any person nominated by one or more Governors entitled to vote in the election shall be eligible for election. As noted in the Report of the Board of Directors to the Council of Governors dated July 20, 2000, Governors are urged to nominate the same

persons as the Directors of MIGA as those elected to the Boards of the other World Bank institutions, and to form the same constituencies in the MIGA Board of Directors as those in the Boards of the other World Bank Group institutions. In addition, the Directors, particularly those elected by more than one Governor, are urged to appoint the same persons as Alternate Directors of MIGA as they have in the Boards of the other World Bank institutions.

- (b) Each nomination shall be made on a Nomination Form furnished by the Secretary, signed by the Governor or Governors making the nomination, and deposited with the Secretary.
- (c) A Governor may nominate only one person.
- (d) Nominations may be made until 6:00 p.m. on Monday, September 25, 2000. The Secretary shall post and distribute a list of persons nominated.

SUPERVISION OF THE ELECTION

5. The Chairman shall appoint such tellers and other assistants and take such other action as he deems necessary for the conduct of the election.

BALLOTS

6. One ballot form shall be furnished before a ballot is taken to each Governor entitled to vote. On any particular ballot only ballot forms distributed for that ballot shall be counted.

BALLOTING

7. Each ballot shall be taken as follows:
- (a) Each Governor entitled to vote shall deposit a ballot, signed by the Governor, in a ballot box located in the location designated for this purpose by the Secretary. The ballot shall take place from 10:00 a.m. to 6:00 p.m. on Tuesday, September 26, 2000.
 - (b) When a ballot shall have been completed, the Chairman shall cause the ballots to be counted and shall announce the names of the persons elected as soon as practicable after the tellers have certified the tally of the ballots. If a further ballot is necessary, the Chairman shall announce the names of the nominees to be voted on and the members whose Governors are eligible to vote.
 - (c) If the tellers shall be of the opinion that any particular ballot is not properly executed, they shall, if possible, afford the Governor

concerned an opportunity to correct it before certifying the tally of the results; and such ballot, if so corrected, shall be deemed to be valid.

8. For the purposes of paragraph 6 of Schedule B to the Convention, the following percentages of total votes are decided, namely, a maximum of 15 percent of eligible votes and a minimum of 3 percent of eligible votes.

ANNOUNCEMENT OF THE RESULT

9. After the tellers shall have certified the tally of the last ballot, the Chairman shall cause to be distributed a statement setting forth the result of the election.

EFFECTIVE DATE OF ELECTION

10. The effective date of the election shall be November 1, 2000, and the term of office of the elected Directors shall commence on that date. Incumbent elected Directors shall serve through the day preceding such date.

GENERAL

11. Any question arising in connection with the conduct of the election shall be resolved by the tellers, subject to appeal, at the request of any Governor, to the Chairman and from him to the Council. Whenever possible, any such questions shall be put without identifying the members or Governors concerned.

**MULTILATERAL INVESTMENT GUARANTEE AGENCY
DIRECTORS ELECTED AT THE 2000 REGULAR ELECTION
STATEMENT OF RESULTS OF ELECTION,
SEPTEMBER 27, 2000**

Directors elected separately by the Governors of the six member countries having the largest number of shares:

Candidate Elected	Member Whose Votes Counted Toward Election	Total Votes
Jan PIERCY	United States	21,115
Yuzo HARADA	Japan	9,156
Jean-Claude MILLERON	France	6,889
Stephen PICKFORD	United Kingdom	6,272
Helmut SCHAFFER	Germany	5,248
Xian ZHU	China	4,511

Directors elected by the Governors of member countries other than those listed above:

Candidate Elected	Member Whose Votes Counted Toward Election	Total Votes
Girmai ABRAHAM		7,881
	Angola	364
	Botswana	227
	Burundi	251
	Eritrea	227
	Gambia, The	227
	Kenya	414
	Lesotho	227
	Malawi	254
	Mozambique	274
	Namibia	284
	Nigeria	1,021
	Seychelles	227
	Sierra Leone	252
	South Africa	1,479
	Sudan	383
	Swaziland	235

