THE WORLD BANK GROUP

1999 Annual Meetings of the Boards of Governors

Summary Proceedings

Washington, D.C.

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SUMMARY PROCEEDINGS

WASHINGTON, D.C.
SEPTEMBER 28–30, 1999

INTRODUCTORY NOTE

The 1999 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 Washington, D. C., September 28–30, 1999 (inclusive). The Honorable Mahesh Acharya, Governor for the Bank and the Fund for Nepal, 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

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REMARKS BY HONORABLE BILL CLINTON PRESIDENT OF THE UNITED STATES

Thank you very much, Secretary Summers, President Wolfensohn, Chairman Acharya, Director Camdessus, Vice President Fall, Secretary Anjaria. Let me begin by saying how very grateful I am to be here with all of you. I appreciate the generous introduction. Some of you may have heard me say this before, but the introduction that Secretary Summers just gave me is an illustration of one of my unbending laws of political life: whenever possible, be introduced by someone you have appointed to high office. It is much easier, because he has done such a superb job, and I thank him.

Let me say, all of you know that a year ago we were here in a time of crisis, perhaps the most severe financial crisis in the global economy since the end of the Second World War—a grave challenge to the Fund and the World Bank. Thanks to the hard work that you and your countries have done, economies that were sliding down are rising again.

We have also worked hard, as Secretary Summers said, in the wake of these crises to prevent future ones, to respond more quickly and effectively, to lessen the toll they take on ordinary citizens. We have intensified our efforts to construct a global financial architecture that is stable and strong in the new conditions of the new economy.

Still, those who were hit by this crisis were hit very hard. And many are still reeling. People lost jobs and businesses and dreams. So this can only be considered a continuing challenge for us, certainly not a time for complacency. We have more to do to restore people's faith in the future and to restore their faith, frankly, in the global economy and in global markets. Therefore, we have more to do to reform the global financial foundation upon which the future will be built.

As we approach the twenty-first century, we must also ask ourselves, however: is it enough just to fix the market that is? Should we accept the fact that, at a time when the people in the United States are enjoying perhaps the strongest economy in their history, 1.3 billion of our fellow human beings survive on less than a dollar a day? Should we accept the fact that nearly 40 million people—after the Green revolution, when most of us discuss agriculture and food as a cause for international trade conflicts because we want to fight over who sells the most food, since there are so many places that can produce more than their own people need—are we supposed to face the fact that nearly 40 million people a year die of hunger? That is nearly equal to the number of all the people killed in World War II.

Are we supposed to accept the fact that, even though technology has changed the equation of the role of energy in the production of wealth;

even though technology has changed the distances in time and space necessary for learning, and for business, as well as educational, interchanges—are we supposed to accept the fact that some people and nations are doomed to be left behind forever?

I hope that we will not accept that. I hope that we will start the new millennium with a new resolve: to give every person in the world—through trade and technology, through investments in education and health care—the chance to be part of a widely shared prosperity, in which all the peoples' potential can be developed more fully. This is the challenge of the second half-century of the life of the Fund and the World Bank. And for me it is a personal priority of the highest order.

Open trade already has improved the prospects of hundreds of millions by marketing the fruits of their labors and creativity beyond their borders. In this way, both the Fund and the World Bank have played a vital role in helping more nations to thrive. We need you to work with the World Trade Organization to build a rules-based framework for global trade. We need you to help developing countries provide education and training to lift wages, and to establish social safety nets for tough transitions.

I applaud the strong commitment that you have made at these meetings for concrete manifestations of support. We all must work to keep the economies we have influence over open, and trade growing, for developing and industrial powers alike.

In two months, I want to launch a new type of trade round in Seattle, at the WTO ministerial. I want this round to be about jobs and development. I want it to raise working conditions for all. I want it to advance our shared goal of sustainable development. By breaking down barriers to trade, leveling the playing field, we will give more workers and farmers in those countries that are struggling for tomorrow—and in leading industrial nations, as well—more opportunities to produce for the global marketplace.

In Seattle, I hope that we will pledge to keep cyberspace tariff-free, to help developing countries make better and wider use of technology—whether biotechnology or the Internet. I hope that we will pledge to open markets in agriculture, and industrial products and services, creating new activities for growth and development. I hope that we will also work to advance the admission of the 38 developing countries that have applied for WTO membership. And I hope that we will keep working to give the least developed countries greater access to global markets. Here in the United States, I am working hard to persuade our Congress to pass my trade proposals for Africa and the Caribbean Basin this year.

But the wealth of nations depends on more than trade. It also depends on the health of nations. Last week at the United Nations, I committed the United States to accelerating the development and deliv-

ery of vaccines for AIDS, tuberculosis, malaria, and other diseases that disproportionately afflict poor citizens in the developing world.

At the same time, we must help these nations avert the health cost and pollution of the Industrial Age—using clean technologies that not only improve the environment, but grow the economy. Institutions like the World Bank play a special role here. Your energy strategy is a very good start and I thank you for it. I urge the Bank to continue setting aggressive targets for lending that promotes clean energy. It is no longer necessary to have Industrial Age energy use patterns to grow a modern, powerful economy. In fact, those economies will emerge more quickly with more sustainable development strategies.

Some of you in this room—a minority still—are nodding your heads "yes" as I say this. If you believe it, we must work together to achieve it. These efforts must be part of a broader approach that ensures the integrity and openness of emerging economies. Last Saturday, the Group of Seven finance ministers outlined specific safeguards for Russia and called for comprehensive review by the World Bank and the Fund, to make sure that funds are used appropriately in high-risk environments. The United States will continue to insist on such accountability.

For many developing countries, however, there is a greater obstacle in the path to progress. For many of them, excessive and completely unsustainable debt can halt progress, drag down growth, drain resources that are needed to meet the most basic human conditions, like clean water, shelter, health care, and education. Debt and debt relief are normally subjects for economists. But there is nothing academic about them. Simply put, unsustainable debt is helping to keep too many poor countries and poor people in poverty. That is clearly why the Pope and so many other world leaders from all walks of life have asked us all to do more to reduce the debt of the poorest nations as a gift to the new millennium—not just to them, but to all the rest of us, as well.

Personally, I do not believe that we can possibly agree to the idea that these nations that are so terribly poor should always be that way. I do not think we can, in good conscience, say we support the idea that they should choose between making interest payments on their debt and investing in their children's education. It is an economic and moral imperative that we use this moment of global consensus to do better. I will do everything I can to aid this trend. Any country, committed to reforming its economy, to vaccinating and educating its children, should be able to make those kinds of commitments and keep them.

In June, at the Group of Seven summit in Cologne, the world's wealthiest nations made an historic pledge to help developing nations. The debt relief program we agreed upon is a big step in the right direction, dedicating faster and deeper debt relief to countries that dedicate themselves to fundamental reform. This initiative seeks to tie debt relief

to poverty reduction and to make sure that savings are spent where they should be—on education, on fighting AIDS and preventing it, and on other critical needs. It will help heavily indebted poor countries to help themselves and help to build a framework to support similar and important efforts by the Fund, the World Bank, and international financial institutions.

More than 430 million people could benefit from this effort. In Bolivia, for example, debt relief could help the government nearly double the people's access to clean water by 2004. In Uganda, it could allow health and education spending to increase by 50 percent between 1998 and 2001. Rural development expenditures there would more than double. That is why we all must provide our fair share of financing to global debt relief.

Last week, to make good on America's commitment, I amended my budget request to Congress and asked for nearly $1 billion over four years for this purpose. We must keep adequate assistance flowing to the developing countries, especially through the International Development Association. I am encouraged by the financial commitments made by some of the other donor countries this past week. And I call on our Congress to respond to the moral and economic urgency of this issue, and see to it that America does its part. I have asked for the money and shown how it would be paid for, and I ask the Congress to keep our country shouldering its fair share of the responsibility.

Now, let me make one final commitment. Today, I am directing my administration to make it possible to forgive 100 percent of the debt these countries owe to the United States when—and this is quite important—when needed to help them finance basic human needs, and when the money will be used to do so. In this context, we will work closely with other countries to maximize the benefits of the debt reduction initiative.

We believe that the agreements reached this weekend will make it possible for three-fourths of the highly indebted poorest countries, committed to implementing poverty and growth strategies, to start receiving benefits sometime next year—actually receiving the benefits sometime next year.

If we do these things as nations, as international institutions, as a global community, then we can build a trading system that strengthens our economy and supports our values. We can build a global economy and a global society that leaves no one behind, that carries all countries into a new century that we hope will be marked by greater peace and greater prosperity for all people. We have before us perhaps as great an opportunity as the people of the world have ever seen. We will be judged—by our children and grandchildren—by whether we seize that opportunity. I hope, and believe, that we all will do so.

OPENING ADDRESS BY THE CHAIRMAN THE HONORABLE MAHESH ACHARYA GOVERNOR OF THE BANK AND THE FUND FOR NEPAL

I feel greatly honored to chair these important Annual Meetings of the World Bank Group and the Fund. At the outset, I, on behalf of people of the Kingdom of Nepal, wish to express our sincere gratitude to distinguished Governors for providing Nepal the opportunity to serve as Chair of the Boards of Governors of the World Bank Group and the Fund.

We are delighted to meet once again in this beautiful city of Washington D.C. And, at this auspicious occasion I would like to invite you all to join me in expressing our sincere appreciation to the President and the people of the United States of America for their warm hospitality.

Fellow Governors, as we are at the dawn of the next millennium with great hopes for humanity, we have a great responsibility to carry forward our institutions to fulfil our international obligations to help member countries attain prosperity and advancement. We cannot and must not forget that many millions of people in the world look to us for both finance and development wisdom. In that context, I will concentrate on two major challenges facing us in the period ahead.

One major challenge that will confront us is to distill lessons from the recent crises. It is imperative that the reform of the international financial system leads to early and sustained results to help us deal more effectively with future challenges and to raise living standards. Another major challenge is to address the pressing needs of our most disadvantaged members. Primary among these are substantial debt relief, a sustained poverty reduction effort, and other important social needs.

My fellow Governors, it has been two years since the financial crisis of the late 1990s started in East Asia. We applaud the effective response of the Bank and the Fund to support reform efforts in the crisis-affected countries. Although a number of countries have begun to recover, the aftershocks of the crisis continue to affect several countries. We also note that the crisis exposed serious weaknesses in the public, financial, and corporate sectors and—most notably—the critical need to protect the poor and the vulnerable.

Let me stress that the transfer of resources to developing countries should continue to be a major concern of the international community. The current trend of net long-term flows to developing countries, including both from private and official sources is particularly worrisome. I am sure you all will agree that resource transfer is among the most important ingredients for the growth and prosperity of developing countries. Because private flows are falling, there is a greater responsibility on the part of industrial countries to enhance official flows to ensure the development of

poor countries and support global peace. We also take note of the emergency and restructuring needs that have arisen from natural disasters, and humanitarian and reconstruction efforts in many regions. However, this must not divert money away from the poor in other parts of the developing world.

Global Issues

My fellow Governors, the world economy has undergone vast changes in the 1990s. We have witnessed a surge of democracy, and growth pyramids peaking and falling in a short span of time. We have observed the power of high economic growth to reduce poverty in many developing countries. But not all of us were fortunate enough to attain sufficient economic growth to address the issues of poverty, and many of us have been unable to improve income distribution, neither among the continents nor among nations nor within nations. We must ensure that all countries can benefit from globalization through an orderly and well-sequenced integration into the world economy. In this context, it is essential that any new round of multilateral trade negotiations be a "development round," with developing countries participating fully in the negotiations.

Since we met last year, the outlook for the world economy has improved. We are happy to witness these improvements, although we need to remain vigilant. One important lesson from the recent turmoil is the need to maintain policy flexibility when responding to crises. The growth of world output is expected to increase moderately next year, as the recovery in Asia's crisis-afflicted emerging market economies gains momentum, strong growth continues in the United States, and better performance in Europe and Japan takes hold. However, the continued uneven pattern of growth among the major industrial countries poses a worrisome risk to the outlook. Ensuring the continuation of the global expansion will require a significant rebalancing of growth and addressing the existing large external imbalances.

Sustaining the recovery in the crisis-hit economies and reducing the vulnerability of all developing countries to external shocks will require the continued vigorous pursuit of structural reform programs, focusing in particular on the banking and corporate sectors. There is no room for complacency. Indeed, this highlights another lesson from the recent experience, namely, the need to focus on high-quality broad-based growth to ensure that all levels of society benefit from reform programs.

Among other emerging market economies, the improved outlook for Brazil and Mexico is encouraging, but the economic challenges facing other countries in Latin America is a matter of concern. While the economic downturn in Russia was less severe than previously expected, the need for far-reaching structural reforms remains essential to support a

sustained recovery. For China, India, and other South Asian economies, growth prospects appear favorable. However, broad structural reform and poverty reduction agendas need to be addressed. For the Middle East and Africa, the recent oil price increases will help improve the fiscal positions and external balances of several countries, although other primary producing countries continue to be negatively affected by persistent weaknesses in many other commodity prices. Continued adjustment effortsæparticularly at diversifying production toward manufacturing and servicesæneed to be encouraged. The challenges facing our African members are particularly difficult, and the Bank and the Fund need to build on our support for their adjustment and capacity building efforts.

Strengthening the Architecture of the International Financial System

My fellow Governors, we note the substantial progress achieved in strengthening the architecture of the international financial system. The ultimate aim of these efforts must be to protect living standards worldwide by preventing future crises.

One major development has been the recent creation of Contingent Credit Lines (CCL) by the Fund as a new crisis-prevention mechanism. And the Fund has just created a special temporary facility to help member countries that encounter temporary balance of payments difficulties as a result of the Y2K computer problem.

Another central focus has been on improving transparency, both at the national and international levels. We must recognize that, in order to work smoothly, markets require timely and comprehensive economic information. To that end, a number of initiatives have moved forward on improving the communication of Bank and Fund policies and programs to the public.

We note that progress has been made on the development, dissemination, and adoption of internationally accepted standardsæor codes of good practiceæfor economic, financial, and business activities. The Fund has made considerable progress in developing and refining voluntary standards in its core areas of expertise, such as through the strengthening of the Special Data Dissemination Standard, notably with respect to international reserves and external debt. It has also developed codes of good practice in the fiscal, and monetary and financial areas. Collaboration between the staffs of the Bank and the Fund in working on financial sector issues has been substantially improved by the establishment of the Bank-Fund Financial Sector Liaison Committee.

A further focus has been on financial sector strengthening, where the Bank and the Fund are working together under the recently concluded Financial Sector Assessment Program. It is expected that this will strengthen their dialogue with member countries and help to highlight emerging areas of stress in national financial systems. The program will

provide clients with diagnosis, advice, and assistance in developing strategies to improve financial sector stability, build institutional capacity, and assure broader access to financial services. Work has also progressed on improving the involvement of the private sector in forestalling and resolving crises. The aim is to help bring about a more orderly adjustment process, limit moral hazard, strengthen market discipline, and help emerging market borrowers protect themselves against volatility and contagion.

We have also worked hard to continue to strengthen our institutions, and we welcome in particular the proposed transformation of the Interim Committee of the Fund into the International Monetary and Financial Committee.

In order to reinforce the activities of the Bank in the financial sector, it has created a "New Spending Authority" program to assist countries in crisis or vulnerable to crisis. Resources were allocated for social sector programs to reduce the impact of the crisis on the poor and vulnerable groups, and to facilitate corporate restructuring and improve corporate governance.

My fellow Governors, closely related to such developments is the issue of the liberalization of capital movements, and the integration of global capital markets. The recent emerging market crisis underlined the need to ensure that countries wishing to gain and maintain access to capital markets could do so in a way that recognizes the importance of their stability and economic security. This means an orderly and well-sequenced approach on the part of both creditor and debtor nations. Appropriate lessons must be drawn from countries' recent experience with the liberalization of capital movements and the use of capital controls—particularly with respect to potentially volatile short-term flows.

Poverty Reduction and Challenges

My fellow Governors, we are all aware that global progress toward the critical goal of poverty reduction has not been satisfactory. Worldwide poverty trends are worsening, particularly as a result of the recent financial turmoil. We note some achievements in the fight against poverty, such as an increase in life expectancy, a drop in infant mortality, and a rise in school attendance of girls. However, progress on poverty reduction and sustainable development is lagging in many developing countries. In fact, the number of poor people in South Asia, sub-Saharan Africa, Europe, and Central Asia is on the rise, particularly in the regions most affected by crisis and conflict. Half of the world's 6 billion people are trapped in poverty and subsist on less than $2 a day.

My fellow Governors, we all are aware that the financial crisis threatened our endeavors to reduce poverty. We, the policymakers, must shape our strategies so that they do not inadvertently inflict long-term hard-

ships on the poor by triggering lower investment in education and health. While cuts in government spending might be unavoidable in a crisis, we must ensure that the services that protect the poor and keep children in school are maintained.

Moreover, we are faced with enormous challenges in the areas of literacy and basic health, especially for women and girls. The HIV/AIDS epidemic has compounded these challenges and is reversing decades of progress in improving the quality of life in developing countries, especially in Africa and South Asia. Developing countries in particular urgently need an AIDS prevention vaccine to contribute to their prevention efforts. This will require a combined effort of all partners. We are pleased to note that the Bank will continue to invest in preventing HIV and in strengthening health systems in developing countries.

My fellow Governors, we will all have to redouble our efforts to achieve our agreed goal to cut in half the incidence of poverty by the year 2015 and to attain a better life for our children. I call on the World Bank and the Fund, as well as other agencies to continue to improve the quality and delivery of their assistance in order to address the challenges of poverty reduction and global development.

Over the past year, the Bank and the Fund have continued to support the adjustment and development efforts of our members. The Bank began piloting the Comprehensive Development Framework (CDF), which seeks a better balance in policy making by highlighting the interdependence of many elements. It also emphasizes strong partnerships among donors, civil society, the private sector, and other development actors. We need to underline the importance of technical assistance to strengthen the capacities of our members to implement these programs. We look forward to drawing lessons from the pilot projects currently under way. We stress again that the needs, interests, concerns, and aspirations of the developing countries must be reflected in the CDF.

We note that the strong adjustment lending in 1999 reflects the continuing focus of the Bank on responding to the financial crisis, emphasizing the protection of social spending and the strengthening of the social safety nets to protect the poor and the vulnerable.

We also welcome the closer linking of the operations of the Bank, IFC, and MIGA in the country assistance strategies. These have been increasingly formulated in consultation with civil society and other stakeholders, and focused on poverty outcomes and social issues. The Bank has also continued to enhance its system for evaluating the development impact of its efforts on the ground. We are pleased to note the agreement on the twelfth replenishment of the International Development Association (IDA), which includes new donor funding. We are confident that this will strengthen the efforts of the Bank Group to reduce poverty.

The proposal to introduce Poverty Reduction Strategy Papers (PRSP) is a concrete example of a combined Bank/Fund initiative to improve the effectiveness of the efforts to reduce poverty. This new approach will focus on helping countries to develop their own strategies for reducing poverty. These tripartite documents of the authorities, the Bank, and the Fund should become an effective vehicle to enhance the poverty reduction impact of IDA and ESAF lending programs. They will also link heavily indebted poor country (HIPC) debt relief more closely to poverty reduction, and ensure ownership, transparency, and broad-based participation. This fits well with the aim of making poverty reduction a central focus of the ESAF. I stress here the importance of strengthening the institutional capacities of developing countries to implement this initiative.

My fellow Governors, the Fund has also been very active in support of the adjustment and reform efforts of the membership. Its surveillance work has continued at a rapid pace. I am also pleased to note that, in addition to its traditional attention to macroeconomic issues, the Fund has continued to focus increasingly on a broader range of structural, institutional, and social issues in its consultations with national authorities. In addition to the establishment of Contingent Credit Lines, the Fund also agreed on modifications to the policy on post-conflict emergency resources to provide more financial assistance for a longer period of time. In response to the financial crises, the demand for Fund resources remained extremely heavy over the past year. We are pleased that the successful implementation of the Eleventh Quota Review provided the necessary financial resources to support adjustment efforts of member countries.

Financial Assistance to Developing Countries

My fellow Governors, hundreds of millions of the world's poor live in countries where crushing debt stands in the way of lasting poverty reduction. The HIPC Initiative has already yielded some positive results. There has been extensive international cooperation among all partners in implementing the initiative. Nevertheless, recent developments and experiences have highlighted the vulnerability of many HIPCs to exogenous shocks. It is our duty to reinforce and to enhance this program so as to provide faster, deeper, and broader debt relief. We appeal to contributors to make additional financial commitments to ensure success of the initiative.

We must ensure that debt relief under this initiative should not come at the expense of other aid and other deserving recipients. It must complement, not replace development assistance. We must ensure that debt relief becomes an integral part of efforts to help countries grow and reduce poverty. This must make a difference in the lives of the people in

the debt-burdened poor countries. Also, the resources freed from debt service must be better directed for the development of the social sector.