Candidate Elected	Member Whose Votes Counted Toward Election	Total Votes
	Tanzania	318
	Uganda	309
	Zambia	495
	Zimbabwe	413
Khalid M. AL-SAAD		4,811
	Bahrain	283
	Egypt	636
	Jordan	274
	Kuwait	1,107
	Lebanon	319
	Libya	726
	Oman	271
	Qatar	314
	United Arab Emirates	549
	Yemen, Republic of	332
Yahya A. ALYAHYA		4,509
	Saudi Arabia	4,509
Andrei BUGROV		4,509
	Russian Federation	4,509
Neil E. HYDEN		4,373
	Australia	1,890
	Cambodia	270
	Korea, Republic of	797
	Micronesia, Fed. States of	227
	Mongolia	235
	Palau	227
	Papua New Guinea	273
	Samoa	227
	Vanuatu	227
Finn JONCK		5,674
	Denmark	1,442
	Estonia	242
	Finland	777
	Iceland	267
	Latvia	311
	Lithuania	283
	Norway	1,126
	Sweden	1,226

Candidate Elected	Member Whose Votes Counted Toward Election	Total Votes
Matthias MEYER		3,759
	Azerbaijan	292
	Kyrgyz Republic	254
	Poland	941
	Switzerland	1,677
	Turkmenistan	243
	Uzbekistan	352
Terrie O'LEARY		6,293
	Bahamas, The	315
	Barbados	271
	Belize	246
	Canada	3,142
	Dominica	227
	Grenada	227
	Guyana	261
	Ireland	546
	Jamaica	358
	St. Kitts and Nevis	227
	St. Lucia	246
	St. Vincent and the Grenadines	227
Franco PASSACANTANDO		6,929
	Albania	235
	Greece	563
	Italy	5,147
	Malta	280
	Portugal	704
Philippe PEETERS		8,467
	Austria	1,247
	Belarus	410
	Belgium	3,238
	Czech Republic	791
	Hungary	741
	Kazakhstan	386
	Luxembourg	337
	Slovak Republic	399
	Slovenia	279
	Turkey	639
Moises PINEDA		5,551
	Costa Rica	294

Candidate Elected	Member Whose Votes Counted Toward Election	Total Votes
	El Salvador	299
	Guatemala	317
	Honduras	316
	Nicaragua	279
	Spain	2,442
	Venezuela, Rep. Bolivariana de	1,604
Jaime RUIZ		4,631
	Brazil	1,656
	Colombia	614
	Dominican Republic	324
	Ecuador	359
	Haiti	252
	Panama	308
	Philippines	661
	Trinidad and Tobago	457
Ahmed SADOUDI		2,943
	Algeria	826
	Ghana	422
	Morocco	525
	Pakistan	837
	Tunisia	333
Balmiki Prasad SINGH		4,293
	Bangladesh	517
	India	3,225
	Sri Lanka	551
Mario SOTO		3,723
	Argentina	1,431
	Bolivia	302
	Chile	662
	Paraguay	257
	Peru	692
	Uruguay	379
Pieter STEK		9,283
	Armenia	257
	Bosnia and Herzegovina	257
	Bulgaria	542
	Croatia	435

Candidate Elected	Member Whose Votes Counted Toward Election	Total Votes
	Cyprus	320
	Georgia	288
	Israel	1,012
	Macedonia, FYR	227
	Moldova	273
	Netherlands	3,999
	Romania	732
	Ukraine	941
Bassary TOURE		4,510
	Benin	238
	Burkina Faso	238
	Cameroon	284
	Cape Verde	227
	Central African Republic	237
	Congo, Dem. Rep. of	515
	Congo, Republic of	242
	Cote d'Ivoire	353
	Equatorial Guinea	227
	Guinea	268
	Madagascar	277
	Mali	258
	Mauritania	240
	Mauritius	330
	Senegal	322
	Togo	254
Abdul Aziz Mohd. YAACOB		3,441
	Fiji	248
	Indonesia	1,226
	Lao People's Dem. Rep.	237
	Malaysia	756
	Nepal	246
	Singapore	331
	Vietnam	397