Consideration must also be given to alleviating the debt burdens of a number of poor countries excluded from the HIPC Initiative. In this context, I would like to bring to your attention the case of Nepal. Despite our efforts, the incidence of poverty in Nepal is pervasive, the level of social services is very low, and the human development needs are enormous. Substantial revenues are allocated by Nepal for debt servicing. Indeed, Nepal is regarded as one of the poorest countries in the world, yet it is not eligible for this initiative.

My fellow Governors, we have witnessed an accelerating pace of globalization recently. However, not all countries have benefited from this process. As we enter the new millennium, we must ensure better cooperation between all development partners, including bilateral donors, multilateral agencies, and national authorities. Our aim must be to facilitate the integration of poor countries into the global economy and to realize the potential to improve living standards in all countries. When future generations look back at our deliberations at these meetings, let us hope they say that their better future began today.

Fellow Governors, we have every reason to be proud of our two institutions. No doubt, we have a mammoth agenda before us, but our common resolve will take us to the height of success. I am confident that our two institutions will be able to meet the formidable challenges of the next century. I hereby declare open the fifty-fourth Annual Meetings of the World Bank Group and the Fund.

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

I am very pleased to welcome you to these Annual Meetings of the World Bank Group and the International Monetary Fund. I would like to express my appreciation to Chairman Mahesh Acharya, whose work in Nepal shows a deep understanding of many of the issues I wish to address todayæand to my colleague and friend Michel Camdessus. We work ever more closely together, and I salute the remarkable team he leads.

I have had the privilege of addressing you on four previous occasions. In 1995, I spoke of the challenge of development, of the need to educate girls and address the burden of debt. I saw the need for the Bank to reorganize within and to embrace partnerships outside with a wholly new vigor; to form partnerships with other official aid and development institutions, with civil society, and the private sector; to listen to and work more closely with the governments and people of the countries we serve.

In 1996, I emphasized our role as a Knowledge Bank. I spoke, too, of the "cancer of corruption." The Bank committed itself to join concerned governments to fight corruption wherever we found it. And since that time, we have been pushing ahead vigorously with that agenda. Later in the year, with our partners in the Fund, we articulated our approach to debt forgiveness for the poorest countries. The HIPC Initiative has made a real difference, and, at these meetings following the changes suggested at the Cologne Summit, further progress has been made.

In 1997, I spoke of "The Challenge of Inclusion," of the need to think of development in human terms and to bring the weakest and the most vulnerable from the margins of society to the center stage.

A year ago, with the Asian financial crisis dominating our concerns, I spoke of "The Other Crisis," the human crisis of those condemned to poverty as well as those who had found hope and seen it roughly snatched away. I spoke of the special role of our institution in dealing with the impact of the crisis on people and of the urgent need to look beyond financial solutions, to take the social and the structural together with the macroeconomic.

Today as we meet one year later, it is tempting to take comfort in thoughts of a financial crisis passed—though for millions that other crisis still lives. It is tempting to put off the needed reforms—though for millions those reforms still matter. It is tempting to talk of safe passage—though for millions of poor and unemployed there is still no sight of harbor.

We meet today on the threshold of a new millennium. We must take stock and ask ourselves some fundamental questions. Will we seize the moment to raise our sights for a better world? Will we begin to judge our

efforts not by the prosperity of the few but by the needs of the many? Will we be prepared to hold ourselves accountable, to make the effort necessary to bring about change?

For what is the millennial world that we see? A world where over the last 40 years life expectancy has risen more than in the past 4,000 years. A world where the communications revolution holds out the promise of universal access to knowledge. A world where democratic culture has opened up opportunities for many. A world where 5.7 billion people live in a market economy compared with 2.9 billion only 20 years ago.

But look more closely and we see something else. Per capita incomes that will stagnate or decline this year in all regions except east and south Asia. In the developing world, with the exception of China, 100 million more people are living in poverty today than a decade ago. In at least 10 countries in Africa, the scourge of AIDS has reduced life expectancy by 17 years. We have more than 33 million cases of AIDS in the world, of which 22 million are in Africa; 1.5 billion people still lacking access to safe water; 2.4 million children who die each year of waterborne diseases; 125 million children still not in primary school; and 1.8 million people who die annually of indoor air pollution. It is a world where the information gap is widening and the forests are being destroyed at the rate of an acre a second.

The picture is mixed and the challenges are great. But this is a moment in history when we can set a new course to a world of greater peace, equity, and security. It is a time not just for review, but for action. Last year my colleagues and I decided that in order to map our own course for the future, we needed to know more about our clients as individuals. We launched a study entitled "Voices of the Poor" and spoke to them about their hopes, their aspirations, their realities. Teams from the Bank and from nongovernmental organizations have gathered the voices of 60,000 men and women in 60 countries. Let me share with you our findings.

Poverty is much more than a matter of income alone. The poor seek a sense of well-being that is peace of mind; it is good health, community, and safety. It is choice and freedom as well as a steady source of income.

Well-being is having the chance to grasp new economic opportunities; something the poor feel much less able to do than a decade ago. Well-being is personal security. More women are working outside the household now, trying to make ends meet. But gender inequity at home persists, and domestic violence is on the rise. And corruption is a daily fact of life as the poor try to access public services and make a living.

What is it that the poor reply when asked what might make the greatest difference to their lives? They say, organizations of their own so that they may negotiate with government, with traders and with non governmental organizations. Direct assistance through community driven programs so

they may shape their own destinies. Local ownership of funds, so that they may put a stop to corruption. They want non governmental organizations and governments to be accountable to them.

Let me share with you their world in their own words. An old woman in Africa: "A better life for me is to be healthy, peaceful and to live in love without hunger." A middle-aged man in Eastern Europe: "To be well is to know what will happen to me tomorrow." A young man in the Middle East: "Nobody is able to communicate our problems. Who represents us? Nobody." A woman in Latin America: I do not know whom to trust: the police or the criminals. Our public safety is ourselves. We work and hide indoors."

These are strong voices, voices of dignity. Many represent a new generation seeking control of their lives. These people are assets, not objects of charity. They can build their future if given opportunity and hope. They are talking about security, a better life for their children, peace, family, and freedom from anxiety and fear. As we sit comfortably here in Washington, we must hear their aspirations. For they are no different from our own.

No, the crisis is not over. The challenge has barely begun. Next month our global population will reach 6 billion. Based on current trends, we will not meet the International Development Goal of halving poverty by 2015, nor the goal of providing universal primary education by 2015, nor that of reversing the current loss of environmental resources both nationally and globally by that date. In 25 years, those 6 billion people on our planet will grow to 8 billion. Of the 6 billion today, 3 billion live under $2 a day and 1.3 billion live under $1 a day. I am concerned that these extraordinary statistics may rise to 4 billion and 1.8 billion respectively. This is not a legacy to leave our children.

The number of conflicts seems likely to be higher, the quality of our environment will be worse, the disparities between rich and poor will be wider. The voices of the poor will be louder; but will they be heard? What have we learned about development? We have learned that development is possible but not inevitable. That growth is necessary but not sufficient to ensure poverty reduction. We have learned that we must put poverty front and center. We have learned that we must take the social and the structural hand in hand with the macroeconomic and the financial. We have learned that for development to be real and effective, we need local ownership and local participation. Gone are the days when development can be accomplished behind closed doors in Washington, or Western capitals, or any capital for that matter.

At a recent meeting in Stockholm to assess progress on the Comprehensive Development Framework, President Mkapa of Tanzania said: "Ownership of development policies and programs is not only an understandably nationalist yearning, an inherent and sovereign right, but it

also creates the most fervent disposition and conditions for hard work and for self development, both at the national and the local level." "Our people must be encouraged and facilitated," he said "to be owners of their development: not just beneficiaries, but doers of development"

We must heed this call as we plan our development agendas in the years ahead. But we must go further. We must recognize our own role in helping not hindering those doers of development by better coordinating our own activities. It is shameful that Tanzania must produce 2,400 reports each quarter for its donors. It is shameful that Tanzania must suffer 1,000 missions from donors a year. And Tanzania is by no means alone.

So how do we proceed? It was in recognition of the need to better coordinate our efforts, to recognize the holistic nature of development, and to put the country firmly in the driver's seat that we launched the Comprehensive Development Framework this year.

Our aim was simple: to bring the social and the structural aspects of development together with the macroeconomic and the financial so as to establish a much more balanced and effective approach; to bring the players together so as to leverage all our activities; and to work with the broad development community—the United Nations, the European Union, bilaterals, regional development banks, civil society, and the private sector to build a new generation of genuine partnerships.

What are the results so far? Together with our partners, the CDF is now being piloted in 13 countries. We are learning to cooperate and coordinate our work better at the local level. After discussions with many ministers, I believe that the approach of the CDF is now widely supported. Not as a blueprint but as a process through which we pursue long-term, results-driven development with the country in the driver's seat and in partnership with the broad development community. Very shortly, the Development Assistance Committee will report on its review of bilateral and multilateral initiatives along lines similar to those of the CDF. It will conclude that the need for partnership and more coordinated efforts is widely recognized and accepted.

I am delighted, too, that we have reached a historic agreement with the Fund to have a common Poverty Reduction Strategy developed with our client governments. We will take a balanced approach linking macroeconomic and financial parameters with the human, structural and social aspects, in one document that will guide the programs of each institution.

However, in the course of the past 12 months, I believe that we have also learned something else. 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 their development is fundamentally flawed and will not last 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 that protects human rights, property rights and contracts, that gives a framework for bankruptcy laws and a predictable tax system—and if they do not have an open and regulated financial system and appropriate regulation and behavior that is transparent.

What use is the law book if the judges are corrupt, if the poorest and most vulnerable expect only brutality from police? What use is constitutional protection if women face discrimination in the marketplace and violence at home? What use is the foreign investor, if there are no accounting standards and requirements for transparency, no contract laws, and no predictable and fair tax system? What use is privatization if there are neither social safety nets to deal with unemployment nor rules to protect the public from private monopolies? Holes in institutional development and governance and lack of adequate and fairly paid staff gnaw destructively at policymaking, service delivery, and accountability.

We have learned both from our general experience and from our pilot CDF programs that strengthening the organization, human capacity; and structure of the state—both at central and local levels—is the first priority in our challenge to reduce poverty. We have learned that when we sequence the steps of the CDF; we must give the greatest emphasis first to strengthening governance and to capacity building in government and civil society.

That decision is confirmed by a recent United Nations Development Program (UNDP) survey of 150 resident coordinators: over half gave top priority to the need to strengthen governance and build capacity. It is supported by a recent survey of over 3,600 private firms in 69 countries that identified the need for strong institutions and rule-making. It is supported by our own consultations with the poor who repeated the same cries over and over: too much corruption, too much violence, and too much powerlessness and weakness. They long for a system that gives them equity and voice; and if they cannot have this through the ballot box or through government, they want it through informal organization outside government.

What would it really take to move from powerlessness to a democratic culture? What would it take to move from weakness to a capacity for action? What would it take to move from violence to peace and equity? First and foremost, it will take real commitment from the leadership of each country—both elected leaders and those with financial power and influence. It will take willingness to reform systems of government, regulations, and institutions. It will take strong support for building capacity. It will take having police forces that are no longer seen as agents of oppression rather than protection and security. It will take strong local institutions to bring government closer to the poor. It will take empowering local people to design and implement their own pro-

grams because far less is lost in corruption when a community manages its own resources.

Whether you look at the government or the community level; whether you look through the prism of financial crisis or human need; whether you speak to investors, bankers; or the dispossessed; governance and capacity are key. With poverty reduction front and center on our agenda, our work at the rock face must be governance, institutions, and capacity building.

Studies are already showing what we surely knew intuitively. That good governance is associated with higher GNP per capita, higher adult literacy, and lower infant mortality. That bad governance—lack of accountability and transparency, together with corruption and crime—is the number one impediment to development and poverty reduction. Weak governance threatens to undermine HIPC—which will only work if the resources that are freed are purposefully used for poverty reduction. With weak governance, there will be no progress in education, health, water, energy, or rural and urban development. Weak governance threatens to marginalize countries and whole peoples from the economic mainstream, and it will keep them on the marginsæfor if lending is only effective in countries with sound policies and sound institutions, who will lend to the poor performers?

At the Bank, we propose to give great emphasis in the years ahead to the question of working with governments to strengthen structure and governance. Do we have all the answers? No. Do we have all the expertise? Certainly not. We can only have success in partnership with others in the development community, including civil society and the private sector. Within the next few months we will join with UNDP, which has special skills and experience in this area, and with others to look at what each of us is doing on governance and capacity building. We will assess the strengths and experience that each of us brings and determine how we might all go forward together.

Such an agenda requires that we focus on the interrelatedness of the systems that work and that make societies function effectively. It requires that we focus on sound public governance systems with checks and balances, and that governments take up the fight against corruption. It requires building legal and judicial systems that protect the rights of citizens and their endeavors, going beyond big-ticket governments and business deals. Corruption is a core poverty issue, robbing from the poor the little they have. We must focus on financial and banking systems that inspire equal confidence in the global investor and the peasant farmer with small savings, especially women. We must have modern corporate procedures, including accounting, audit, and disclosure policies at the highest level. We must focus on micro-credit schemes and finance for small and medium enterprises that work in both times of crisis and in ordinary times.

We must train well-organized and motivated civil servants and civic leaders who see the purpose of their jobs in delivery to the communities they serveæand, we must remember that this training rests in turn on effective teaching and learning. We must concentrate on building strong local official and civil society institutions that inspire trust. For there can be no doubt that the local level is the real key to effective poverty reduction. It takes more than changing formal rules to build these institutions. It means changing the informal rules and norms, it means building people, building values, and building skills and incentives that can support people committed to change.

There is a new model emerging in Africa, the Partnership for Capacity Building. It has taken two years to move from concept to action. It is African-led and will be implemented by Africans. It involves the direct support and collaboration of the Bank, the Fund, the UNDP, and the African Development Bank and it is rooted in partnership with the private sector and civil society. We have pledged $150 million to a supporting fund. We will all join with our African colleagues to support them in a coordinated and urgent effort to achieve their objectives. However, we must remember President Mkapa's enjoinder. We must create doers of development. Too many capacity-building efforts have floundered in the past because they have not been rooted in local ownership.

I have spoken at length about the complexity of reaching our goals at the country level. But we know that nations are dependent on one another. We know that nations are no longer the sole masters of their destinies. We need global rules and global behavior. We need a new international development architecture to parallel the new global financial architecture.

What might such an international development architecture look like? First it would be a coalition built on the cooperation of all the players—the United Nations, governments, multilateral agencies, the private sector, and civil society. It would be a coalition between recipients, donors, and the citizens of donor countriesæa coalition based on results. There must be effective performance in utilizing development assistance—corruption-free and reaching the poor. Voters want to see that their assistance makes difference. The goodwill exists—performance is what is needed. Second, it would be a coalition in which we recognize that, yes, we must break the chains of debt, but we must also have the resources to go much further and break the chains of poverty. The HIPC debt forgiveness which we have announced is the beginning of our challenge not the end. Third it would be a coalition that recognizes that we must have a trade system that works, with rules and norms that are fair, comprehensive, and inclusiveæa Development Round for the twenty-first century. Fourth, it would be a coalition that recognizes that environment knows no borders. We need to implement international agree-

ments on climate change, desertification, and biological diversity, just as we did with ozone depletion. We must move to action on these global conventions. We must ensure that the Global Environment Facility is fully funded to do its work. Fifth, it would be a coalition that recognizes the power of modern research to democratize health—to harness new vaccines to eradicate AIDS, malaria, tuberculosis, and polio. Sixth, it would be a coalition to make the information revolution truly universal—to bridge the growing knowledge gap, to connect all developing and transitional economies to the world and to each other, and to be a real vehicle for sharing and learning via satellite, email, and the Internet. For there is no doubt that the technological revolution will have an enormous impact on the substance of development.

Globalization can be more than the unleashed forces of the global market. It can also be the unleashing of our combined effort and expertise to reach global solutions. We need to build coalitions for change: Coalitions with the private sector that will bring investment, create jobs, promote the transfer of technology and skills, and foster social responsibility; coalitions with civil society and communities to mobilize the kind of grass roots support we have seen behind the debt campaign—and to extend it to health, education for all, participation; and poverty reduction. Coalitions with governments to assist them in taking charge of their own development agendas with the participation of their citizens, coalitions with each other to put an end to the turf battles, the wastage and the duplication and coalitions with religions, with trade unions, and with foundations to benefit our common work; and coalitions of commitment to the seven United Nations pledges on sustainable development, gender, education, infant, child and maternal mortality, and reproductive health. I pledge to you our intention to work with all our partners to help build those coalitions for change, so that when we meet next year in Prague, we will have begun to put in place that new development architecture.

I have outlined a complex agenda. Is the Bank gearing up to meet this challenge? I believe unequivocally, yes. On governance, we are already spending over $5 billion a year—working on civil service reform, budget management, tax administration, decentralization, legal reform, judicial reform, and institution building. We are working with over 2 dozen countries on anticorruption programs. We help to train judges, and we run public national workshops that bring corruption into the bright glare of sunlight. We even train investigative journalists—conscious that a free and professional press is a society's voice.

On knowledge, we have made dramatic progress over the past four years. Our Knowledge Bank brings us closer together, through distance learning, using satellite connectivity. It also takes knowledge to far-away places by closing the information infrastructure gapæreaching students through the African Virtual University and through our WorldLinks

program, which connects school children in the industrialized world with their brothers and sisters in the developing world.

We have a major project to clear slums with programs built on the efforts of the inhabitants with whom we work by introducing land titles and self-sustaining projects for infrastructure. With the World Wildlife Fund, we have built a powerful alliance to save our forests; with the private sector, the United Nations, and foundations, we are building a Global Alliance for Vaccines and Immunization, an AIDS Vaccine Task Force, and a malaria initiative. With over 140 different partners, we have already wrestled river blindness into submission. This stands as a marvelous example of what we can do together, and we are working with local communities building partnerships from the bottom up—through local democratic institutions, as in India. We have learned that the best and most effective projects we have are those that are locally based and close to our real clients, people in poverty in rural and urban communities. We have learned that local ownership and involvement must be central to our architecture.

Is the Bank up to the challenge? I believe that we have 10,000 extraordinarily gifted and committed staff in the Bank, IFC, and MIGA. It has been a tough year, and I want to thank them and their families for the contributions that they have made.

We stand on the threshold of a new millennium. So much that is possible is within our grasp. Will we have the courage and the leadership to reach out and grasp it? Will we finally recognize that we live in one world? Look around. We are linked by financial systems, we are linked by communications we are linked by environment, and we are linked by trade. Migration knows no borders; crime knows no borders, and drugs, war, and peace know no borders. Only national budgets stop short at frontiers. Only national elections pay little heed to that larger world. We need leadership to explain to our peoples that our national interests are international. We cannot avoid the growth of our global population to 8 billion people in the next 30 years, or the growth in trade, or the growth in poverty.

From this understanding, we must reaffirm our commitment to development—a real commitment to each other—a real commitment to act on the generous statements made by so many of the leaders of industrialized countries toward the developing countries. We must find the commitment to meet the recommended level of 0.7 percent of GNP in official development assistance. And leaders of developing and transition economies must reaffirm their commitments to carry out their promises for good governance, equality, and growth.

These commitments need a human and moral aspect as well. There needs to be a passionate rededication to each other as we enter the next century. All of us have to assume a responsibility for global equity, which

is the only assurance of peace. How can one not be moved by the comments of the poor to which I referred earlier?

A father from Eastern Europe said: "Poverty is humiliation, the sense of being dependent on them, and of being forced to accept rudeness, insults and indifference when we seek help." And the voice of Bashiranbibi from South Asia said: "At first I was afraid of everyone and everything: my husband, the village, the police. Today I fear no one. I have my own bank account. I am the leader of my village's savings group. I tell my sisters about our movement."

We must look forward, we must commit ourselves to bring about the day when the poor of the world, the aged, the street children, the disabled, the rural workers, the slum dwellers, will all be able to cry out "Today I fear no one. Today I fear no one."

REPORT BY THE CHAIRMAN OF THE DEVELOPMENT COMMITTEE

Tarrin Nimmanahaeminda

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. The Committee's agenda in these meetings focused on three basic areas. These are:

- enhancement of the HIPC Initiative;
- strengthening the international system and architecture; and
- important World Bank developments and issues.

Let me address each one briefly.

HIPC Initiative

The HIPC Initiative began over three years ago in the Development Committee, and it has continued to be a major focus of our attention. In April we 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 two days ago at a joint meeting of the Interim and Development Committees, and yesterday at the Development Committee.

HIPC was the ideal issue for this first-ever joint meeting of the two committees. The Executive Boards of both institutions have been deeply involved at every stage, and so it is appropriate that the far-reaching proposals for change were reviewed by the full membership of both Committees. The results were reflected in a joint statement issued by Chancellor Brown and myself after the meeting. We stated that "this joint meeting symbolizes the cooperation and high political commitment of all countries and institutions in this effort, and the new closer relationship between the Bank and Fund which will be crucial to achieving this goal."

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 and the Joint Meeting have built the political support and momentum needed for success. Central to achieving this political support has been the reaffirmation of several key principles that have guided the initiative 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.

The Committee has also considered the special problems of countries in conflict, and the assistance provided by the Bank and the Fund to assist post-conflict countries. We stressed the need to link such efforts to preparing countries for eligibility in the HIPC Initiative. In short, we are very pleased with the leadership role played by the two institutions and their leaders in making this ambitious venture possible, of course with the generous support of many partners represented in this hall today.

Strengthening the International System and Architecture

The Committee has addressed a number of important subjects that directly or indirectly form part of the international architecture. In the past year we have explored the following areas:

Developing countries and the international trade agenda. We were pleased to have as a plenary speaker yesterday the new Director-General of the World Trade Organization, Mr. Mike Moore. He set the tone for important and supportive comments in our communiqué, which emphasized that the next round of trade negotiations needed to deliver "early and substantial benefits for developing and transition countries, in particular the least developed countries."

Principles and good practices in social policy. The Committee discussed this subject in the aftermath of the Asian crisis, stressing the importance of concerted action to help countries bolster their social policies and institutions. We concluded, however, that further development of basic principles in this area was best pursued with, and within, the framework of the United Nations, and leaving the Bank to concentrate on translating broad principles into practical country-specific results.

Strengthening international fora. The Committee discussed a number of options for strengthening the work of the Development Committee, including its links to the Interim Committee. Some of our members had advocated experimenting with a joint session of the two committees, and as a result of our experience two days ago we know that under certain circumstances it can work to good advantage. We are also seeking to ensure the minimum of overlap between the agendas of the two committees, so as to make the best use of members' time.

World Bank Issues

The Comprehensive Development Framework. During these two meetings the theme of the CDF has frequently arisen, as many ministers have stressed the valuable contribution the CDF can make to formulation of development programs. Its holistic approach, the central role played by the host government, and the emphasis on partnership have struck a strong and positive note among many Committee members. One aspect of partnership particularly emphasized by the Committee is the need to strengthen further the World Bank's cooperation with regional development banks.

Bank capital adequacy. The President has worked closely with the Executive Board in reviewing carefully the status of the Bank's financial capacity. Their conclusion, supported by the Development Committee, is that the Bank's finances remain sound, but that there are clear limits on what it can do to respond to future demands, especially if there is a deterioration in the global financial environment. We will be keeping the subject under review, based on regular reports from the Bank.

Conclusion

In conclusion, over a year ago, when I became Chairman of the Development Committee, there was great concern that Bank-Fund cooperation was insufficient on many important issues. Now I am pleased to report that such is no longer the case, as the Bank and the Fund have cooperated closely on many common institutional challenges facing them in this past year.

STATEMENTS BY GOVERNORS AND ALTERNATE GOVERNORS

ARMENIA: LEVON V. BARKHOUDARIAN

Governor of the Fund

I am pleased to participate at these Annual Meetings of the World Bank Group and the Fund and to be able to offer briefly Armenia's views on those policy directions for the year 2000 and beyond that will enhance global growth and development for my country and for those like us who seek to complete the difficult transition to a fully functioning market economy.

Overcoming financial crises this past year in parts of the world economy once again highlights for us all the importance and the necessity of continued joint efforts by the international financial community. At the same time, I believe that these financial failures also underscore the critical importance of creating and executing specific strategies that will address problems at the pre-crisis stage, before world markets are buffeted by events that may be avoidable.

While none of us can predict the future with absolute certainty, I believe that the Governors should affirm a forward-looking policy that states unequivocally that a country that has already demonstrated convincingly its commitment to tight monetary and fiscal policies shall have the backing of the international community. Without such mutual accord between country and community, agreed to and understood in advance, the world economy will continue to face similar shocks, a corresponding decrease in the level of trust of the people in countries seeking international integration, a resultant lowering of trade volumes, and a general decrease in the efficiency of the world economy.

It should go without saying that, during our discussions on world integration, special attention should be devoted to the equal treatment of all countries, which recognizes the necessity of financial support for transition economies—especially small and therefore comparably manageable ones—firmly following the path of establishing a market democracy.

The Republic of Armenia, together with many of the countries in world, has been affected by the international, and especially the Russian, financial crisis. The impact of the latter was multiplied—a decrease of income flowing into Armenia, a contraction of gross demand and decrease in consumption volumes, with a corresponding reduction of fiscal revenues, a noticeable decline in both import and export volumes, and an outflow of capital from both the treasury bill market and important investment projects. Obviously, our government had to take corrective action swiftly to contain the impact of the crisis in Armenia. As

evidence of the efficacy of the measures undertaken, I am pleased to state that the midterm review under the Enhanced Structural Adjustment Facility has just been concluded, and the documents have been presented for discussion by the Fund's Executive Board at the beginning of October.

Armenia attaches great importance to the attraction of foreign investments. As a factor in assuring the stability of the investment environment in our republic and, as important, in asserting our firm position with respect to our maximum integration into the world economy, I want to reaffirm Armenia's best efforts toward accession to the World Trade Organization. I hope and expect that our efforts will show results this year.

Perhaps the Governors will agree with me when I say that a situation where some two-thirds of all foreign direct investment flows to only a few countries cannot foster the level of development for all countries that we would desire. The problem in my country is made even more acute by the fact that almost all investment flow so far has been related to the privatization process. I would urge that the efforts of the international financial institutions in the new millennium be directed toward offering the full assistance required by emerging economies in gaining the knowledge, experience, and tools necessary to compete successfully in the global marketplace.

A fully integrated world economy is difficult to imagine without regional cooperation. The strengthening of such cooperation is one of Armenia's top priorities. International financial institutions could greatly facilitate regional cooperation in our region and in others by giving increased importance to those projects that benefit both the country and the region.

The financial crises that we have experienced appear to have contributed to an even greater appreciation of the importance of transparency, as reflected in the implementation of Bank and Fund programs. Transparency is the only means by which it is possible to reach an understanding within a society on the economic programs being implemented and, thus to ensure their success. Armenia, for one, participates in the pilot project of the Fund to guarantee greater transparency of projects being implemented, and I can tell you that it has been our experience that encouraging public discussions enhances the efficiency of these programs. As stated in the principles adopted by the Fund, monetary and fiscal policies benefit greatly when their goals and instruments are presented to and understood by the public.

We welcome the day-by-day increase in cooperation between international financial institutions, especially the Fund and the World Bank. I consider that in such areas as pensions, provision of satisfactory infrastructure for the development of the private sector, environmental protection, and fiscal federalism, the cooperation of sister organizations

in a coordinated and efficient manner can bring major benefits to the economic prosperity of the countries involved. In such circumstances, the on-site study of projects and the initiation of public discussion on projects being implemented acquire greater importance than ever. And, in this regard, it is worth noting that both the Bank and the Fund have the possibility of associating their lending programs with nonlending activities, such as technical assistance, consulting services, and other such mechanisms that help develop efficient solutions to specific problems.

The topic of the Annual Meetings—"Setting the Agenda for Global Growth and Development on the Eve of the Millennium"—is designed to give us an opening to discuss the problems the world economy faces at the end of the millennium, and to identify coming tasks and new policy directions. I believe that the Governors should continue to focus their attention on the areas of greater transparency, crisis prevention, and regional and global integration. Next year in Prague, I hope that we will be able to affirm our progress in this regard and to continue our discussion on specific measures to reach these objectives.

AUSTRALIA: PETER COSTELLO, M.P.

Governor of the Bank and the Fund

In the past two years, beginning with events in Thailand in July 1997, we faced some of the greatest challenges to the international financial system ever. And in East Asia, financial crisis quickly led to economic recession and worse. The region that had been the world's strongest growth region for a decade or more suddenly reversed. Millions of people had their standards of living savaged and their opportunities shattered. But the situation has now stabilized. There are signs of strong growth in Korea, Japan shows signs of recovery, the United States is strong, Europe is picking up, and the world economy is likely to continue improving in the remainder of 1999 and into 2000.

However, optimism about the outlook needs to be tempered by a strong note of caution. Many economies still face substantial policy challenges. We remain concerned by economic developments in Indonesia and the very troubled state of affairs in East Timor. I call on the international community to lend its humanitarian hand to address the crisis in East Timor. In crisis-affected economies, there is a continuing need to push on with domestic structural reforms and, on the international front, to address management challenges.

The Australian economy is expected to continue growing strongly, albeit at a more moderate pace than the 4.5 percent this past year. Sound macroeconomic policies have set the foundation for sustained low inflation outcomes, a low interest rate environment, and strong employment

growth. The cornerstones of those policies have been a focus on transparency, in the conduct of both monetary and fiscal policies, and a commitment to ambitious medium-term goals.

The government has a medium-term fiscal strategy that includes maintaining budget surpluses while economic growth prospects remain sound and halving the Commonwealth general government's net debt to 10 percent of GDP by 2000–01. Australia is achieving both these fiscal objectives. With its privatization program, there is a real possibility that Commonwealth general government net debt might be completely eliminated within the next few years.

Ongoing structural reforms in both the product and financial markets have led to a leap in productivity. In the face of severe economic circumstances in our region, exporters were able to maintain export volumes by diverting to other markets. The flexibility of the economy and its performance through this crisis illustrate the benefits of policy reform. It is important to remember, however, that the task of reform is a continuing one. We must always look forward, anticipating problems before they arise and maintaining the momentum of reform to meet them.

That is why our country is tackling the difficult area of tax reform. This has been a huge area of work for the last two years. On July 1, we will introduce a value-added tax, major reductions in income tax, the abolition of a wide range of inefficient taxes, and the reform of a wide range of social security benefits. Building on that, this month, the government announced details of the reform of the business tax system in Australia. The new tax system will be more commercially focused and internationally competitive, while at the same time providing a sustainable revenue base. Company tax rates are being lowered and will be among the lowest in the Asian region. The new system will also improve incentives to save and invest by lowering capital gains taxes. Small business taxes will be simplified and lowered.

Reform is just as important at the international level. Recent economic difficulties exposed weakness in the operation of the international financial system, and in the traditional policy and surveillance frameworks used by international financial institutions, as well as structural weaknesses in the countries themselves. Australia is contributing to the work being undertaken by the international financial institutions to strengthen the international financial architecture, and I would now like to turn to a number of issues on this important agenda.

Highly Leveraged Institutions

Australia has concerns about the potential impact of destabilizing short-term capital flows and the role of highly leveraged institutions, particularly their potential ability to manipulate small- to medium-sized foreign exchange markets. Steps are necessary to ensure adequate

disclosure by hedge funds and other highly leveraged institutions and to ensure appropriate risk management on the part of creditors and counterparties in dealings with such entities. We are pleased with the Financial Stability Forum's work on highly leveraged institutions and strongly support the development of that work into concrete proposals for change.

Involving Private Sector in Forestalling and Resolving Financial Crises

We have also been pursuing the issue of the role of private sector borrowing in the international financial system, encouraging consideration of the issue in the Fund, as well as through Asia-Pacific Economic Cooperation (APEC) and the Manila Framework Group. It was also an area examined by a high level Task Force that I chaired in 1998 to report on how Australia could contribute to international financial reform. I am pleased to see that a number of practical options that were raised in the report are now under consideration by the international financial institutions.

Australia welcomes the establishment of the Group of Twenty, which will be able to look at private sector involvement in the prevention and resolution of crises. We support a framework of guiding principles and tools that are not overly prescriptive. We are greatly encouraged by the agreement of the Interim Committee at these Meetings to ask the Executive Board to report at the Committee's next meeting on the ways in which the broad principles could be implemented. We would encourage the Fund to extend the excellent work done to date—and develop ways on how the private sector involvement might be activated and negotiated in particular circumstances. We would expect there to be sufficient room for flexibility to allow common sense solutions to prevail and take into account the circumstances of individual cases. A set of practical "ground rules" that can shape expectations about the handling of a crisis would facilitate discussion between debtors and creditors and speed up the resolution of these extremely difficult situations.

Enhancing the Initiative for Heavily Indebted Poor Countries

The developments in the past few days that will lead to an enhanced HIPC initiative hold the prospect of great benefit for indebted countries and their poverty-stricken peoples. Australia will more than double its contributions to this initiative, and I congratulate both the Bank and the Fund for their tireless work on financing the initiative. Write-offs offer new hope for countries crippled by debt. Economic policy to harness this opportunity will be required to build high hopes for a new start into reality. Economic growth is the best way of breaking poverty. High-quality growth and the conditions that promote it—honest institutions, accountable and transparent policy, declining trade barriers, open society, and respect for human rights and property—are the foundations for raising living standards, opening opportunity, hope, and achievement. And the

achievement of policy in the face of crisis over the past two years should strengthen us to continue this work in the future.

AUSTRIA: WOLFGANG RUTTENSTORFER

Governor of the Bank

The Record of the Previous Year

When I had the honor and the pleasure of chairing this meeting last year, it was at an important crossroads for the stability of the global financial system. We were confronted with a difficult situation, which was considered by many to be a very serious threat to the stability and even viability of the worldwide financial system. Today we can say that we have lived up to this challenge. Starting from the deliberations we were then exploring, our common efforts have brought about the outline of a framework that is designed to make our common economic and financial world more stable and less fragile.

Today we are in the process of implementing this framework. Under the heading of "New Financial Architecture," we have devised a set of rules and guidelines consisting of three important blocks:

- *Rules to improve and strengthen each country's own economic policy and financial system.* In economic policy, we have identified areas of fragility and are still studying such important questions as the appropriate exchange rate regime. We are in a constant learning process both for countries in an increasingly global economy, and for the institutions that advise them. We continue to give this central question our best efforts. As for financial systems, we have seen the unfortunate effects of a fragile system on a country's ability to withstand market pressures, and we have also learned that special caution must be maintained when reforming such a system. We are pleased with the common efforts of the World Bank and the Fund to assist countries in their endeavor to strengthen their financial systems.

- *Rules to improve the relevant international institutions.* This central question has led us to the establishment of new structures, and some new fora have emerged, together with a stronger commitment toward better cooperation. These new structures are all linked to existing ones and reaffirm the central responsibility of the Bretton Woods institutions. I hope that these steps will stand the test of time and contribute to institutions that are efficient and effective while being representative of their universal membership.

- *Breaking new ground for the interaction of all segments involved, with special emphasis on the private sector.* Interaction with the pri-

vate sector is a very challenging subject, as we all wish for a cooperative, balanced approach that does not resort to excessive regulation. Solutions should be found—as far as possible—in a voluntary discussion process. Still, we are all aware that public funds are limited and cannot be used to assume the risks while the private sector makes the profits.

We have now moved on from the first steps of exploring possible solutions toward the "nitty-gritty" of making these rules part of our legal and political daily reality. There is still much work to be done. The general direction of where we must go seems clear. There is widespread consensus about this path. We must clear up the remaining unsolved problem areas and move quickly toward the finalization of implementation.

Poverty Reduction

At the same time, as has been emphasized repeatedly over the past couple of years by the President of the World Bank, it is important to recognize the importance of the social dimension of crisis situations. Until recently, such crises had been seen primarily, if not exclusively, as financial crises. The recognition of the social dimension has brought to the surface new challenges to mitigate the effects on the most vulnerable, the poor people in our societies.

I would like to underline how important it is that the World Bank continue its work to help countries to address their structural and social problems. The Bank's strength is its focus on structures and projects and its engagement in long-term work rather than short-term emergency lending. It is in this context that I would caution the Bank not to increase its engagement in this direction, as this certainly would very quickly make it surpass its financial as well as its institutional capacity.

In the context of our continued efforts to fight poverty, the important work on HIPC must continue. I appreciate and fully support the enhancements to the HIPC Initiative framework as it has been discussed by the Interim and Development Committees. I do appreciate the progress made during the last few days on this framework. I am concerned, however, that while expectations have been raised in the countries concerned, at the same time there seems to be an inclination to bypass a number of important particulars and to leave them open for future agreements. Such an approach, in my view, could do substantial damage to the credibility of the initiative and should be avoided. I would like to emphasize here, that Austria stands ready to provide her fair share of financial support to the HIPC Initiative within an agreed framework of fair burden sharing.

Indeed, the principle of fair burden sharing has a variety of implications. Not only do we have to balance the burden among industrial

countries; middle income countries might also have to bear part of the burden because of the interrelationship between the services provided by international institutions and the implications of allocations of the net income of the institutions for various purposes. Therefore, while seeing some maneuvering room for additional contributions by the international financial institutions, I would argue that the demand for such contributions should not be overstretched, for the reasons mentioned and, moreover, in order to protect the financial integrity of the international financial institutions.

Another broadly accepted principle to be observed in the HIPC Initiative is additionality. It is all the more important that, from the outset, we have a viable concept about the overall financial requirements and a credible plan for how these requirements would be fulfilled. Countries benefiting from the initiative should be given a clear perspective of what they can expect in terms of new financial aid as well as in terms of debt reduction conditional upon implementation of the mutually agreed measures and programs, not only in the short term but also over an extended period of time. Part of such programs under considerations must include issues of governance, budget management, and the structure of public expenditures, including social sector spending and military expenditures.

It is clear that the programs to be implemented have to be observed to their full extent. We welcome the Poverty Reduction Strategy Plans to be developed by the countries concerned as particularly useful instruments. However, I urge both the Fund and the World Bank, that programs be designed in a pragmatic fashion as far as the underlying economic thinking is concerned. They should take into consideration the lessons learned in the past from what has worked and what has not worked in previous programs. It is in this context that I view the concept of a Comprehensive Development Framework, as introduced by the World Bank earlier this year, as particularly helpful and important. At the same time, I fully support the Fund's intention to take into account consistently the social aspects and effects of its stabilization programs, and I welcome the steps to make the ESAF a program oriented toward poverty reduction as a central focus.

Middle-Income Countries Must Not Be Forgotten

However, in addition to our efforts to either stem crises or alleviate the harshest economic difficulties, we must not forget all those countries that are neither immediate victims of financial crises nor in extreme poverty, but are, nevertheless, very much in need of our assistance. There is "everyday business" for all of us that must not be forgotten because of the more extreme cases. Fortunately, this has not been the case so far, though our collective focus was on the seemingly more pressing problems. I am

talking, among others, of our middle-income neighbors and friends, with whom Austria is strongly linked, by virtue of its history, tradition, geography, and also its constituency in the Bretton Woods institutions.

The important long-term cooperation with many countries is a crucial feature of IMF and World Bank activities. Of course, we have to deal with crises when they occur, and of course, we have to find solutions for our poorest member countries as well. But this must not happen at the expense of those who do not fall into either of these two categories. The increasing focus of both Bretton Woods institutions on a small group of debtors would be regrettable and may be dangerous in the long term. A broad outreach to the membership of the institutions is important, both in surveillance and in terms of appropriate assistance, and should reflect the universality of the institutions.

Let me give you one example: the work of the Fund and the World Bank in the countries now preparing for accession to the European Union is a very important and successful effort. It underlines the fact that sound policies and a clear, credibly pursued goal have been able to shelter these markets to a remarkable extent from the contagion effects of the financial crises felt in many parts of the world.

Furthermore, I would like to emphasize that we attach great importance to the fact that the cooperation between the World Bank and the European Union is functioning well. I would like to encourage both Bretton Woods institutions to continue to broaden this cooperation and, as appropriate, coordinate activities with the European Union. This should reflect the growing role and responsibilities of the European Union as one of the major players in the global economy.

Needless to say, the support of the World Bank is particularly important for the region of southeastern Europe. There we cannot just rely on time to heal the wounds of the conflicts between various population groups, but must undertake active efforts in order to plant the seeds for an eventual reconstruction and reconciliation within this troubled region. This is another important example for the deepening and broadening cooperation between the world community, the European Union and the Bretton Woods institutions, and a particularly crucial one. A good economic basis and a fair social structure will be essential ingredients in any concept for lasting peace in the region.

Let me say one word on the programs with the Russian Federation. For us, it is clear that, at this crucial time, the Bretton Woods institutions must continue to support the changeover to a market process in this large country. We urge the Fund, however, to put additional efforts into monitoring its Russia program effectively.

Permanent Adjustment to Change is a Necessity for All Countries

These Annual Meetings serve to reaffirm our common goal of making our economies and our cooperation better, and of our continued

determination to work well together and to find solutions to our common economic problems. It is encouraging to see that we have implemented—and are still implementing—many of the decisions we made last year.

This continuous implementation of new policies, this permanent renewal of our policies, is sometimes a difficult process, but unavoidable for all of us. No matter at which step on the ladder of economic and social development we stand, how large or small we are, in which region of the world we are located—all of us must continuously adjust to the changed circumstances with which an ever-changing world confronts us, in order to reap the greatest possible benefits from the globalized and integrated markets of today. Austria is no exception to this rule. Recent policy efforts were directed toward increasing the research, development, and technology potential for Austrian firms, to provide easier access to venture capital to Austria's small- and medium-sized firms, and to strengthen business firms in general. A major tax reform to become effective as of January 2000 should be one vehicle to support these endeavors. Future activities all will have the goal of making Austrian business firms and the population more ready to accept change and to be able to profit from it.