/s/ Renaldo Mandmets (Estonia) Teller
 /s/ Hugo Alejandro Castillo (Honduras) Teller

**MIGA Review 2000 In Accordance with
Article 67 of the MIGA Convention**

Background

1. This "MIGA Review 2000" is a comprehensive review of the activities, current situation and possible future directions of MIGA. It is conducted in accordance with Article 67 of the MIGA Convention, which states that "the Council shall periodically undertake comprehensive reviews of the activities of the Agency as well as the results achieved with a view to introducing any changes required to enhance the Agency's ability to serve its objectives."

2. The first five-year review took place on May 24, 1994. Resolution No. 48 was approved by the Council of Governors on August 23, 1994, and resolved as follows:

THAT, the Council expresses its satisfaction with the growth of the guarantee program of MIGA and the reorientation of its technical assistance program during the period under review and encourages the Agency to continue efforts to increase the volume of insurance business done annually and the levels of premium income earned thereby and to continue its efforts to deliver high-quality technical assistance to its member countries.

THAT, with a view to fostering the continued expansion of MIGA's guarantee and technical assistance activities on a sound financial basis, the Board of Directors shall undertake a study of the measures to be adopted to assure capital and reserves adequacy into the future, putting into place prior to the next periodic review under Article 67 such measures as the Board shall deem necessary for these purposes.

THAT, the next periodic review under Article 67 of the Convention shall be undertaken during fiscal year 2000, unless circumstances require that such a review be conducted earlier.

3. Preceding this Review, MIGA Management presented a Strategic Focus Paper to the Board in April 1999 in conjunction with the fiscal 2000 budget. It identified four guiding principles: Developmental Impact, Financial Soundness, Client Orientation, and Partnership.

4. Based on the progress made so far along these guiding principles, as well as feedback from the Board, MIGA Review 2000 was conducted

with a more comprehensive scope and a longer-term perspective than these earlier efforts. In addition to the retrospective review of MIGA's activities and accomplishments since the 1994 Review, it identifies emerging challenges for MIGA over the next five years, and suggests ways MIGA could proactively address these challenges.

5. In addition, several systematic market surveys were undertaken during fiscal 2000, in order to provide MIGA with objective, fact-based foundations for the discussion on long-term strategy development. They included a survey of investors and private insurer interviews for Guarantees, and a survey of investment promotion intermediaries for Technical Assistance. MIGA also held a roundtable discussion by outside experts from various fields in order to hear their perspectives ("Summary of Roundtable Discussion" [MIGA/SecM2000-47]).

Review of Activities of the Agency

6. Since the 1994 Review, MIGA has accomplished significant growth and expansion in almost every aspect of its operations. Between fiscal 1994 and 1999, the number of member countries increased from 121 to 149. (As of the end of fiscal 2000, the number increased to 152).

7. MIGA's financial capacity to serve its member countries is being strengthened most significantly by the General Capital Increase. The US\$850 million capital increase was complemented by a grant transfer of US\$150 million from the IBRD to MIGA.

Guarantee Activities

8. MIGA's has achieved significant financial growth over the period of the Review. While complementing and cooperating with national and private insurers, MIGA has consistently diversified its portfolio and sought to enhance its developmental effectiveness. The political risk insurance market today recognizes MIGA as a unique and indispensable player.