To sum up, while I am very pleased to see that the financial crises of the past couple of years seems to be over, and that for a number of countries the macroeconomic situation looks quite promising, the real effects of the crises on the respective populations are far from over at this point in time. A lot remains to be done to ameliorate their situation, and to avoid—as far as possible—such dramatic social effects in the future.

Finally, there is a recent development that I find worrisome. We are gathered here because we are all members of the Bretton Woods institutions. We have all experienced, in different ways, the important positive contributions that these institutions can make to our common global goals. Therefore, I deeply regret to see how the credibility and reputation of these institutions are suffering right now from a less than fully constructive public debate. While I believe that intense public debate about the best way to manage the difficult challenges our complex world presents to us is necessary, it would be highly regrettable if such a debate led to the weakening or loss of a credible and efficient international framework of cooperation in financial and development matters. Therefore, I call on all countries participating in these meetings to contribute to a more substantive debate about the Bretton Woods institutions and to help prevent these important institutions from being drawn into national party politics. One possible way out of such situations might be to refocus the discussion on the tasks assigned to the institutions in their Articles of Agreement, thereby enabling them to maintain their independence from the day-to-day political interests of their shareholders, small or large.

In conclusion, I would like to take the opportunity to extend my congratulation Mr. James Wolfensohn for his reappointment as President of the World Bank.

BANGLADESH: SHAH A.M.S. KIBRIA

Governor of the Bank

It is an honor for me to address the 1999 Annual Meeting of the World Bank Group and the International Monetary Fund. I take this opportunity to extend to you, Mr. Chairman, my warmest felicitations on your election to the Chair. Let me also congratulate the Managing Director and the President for leadership through very difficult times.

We are only a few months away from the twenty-first century. Our hopes for the new century are driven by the accelerating pace of technological innovations and the spread of liberal pluralism in recent decades. The twenty-first century is likely to bring some fundamental shifts in global economic organization, international relations, and the pace and nature of economic development. Globalization and localization represent some of the most potent forces of change. The nation-state is envisaged to assume a new role in the emerging world: it will negotiate with the actors in the global arena, on the one hand, and with those in the local arena, on the other, to set up new institutions to pursue diverse goals. This process of change will necessarily be accompanied by greater instability and uncertainty, and we must ensure that international institutions are geared to meeting these new challenges. The existing institutions are the result of a series of "contracts" in which the whole international community participated, directly or indirectly, and these institutions have evolved through a process of continuous "negotiation," renewal and reform. It seems to me that the challenge of the new century requires a degree of coordinated planning that only the governments of nation can provide. Civil society performs a key function in defining and articulating public interests, but it represents a collection of disparate causes and interests. Nation that embrace democratic values can play an effective role both in guiding the transition to the new era while expanding space for civil society and in the orderly resolution of divergent interests and attitudes in a plural society. Moreover, in preparing for the new century, we will be well advised to recognize the limitations of nation and the need to develop institutions that can deal effectively with challenges and problems that transcend national boundaries.

We note with some satisfaction that ODA from DAC members rose to $51.5 billion in 1998, which is 0.23 percent of the aggregate GDP of the member countries—up from 0.22 percent, which was the lowest level ever reached. Though this is an improvement, regrettably it is about one-third

of the goal of 0.7 percent of the GDP of the DAC countries set by the United Nations. We would urge the DAC members to reach the goal set unanimously by the developed and the developing countries.

In the context of official development assistance, I would like to draw your attention to the need for flow of adequate resources to the developing countries. There is need for pragmatism and for the Bank and the Fund to take into account the local context and, in particular, the realities of democratic governance in designing institutional and policy reforms. More importantly, the recipient countries must have a greater role in diagnosing and designing their own reform programs. Adequate concessional funding is needed to sustain public investment programs geared toward private sector oriented growth. The Bank and the Fund should be working to ensure adequate availability of resources to the developing countries while continuing with efforts for better policy and institutional reforms. In this regard, special considerations should be given to countries that have avoided large-scale commercial borrowing, preferring to pursue cautious financial policies geared to maintenance of macroeconomic stability.

Let me now briefly turn to the development initiatives of the government of Bangladesh taken under the leadership of Prime Minister Sheikh Hasina.

- We achieved a growth rate of over 5.2 percent in FY 1999, despite the floods of 1998—the worst in history. Macroeconomic stability was maintained against the backdrop of the Asian economic crisis.
- The government continued to make progress in structural reforms, despite the difficult macroeconomic situation.
- Reforms of state-owned enterprises and particularly their divestiture continued. The government has succeeded in building a strong coalition of stakeholders in favor of reforms.
- The government has introduced a series of safety-net measures. Although modest in scale, these have given new hope to many groups largely bypassed by recent economic growth and development programs. These include allowances for the elderly, widows with young children, and distressed women abandoned by their husbands; shelters for the aged without family or community support; and the establishment of an employment bank and a housing fund. The last two schemes were financed entirely by the government and are directed toward helping the poor and the ultra-poor. Representatives of local government institutions, members of civil society, and nongovernmental organizations participate in the selection of beneficiaries and the administration of these social security schemes.

- Public expenditure on education and health including nutrition, has increased. The emphasis is on primary education and literacy, primary health care, reproductive health, and HIV/AIDS. Expenditures on basic social services have risen steadily during the 1990s to over 25 percent of government spending.
- The government has undertaken wide-ranging programs to mitigate various environmental problems, such as arsenic pollution, air pollution, and deforestation.
- The government supports a wide range of micro-credit and poverty alleviation programs and provides support to nongovernmental organizations implementing similar programs. Micro-credit programs of nongovernmental organizations are refinanced through the Palli Karma Shahayak Foundation (PKSF); in addition, the government has guaranteed bonds issued by Grameen Bank and makes grants to eligible nongovernmental organizations.
- In order to enhance accountability, the government has strengthened the role of the parliament and the standing committees. Members of the parliament—and not the ministers—chair these committees.
- In order to broaden the scope of public participation and the decentralization of governance, the government has initiated a process of establishing representative local self-government institutions at the village, union, upazila, subdistrict, and district levels. The reservation of seats for the direct election of women in all local government institutions enhances the political empowerment of women. Furthermore, local government institutions are expected to enhance the accountability and quality of services delivered at the local level.

The government of Bangladesh would like to thank the World Bank for its active help and cooperation in all our development efforts and the Fund for its timely assistance following the floods of last year. We look forward to working with both these institutions to deal with the daunting development challenges that we face.

BELARUS: GENNADY V. NOVITSKY

Governor of the Bank

First of all, let me express my gratitude to the management and staff of the World Bank Group and the International Monetary Fund for the excellent organization of the meetings.

Noting the highly important role of international financial organizations in reforming transition economies, we support a number of principled

trends in the World Bank's activities in recent years, which were initiated and are implemented under the leadership of Mr. Wolfensohn, President of the World Bank. What we mean is a more clear account by the Bank of its clients' specific features and needs, having the aim to improve living standards and ensure conditions for economic growth. We also welcome the expanded presence of the Bank in its member countries, particularly in transition economies. At the same time, we stress our concern about the problem of the Bank's net income. We would like its solution not to harm the borrowing countries.

Taking into account and supporting new trends in World Bank strategy, aimed at a better account of specific features and conditions of its member countries, let me briefly outline the economic situation in Belarus at this stage. The unsustainability of the general economic position, caused by a number of negative factors affecting the national economy, has been a characteristic feature of the social and economic situation in the republic in 1998–99. It is connected both with the continuing effects of distortions and deep crisis phenomena in the Belarussian economy in 1992–94 and with new emerging destabilization processes of external origin. From 1991 through 1994, Belarus, like most countries of the former Soviet Union, survived a period of hyperinflation and deep recession. At times, the pace of price upswing exceeded 30 percent a month. During that period, GDP dropped two times. In those circumstances, the first and foremost priority of the governmental economic policy was to encourage economic growth.

From 1996 through 1998, the implementation of stabilization measures to curb an overall output reduction, resume economic growth, and increase living standards produced positive results. According to the 1997–98 outcomes, real GDP grew by 20.6 percent in comparison to the 1996 level (average annual growth pace was 9.8 percent), industrial output increased by 33 percent, and real money incomes of the population went up by 25 percent.

At the same time, the measures conducted for financial improvement of the economy appeared to be not as fully fruitful as expected due to the remaining unsatisfactory inflation environment. All that badly affected the competitiveness of domestic products and led to accumulation of a trade balance deficit and reduction in external reserves.

These as well as other negative trends grew under the predominant influence of the financial and economic crisis in Russia, which is our major neighbor and one of the most important trade partners. Its impact was most appreciable for the country's foreign exchange market, the condition and level of domestic prices, and foreign trade.

It is enough to mention that since the second half of 1998, the pace of economic growth has slowed down considerably, and the financial position of domestic enterprises has deteriorated. Starting from August

1998, there has been a substantial increase in the pace of inflation in the economic system of Belarus. From January through August 1998, inflation growth was 3.4 percent in average monthly terms, while from September through December it reached 21.3 percent. As a result, real profitability of most enterprises turned negative. The share of loss-making enterprises in their total number rose from 12.3 percent in early 1998 to 14.2 percent by early 1999. The Belarussian rubel devalued, showing further widening in disparity between the official and market rates.

Affected by the said crisis processes, the demand on internal markets of Russia and other CIS countries went down. Owing to that, in 1998 Belarussian foreign trade turnover shrank by 2.3 percent compared with the 1997 level, including a reduction in exports and imports by 3.2 percent and 1.6 percent respectively.

However, among the noted difficulties in the country's economy, it was possible to achieve some positive results on most major macroeconomic indicators in 1998. Comparing with the 1997 level, GDP grew by 8.3 percent, industrial output—12 percent, fixed capital investment—16 percent and real money incomes—19 percent. Despite a hard financial situation in the country, the external debt remained unchanged, and the state budget deficit was maintained at a level lower than previously planned.

As for the performance of the country's economy in 1999, it should be first of all noted that a proceeding recession and instability in the economy as well as extremely unfavorable weather conditions in Belarus, continue to exert their influence on the social and economic development of the Republic of Belarus.

According to the results of economic development for January–August 1999, actual GDP has grown only 1.5 percent in comparison to the same period of 1998, agricultural output has been 10.2 percent less than the last year's level, and fixed capital investment has decreased by 3 percent. Industry was the only stable working economic sector with growth at 106.6 percent.

The results for January–July 1999 show that given the same period of 1998, foreign trade turnover has shrunk by 26.9 percent, including a decline in exports and imports by 21.6 percent and 31.3 percent respectively. Along with it, the share of barter operations has grown in both exports and imports. Changes in export structure were determined by an unfavorable situation on world markets, instability and low solvency of markets in Russia and other former CIS countries, increased competition on non-CIS markets with regard to many kinds of Belarus-made export products, as well as by inefficient foreign exchange controls and preserved multiple exchange rate of the Belarussian rubel. Changes in import structure were mostly conditioned by financial instability and unsustainability of enterprise importers, the general situation on the foreign exchange

market, and low solvency of both population and enterprises. At the same time, we should note a "spontaneous" reorientation of foreign economic flows to the West: for seven months of 1999, exports to Russia have dropped by 39.5 percent while those to the western countries have risen by 33.1 percent.

The process of transition in Belarus is aimed at the creation of a "socially oriented market economy"—that is, an economy that combines the social and economic criteria of development, the advantages of market competition and efficient social security system, and the ideas of market self-control and state regulation.

The government is satisfied that in the prevailing circumstances this approach has lead to better results than have been obtained in other countries. For the last three years, output growth in the republic has been significantly higher than in other CIS countries. The 1999 UNDP *Human Development Report* confirms this progress: its Human Development Index of 174 countries shows that Belarus has moved up from sixty-eighth place to sixtieth.

Belarus is interested in economic reforms including public assets restructuring. It is evidenced by the fact that the current share of nonpublic enterprises in total industrial output is about 41 percent. Over 40 percent of the employed in the republic's economy work in the nonpublic sector. At the same time, we adhere to reasonable restructuring of public and leasing enterprises with the attraction of external investments. The main objective of the ongoing state property reform is to increase production efficiency. This will be the basis for our activities in the forthcoming period.

And now I would like to characterize the relations of the government of the Republic of Belarus with the Fund and the Bank. In our view, neither the government of the Republic of Belarus nor the Fund or the Bank is satisfied with their status. Resumed discussions on possible financial support from the Fund under the Stand-By Arrangement have not been productive so far. The Fund refrains from extending a loan to the republic within the Compensatory and Contingency Financing Facility (CCFF) to compensate the losses resulting from the decline in exports to Russia and poor grain crops in 1998.

This year we have so far failed to bring export deliveries to Russia up to the 1998 level, and as for the grain crops, the preliminary data show that we have harvested 12.5 percent less than in 1998, which was a poor harvest year as well.

Nowadays, we have reached the awareness that the republic requires to comprehensively revise the basic principles of the existing monetary and credit policy. The government has approved a finalized Monetary and Credit Policy Concept of the Republic of Belarus for 1999–2000. Its key points (targets and terms of implementation) will be reflected in a

social and economic development forecast and the 2000 budget of the Republic of Belarus, which are being worked out and will be based on a national currency stabilization program.

With such a program, we are ready to initiate another negotiation with the Fund regarding elaboration of a joint economic program to qualify for Fund financial support within a stand-by loan.

I avail myself of the opportunity to note that the World Bank also promotes, to a certain extent, the economic development in Belarus. We highly estimate the Bank's support of the forestry and energy sectors and its technical assistance.

At the same time, the general character of the World Bank Country Assistance Strategy for Belarus effective since 1999 is, in our view, excessively tight and constrains the attraction of external credit resources to the country's economy. The main lending criteria, when applied to Belarus, are extremely strict and prevent us from full utilization of the Bank's resources. The Bank's overcautious approach often hits the target quite opposite to one of the Bank's main objectives, to promote market reforms in its member countries through rapid and adequate response to their needs and economic changes.

Unfortunately, the Bank's practical approach to Belarus lacks due attention to the regional features. We believe that a lending possibility assessment should be better based on the level of project efficiency, its recoupment, and its role for the regional development in specific country conditions. In this regard, allow me to express my hope that the Bank's priorities will change and the Bank will define a more flexible strategy, which would take into account the necessity of complex development in the regions that are at different stages of transition to the market economy. The Bank's financial support of social and environmental projects, and private and energy sector development is of prior interest to the Republic of Belarus. On our part, we will be insistent in improving general operation conditions and investment climate in our country and seek more intensive, open, and comprehensive cooperation with the Bank on issues of mutual interest. Today, we are ready to start a dialogue with the Bank on preparation of a full-fledged Country Assistance Strategy, including ramified scenarios of cooperation between Belarus and the World Bank.

In conclusion, I would like to express my hope for the Bank and Fund's understanding of our problems on the way to the "socially oriented market economy" and concrete support in their solution.

BELGIUM: DIDIER REYNDERS

Governor of the Bank

It is a great pleasure for me to address the Annual Meetings of the International Monetary Fund and the World Bank today. As Belgium's

new Minister of Finance, I have had my first opportunity over the past several days to follow the deliberations at the various meetings of the two institutions, and I have done so with great interest. I have taken due note of the major role that the Bretton Woods institutions play in the pursuit of sustainable development, and of their constant and determined efforts to combat poverty and underdevelopment. Both of these missions make the two institutions crucial participants in the work of analyzing and resolving the major economic problems of our era.

Belgium's Implementation of Essential Structural Adjustments

This year again, the United States will experience significantly greater economic growth than the European Union, particularly the euro zone. This gap, which has been discernible over most of the past decade, suggests that there is a genuine "output gap" between the United States and Europe. One explanation for this may lie in the rigidities of the European labor market, elimination of which has been the focus of a number of economic policy measures. Belgium has always advocated a coordinated approach to the issue.

The policy of the new Belgian government, which took office in July 1999, has resolutely reflected this approach. The government is therefore determined to develop an active welfare state through training and employment policy designed to increase the labor-force participation rate, which is low in Belgium, compared with that of the other European countries. Various measures are planned, including a significant reduction in employer social security contributions and payroll taxes, the introduction of a youth employment program to enable all young persons to enter the labor market within six months of leaving school, steps to increase participation in the labor force by persons over 50 years of age, and similar measures.

The government of Belgium will introduce far-reaching reforms to reduce taxes on earned income. The reforms will reduce the number of tax brackets, raise the minimum taxable income, and regroup deductions in a limited number of flat-rate categories. The government has already confirmed the redefinition of all personal income tax brackets, and plans to eliminate the emergency surtax. The government also wishes to alter the income tax structure so that it will be possible to pursue our national objectives with respect to employment and sustainable development more effectively. This shift will depend on progress on the European tax harmonization front. All these reforms will be the subject of legislation introduced during this government's term of office, in a move toward ongoing reductions in tax and parafiscal pressures.

By implementing this policy, the Belgian government expects to achieve the following two objectives, which it was advised to pursue by the Fund during their last series of consultation discussions:

- Tax reform will make it possible to reduce the tax wedge existing between individuals' gross and net income. In Belgium, the difference between these two is very large, and this will eventually become a serious competitive handicap within the euro zone.
- The government's policy will also serve to eliminate employment traps. In the case of the lowest levels of earned income, net disposable income will be higher, with the result that the differential between this and replacement income will increase. This will inevitably increase incentives to seek employment.

Some might fear that an innovative policy such as this could jeopardize Belgium's recent macroeconomic achievements, in particular, its improved fiscal position. However, this is by no means the case. Belgium will comply with the budget objectives set forth in its 1999–2002 stabilization program. Over the medium term, the planned measures for reducing employer social security contributions and payroll taxes should produce favorable effects on employment, and this in turn will improve the budgetary position.

Belgium's new economic policy is therefore moving close to the optimum mix of measures advocated by the Fund during the most recent Article IV consultation discussions. Long-term simulations have indicated that strict control of public spending, combined with structural reform, including reduction of the tax wedge and introduction of employment incentives, should provide the most rapid means by which Belgium's indebtedness can be reduced.

Strengthening of the International Monetary and Financial System

The debate on the future role of the International Financial and Monetary Committee should continue. It would be wrong to believe that the international monetary and financial architecture is an unimportant matter, and that the main focus should be on dealing with more substantive issues, rather than on determining in what fora they are to be discussed. We consider the following to be fundamental objectives:

- the preservation of a multilateral approach, as embodied by institutions such as the Fund;
- acknowledgement of democratic legitimacy in decision-making and increased emphasis on the need to provide justification for decisions; and
- the need to reconcile flexibility in examining certain types of problem with the absolute need for an overall coordinating body to deal with financial and monetary issues.

Consequently, the International Financial and Monetary Committee should—ideally—become a forum for decision-making on Fund matters,

and for coordination and consultation on related financial issues. The preparatory meetings of Alternates should continue, so that the Committee's plenary sessions can be more effective. Systematic use should be made of working groups, so that the Committee's central role will be preserved, and particular issues can be dealt with by groups with the necessary ad hoc membership.

I would also emphasize that the International Financial and Monetary Committee should be given an enhanced role in the auditing of operations. This would be a way of ensuring that all financing provided is being properly used, monitoring that would go beyond mere enforcement of the macroeconomic criteria normally applied.

Initiatives for Poverty Reduction and the Promotion of Sustained Growth

I am pleased to note that the policies of the Bretton Woods institutions have been modified so as to meet the need for finding lasting solutions to the debt problems of the poorest countries. The Belgian government has always been receptive to the wishes of civil society, including the call for an intensification of the struggle against poverty. Consequently, I wish to indicate here today that the government will support the initiatives for promoting goods manufactured by socially equitable methods, its purpose being to promote balanced global trade. I therefore advocate the establishment of links between programs such as ESAF and HIPC and efforts to reduce poverty in the poorest countries.

At present, the most important consideration is to ensure that these programs receive the necessary financing. Belgium's contribution to this financing is substantial, and the country stands ready to participate in any additional joint efforts, provided that the costs are shared equitably. In addition, the use of Fund-based approaches—and in particular the revaluing of a portion of the Fund's gold reserves—seem fully justified in the present circumstances.

While focusing on the heavily indebted poor countries, we cannot forget the specific problems that other countries face, and so we particularly support the program of assistance for Turkey, which suffered a devastating earthquake on August 17.

Central Africa

Belgium has historic links with Central Africa and believes that the time has come to take the political initiative in this part of the world, promoting peace and restoring trade and economic activity. This will open the way to a renewal of economic assistance for the region, made available through a number of different channels. Such assistance should be provided through procedures that are flexible, adaptable over time, and tailored to meet the needs of the individual countries in the region. I call upon the Bretton Woods institutions to increase their assistance for

these countries in the very near future by contributing to an in-depth study of their problems and proposing special technical assistance programs. Such initiatives will confirm that the vocation of these institutions is truly universal.

Conclusion

I believe that the phase we have just passed through, during which we enhanced our initiatives for providing debt relief for the poorest countries, has been most important. We must now strengthen the activities of the Bretton Woods institutions by giving them a more clearly defined social focus, and by incorporating education and health programs into these activities, since these have a considerable impact on the poorest communities. Finally, we must ensure that, over the coming years, development remains a prime concern when the new rules governing world trade are formulated, and that there is closer coordination of the activities of organizations as different as WTO, the UN, the Fund, and the World Bank.

BELIZE: RALPH FONSECA

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

It is Belize's honor to speak on behalf of the Caribbean Community countries. We wish to join colleagues in expressing appreciation to the management of the Bank and Fund for the excellent arrangements that have been made for these meetings.

We are living in interesting times. Our last two meetings were dominated by the financial markets crisis and by uncertainty over the potential consequences of that crisis for global economic activity in general and for developing countries in particular. Recent events have shown clearly that there is no place for dogma in the management of the international financial system; and that, particularly with respect to small countries, staff of international financial institutions must approach the business of policy advice carefully in the full realization that small countries can ill afford policy errors. Orderly institutional development and the proper sequencing of reforms will always be important steps in the attainment of policy objectives.

We have an ongoing concern about the relative roles of the Bank and the Fund in the emergency response to the financial crisis. We see a primary role for the Fund in the initial response to balance of payments crises, where quick-disbursing assistance is required; while the primary role for the Bank is in addressing underlying structural issues, in promoting long-term development, and in fighting poverty. We are uncomfortable

with recent funding responses by the Bank, which appear to be indistinguishable from emergency balance of payments support, not least because of the effects on the Bank's ability to discharge its core functions and the effects on financing costs for noncrisis borrowers. We therefore call on the Bank's management and its other members to take the necessary action to ensure that the core responsibilities of the two institutions are not blurred, and to ensure that sufficient resources are available for the proper discharge of the respective mandates.

We are not satisfied with the results so far of the Bank's work in helping small states identify and deal with their peculiar problems. There is a need for assistance for the longer-term development effort, for the medium-term effort to cope with rapid liberalization and globalization, and for the associated rapid change in trading arrangements. These developments have been driven from within the developed countries. What we expect, and what we wish to see, is a comprehensive analysis of the situation and prospects of small states, together with an appropriate set of recommendations both to guide domestic policies, and to refocus the operations of the international institutions to the peculiar circumstances of these small states. We wish to emphasize the need for broad and deep consultation with these small states during the course of the review process to ensure full ownership of the analyses and recommendations by all parties. We also feel that there may be a need for consultation with the main trading partners of these small states. We recognize that this process may take some time, and we in the Caribbean do feel that the time should be spent in the interest of producing a meaningful and functional report, which would have had the benefit of extensive consultation.

We are very concerned about this issue, because of a recent experience with the Fund on a study to review adjustment policies in the Caribbean. We must express our disappointment that the Fund was unable to be fully engaged on this project despite assurances from management to our heads of government. Given the critical importance of trade to our economies and the difficulties a number of our Community members face as a result of the dramatic changes in the international trade regime, we warmly welcome the arrangements being proposed by the Bank to assist developing countries in evaluating and restructuring their situations. With the Bank's assistance, we will be able to take advantage—on a continuing basis—of the opportunities to make representation in international trade fora. It is no secret that equal access does not always mean fair access. The extent of economic openness of Caribbean economies is such that any change in trade has immediate and significant impact on fiscal performance and on every other aspect of economic activity. Unlike developing countries with large domestic markets, the issue for us does not involve the appropriate arrangements for opening

the domestic economy; we are already highly open. The issue is how to develop and maintain the domestic flexibility to cope with compressed product cycles and increased global competition, and how to reduce public sector reliance on trade for revenue while maintaining, and perhaps even increasing, our openness.

However, we are happy with the recent changes within the Fund's Western Hemisphere Department to facilitate a more meaningful focus on the Caribbean, and we are also happy with the arrangements that have been proposed for more meaningful dialogue with the Caribbean Community and its institutions as a region. We look forward with great expectation to the first steps in this process, and to the completion of the restructuring arrangements in order to bring the Fund's work on all of our small countries more effectively together. We welcome the Bank's work on the Comprehensive Development Framework, with its implications for a new relationship between the Bank and developing countries and its emphasis on governance and capacity building.

The implications for the Caribbean of the WTO ruling on bananas and the response thereto continue to be a matter of great concern to our governments and people and will have a gravely negative impact on the strength and vibrancy of the regional economy. We urge the international community to recognize the considerable effort that we have made to restructure this industry to face competition. Simply put, any settlement arrived at that does not provide an adequate transition period is unacceptable. At a minimum, we expect that there will be a tariff rate quota and appropriate licensing system. We should note in this connection that the OECD response to our efforts to exercise our very limited diversification options and to develop an international business sector has caused us great consternation and alarm. The potential consequences of the OECD Report on Harmful Tax Competition are particularly troubling, as services, including financial services, were seen by the Caribbean as a feasible alternative. Our governments have previously been encouraged by the international financial institutions to diversify out of commodities and import-substituting manufacturing because of adverse terms of trade effects and the small size of the domestic market, respectively. The destruction of our international financial services sector would have not only dire direct income and employment effects, but also severe social consequences. In addition, we are forced to ask the question: what would the developed countries have us do for a living? Tax competition needs to be viewed holistically, involving all sectors, activities, incentives, and subsidies, including policy actions at all levels of government, both federal and state. Without relinquishing any sovereignty, the Caribbean will continue to cooperate with genuine attempts to strengthen the international financial system. However, the process needs to be fair, taking into account the special circumstances of small economies.

On the issue of debt relief, we generally welcome the Group of Seven (G-7) initiative and the enhanced HIPC Initiative to assist countries where development and poverty eradication efforts are severely hampered by high debt-service obligations. However, we need to point out that in Caribbean Community and Common Market (caricom), members are both creditors and debtors. In this regard, we would urge that consideration be given to this fact in the deliberations regarding relief to members to ensure that relief granted to any one country should not be to the detriment of another. As far as possible, appropriate safeguards should be considered to cushion any negative impacts. We also need to point out that there are countries that, while not qualifying for debt relief under HIPC, also carry significant debt burdens that adversely affect their poverty reduction efforts. We would like to see a mechanism designed to assist those countries' efforts as well.

We want to conclude by saying that we have little to be complacent about. Recovery from the emerging market crisis is fragile in some countries, and is yet to start in others—and in many countries, including those in the Caribbean, there is significant and growing poverty. It is clear that an urgent and major task still lies ahead, work that will tax our capacities and inventiveness to the limit. It is important therefore, that the relationships between the Bank and Fund staffs and the Caribbean be strengthened and reinvigorated in order to deal with the challenges ahead. Finally, let us rededicate ourselves to the work of development—to economic growth with a human face that will redound to the benefit of so many of our people who face the daily reality of hardship and suffering.

BOSNIA AND HERZEGOVINA: JADRANKO PRLIC

Alternate Governor of the Fund

Less than four years since the war in Bosnia and Herzegovina ended, remarkable progress can be seen throughout the country.

- People are living peacefully and normally.
- Improvements in infrastructure are visible everywhere.
- A stable macroeconomic framework and a convertible national currency have been instituted (convertible marka).
- An IMF Stand-By Arrangement is in the process of stable implementation and will be converted into an ESAF Arrangement in the coming months.
- The privatization process has started.
- Relations with the majority of international financial institutions are being normalized.

- Total foreign debt has been consolidated and has been serviced on a regular basis.
- A number of basic laws adopted will lead Bosnia and Herzegovina toward democratization and a market-oriented economy.
- The process of mobilizing international assistance through Donors' conferences has been successfully undertaken, and now we expect faster disbursement of these pledges.

We have achieved this progress with the generous support of the World Bank, the International Monetary Fund, the Office of the High Representative, the European Union, the United States, Japan, and many other donors. I would like to take this opportunity to express our sincere appreciation and gratitude. Thanks to donors' generous assistance, the first post-war phase of reconstruction and development, primarily focused on rehabilitation of infrastructure, has come to the final stage. Unfortunately, there has not been significant progress in economic recovery or an increase in the level of employment. We expect, however, that in the next phase of international assistance, the focus will be on these needs, with the aim of building a self-sustainable economy.

Our recent tragic history and today's rapidly changing world urge for the creation of a new strategy, not only for reconstruction, but also for the comprehensive development of Bosnia and Herzegovina. It should include security, the economy, health care, the environment, ethics, the judiciary, philosophy, and religion, since all of these areas are interconnected. In particular, Bosnia and Herzegovina may serve as an example for the application of the Comprehensive Development Framework. With the assistance of the World Bank, the Fund, and the European Union (EU), we plan to develop a new strategy for mid-term development and to present it to our donors at the next Donor Conference.

Our unemployment, with a rate of 40 percent, is just one of the many consequences of the war that should be eliminated through accelerated economic growth. That is why we hope that our donors will support the implementation of ongoing economic reforms, especially those pertaining to property rights transformation—that is, the privatization process. Our goal is to transfer the biggest part of state-owned properties into private ownership. Further development of the financial and banking sector and, above all, the recovery of trust in domestic commercial banks, as well as the greater presence of the foreign-based bank branches in the country, are necessary preconditions.

Another important structural change that is being implemented is the introduction of market-oriented criteria in economic judgment and decision making. We seek to develop an economic environment based primarily on the market as the main regulator of economic activities,

with very limited state intervention. Finally, we are also facing the very important task of building a sustainable system of social services. Our comparative advantages are the basis for optimistic forecasts of our economic growth. One of them is the highly skilled labor force. Owing to our well-developed prewar educational system, our workers' skill levels are still very high and evenly spread throughout the country.

Second is land, a primary asset in rural areas, which is in private ownership, and is generally distributed evenly throughout the country. This shows that Bosnia and Herzegovina's society rests on a sufficiently stable socioeconomic basis. Therefore, the privatization process of the remaining state property must be lawful, nondiscriminatory, and transparent, and must not reflect war conquests.

Geopolitically, strategically, and economically, Bosnia and Herzegovina belongs to Europe and should become part of the European integration processes. We welcome establishing the Stability Pact for Southeastern Europe as a first step toward this goal, as demonstrated during the Sarajevo Summit this July.

Membership in the World Trade Organization is also one of our highest priorities, and we do expect that the accession process will be successfully finished in the short period. Our small economy urgently needs an enhancement of trade relations with other markets and stable cash inflows.

Our commitment to conduct all necessary economic reforms is very resolute and indisputable. As we seek to realize this goal, we have encountered many obstacles that are the aftermath of the recent war, including huge numbers of refugees and displaced persons, outdated technology, physical destruction of plants, war victims and disabled persons, a lack of adequate government structures, uncontrolled and unregulated borders, and an increase in the elderly population. Therefore, we need continued international assistance in the coming months. We hope that the international community and the World Bank will continue to support the reconstruction of Bosnia and Herzegovina, at least for the support of those activities that would lead to accelerated economic growth and increased employment.

Future additional IDA funds are of extreme importance, especially for supporting the continuing implementation of economic reforms and budget support, including the payment of foreign sovereign debt. We should use the new cycle of donors' conferences primarily to obtain favorable credits to stimulate economic growth in Bosnia and Herzegovina, rather than for reconstruction of the infrastructure. This will enable us to build a self-sustainable economy and integrate with the EU and the rest of Europe. Without these reforms, we will be faced with growing social and economic problems, and our citizens will continue to seek refuge and a better future in other countries. (Therefore, the problem of Bosnian refugees may multiply.)

We will continue to implement economic reforms and other facets relating to the democratic transition of our society. We are fully aware that our future development depends on our ability to attract foreign investment. But a main precondition for these reforms is stability in Bosnia and Herzegovina and the whole region. To this end, further strong and strict implementation of the Dayton Agreement is a must. With the assistance of the donor community, we must do everything in our power to provide for the return of all refugees. This is no longer just a humanitarian issue, but also a stability issue. Unfortunately, the stability of the entire region, owing to the ongoing political crisis in the Federal Republic of Yugoslavia (Serbia/Montenegro), has not yet been provided.

As there has lately been increasing concern among donors, caused by some alarming reports of corruption in Bosnia and Herzegovina, on this occasion we want to reiterate and assure the donor community that, for the most part, donor assistance and financial contributions of the World Bank, the IMF, the EU, the U.S. Agency for International Development, and all other donors have been effectively utilized without corruption or misuse. Independent audit institutions and control agencies have already confirmed this.

This is not to suggest that corruption and other forms of criminal behavior do not exist. Corruption is mostly present in the area of public funds, owing to the malfunctioning and absence of the institutions envisioned under the Dayton and Washington agreements. We are eager to fight corruption and to establish a system to prevent corruption through regulatory and educational measures. This is not a simple task and we need foreign assistance. An independent analysis of the origins and causes of corruption is a first step in our fight against this social and moral disease. Bosnia and Herzegovina therefore asks for assistance from the World Bank in order to establish anticorruption mechanisms. Indeed, we would ask that the World Bank lead in this undertaking. We are also very grateful for the help that the EU and the United States are providing to Bosnia and Herzegovina in its fight against corruption. We appeal them to continue in this important endeavor.

The international community, the World Bank, and other donors have made an enormous and valuable contribution toward improving the political, economic, and social situation in Bosnia and Herzegovina. Hundreds of thousands citizens have been saved, and a better standard of living has been provided through internationally funded projects in housing, schools, medical centers, electricity, road networks, the water supply, social services, and other sectors.

The basic prerequisites for the improvement of living standards have been achieved. Yet, an additional effort has to be made, in order to create conditions for the citizens of Bosnia and Herzegovina to become self-supporting. We do hope that the international donor community will continue to be our partner as it used to be in previous years.

CAMBODIA: KEAT CHHON

Governor of the Bank

It is indeed a great honor and privilege for us to address the fifty-fourth Annual Meetings of the World Bank and the International Monetary Fund. Let us take this opportunity to congratulate James Wolfensohn and Michel Camdessus for the tremendous efforts they are making through the World Bank and the Fund to deal with the serious financial cataclysm confronting Asia and the world economy in 1997 and 1998.

These Annual Meetings of the World Bank Group and the International Monetary Fund take place when the world economy has better prospects for a resumption of speedy growth. Some of the Asian economies that have suffered from the financial crisis and experienced economic downturn, seem to have seen signs of restored confidence and recovery. Positive indicators include the return of stability in the foreign exchange markets; rising current account surpluses and a build-up of reserves; the substantial decline in domestic interest rates; the easing of inflationary pressures; the recovery in the stock markets; the improvement in consumer sentiment; and the positive growth of the real economy. This has happened because of the determination undertaken by these countries in pursuing decisively adequate policies and measures with the assistance of the international community and especially of the two Bretton Woods institutions. Both the Bank and the Fund have responded with commendable resolve to this crisis and help countries in the region to implement reform measures to address its causes and impact.

To prevent the recurrence of the crisis and to cope with the fast changing global environment caused by the force of globalization, Cambodia has expressed its full support for the "common ASEAN position in reforming the international financial architecture," which includes equal application of standards of transparency and disclosure to the public and private sectors, closer and more coordinated monitoring of short-term capital flows, closer collaboration and information-sharing among national and international regulators, an orderly and well-sequenced approach to capital account liberalization in tandem with the degree of development of the domestic financial sector and supervisory regime and sound, consistent, and credible macroeconomic policies to support exchange rates. We have attached serious importance to the ASEAN Surveillance Process, which is aimed at providing an early warning on a possible crisis to member countries.

On the front of economic integration, Cambodia is well prepared to take an active part in the ASEAN Free Trade Area (AFTA) and other ASEAN economic initiatives. Attention is given to the establishment in the next century of the ASEAN Economic Region in which there is a

free flow of goods and services, a freer flow of capital, equitable economic development, and reduced poverty and socioeconomic disparities. We are committed to ensuring close cooperation in strengthening the open, multilateral trading system, and reinforcing the role of the business sector as the engine of growth.

Let us take this opportunity to appraise this distinguished forum of the recent development in the Cambodia. A general election was organized in July 1998 on our own last year and was pronounced by the international community as free and fair. A new coalition government was established based on a common platform to serve the people of Cambodia. Peace, so elusive in the past many decades, now finally prevails all over the country. Cambodia has regained its seat at the UN, joined ASEAN and is determined to play its responsible role in the regional and international affairs.

The new royal government of Cambodia, established in November 1998, continues its reform policies with ultimate goal of accelerating economic growth and alleviating poverty. A landmark, wide-ranging reform measures were unveiled to build up a strong foundation for long-term economic growth and sustainable development. The key areas of the reforms include public sector restructuring aimed at strengthening democracy, improving and increasing the efficiency of the public administration; military and police demobilization; sustainable forestry management and fiscal, financial and banking reforms. We clearly recognize that the key to success of this reform program is good governance. For us, this means aiming at improving the efficiency and effectiveness of the public sector, on one hand, and fighting corruption, on the other. We have asked the Bank for technical assistance for capacity building in this important endeavor.

Based on the macroeconomic performance in the first half of 1999, we are confident that the Cambodian economy has rebounded and real GDP growth will be 4 percent as forecast. Therefore, 1999 is the year of a return to economic growth and macroeconomic stability. The annual inflation rate is expected to decrease from 12.6 percent in 1998 to 6.5 percent in 1999, and the exchange rate will be kept under control. Net foreign assets and liquidity of the banking sector, in particular the foreign currency deposits, continued to grow, compared with end-1998. This is a testimony to the confidence of the public and investors alike in Cambodia's economy and its banking system. The gross foreign reserves of the banking system are projected to increase by 9 percent in 1999.

The objectives of macroeconomic and structural policies are to raise economic growth and per capital income, and reduce poverty. The key elements of the strategy are stepped-up efforts to strengthen revenue collection and enhance the transparency of fiscal operations, combined with reforms of the civil service and military.

Cambodia is strongly determined to continue the implementation of the fiscal reform programs with a view to enhancing revenue and improving the management of public expenditure. We are committed to vigorously implement new measures aimed at improving the tax and budget system—strict implementation of the value-added tax, a policy of avoiding tax exemptions, tightening incentives granted to investment projects, enhancing the collection of nontax revenue and direct transfer of revenue to the treasury, and recovery of arrears from the private sector. The fiscal agenda aims at strengthening the role of the budget for economic management, and generating the resources needed to fund increased spending in priority areas. The main goals are to raise government saving to finance the public investment program and to avoid bank financing. The main focus of revenue mobilization is on the strengthening of tax and customs administration, and on full collection of nontax revenues, including arrears. Administration and enforcement of tax compliance will be enhanced through the exchange of taxpayer information between government departments and intensified on-site tax audits.

Efforts are being undertaken to strengthen Cambodia's banking system. The banking supervision capacity of the National Bank of Cambodia has to a certain extent already been upgraded and is being further strengthened, notably with the Fund technical assistance. Further improvements are being made to overhaul the prudential regulations and to better assess bank's assets quality. A new modern financial institution law is expected to be approved by the National Assembly and the Senate by mid-October this year that would provide a better legal basis for both regulation and supervision. Moreover, so as to create a true market discipline, the National Bank of Cambodia is firmly promoting internationally accepted standards in the areas of accounting and public disclosures for both of the national bank and commercial banks. Under the above-mentioned legal framework, many microfinancial institutions will be established to provide savings and credit facilities in the rural areas.

Investment in human capital is another priority of our policy platform. We believe that a highly educated labor force is one of the most crucial factors contributing to the country's economic growth in the next century. Therefore, the royal government of Cambodia has begun shifting budgetary resources from defense and security to health and education, as well as to other economic sectors, such as agriculture and rural development.

We are in the process of finalizing negotiations with the Fund to resume the ESAF. We also recently held discussions with the World Bank on the Structural Adjustment Credit (SAC). We would like to inform you that we achieved a positive result in these endeavors and are optimistic that we will be able to conclude the programs with both the

Fund and the World Bank in the future. There is no doubt that these programs will contribute to the furtherance of our reform process and ensure a sound foundation for our future growth.

We welcome the coalition between the Bank and the Fund, which have departed from the traditional macroeconomic framework to a combination of efforts in linking structural adjustments with a poverty reduction agenda. In this regard, Cambodia supports efforts being made to relieve the burden of unsustainable debt in the poor countries through a new HIPC Initiative that links debt relief to the efforts to eradicate poverty. While supporting the Bank policy on focusing investment in the social sector, we still believe, however, that in a least-developed country, such as Cambodia, investment in economic and physical infrastructure is crucial to economic growth, only with which poverty could be alleviated on a sustainable basis.

In conclusion, we would like to take this opportunity to express our sincere gratitude to the World Bank and the Fund, as well as other international financial institutions and Cambodia's bilateral partners, for their support and assistance in our endeavors to engineer economic development and alleviate the poverty of our people. We are looking forward to enhancing our cooperation with the Fund and the Bank in the pursuit of ameliorating the social and economic conditions in Cambodia.

CANADA: JAMES PETERSON

Temporary Alternate Governor of the Bank and the Fund

Last year at this time, we were facing a very tenuous situation. You may recall that the World Economic Outlook document characterized the economic situation at the time as "unusually fragile." Fortunately for most of the world—though not all—the risks outlined in the document have not materialized. After the global financial turbulence of the past two years, and its devastating impact on economic activity and living standards in a wide range of countries, there are signs that the world economy is on the mend.