9. **Growth and Diversification:** MIGA's guarantee portfolio has expanded over time. Recently, in particular, portfolio growth has been following the growth path envisaged by the General Capital Increase exercise. Throughout the period, MIGA has placed special emphasis on facilitating productive capital flows to IDA-eligible countries, and African countries in particular. The amount of new guarantees issued more than tripled from US\$372 million in fiscal 1994 to US\$1.3 billion in fiscal 1999, or at an annual growth of 28.6 percent. In fiscal 2000, the

amount reached US\$1.6 billion. Gross exposure increased from US\$1.0 billion to US\$3.7 billion, or a 28.5 percent annual growth over the same review period (and further to US\$4.4 billion in fiscal 2000). The number of countries benefiting from MIGA's guarantees increased from 26 to 69, notably including 28 IDA-eligible countries.

10. Presence in the Market: Through its increased and diversified guarantee activities, MIGA has become recognized among all parties concerned (investors, other political risk insurers, and host countries) as a unique and important provider of political risk insurance.

11. Cancellations: Cancellations of MIGA policies have become a more significant factor in planning for a sound and balanced portfolio. While MIGA has been protected from very early cancellations by the three-year minimum term, many investors have cancelled their guarantee contracts long before scheduled contract termination.

12. Collaboration with Other Insurers: MIGA has established an extensive network of collaboration with private insurers, as well as with national insurers and multilateral development banks. MIGA now regularly reinsures and coinsures with other private and public insurers, especially when large-scale projects need to be supported.

13. Major Operational Considerations: MIGA makes considerable efforts to evaluate systematically the developmental impacts of guaranteed investments. The first large-scale review efforts led to the September 1998 external publication of "MIGA and Foreign Direct Investment: Evaluating Development Impacts." In addition, labor standards and environmental assessment and disclosure policies have been adopted during the review period. In fiscal 1999, MIGA and the IFC created the position of Compliance Advisor / Ombudsman (CAO) to address concerns of local communities that may be impacted by projects supported by MIGA and the IFC. The position is the first of its kind in a multilateral institution.

14. Closer Cooperation with Other Parts of the World Bank Group: Throughout the period, MIGA has made ever stronger efforts to work more closely with other parts of the World Bank Group on a wide range of policy, country and project matters, including the Country Assistance Strategy preparation, underwriting and project monitoring.

15. Pursuit of Special Initiatives: As the guarantee portfolio has grown and diversified, MIGA has been able to place even greater emphasis on developmental impact. In recent years, in addition to putting consistent

emphasis on IDA-eligible countries, MIGA has vigorously pursued a selection of highly developmental projects, such as facilitation of investment flows among Category Two countries and small and medium enterprises (SMEs).

16. **New Initiatives:** MIGA also strives to address new and changing investor concerns. For example, MIGA has started to offer breach of contract coverage in fiscal 1999. MIGA signed guarantee contracts for two gas pipeline projects with multi-country coverage. Efforts have been made to facilitate foreign investment in post-conflict areas—two trust funds were established (Bosnia and Herzegovina, and West Bank and Gaza), and other opportunities are being considered.

Technical Assistance Activities

17. MIGA's Technical Assistance has, over time, undergone a strategic reorientation in order to optimize its value to clients. A solid range of services have been established in capacity building and information dissemination since a 1993 reorientation relative to the World Bank Group's Foreign Investment Advisory Service (FIAS).

18. **The Convention and Historical background:** The Convention sets out MIGA's Technical Assistance mandate as follows: Article 2 states that the Agency shall "carry out appropriate complementary activities to promote the flow of investments to and among developing member countries." More specifically, Article 23 states, "The Agency shall carry out research, undertake activities to promote investment flows and disseminate information on investment opportunities in developing member countries, with a view to improving the environment for foreign investment flows to such countries."

19. MIGA's activities focus on investment promotion intermediaries, sectoral ministries, and other investment intermediaries in developing member countries. On capacity building, client-focused, targeted activities benefited 47 countries during fiscal 1999. On information dissemination, the number of registrants in *IPAnet* (launched in 1995) and in *PrivatizationLink* (launched in 1998) nearly quintupled in only two years from 3,273 in June 1997 to 15,674 in June 1999 (and more than 19,000 today).