Economic Performance and Prospects in Canada

Developments in the Canadian economy have been more favorable than expected a year ago. In large measure, this reflects the government's commitment to sound economic and financial policies—low and stable inflation and balanced budgets or better.

Growth in Canada slowed significantly in the middle of 1998, owing in part to the global financial uncertainty and turmoil of the time. As the effects of this and other disturbances have passed, growth has strengthened, averaging an annual rate of 4.0 percent over the past three quarters.

As a result, the most recent consensus of private sector forecasters has real GDP growth upgraded to 3.5 percent in 1999 and 2.6 percent in 2000. The most recent Fund staff projections are consistent with the private-sector consensus.

Policy Challenges

In part, this year's more favorable global economic outlook reflects a number of policy steps taken over the past year, by both advanced and emerging market countries, to foster greater financial market stability and promote sustainable growth. Clearly, however, significant policy challenges remain.

Perhaps the most serious risk is that we might not succeed in implementing the necessary reforms to make our own financial systems and the international system less vulnerable to crisis. There are at least two reasons why our efforts could fall short. The first is complacency. We will be making a grave error if we let the return of relative calm in financial markets and the improvement in world growth prospects lead us to believe that further reforms are not necessary. The second danger is that we could get caught up in a flurry of activity that, while giving the appearance of achievement, leaves critical issues or gaps unaddressed. Although a lot has been started over the past two years, some fundamental questions remain about where we are going with reforms to the international financial architecture.

Consultative Fora

Asking the right questions is only one of the challenges. Another is to have the proper institutional infrastructure to deal with them. This is an area where we are making progress; for example, by giving a revitalized Interim Committee permanent standing as the International Monetary and Financial Committee and by creating the Financial Stability Forum.

Private Sector Involvement in Crisis Resolution

The workplans of the existing and new fora should be dictated by our vision of how we want to see the international financial system evolve. One of the key questions for us in this regard is how to ensure an adequate framework so that the private sector can be productively involved when a crisis does break out.

Canada believes that we need to develop mechanisms that enable an orderly workout of debts. The role of the official sector should essentially be that of a neutral broker, in the negotiation of a debt workout. The provision of large-scale official finance should be a rare occurrence.

To have the private sector involved in crisis prevention and resolution, however, we are going to have to establish a framework that will

enable private investors to know in advance their responsibilities in the event of a crisis. And, we are going to have to ensure the mechanisms, that operate within this framework balance the rights of creditors and the responsibilities of debtors, to ensure that both sides have an incentive to achieve a cooperative solution with adequate financing supplied at an appropriate price. Each crisis, however, will be unique. Each will have elements that we may not have encountered before. For this reason, we are going to have to be flexible and ready to adjust to specific sets of circumstances.

Debt Relief and Poverty Reduction

So far, I have devoted most of my remarks to the problems and issues facing the international financial system. I would also like to address a few remarks to the equally important issues of debt relief and poverty reduction. At the G-7 Summit this year, Canada pressed for faster and more generous debt relief for more countries and further action on poverty reduction. Canada fully endorses the two significant outcomes of the Summit in these areas. Debt relief under the new initiative will more than double. Combined with relief under current mechanisms and forgiveness of aid-related claims, this could release significant resources for poverty reduction programs.

Ensuring that the HIPC Initiative is adequately financed is an important priority. While significant progress has been made to date in identifying financing, much more needs to be done. We would urge the international financial institutions to redouble their efforts to identify resources for this purpose. For its part, Canada will do its share and has fully paid in the $40 million it committed to the HIPC Trust Fund and has also pledged some $24 million from its refund on the Fund's Second Special Contingent Account (SCA-2).

Canada has also recognized the burden that new debt would represent for HIPCs and so, in addition to forgiving all its ODA loans from HIPCs, Canada now provides all its bilateral ODA on a grant-only basis. As well, Canada is committed to writing off 100 percent of the commercial debt of the least developed nations. To prevent debt crises from becoming a recurring problem for developing countries, Canada also calls on lenders to adopt more transparent lending practices.

Canada's Export Development Corporation (EDC) has already taken steps to increase the transparency of its lending operations in developing countries, including making available a country by country breakdown of its loans. Canada calls on other creditors to join in developing common standards in this regard to help prevent future debt crises.

Expanding the HIPC Initiative by itself, however, will not be sufficient to meet the challenge of poverty reduction. The HIPC Initiative can only form one element of what must be a much broader attack on global poverty.

Collectively, we have a good sense of the key causes of poverty and where our efforts should be directed. In this regard, the education of women, in particular girls, is critically important, because educating women means educating families. This should form the cornerstone of our efforts in education—expanding opportunity to all segments of our societies.

We need to recognize as well that all too often families and individuals are poor because they are ill. Relatively modest investments in healthcare and pharmaceutical research targeted at the diseases of the poor could potentially yield enormous dividends.

In countries where governance is strong, a radical shift is needed in the culture of development. One that places the developing country—its government and its people—in the driver's seat. We are encouraged that steps in this direction are being taken by various players, with leadership emanating from the World Bank through its proposal for more holistic approach to development under a Comprehensive Development Framework.

However, the shift in development thinking must go further. Experience has shown that to be truly effective, development assistance needs to be targeted to countries whose governments pursue good policies and which are committed to developing and maintaining strong institutions. Governance has been a dominant theme of development assistance work over the last few years and it must remain at the top of the policy agenda. In fact, good governance has become the essential building block for solid gains in poverty reduction and effective development assistance.

Effective multilateral institutions must also be a strong pillar of our development assistance efforts. We, as shareholders, have looked to the Bank to play a significant role in addressing the emerging markets financial crises over the last two years and we, therefore, have to acknowledge that this has created pressures on the institution. Canada remains open to supporting a capital increase for the IBRD as an option for reinforcing the institution's lending capacity. However, our support for this option would be predicated on a strong link between Bank lending and development effectiveness, as well as to performance on governance issues.

The Challenges for Small States

Canada views with particular concern the development challenges faced by the world's smallest states. We welcome the World Bank's joint involvement with the Commonwealth Secretariat as well as the Fund's commitment to further research and policy work to assist small states in a rapidly changing world environment.

Our constituent members in the Caribbean are clearly facing a difficult transition period with the changes to existing trade preferences, the

decline in development assistance, and the need for increased participation in the global economy. These changes would be a formidable challenge for any developing economy. But for the small states of the Caribbean, many of which are at the mercy of potentially devastating hurricanes, these changes can appear overwhelming at times. Their vulnerability to a single event that can have disastrous economic and social effects magnifies the adjustment challenge they face. Small states have a vulnerability that large states do not have. External trade shocks and natural disasters can easily eliminate hard won gains in economic and social development. Their vulnerability is a fundamental differential that must be acknowledged.

Development, trade, and finance institutions must recognize the impact of the phase-out of the Lomé preferences on small states and help smooth the transition. Financial and technical assistance, and time are needed in support of small state's efforts at restructuring their economies to the new external environment. Changes in global trade have made unsustainable some sectors that once accounted for a large portion of small states' gross domestic product.

The importance of this issue cannot be over-emphasized. The research conclusions and policy prescriptions laid out will be used by international development players to sharpen their interactions in small states over the years to come. Furthermore, and potentially most important, this research will set the stage for small-state participation and treatment within the next round of World Trade Organization trade negotiations. We look forward to seeing the results of this work by the time of the spring meetings next year.

Conclusion

Although the crises of the past two years have receded, we are still faced with important challenges. We must make headway while the waters are relatively calm, putting in place the conditions for a stable international financial system and improved living standards for all. Only then will we be able focus more on the opportunities that the world economy presents, and lesson its challenges.

CHINA: XIANG HUAICHENG

Governor of the Bank

At this time, when we meet here, the economies of some crisis-hit countries in Asia and elsewhere have begun to bottom out and gradually regain growth. The currency and stock market situations have basically stabilized. Investor confidence has been restored, and global economic and financial prospects have improved. This has not come easily. It is a

result achieved by the former crisis countries through their strong reform and adjustment efforts. It is also a result of enhanced international cooperation.

However, we should not be overly optimistic. The global economic environment, though improved, has not stabilized completely. The recovery of the formerly crisis-hit countries has just started. Their economic fundamentals are still fragile, and many deep-rooted issues remain to be addressed. There are still many uncertainties in today's world economy. Regional trade protectionism has been on the rise recently. The exchange rates between major currencies have seen wide fluctuations. The commodity price level is still unstable. The external environment faced by developing countries has not been improved fundamentally. To further consolidate the recovery and stabilize the world economy is a challenging task before the governments around the world. Developing countries need to continue their economic restructuring. At the same time, we call upon developed countries to increase resource transfer to and import from developing countries. We also urge them to implement proactive and responsible fiscal and monetary policies, and coordinate their interest and exchange rates policies, so as to create a better environment for the healthy development of the world economy.

The international community needs to draw lessons from the crisis in a serious manner. In order to prevent any future crisis, it is all the more important to strengthen the international financial cooperation and promote the trouble-free and smooth operation of the international financial market. To this end, the international community should, on the one hand, help developing countries improve their financial supervision and risk-prevention capacity, and on the other hand, strengthen the supervision of short-term capital flows and contain the excessive speculation of cross-border hot money.

The formidable shocks of the financial crisis have prompted a reassessment of the costs and benefits of globalization. Globalization has created opportunities as well as challenges and risks. While deepening market liberalization, enhancing competition, and raising efficiency, globalization also put forward to countries, and particularly those in the developing world, an issue of how to protect their economic security. We are of the view that economic globalization and financial integration should be based on equity and aimed at prosperity for all. The law of the jungle must be abandoned. Globalization and integration will not be sustainable if they benefit only a few. Therefore, in the process of reforming the international financial architecture and establishing a new international financial order, the developing countries' full participation is essential, and their interests and demands must be reflected. At the same time, the policy choices made by the affected countries or regions to overcome the crisis must be respected, and no model should be imposed indiscriminately.

The financial crisis also caused serious difficulties to China's economy, but the Chinese government has taken effective measures based on China's own circumstances and maintained the rapid growth of the economy. At the same time, the Chinese government, taking into account the need to maintain a healthy development for the Asian and the global economy, has adopted a highly responsible policy stance and made tremendous sacrifice by keeping the Chinese currency stable, thereby contributing to the recovery of the Asian economy. The economy of the Hong Kong Special Administrative Region has shown strong signs of recovery since the second quarter and is expected to realize positive growth for the whole year.

During the past year, the Chinese government further enhanced the macroeconomic regulation. In order to cushion the negative effects of the deteriorating external environment, weakening consumption, inadequate investment, and the slowing-down of exports, China continued to implement a proactive fiscal and monetary policy by increasing the issuance of treasury bonds, cutting interest rates, and increasing the money supply moderately. These measures succeeded in expanding the domestic demand and stimulating investment, particularly in infrastructure. Meanwhile, in order to stimulate consumption, the Chinese government also took steps to increase the income of civil servants, the unemployed, laid-off workers from state-owned enterprises, and the urban poor. In addition, the Chinese government made special efforts to increase exports by optimizing the product mix and diversifying markets. On top of a 7.8 percent growth for 1998, China's economy grew by 7.6 percent for the first half of 1999. By the end of August, the fixed asset investment increased by 10.4 percent, compared with the same period last year. Consumption grew by 6.3 percent. The financial situation remained stable, and the growth rate of the money supply began to pick up. The total foreign trade rose by 7.3 percent, reaching $220.8 billion, with a trade surplus of $16 billion. The export volume amounted to $118.4 billion, and the decline in exports has been basically arrested. The foreign direct investment commitment reached $59.8 billion. The foreign exchange reserve exceeded $150 billion, and the Chinese currency, the renminbi, remains stable. The Chinese government is fully confident of achieving this year's growth targets.

Since the beginning of this year, the Chinese government has further accelerated the pace of reforms. In the area of state-owned enterprise reform, we are pressing ahead more vigorously with merger and acquisition, liquidation, downsizing, and redeployment of displaced workers. At the same time, the Chinese government is encouraging the development of the nonstate sector in various forms. In March of this year, the National People's Congress approved an amendment to the constitution to the effect that the nonstate sector is affirmed as an important component of

the socialist market economy. As regards the financial sector reform, the central bank's independence and its role in macroeconomic regulation and financial supervision have been further strengthened. A system of regulating the banking, insurance, and securities industries separately has been established. Drawing on the international experience, the state commercial banks have set up asset management companies, respectively, to process their nonperforming loans. The asset management companies are also engaged in debt-equity swaps for the related state-owned enterprises to reactivate their stock assets and reduce their debt ratios, thereby advancing state-owned enterprise reform and preventing financial risks. In addition, the Chinese government is also making efforts to establish and improve the nationwide social security system suited to the socialist market economy.

The Chinese government has opened more sectors to the outside world, especially the service sectors, including banking, insurance, foreign trade, retail, tourism, and accounting, legal, and consulting services. As China's reform and opening progresses further and the socialist market economy takes shape, China's economy will achieve greater success in the twenty-first century.

For many years, the World Bank has made important contributions to poverty reduction and sustainable development in its member countries. At present when the economy of crisis-affected countries has generally restored stability, the Bank should shift its focus back to addressing the long-term development issues still facing developing countries, particularly poverty reduction. We hope that the Bank, as the largest development finance institution, will build upon its comparative advantages to provide more concessional funds and further promote the capital flow to its developing country members. We also hope that the Bank will strictly maintain its political neutrality in the conduct of its business and resist any attempts to politicize the Bank. We urge all the member countries, and the major shareholders in particular, to respect and protect the Bank's Articles of Agreement with a view to creating a better environment for the Bank to fulfill its development mandate.

We support the efforts by the Bank and the Fund in strengthening debt reduction for the heavily indebted poor countries and poverty alleviation in low-income countries. We have also noted the increased emphasis placed on social sector issues by the two institutions. We believe that economic development is a precondition to solutions to poverty alleviation and social issues. The two institutions should help developing countries achieve stable and steady growth, which in turn will help reduce poverty and resolve social issues. In this connection, we support the Fund's plan to increase gold sales in a nonmarket form with reasonable cost sharing.

In supporting the Fund's efforts to lend more to the HIPCs and strengthen the financing for the Enhanced Structural Adjustment Facil-

ity, China, as a low-income developing country, has decided to deposit its funds from SCA-2, free of interest, in the Fund's trust fund account.

We endorse the proposal to change the name of the Interim Committee to the "International Monetary and Financial Committee." We strongly request that the representation of developing countries be safeguarded. We hope the committee will do a better job in coordinating the major proposals for reforming the international monetary and financial system.

Increasing the transparency of all market participants will help raise efficiency and prevent crisis. However, a lack of transparency is not the main cause of the financial crisis. We are not in favor of mandatory enforcement in any form, and the Article IV consultation should not be linked with a transparency assessment.

The Fund's role in promoting capital account liberalization should be that of helping developing countries put in place the necessary conditions for liberalizing capital accounts, rather than pushing only the speed of liberalization.

The international community should encourage the private sector to participate in preventing and finding solutions to financial crises, and there should be concrete actions as soon as possible. At the same time, the cooperation between debtors and creditors should be strengthened, and a balance maintained between their short-term and long-term interests.

CROATIA: MARKO SKREB

Governor of the Fund

One year after the wake-up call for concerted action on the part of the international financial community aimed at containing the financial crisis and facing the challenges of globalization, one can observe with pleasure that steps to create positive changes in the international financial system have been taken and have made gains.

Like most countries, Croatia has also been touched by effects of the financial crisis, and unfortunately, not only a financial but also a political one—that in Kosovo. That happened in the moment when, after four years of fast growth of GDP of around 6 percent, accompanied by reconstruction and an increase in the standard of living, the expansion of domestic demand exhausted its potential. So we had to contend with an increasingly difficult external environment, while experiencing a slowdown in domestic demand. These conditions resulted in a sharp contraction of economic activity followed by disturbances in the banking system.

Despite these circumstances, Croatia has been able to maintain price stability, keeping inflation at 4 percent throughout 1999. The policy of the Croatian National Bank will continue to be uncompromising and steadfast adherence to the principle of low inflation.

An area of great concern to us has been our external current account deficit. However, although Croatia had a very high deficit in 1997 (12.6 percent of GDP) it has been steadily going down. In 1998 it was 7.8 percent of GDP, and it would have gone down to 6.5 percent of GDP had it not been for the Kosovo crisis in 1999. We expect the deficit of current account to remain at around 7 to 7.5 percent of GDP this year, and to decrease at least one percentage point further in 2000, thereafter falling well below 5 percent in 2002–03, a level that we believe to be both sustainable and necessary at this point in the transition. Therefore, we have not only avoided the worst-case scenario in the past few years, but we have also successfully brought the deficit down by 5 percentage points of GDP in only three years. Unfortunately, there are no quick fixes. The external current account deficit has many deeper, structural reasons, and stimulating depreciation of the kuna would surely exacerbate it.

It is our belief that our export performance cannot be buttressed by superficial measures such as exchange rate changes; rather, exports' ability to compete has to be enhanced. That, in turn, can only be achieved by increasing foreign direct investment (FDI) and by swift and full integration of Croatia into the various levels of regional integration. Let me develop both points.

If we compare ourselves to other transition economies, those of Hungary and Poland for example, we will see that Croatia has received only a fraction of their FDI: $2.5 billion. Both Hungary and Poland have received well in excess of $20 billion, although both countries have already gone through the phase of "privatization-related FDI," which is still in front of Croatia. The export performance of the sectors that received the FDI improved markedly, yet the export performance of the sectors that did not remains bedeviled by the same worries as Croatian export sectors—loss of market share in the European Union, and generally loosing out in the battle for competitiveness.

Apart from that, the Central European Free Trade Agreement (CEFTA) and the Association Agreement with the EU are considered to be the main prerequisites of the investors' interest. The fact that we are still not in CEFTA makes our exports more expensive in that market from the outset. That remains the goal of the Croatian government and the Croatian National Bank in particular. Only with significant increase in export sector efficiency can we improve our current account balance.

In terms of economic policies, the government further encourages adjustment to continuously changing circumstances. As already emphasized by many distinguished colleagues, responsible policymakers cannot imagine withstanding the pressure from defense of the peg in the present world of a globalized economy and high capital mobility, without having sound economic and financial structures. This would be just one

reason more for enhancing structural reforms, continuing with sound fiscal policy and with consolidation of financial system. These will continue to have a salient position in the agenda for the Croatian economy.

Allow me to brief you on what have we done from this point of view in order to prepare us for the future. In terms of structural reforms, a lot of work has been done (privatization of telecommunications, the establishment of the related regulatory framework, the restructuring of some other public enterprises so as to prepare the basis for their further privatization, etc.), but there are still some deep-seated problems to be resolved. From this point of view, significant steps have been taken to implement a program of measures encompassing: amendments to legislation regarding bankruptcy and the execution of court decisions (collaboration with the World Bank is under way); measures for enhancing the independence of the judicial system to prevent abuses and crime in the economy and social system; measures to further encourage the honoring of contracts; and more.

Successful implementation of these measures (along with the reform of the pension and health care system) is a keystone for maintenance of macroeconomic stability at this stage. In addition, fiscal consolidation is at the top of priority tasks. So far, fiscal policy has been carefully managed.

After the successful introduction of the value-added tax, with enhanced collection efforts and despite the drop in revenues because of the economic slowdown, the central government overall balance has been kept within the limits of Maastricht criteria. But (one has to be honest) the existing level of public spending is unsustainable in the long run. Serious measures have been therefore endorsed. The health care and pension system reforms, supported by World Bank expertise and resources, are continuing—but they take time. So as to be able to get through this transitional period, government has vigorously started with measures to improve administration and financial management as well as to increase transparency (the introduction of a single treasury account system is expected at the very beginning of 2000). Recommendations stated in the Code of Good Practices in Transparency of Fiscal Policy and the accompanying—revised—manual, are a helpful reference from this point of view.

Monetary policy has been characterized by a high degree of consistency throughout past years, consistency of both goals and instruments. That will be the case, I assure you, in the future as well. No surprise will come from monetary policy, and we will maintain our conservative position, both in the goals (low inflation, stable exchange rate) and in the instruments.

With respect to fiscal policy, there is no news either. The central budget can borrow from the Croatian National Bank only to bridge its gaps between receivables and expenditures and up to a limit, which is predetermined by the Law on Croatian National Bank. The central budget is

currently indebted 1.3 billion kuna or less than $0.2 billion to the central bank; and this will be returned by the end of this year. There will be no monetary relaxation in important matters such as financing of the budget.

The progress achieved in the banking system consolidation (the banking industry still prevails in the Croatian financial system) is an example. Work has still not been completed but much has been done. After a generally successful restructuring of some major—at the time—state-owned banks, addressing problems inherited from the former socialist system, in 1998 we were suddenly faced by severe disturbances in the banking industry, especially in some of the newly established banks. At the end of 1998, the first problems in the banking sector started to surface and became apparent. Much before that, the central bank, aware of the irregularities in some of the banks, had started to initiate the procedure to have a new Banking Law adopted. Under the old law, the maneuvering space for the central bank was very limited, and powers to deal with the problematic banks hardly existed. The new law was adopted in December 1998, after a relatively quick parliamentary procedure. Immediately after that, the central bank exercised the powers granted to it by the new law by installing temporary administrators in the banks that were suspected to be in a serious trouble.

The causes of the banking crises are well known. After two years of very rapid economic growth and credit expansion, during which the credits to domestic sectors grew 44 percent in 1997 and 22 percent in 1998, there was a general slowdown of the economy. The credit supply diminished, and some big private companies went bankrupt, dragging down the banks that were connected to them. Needless to say, the bankrupt banks had high amounts of connected lending, and their asset portfolios were not healthy, so they were vulnerable to the collapse of their connected enterprises. The effect was confined to only a handful of banks, connected further among themselves. There was very little systemic damage beyond this particular group of the banks.

Public perception is very important, because although we continually maintained that the troubles were confined to a smaller group of banks and that the rest of the banking sector is healthy, and in better shape than a few years ago, it was important that public choices prove this to be the case. Today, we have a group of big and medium-size banks that are doing very well, we have some banks with the substantial foreign participation, we have rehabilitated big banks that are going to be privatized in the course of the next two years, and we have an important number of the foreign branches and one subsidiary. The situation is certainly much better than it was before.

This year, it became more than evident that the general recommendations of the international financial community had to be applied quickly and become reality for the Croatian banking system. The adoption of

internationally accepted standards and their internal development and dissemination, enhancement of transparency, closer monitoring of banking system soundness through effective supervision (supported by an adequate legislative framework), in relation with macroeconomic policy as well, have to be our priority. Besides, a number of rules have been set or are going to be established in the near future as to enhance market discipline, owner control, and supervisory effectiveness. Precious advice in this respect has been received from the World Bank and IMF staff through technical assistance missions. Needless to say, in the design and implementation of the above-mentioned measures, provisions of the Basle Core Principles for Effective Banking Supervision and other internationally accepted standards have been duly respected. By increasing transparency in this way, we have tried to facilitate foreign entry in order to increase the competition.

As everything is mutually related, one change so as to achieve an aim leads to another. The recently experienced turbulence in our economy taught us that close communication with all market participants (domestic or foreign) is a prerequisite for having an effective macroeconomic policy transmission mechanism. Transparency in one area by itself does not suffice. The Fund initiative in terms of the Code of Good Practices on Transparency in Monetary and Financial Policy and its further elaboration through the manual will be of utmost help. Once again, tasks at the micro level (that is, country level, regardless the size of the country) are identical to global prerequisites. Our adherence to the Special Data Dissemination Standard (SDDS) is already well established, as is our openness to IMF policies and advice. Croatia, that is, made public its Letter of Intent five years ago. Therefore it is needless to say that we support the release of the Article IV staff report.

A larger integration of the Croatian economy into the world economy, remains one of the main goals in the future, although the growth of foreign trade and foreign direct investment has been evidenced in the last year (1998). As the process of negotiation is approaching its end, it is expected that Croatia becomes a full member of the World Trade Organization at the end of this year. We truly hope that this is going to open the doors for Croatia in other international and regional organizations and associations.

In a small, open economy at the advanced stage of transition as the Croatian economy is, we cannot allow ourselves not to be up to date with (above all) recent discussions, opinions, and experiences related to capital account liberalization. It is beyond any doubt that capital account liberalization is necessary as a part of financial integration. But so as to use all the benefits from liberalization, it should be carefully managed and adjusted to the strength of the financial system of the country concerned (especially, in transition countries). If financial disturbances are

to be avoided, this fact must be taken into account by all international institutions that try to monitor or regulate capital account liberalization. In this respect, the Fund study on the use and effectiveness of specific capital controls is going to be of invaluable help to us.

Consequently, we support all the efforts of the international financial institutions in searching for mechanisms for the prevention and resolution of crises by securing private sector involvement. It is essential to limit moral hazards, strengthen market discipline, and ensure orderly adjustment processes, while maintaining international financial flows. The only thing I would like to stress in this regard is that, independently of the approach taken, the equality of treatment should be ensured.

Further, we believe that IMF readiness to place more emphasis on social issues in developing programs will be broadly welcomed. This will undoubtedly increase public support for the Fund programs, and make implementation of them easier, especially in recipient countries.

Throughout the year we have reached out continuously (more or less successfully) for help from the Fund and the World Bank—our friends and critics alike—to obtain appropriate solutions in banking, financial, and social sectors, as well as to mitigate the effects of regional spillovers associated with the Kosovo crisis.

And now allow me to express our thanks to the management and the entire staff of the Fund and the World Bank for their valuable assistance and unselfishly shared expertise and knowledge.

CYPRUS: TAKIS KLERIDES

Governor of the Bank

It is encouraging to note that the world economic situation is now distinctly better than it was 12 months ago and that the global growth momentum during 1999 has been improving. There are still considerable downward risks for the world economy, especially if the expected deceleration in the growth of the U.S. economy is not offset by faster growth in the other major industrial economies. It is important that this momentum be sustained, so as to enable significant improvements in the living standards of the population of the poorer developing countries.

The experience of the past two years has demonstrated the vital role that international financial institutions can play in resolving and helping countries recover from financial crises. Indeed, the enhancement of the resources and facilities of the Fund, including its new Contingent Credit Lines should help the Fund to prevent and contain future financial crises. However, we are concerned that some of these enhanced facilities, such as the strengthened HIPC Initiative, will require further large funding in order to provide timely financing and debt relief to deserving

countries. In this vein, Cyprus would urge that early agreement be reached on the full financing and equitable burden-sharing for the enhanced HIPC Initiative. And in view of the rapid increase in the World Bank Group's lending portfolio and its higher degree of concentration, as well as the downgrading of a number of borrowing countries, we believe that consideration could also be given to capital replenishment for the Group, including the International Finance Corporation.

With respect to the "New International Financial Architecture" and "Strengthening Global Economic Governance," we would support the view that the Fund must continue to perform the role of a crisis manager on the global financial stage, but that public resources be used more prudently and only with strong conditionality so as to avoid moral hazard. New mechanisms must be developed and implemented to strengthen the involvement of the private sector in forestalling and resolving financial crises, a process that would make imprudent creditors and investors bear part of the burden and losses associated with financial crises.

The recovery and resumption of strong economic growth in East Asian countries that were most directly affected by the recent financial crises is encouraging. However, we are concerned that countries hurt by the indirect effects of the East Asian crisis, mainly through sharply falling primary commodity prices, will continue to experience irretrievable losses in income and will remain vulnerable to further price fluctuations. In this context, we would welcome the creation of the commodity price risk insurance scheme for developing countries that has recently been proposed by the World Bank. We trust also that, in the development of new trading arrangements at the forthcoming World Trade Organization meeting in Seattle and those to follow the Lome Convention for the African, Caribbean, and Pacific Group with the European Union, sufficient priority will be given to assuring that developing countries have continued access for their main export commodities to the markets of the European Union and other industrial countries.

In Cyprus we are well aware of the vulnerability of small open economies to fluctuations in export prices and volumes. In 1999, a considerable fall has been recorded in the international prices of our main commodity export, namely potatoes, but fortunately our largest foreign exchange earner, tourism, has experienced substantial rises in both the number of tourists and their average expenditure.

The continued pegging of the Cyprus pound to the euro has contributed to improving export competitiveness in 1999, especially for tourists from the United Kingdom, while permitting the importing of low inflation from the countries of the European Monetary Union. For 1999, the real GDP of Cyprus is expected to increase by about 4.5 percent, the annual rise in the consumer price index is forecast to average 1.5 percent, and the unemployment rate will remain at about 3.4 percent.

Despite these favorable macroeconomic indicators we are concerned that we have not been able to reduce the fiscal deficit to below 5½ percent of GDP in 1999. For the first time, in conjunction with the tabling of the government budgets for 2000 at our House of Representatives, the government will propose a detailed and substantive package of tax measures aimed at bringing about a sizable reduction in the fiscal deficit. As the magnitude of the budgetary allocations is dependent on securing revenue from the new tax measures, any failure by the House to agree on a significant package of tax measures will mean that budgeted expenditures for 2000 will have to be reduced.

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

FIJI: JONE YAVALA KUBUABOLA

Governor of the Fund

It is an honor to attend the fifty-fourth joint Annual Meeting of the Boards of Governors of the International Monetary Fund and the World Bank Group. My delegation and I wish to thank Mr. Camdessus and Mr. Wolfensohn and their staff for the support and advice to countries during these testing times and for their initiatives to promote a more stable financial environment. Allow me also to congratulate the President of the World Bank, Mr. Wolfensohn, for his reappointment for another term.

Global economic conditions look more favorable than they did 12 months ago. The U.S. economy continues to provide good support for the world economy, growth in the European economies looks to be picking up, and the Japanese economy appears to have steadied. In the developing countries, economic conditions have generally stabilized, and in some cases are showing considerable improvement. Against this improving global backdrop, Fiji's economy is also looking to pick up by over 7 percent this year, as the economy returns to more normal conditions following the debilitating effects of the drought and the weaker global conditions over the past couple of years. Despite these positive developments in global economic and financial conditions, many downside risks remain. Great care will now be necessary to nurture the fragile global recovery and guard against some of the potential hazards that lie ahead.

The global economy has faced setbacks in the past two years—indeed we have come through the most severe worldwide economic cri-

sis of the past 50 years. These events have been caused by a combination of factors; in particular, problems with macroeconomic management, deficiencies in domestic financial systems, and weaknesses in the international financial system. The Fund and the World Bank have played an important role in stabilizing conditions during this period and putting in place policies to foster sustained recovery. The opportunity has also been taken to look at ways of strengthening the international financial architecture to help guard against financial crises in the future.

The events of the past two years, while painful, have also provided us with a number of valuable lessons. Many of these lessons are not new, but they reinforce thinking that is broadly accepted but often less enthusiastically applied. Let me touch on a few of these.

- The first issue is liberalization. We all know that financial sector liberalization can spur economic growth and development but liberalization also entail risks if reforms are not appropriately designed and implemented. The recent crises in Asia, Russia, and Latin America have demonstrated the urgency of finding ways to achieve orderly liberalization. In Fiji, we have proceeded cautiously with liberalization, opening up the capital account progressively over the past decade as conditions allowed.

- Second, the need for strong financial structures and institutions that are able to withstand the types of shocks that affect more open economies. The lesson is now very clear—as part of the reform process, policymakers should work toward developing systems, institutions, and financial markets that are strong enough to withstand potential shocks to the economy. Strong domestic financial sector regulation and prudential oversight are important ingredients for weathering financial storms.

- Third, sound macroeconomic management, which include strong fiscal positions that provide governments some cushion to withstand unfavorable shocks. Appropriate monetary policy is also important to maintain stability and confidence in the financial system.

- The fourth major lesson that comes from the experiences of the past couple of years is the need for greater transparency, by both the public and private sectors. Better and timely information allows better risk assessment and decision-making by policymakers and the private sector. The recent codes of good practices on transparency in monetary and fiscal policies are good examples of recent initiatives in this area. I understand the Special Data Dissemination Standard (SDDS) have now been adopted by some member countries. Fiji has been involved in the General Data Dissemination System (GDDS) pilot in the Pacific region.

The events of the past two years have focused attention on building the international financial architecture and reviewing the multilateral institutions' policy prescriptions. The new financial order will no doubt take into account the lessons learned, in particular, the need to encourage transparency and accountability. Higher and volatile capital flows ought to be properly managed to minimize their disruptive impact on domestic markets.

This new financial system calls for closer consultation and better burden sharing. We therefore welcome recent discussions at the Fund and the Bank about better ways to involve the private sector in preventing and managing financial crises. This is a complex issue, but one of utmost importance. In practice, it involves finding ways of getting creditors and debtors to come together in a collaborative manner to assess problem situations and arrive at mutually beneficial processes for recovery.

We are also pleased with other recent Fund and World Bank initiatives. On the Fund side, we welcome the introduction of two new facilities—the Contingency Credit Line and Y2K facilities. These facilities will provide a useful complement for existing techniques and may help member countries respond quickly to financial crises.

On the Bank side, we would like to reaffirm our support for the Comprehensive Development Framework. We certainly look forward to further developments on the framework; particularly the dissemination of lessons learned, which we could draw upon to help us refine and strengthen our development strategies. Undoubtedly, the CDF will allow us to look at our development strategy in a coherent manner with the appropriate balance between macroeconomic and financial concerns on the one hand, and social and structural issues on the other. Furthermore, the emphasis on country ownership and partnership, with the required longer-term foresight, are fundamental principles that will ensure effective policy-building and implementation in developing countries.

Fiji's overriding goal to improve living standards through sustainable and equitable growth is very much in line with the CDF approach. Our government is strongly committed to addressing the social and structural imbalances we currently face. Broadly, these involve increasing employment opportunities in areas where we have comparative advantages, increasing and improving the delivery of social services, protecting the poor, and effecting social transfers to reduce the cost of living for low-income earners. From the lessons learned from the international experience over the past two years, we definitely see the need to cushion the economically vulnerable from income fluctuations.

As a small state, we are optimistic that the CDF principles of ownership and effective collaboration with development partners should bring about more sensitivity to the special problems of our economies. We

welcome the small states' strategy jointly developed by the World Bank and Commonwealth Secretariat. In our view, the strategy for such an initiative should concentrate on the vulnerabilities of small states. For Fiji, as a small South Pacific Island state, our major challenges are our isolation from major markets, meager resources, and susceptibility to natural disasters, such as hurricanes and droughts. We eagerly look forward to the finalization of the strategy for small states after full consultation with the relevant member countries.

Let me comment on another of the Fund and the Bank's recent initiatives—the proposed debt relief for highly indebted poor countries. This is a very worthwhile initiative and commands wide support. We are heartened by the Fund's decision to undertake off-market transactions, rather than open market sales of gold to fund this initiative, which would avoid the disruptive effects on gold producing countries such as Fiji.

On a final note, let me just touch on one other issue that is on everyone's minds at the moment—the Y2K problem. Dealing with the issue has become quite complex—as you are aware the issue is not just about fixing a computer problem—as policymakers we must recognize that the Y2K issue involves managing risk. In Fiji, we have been taking the necessary steps to minimize Y2K-related problems in our financial system. We applaud the decision by the Fund to introduce a temporary facility that will help members deal with unforeseen balance of payments problems that may arise in connection with the Y2K problem.

I conclude by thanking the Bank and the Fund for their assistance and support to Fiji and the Pacific region. As always, we will continue to look to the Fund and the Bank for assistance in infrastructure, human resource development, institutional strengthening, and economic and financial policy advice. We commend the services of the Pacific Financial Technical Assistance Center and thank the Fund, the United Nations Development Program, and other donor countries for their continued support in this and other areas. I would like to wish the Fund and the World Bank well in their future endeavors.

FRANCE: JEAN-CLAUDE TRICHET

Alternate Governor of the Fund

The latest forecasts established by the Fund confirm the dynamism of world growth. This favorable situation does not dispense us from reflecting upon new kinds of regulations for a more effective and equitable world. To do so, we must identify the ways to achieve long-term, balanced growth and to define the framework that will enhance this dynamic movement. The international financial community has a considerable responsibility in this regard. It is in this spirit that we have made

several proposals. The improvement in the general situation now allows us to focus on the most pressing problems of the poorest countries.

Mobilization for Long-Term, Balanced Growth

Nine months after the successful creation of the euro, the economic recovery in the European Union and the euro area is confirmed and the conditions for a robust and sustainable growth are present. Prospects for industry have been improving for the past few months, households' confidence is strong, their purchasing power remains well oriented, and exports are on the upswing. The French economy is contributing substantially to the European growth.

So, we are confident in our economic prospects, but of course we should also remain vigilant so that the more robust growth that we currently enjoy lasts as long as possible. We particularly should take into account incipient short-term pressures on consumer prices related to the higher oil prices observed over the past months and the lagging effects of the evolution of the euro. With a view to extending the period of non-inflationary recovery and to significantly reduce unemployment, it is also necessary to continue implementing structural reforms.

In Japan, self-sustained growth is not yet guaranteed, despite recent more favorable indicators. I welcome the commitment of the Japanese authorities to continue policy aimed at avoiding any further growth weakening. External demand can play an important role on the condition that the value of the yen ceases to rise: this analysis is shared by the Group of Seven countries.

Strong growth in the United States remains impressive. In this regard, I welcome the fact that fiscal policy is contributing to reducing the national saving deficit: lowering taxes would only increase existing imbalances. Yet, household saving remains insufficient.

The emerging and developing economies are gradually recovering, after having experienced a very difficult and uncertain period as a result of the financial crises and of the 1998 decline in commodity prices. But improvement remains uneven. The positive signs that have appeared in the last several months, especially in Asia, should not lead to underestimate the vulnerability of these economies to external shocks or the scope of the structural reforms still to be undertaken. In most Latin American countries, courageous adjustments have taken place. But activity in the region continues to be sluggish, or even losing some ground.

A year ago, our meeting opened in an atmosphere of anxiety. The sound economic policies followed in Europe and the United States, the determined action of the Bretton Woods institutions—I wish to pay special tribute to their heads—the courage of the governments and people of countries affected by the crisis in the emerging world, made it possible

to avoid the worst. Current prospects for world growth are such as to inspire new optimism. We should now consolidate these results.

For This Renewed Growth, We Need a Better Framework in Support of Good Governance and Against Money Laundering and Corruption.

We need a better framework for banking and tax havens, especially for combating money laundering and corruption.

To meet the challenge of globalization, we must define new regulations. In international trade, fair competition is crucial for efficient international competition. For the past two years, encouraged notably by France, initiatives have been launched within the relevant international fora. These should rapidly result in concrete reforms. If not, these scourges will continue to develop. It is in this spirit that France has made the following proposals in favor of the following:

- more specific and stringent rules, especially as concerns a ban on underregulated legal entities (shield companies) and strengthening legislation against money laundering and bribery;
- strengthening our power to act through the rapid establishment by the Financial Action Task Force and prudential authorities of a list of noncooperative states and territories and engaging reinforced technical cooperation with those states and territories to implement international standards according to a defined timetable;
- identifying drifts more effectively by an increased mobilization of the international financial institutions in the fight against money-laundering and corruption. These institutions, especially the Fund, could adopt a "Governance Charter," which could review good governance in the context of assessing a country's economic situation (Article IV). This could also be a precondition for providing financial support; and
- graduated sanctions going from incentives to sanctions within the multilateral framework and, in bilateral relationships, up to and including measures to progressively restrict capital movements with off-shore centers to be implemented under the aegis of the prudential authorities.

The next step: toward a better international financial architecture

The transformation of the Interim Committee is an important step toward reinforcing the governance of the Fund and improving its functioning. The Fund would thus become all the more effective. We have made a very positive step today, but it is still only a step. For France, the arguments for a "Council" of the Fund remain valid, and a more ambitious reform is perceived as both necessary and inevitable.

The reform of the international monetary and financial system that we launched over a year ago has made real progress. Working out the different codes, strengthening the Fund's surveillance mechanism for assessing potential economic vulnerability, and defining an orderly strategy for liberalizing capital flows are all essential building blocks. There are nevertheless three issues that deserve more progress: exchange rates regimes, regulation of financial activities, and private sector involvement in crisis resolution. In the context of financial globalization, they are essential for a more efficient regulation.

First, we need more transparency and consistency as regards exchange rates regimes.

Exchange rate systems and policies have played a crucial role in the recent crises. In conformity with its mission, the Fund must develop a global strategy. But we should remain pragmatic. Pure floating or currency boards are not the only available alternatives. Had only a polar approach prevailed, the euro would not have become the European currency and would not be a magnet for many European countries. Room should be left for regional cooperation.

Transparency and consistency should prevail: in adopting a particular exchange rate regime, a country should make clear the objectives it is pursuing. The Fund should continue to reflect on this, taking into account the policy choices of each country.

The experience of the 1990s demonstrates that, in countries where capital account liberalization has been completed, consistent macroeconomic policies are a prerequisite for appropriately managing or pegging exchange rates. Nonetheless, financial crises in various emerging economies have highlighted that macroeconomic discipline alone does not suffice to sustain pegs and must be accompanied by sound and robust financial systems, effective regulation and supervision, good corporate governance, as well as greater transparency in the conduct of monetary and financial policies.

In regulating financial activities, the issue of hedge funds must be addressed. Traditionally limited to protecting savings, it is now recognized that prudential regulation impacts the macroeconomy. The creation of the Financial Stability Forum, which unites the Bretton Woods institutions and the financial oversight organizations, illustrates this point.