20. **Capacity Building:** Since a 1998 evaluation, MIGA has refocused its Technical Assistance on hands-on capacity building services for investment promotion agencies and other investment intermediaries in developing countries. Between fiscal 1994 and 2000, 63 percent and

38 percent of MIGA's capacity building activities were for IDA-eligible countries and African countries, respectively.

21. In addition, assisted by the Government of Japan, the Promote Africa Program was launched in 1998 in Namibia, with a field presence in Togo (and Cameroon through a cooperative arrangement with UNECA), to provide on-the-ground technical assistance to Sub-Saharan African countries in their efforts to promote foreign direct investment.

22. Greater collaboration with the Private Sector Development unit in the Africa Region of the World Bank Group is providing MIGA with opportunities to cooperate at the project identification stage, supervise consultants, and directly work with new or existing investment promotion intermediaries.

23. Development of Internet-based Services in Information Dissemination: As was stressed in the 1998 evaluation, MIGA has identified and developed a niche on the Internet for the mobilization and dissemination of content of particular interest to the international investment community. In addition, MIGA has assisted a number of investment promotion intermediaries to leverage the Internet into their overall investment marketing and investor outreach strategy.

24. **IPAnet**, launched in 1995 with support from the Government of Japan, is one of the first Internet-based services to feature information on international business operating conditions, laws and regulations, as well as specific project and privatization opportunities in emerging markets. **PrivatizationLink** was launched in 1998 as MIGA's second online resource, which is a more specialized information service featuring detailed profiles of enterprises slated for divestiture in emerging markets.

25. Synergy between Technical Assistance and Guarantees: In pursuit of the common goal of facilitating investment to developing countries, MIGA's Technical Assistance and Guarantees activities have become increasingly interrelated in recent years, through, for example, the "mobile office," the Promote Africa Program and the Internet-based information dissemination services.

Mediation and Claims Activities

26. During the review period, MIGA's Mediation and Claims activities included successful settlements of investment disputes in several cases,

other claims avoidance activities, and technical assistance. The first claim in MIGA's history was filed, and eventually paid in fiscal 2000.

27. Investment dispute settlement activities: MIGA is encouraged by its Convention to use its good offices to facilitate the settlement of disputes between investors and member countries related to operations not guaranteed by MIGA. In keeping with this mandate, MIGA's Legal and Claims Department staff provided legal advice and guidance to parties from several member countries that sought creative negotiated approaches to the resolution of investment disputes in which they were involved.

28. Claim avoidance activities: In a number of cases in the period covered by this review, the Legal and Claims Department has undertaken claim avoidance activities in member countries where disputes had arisen with insured investors. In these instances, MIGA was able, through intensive negotiations, to persuade the host country involved to take action that would ameliorate the situation complained of, and avoid a claim.

29. First Formal Claim: The first claim in 12 years of operation was filed in March 1999. The claim was brought by an investor (guarantee holder) in Indonesia, as a consequence of the postponement of a power project. MIGA and the host government made intensive efforts to find a solution that would be acceptable to all parties involved. However, discussions could not be finalized in the deadline agreed upon with the guarantee holder, and subsequently, MIGA paid the claim on June 16, 2000.

External Challenges and Opportunities

30. Through various surveys, discussions with outside experts, or MIGA counselors, and internal management deliberations, MIGA has recognized several emerging challenges for the next three to five years in the field of foreign direct investment promotion in general, and the political risk insurance industry in particular.

31. Potential Volatility in Rapid Growth: The political risk investment insurance industry has been growing rapidly at the rate of 20–40 percent a year. However, the industry growth is susceptible to volatility due to the cyclical nature of the insurance business and/or potential occurrence of major claims and losses by insurers. This potential volatility poses two types of challenges for MIGA: to play a counter-cyclical catalytic capacity if necessary, and to ensure availability of sufficient reinsurance capacity to support its future growth.

32. Growth of Private Insurers: One of the driving forces behind this rapid growth of the political risk insurance market is the increasing capabilities of private insurers to meet the insurance needs of investors and lenders. Today, approximately 50–60 percent of the market is served by private insurers, and MIGA has played an instrumental role in developing the private market. As stipulated in its Convention, MIGA believes it needs to continue strengthening its collaborative relations with private insurers and ensure it complements their activities.

33. Broader Partnership Opportunities with Public Agencies: A wide range of opportunities are available for MIGA to collaborate with other public agencies. In particular, export credit agencies in Category Two countries and multilateral development banks are increasingly interested in investment insurance.

34. Diverse Investor Needs and Unmet Needs: Investor needs for political risk insurance are significantly diverse, and this is reflected in their differentiated use of private and public insurers. Some investors have sophisticated risk management needs with a demand for large capacity, while others have relatively simple needs. Sizable unmet needs for political risk insurance still exist among investors, in terms of both the degree of risk mitigation and capacity availability for certain country markets.

35. Linkage to Capital Markets: A linkage between political risk insurance and capital markets as a potential means of transferring risks has emerged in recent years. Despite uncertainties in the pace of development in political risk insurance, this is an area where MIGA believes it can make a pioneering contribution to the entire political risk insurance industry through insurance of bond issuance in the short term and, potentially, portfolio “securitization” in the long term.

36. Diversity of Investment Promotion Intermediaries: The majority of developing countries, including transition economies, have established investment promotion intermediaries. However, their capabilities, resources, and commitment vary significantly. The investment environment—business, legal and regulatory—also affects the effectiveness of these intermediaries. MIGA’s service will continue to take this diversity into consideration, mindful of MIGA’s limited resources.

37. Increasing Importance of the Internet in Investment Promotion: The advent of the World Wide Web has brought about profound changes in the world business environment, particularly in the ways in which

organizations market themselves and employ information in their operations. The increased use of Internet-based communication channels in international business has significant implications for organizations involved in attracting foreign investment to their country, region or municipality.

38. Unexplored Opportunities: During MIGA's 12 years of operations, the political risk insurance industry has undergone a significant evolution. In this new industry environment, it would be worthwhile for MIGA to examine some unexplored areas of activity. Under MIGA's Convention and Operational Regulations, there are unexplored areas that MIGA can pursue in the long term (possibly in partnership with the private sector) for which positive developmental impact could be expected. Some examples may include insurance for non-commercial risks other than political risk, reinsurance for private insurers, and research and knowledge dissemination.

MIGA's Comparative Advantages

39. MIGA's future strategy should be based on the institution's comparative advantages that are not only unique but, more importantly, valuable to clients in meeting their needs. MIGA has tried to play a unique role in its endeavors to promote foreign direct investment to developing member countries by enhancing the comparative advantages (or public value) of its services to its clients.

40. Such advantages must be tested, and recognized by outside parties, such as clients and other insurers. Through surveys and discussions with outside partners and experts, MIGA has identified the following five areas of comparative advantage:

41. Underwriting Rigor: Both investors and private insurers recognize MIGA's high quality of underwriting. Political risks are thoroughly analyzed, leveraging the network within the rest of the World Bank Group, and environmental, labor and other concerns are addressed beforehand.

42. Problem prevention and resolution capability: MIGA's capability to resolve problems is highly regarded both by peer insurers and investors. Problem prevention and resolution will be increasingly important in order for MIGA to be able to serve frontier countries or highly complex projects.

43. High visibility among major investors: Investors have a very high unaided awareness of MIGA as a political risk insurance provider. This

is comparable with national insurers such as OPIC, but much higher than most private insurers.

44. Practical applicability in investment promotion: MIGA's comparative advantage in capacity building lies in its ability to provide practical solutions to client organizations through its network to investors. Investment promotion intermediaries clearly recognize this strength of MIGA relative to other technical assistance providers.

45. Expertise in the use of the Internet for investment promotion: With the launch of *IPAnet* in 1995, MIGA has been one of the first development agencies to offer an Internet-based information service targeted to its core constituency, and has maintained cutting-edge capability since then.

Proposed Future Directions: Multi-niche Strategy

46. Given the rapid growth in the market of political risk insurance that is driven by private insurers, changing needs of international investors, and the growing importance of investment promotion for developing countries, MIGA sees the need to clearly define its unique and distinctive role in catalyzing and facilitating foreign investment with high developmental effectiveness.

47. This direction will require MIGA to identify and serve a number of highly developmental "niche" areas through guarantees and technical assistance. A comprehensive pursuit of such "multi-niche" opportunities will be essential both for generating sizable developmental impact, and for MIGA's future growth and financial soundness.

48. In Guarantees, these niches typically include opportunities that few other insurers, except MIGA, are able or willing to serve, or are investment opportunities that would not be realized without MIGA's involvement, i.e., IDA-eligible countries, Africa, SMEs, Category Two to Category Two investments, and complex infrastructure projects. The Country Assistance Strategy process will continue to help MIGA define such niche opportunities.

49. In Technical Assistance, which includes capacity building and information dissemination, MIGA's focus will be to develop and deliver practical services where MIGA has comparative advantages.

50. At the same time, MIGA-wide synergy will continue to be pursued, especially in areas such as joint marketing and outreach, information sharing, and the pursuit of special initiatives, including an SME strategy.

51. This multi-niche strategy will deliver significant developmental impact to many developing member countries through Guarantees and Technical Assistance. However, the strategy may entail that risks (perceived or real) for Guarantees may be higher, and the identification of, and outreach to, these niches may be more difficult and/or costly than the current range of MIGA services.

52. To meet these challenges, especially for Guarantees, MIGA must first enhance the competence of its core business functions, such as marketing, underwriting, risk management and claims, as an insurance organization.

53. Second, vigorous pursuit of operational synergy within the entire World Bank Group will be essential, for both Guarantees and Technical Assistance.

54. Third, collaboration with outside partners—private and national insurers, multilateral development banks and export credit agencies in developing countries—is important. It will effectively mobilize outside capital (especially from the private sector), while enabling MIGA to capture niche opportunities in an efficient manner.

55. At the same time, MIGA will continue to strive for even higher client satisfaction levels among investors, investment promotion intermediaries and host governments. Moreover, in responding to changes in the external environment, MIGA will explore opportunities to develop new products and services that better meet client needs and deliver greater developmental impact. In particular, exploring MIGA's involvement in international capital markets will be an important strategic theme for MIGA over the next three to five years.

56. **Financial Implications:** The pursuit of the multi-niche strategy will pose various financial challenges for MIGA. The timely subscription of the General Capital Increase is imperative for MIGA to expand its necessary underwriting capacity, while strengthening its financial resilience by building sufficient reserve. In addition, projects in multi-niche areas tend to be smaller in size, and their underwriting is typically more complex and costly. Therefore, efficiency improvement of the underwriting operation will be an important issue for MIGA in future.

57. **Organizational Implications:** In order to ensure high effectiveness and efficiency in its pursuit of developmental impacts through the multi-niche strategy, MIGA's organization needs to be aligned to its future strategic directions. In addition, given the increasing importance of a

healthy awareness of various risks, a COSO exercise (comprehensive assessment of the adequacy of the internal control structure) is underway for the first time in MIGA, and has highlighted various strengths of, and challenges for, the organization.

58. Important organizational themes for MIGA will include MIGA-wide collaboration, developmental effectiveness, World Bank Group synergy, corporate style and culture, and risk management and internal control.

59. In light of the above summary of the review of activities, the assessment of external environment, and proposed future directions, the Board of Directors proposes that the Council of Governors adopt the resolution...¹

(This report was approved and its recommendation was adopted by the Council of Governors on September 27, 2000).

¹ See page 273.

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