In the context of the Forum's activities, I wish that the will to act prevail. For example, a large commercial bank whose potential difficulties could have a systemic impact on markets, must be subject to prudential regulation to limit its leverage, its liquidity risks, and its exposure concentration. In my view, it is not inconceivable to submit an investment bank or a hedge fund to similar regulations. These institutions can harbor exactly the same systemic risks. For this reason, it seems indispens-

able to develop regulations applicable to these funds and as a first step to request more transparency in their operations vis-à-vis both their financial counterparts and the market.

Finally, the private sector must be involved in resolving crises.

The principle of private sector involvement in crisis management is a given. But recent examples of negotiation with the private sector have demonstrated the limits of a strictly cooperative approach. We must be prepared to disseminate an agreed framework to facilitate private sector involvement. I would like the Fund, along with other interested institutions, to work as quickly as possible on the basis of the principles proposed by the G-7 at the Cologne Summit, and with the intent to achieve equitable treatment for all private creditors.

With the Paris Club principle of comparability of treatment, we have at our disposal a preliminary response. I would ask that in other cases, the international community be sure that all categories of creditors be involved equitably, no matter what the nature of the debts at stake. We must also be ready, in situations where the cooperative approach upon which we have based our procedures reaches its limits, to have recourse to more forceful solutions.

The Way Is Open for Dealing Quickly with the Heavily Indebted Poor Countries.

The debt burden in the poorest countries represents a major obstacle to their development. When a country's debt service is greater than its education or health budgets, it is impossible to envisage steady development progress. France has always fought in favor of debt cancellation.

It will now be necessary to go much farther to free the poorest countries from debt overhang.

We must be watchful that this goal is achieved in full accordance with three fundamental principles, which France has put forward from the outset:

- *solidarity*, which should lead us to concede the most favorable possible treatment to the poorest countries
- *equity*, which is the basis of fair burden-sharing between all bilateral and multilateral creditors.
- *responsibility*, which justifies that these exceptional measures support the social sectors of countries with irreproachable public management.

This new impetus must be equitably financed. France has not stalled, waiting for others to pay in our place. France is definitively in the front ranks of funding the initiative. We are waiting for other developed countries to commit to a comparable effort. Countries like France that make

large bilateral efforts have a right to expect equal effort from the multilateral institutions and their shareholders. The credibility of our multilateral system depends on equitable burden sharing.

I warmly thank Michel Camdessus and James Wolfensohn for the efforts they have made to come to a solution. I know that it was not without sacrifice. It will allow us to take advantage of a global solution, which directs additional resources to the institutions whose situation is critical, thanks to the efforts realized by the Fund and the World Bank to mobilize to the maximum of their internal resources.

Dealing with debt must lead to an effective fight against poverty provided by debt cancellation. The dose of oxygen should, by priority, be targeted at the most vulnerable populations and should allow eligible countries to establish basic public services: education for all, access to health care, and the provision of basic infrastructure. For this, it will be up to the developing country governments to adopt economically and socially coherent development policies and to improve governance.

Our consistent action in support of development must also go forward. France has increasingly affirmed that, in view of the constant reduction in public aid flows, simply dealing with debt and private investment flows in a few emerging countries will not alone suffice to resolve the problems of development.

Maintaining a sufficient flow of public aid is vital. The concessional loan funds, principally the International Development Association and the African Development Fund, at the multilateral banks must in fact receive the resources committed during the recent replenishments.

At the moment when the World Trade Organization is opening a new cycle of commercial negotiations, it also behooves each of our governments to reflect on how they will affect development in poor countries. The new cycle of negotiations should be an opportunity for us to reaffirm the importance of developing country access to developed countries' markets. As you know, France and Europe have long ago incorporated this dimension into their relations with the developing countries, notably through the Lomé convention.

Regional integration is also a necessary step. Integration is a source of political stability, of convergence, and of peer pressure between governments. Integration gives regional economies critical mass in the global one. It is not a question of creating new regional fortresses, but of facilitating global integration.

To conclude, I would like to emphasize two points:

- First, the global economy is doing much better than it was a year ago. This calls for two *"coups de chapeau."* One to some emerging economies, notably in Asia, that have demonstrated remarkable efforts to adjust in a very short lapse of time; the second, to the interna-

tional financial institutions, and in particular the Fund and the World Bank, which have demonstrated—in the most difficult circumstances—lucidity, determination, and courage.

- Second, this is not the time for complacency. The global economy is in much better shape, but there remain risks and challenges. We must demonstrate that we can take advantage of a quieter and calmer period to embark resolutely on the reforms that are needed.

GERMANY: ERNST WELTEKE

Governor of the Fund

Two years on from the far-reaching currency and financial crises in Southeast Asia and the subsequent financial turmoil in other regions, we are now able to look to the future with some degree of optimism. The past few months have witnessed a considerable improvement in the world economic situation and its medium-term prospects in virtually all regions.

In many emerging economies, especially in Southeast Asia and Latin America, reforms are showing the first positive effects: the massive currency distortions have been largely overcome, and economic recovery has set in. The economic climate has continued to improve in industrial countries as well. All major economies can note continuing favorable growth trends or are in a recovery phase.

This also holds true for the countries that launched the euro as their common currency on January 1 of this year. The Fund expects growth of 2.8 percent for the euro area in the year 2000. This performance will contribute to a more balanced growth among major industrialized countries.

At the same time, the euro has already become the second most important currency in the world. The countries making up the euro area are aware of the responsibility this imposes on them. With the continuation of fiscal policy consolidation and structural reform, the euro countries will create the conditions to promote sustained, vigorous growth and high employment.

But risks remain, despite the improvement in global prospects. Hence, it is vital to press ahead with the necessary reforms. We must also be prepared for the possible threats posed by the Y2K computer problem. The Fund has made preparations to offer temporary financial help to member countries encountering difficulties from the Y2K problem. However, it will be the foremost responsibility of all countries to prepare thoroughly and convincingly for the date change.

The positive results of the past few months should not distract us from further resolute action to reform the international financial architecture. Much has already been achieved in the course of the past months:

- The Fund and the World Bank have enhanced the transparency of their operations, providing the financial markets with an improved basis for decision making.
- The new Financial Stability Forum will bring together the international supervisory bodies and the Bretton Woods institutions and create the opportunity to improve early identification of crises and strengthen global cooperation.
- Initial progress has also been made on involving the private sector in crisis prevention and resolution. Given the potential for a variety of situations on the part of debtors and creditors, it is reasonable to assume that the precise modalities for the involvement of the private sector can only be determined on a case-by-case basis. What is important, however, from the German perspective is that the financing role of the official sector will be determined a priori in a way that precludes a "bailout" of private creditors.

The Fund and the World Bank have done excellent work in reforming the international financial architecture. I expressly welcome the contribution by Michel Camdessus and Jim Wolfensohn and the work by the staffs of both institutions. But much remains to be done.

People in economically less-developed countries must also be enabled to benefit from the opportunities for lasting growth, innovation, and socially equitable, ecologically acceptable development provided by globalization. We must all work together to create the conditions for this.

In view of the continuing vulnerability of many highly indebted poor countries to exogenous shocks, Germany and other major industrial countries have proposed to enhance the HIPC Initiative, which was put into effect in 1996. The initiative of the Cologne Summit has been brought to a successful conclusion during these Annual Meetings.

The enhanced debt initiative presents major financial challenges to bilateral and multilateral donors. Many industrial economies are in the process of budget consolidation calling for cutbacks by the population as well. Yet, Germany will contribute to the World Bank Trust Fund and will cancel substantial amounts of bilateral debt. Within the Fund, Germany will make an appropriate contribution to financing the ESAF enhancement and the Fund contribution to the HIPC Initiative.

Other multilateral donors must now step up their efforts to secure financing for the HIPC Initiative as well. We must especially endeavor to ensure that the most efficient and broadest possible use is made of the institutions' own resources.

However, debtor countries' enhanced scope for policy action offered by debt relief will only prove beneficial to them if they pursue sound economic policies and avoid unproductive expenditures to a higher extent than in the past.

The funds released through debt relief must—in the context of a comprehensive poverty-reduction strategy—be targeted at social improvement. Promoting health care and education, for example, is a crucial requirement to ensure lasting economic development and, hence, economic and political stability.

What is important is that the Fund and the World Bank participate in these tasks within the confines of their respective mandates. Poverty reduction strategies are the task of the countries concerned and the World Bank. The World Bank should concentrate on social and structural issues. The Fund should restrict itself to the macroeconomic issues.

Economic growth cannot achieve sustained development and overcome poverty unless it wears a human face. In the same vein, the efforts of the Fund and the World Bank, as well as the bilateral and other multilateral donors, will fail unless they are backed up by vigorous efforts on the part of the developing countries themselves. This would foster the creation of a political and economic environment within the country, which motivates individuals and allows them to put their capabilities to productive use. In this context, encouraging transparency and good governance is indispensable in securing the effective deployment of bilateral and multilateral assistance.

The importance of good governance is demonstrated not least by the problems of money laundering and corruption. In any case, recipient countries must always take all necessary actions to avoid a misuse of funds.

The Fund and the World Bank must stick to their respective mandates, but close cooperation between the two institutions, based on mutual trust, is vital. It is also vital for both institutions to retain their roles as the central fora of international cooperation. Ensuring this is the task to which we are all committed.

GREECE: YANNOS PAPANTONIOU

Governor of the Bank

When we last met here a year ago, the world financial markets were still in turbulence and we were reflecting on the causes of the crises, their expected effects, and the best ways to react. Since then world economic developments have turned more positive.

- World growth has picked up.
- We have started implementing the actions necessary to prevent and detect crises, and to improve the functioning of the international financial system.

It is generally accepted, however, that even if progress has been made, this is no time for complacency. Actions are needed in coordinating the

surveillance process and in designing incentives so that the private and the public sector alike benefit from international financial stability.

The introduction of the euro in 1999 played a substantial part in fostering a climate of stability. Today, the sound macroeconomic policies pursued by the euro member states have led to an environment of low inflation and healthy public finances. Members of the euro area can now enjoy the benefits of stability and exploit the opportunities created by the Single Market. Stability in the euro area has led to a resumption of economic growth, while improved coordination of economic policies is expected to lead to higher efficiency and employment. Greece is about to join the Economic and Monetary Union, effective January 1, 2001, and to share in the advantages that it creates.

The case of Greece could serve to illustrate the benefits that arise from sound macroeconomic policies and a positive attitude toward reform. The Greek economy has shown resilience to the financial crises and is exhibiting high rates of growth.

The process of macroeconomic rationalization started in Greece later than in other European countries. With the 1994 convergence plan, we pursued policies designed to achieve the Maastricht Treaty criteria and have made substantial progress in achieving them. Indeed, from the middle of this year we satisfy four out of the five criteria, and we are confident that in the next few months we will be successful on all five.

- Following the devaluation of the drachma in March 1998, we participated in the exchange rate mechanism, and from January 1999 we are members of its successor, ERM2.

- We reduced the general government deficit from 13.8 percent of GDP in 1993 to 2.5 percent of GDP in 1998 and 1.5 percent of GDP this year. This is a reduction of over 12 percentage points of GDP and is almost three times as big as the improvement registered in the rest of the European Union in the same period. The lowering of the government deficit resulted from applying strict controls on public expenditure and from increases in the revenue side owing to a broadened tax base and an effective combating of tax evasion.

- Government debt was reduced from 111.8 percent of GDP in 1993 to 106.1 percent of GDP in 1998 and 105.1 percent by the end of this year. Privatization revenues contributed substantially to debt reduction.

- Increased credibility of the government policy has led to a substantial fall of government bond yields. The yield on the 10-year government bond was 10.7 percent in 1997, 562 basis points above the yield on the German 10-year government bond. At the middle of September of this year, the yield stood at 6.75 percent, about 160 points higher than the German 10-year government bond.

- The anti-inflationary incomes policy pursued in the public sector and the increased competition in a number of areas, such as telecommunications and transport, together with a reduction in inflation expectations, have led to a drastic drop in the annual rate of inflation. In 1993, the average annual rate of inflation was 14.4 percent. In August 1999, the annual rate of inflation was only 2 percent. These are rates of inflation last recorded in Greece more than three decades ago.

In the past few years, we have proceeded with structural reforms in the product, capital, services, and labor markets. Our privatization program has been intensified in the past two years; at present, 27 state corporations have been either privatized or are in the process of privatization. Receipts from privatization in 1998 and 1999 have reached 7 billion dollars.

Economic reform, together with substantial public infrastructure investment, partly financed by the European Union, led to a substantial acceleration of real growth. In fact, 1999 will be the sixth consecutive year of substantial growth, while in the past three years, growth rates reached 3.5 percent, significantly higher than the European Union average.

The prospects point to further considerable growth in the next few years. The investment opportunities that arise from making Thessaloniki the center for the development of southeastern Europe, the direct and indirect productivity gains from faster investment and output growth itself, and the organization of the Olympic Games in Athens in 2004 are likely to introduce further dynamism in the growth process. At the moment, we are forecasting an increase of GDP of the order of 3.7 percent for the year 2000 and more than 4 percent in 2001.

The crises of the past few years have made it clear to all of us that transparency in corporate, financial, and state institutions is paramount in preventing and detecting nonviable situations. It is in the interest of transparency that Greece, one of the very first countries to do so, is participating in the two Fund initiatives in this direction—the release of the conclusions of Article IV consultations as well as the fiscal transparency exercise.

Our economy has been put to the test by the financial crises of the last few years. Our exchange rates, short-term interest rates, bond yields, stock market, and real economy remained unaffected in all but the very short run. Last year, Michel Camdessus noted in his concluding statement that programs work only if governments want them to. We have indeed been determined to succeed.

Last year the Meetings were sessions of reflection on how to go about preventing, detecting, and remedying crises. This year, we are in the more comfortable position of being able to evaluate our actions in these

areas. Let us hope that we will carry on in this direction, so that next year we can appreciate the results in the form of accelerated growth, more employment, and improved welfare.

INDIA: YASHWANT SINHA

Governor of the Bank and the Fund

Participation in the Bank and Fund Annual Meetings is always a source of great pleasure and inspiration for us. But this year, our happiness is even greater, because the meetings are being chaired by our neighbor and a member of the South Asian Association for Regional Cooperation (SAARC), Nepal. I have no doubt, Mr. Chairman, that the proceedings this year will greatly benefit from your rich experience and sagacity.

At the outset, let me congratulate both the Fund and the Bank for their active role in reviving global economic and financial prospects. Although the signs of recovery are visible, there is a need to temper the optimism with caution. The sustainability of the recovery is not yet assured, and a number of risks and uncertainties continue to cloud the outlook for the near future, especially for developing countries.

The economic crisis that began two years ago has pulled down the world growth rate in the 1990s to the lowest level in the past three decades. The crisis has impoverished millions in the developing world and blunted the aspirations of many more millions. We owe it to them to rectify this unfortunate situation in the first decade of the coming millennium. At this critical juncture, we need to go beyond short-term policy perspectives and seek a new mandate for the enduring goal of more rapid and sustained economic development. Toward this goal, this last Annual Meeting of the twentieth century provides an important opportunity.

The recent crises have underscored the critical role of multilateral public resources in calming exchange and financial markets and in paving the way for economic recovery. While there is every need to empower the Bretton Woods institutions, so as to enable them to effectively deal with the emerging challenges, we must not lose sight of the basic mandate of these organizations. The preoccupation with crisis management in some countries must not distract the Fund and the World Bank from their basic missions of providing temporary balance of payments support and long-term development finance in all developing countries, respectively. The recent upheavals have also sparked a debate on the approach to macroeconomic policy, capital flows, exchange rate regimes, fiscal and financial systems, and standards and codes. The debate is still on, and we must be prepared to reassess earlier positions.

We endorse the efforts currently under way to improve the international financial architecture. After the initial spurt of ideas on basic

changes in the institutional framework, attention is now increasingly being focused on limited modifications to the existing system. While there is an imperative need for improvements in the present structure, there is also a risk that such efforts may not go far enough, especially if the long-standing concerns of developing countries do not receive their due attention. I would like to remind this distinguished assembly that issues, such as the declining levels of aid, stagnation of other official flows, insufficient international liquidity at times of financial stress, low primary product prices, and the limited access of most developing countries to private capital flows, need to be brought to the forefront of the global agenda. Furthermore, we must ensure that political considerations are not injected into the programs and operations of the Bretton Woods institutions. We must consciously strive to protect the integrity and objectivity of these great international economic institutions from the encroachments of short-term national, and foreign policy expediencies.

It is one of the ironies of the past 40 years that, although developing countries as a group have grown much faster than the developed countries over this period and their relative economic strength in terms of output and trade has increased substantially, their role in international economic governance has not expanded commensurately. This anomaly needs to be corrected in the next quota exercise in the Fund. In the decision-making structures of the "new" financial architecture that is taking shape, developing countries must also have due representation. This will enhance the strength and credibility of our international institutions.

While considerable progress has been achieved by developing countries over the past 50 years, it is amply clear that in terms of poverty reduction, progress has been less than satisfactory. The international community cannot turn a blind eye to certain iniquitous aspects of global financial and economic developments during the recent past. In fact, while there is a lot of talk about the world being made smaller by the information-technology revolution, for hundreds of millions of people who are outside the envelope of this technology, the emerging "cyber-based" world is getting more distant. We live in a world where the rich are enjoying the best-ever quality of life, while the poor continue to suffer from deprivation, sickness, and malnutrition. This is unacceptable. To my mind equitable distribution of the enormous benefits of the new technological revolution is going to be one of the central issues for the new millennium.

An important sector where private initiative had been expected to play a much larger role is the provision of physical infrastructure. So far, the results have been mixed at best. Private provision of infrastructure has been characterized by long delays, considerable legal wrangling, and often intense politicization. The fact is that much of what constitutes infrastructure has a "public good" dimension and long-gestation periods.

The World Bank used to play a central role in financing the physical infrastructure needs of developing countries. It should reassert its leadership in this area.

I am happy that social sector issues have gained in prominence in the Fund-Bank agenda, and that the link between debt relief and poverty reduction has been emphasized. Larger HIPC funding should, of course, be effected on the principles of additionality and equitable burden sharing among developed countries without affecting the financial integrity of the Bretton Woods institutions. Moreover, it must be recognized that strategies for global poverty reduction will not be successful unless there is also an adequate flow of additional development assistance to those countries that have managed their economies prudently and have met their debt obligations despite difficulties.

The pressure on the World Bank's resources will be considerable if it is to respond effectively to the challenge of meeting the poverty reduction goals that have been established. This and other demands on the Bank's net income have meant that the financial strength and integrity of the World Bank could be weakened unless remedial steps are taken. Since we have already increased loan charges last year, I feel that a General Capital Increase will be more equitable. It would also send out a strong and clear message of shareholder support for the institution.

Let me take this opportunity to apprise this distinguished gathering of recent developments in the Indian economy. We are indeed happy that our program of economic reforms and commitment to macroeconomic stability continue to yield impressive rewards even against the background of a serious global slowdown. India improved its GDP growth rate from 5 percent in 1997–98 to 6 percent in 1998–99 and is expected to register a higher growth rate in 1999–2000. This makes India one of the 10 fastest growing economies during the 1990s. Furthermore, this recent revival in India's growth has been accompanied by a welcome decline in the rate of inflation to below 2 percent, the lowest attained in 17 years.

Although world trade growth has remained anemic, our external sector continues to exhibit strength, with the current account deficit expected to be below 2 percent in 1999/2000, despite the sharp increase in world oil prices. The major indicators of external stability continue to improve. The debt-service ratio is expected to decline even further to less than 18 percent in 1999/2000. Foreign currency reserves have increased substantially in the last 18 months despite the slow down in the world trade and the effects of the East Asian crisis. It has been our policy to ensure that short-term debt is kept within prudent limits, and it now constitutes less than 5 percent of our aggregate external debt.

As you are aware, our country is currently going through the largest democratic election ever held in the history of mankind. I am proud to

say that our economic progress has been achieved within a vibrant democratic framework. We are fully conscious that in order to maintain and improve upon a strong economic record, we have to implement an ambitious agenda of second-generation reforms and continue to conduct vigilant macroeconomic management. The next wave of reforms will cover the entire spectrum, including revitalization of the rural economy, fiscal policy, the financial sector, trade, foreign investment, infrastructure, and industrial relations, as well as the right-sizing of government and restructuring and privatization of public enterprises, as necessary. With these reforms, we are confident that the daunting task of lifting hundreds of millions of people out of poverty is attainable within the first decade of the new millennium.

INDONESIA: BOEDIONO

Governor of the Bank

It is reassuring to hear the recent news about the world economy. The U.S. economy continues to show strength, while Europe and Japan are transmitting positive signals. Meanwhile, emerging economies as a group are also faring better. Japan, in particular, deserves to be congratulated for its remarkable turn around. Meanwhile, the proposed reform of the HIPC Framework would make not only good politics but also good economics.

Turning to my country, Indonesia, it is clear that the better prospects of the world economy should provide a better environment for our recovery. Conversely, the world economy is bound to benefit from our quick recovery. Let me mention some recent facts about Indonesia.

One year ago, at the time of the last joint annual meetings, Indonesia's economic fortunes had reached a nadir. Inflation had risen to an annual rate of 82 percent, the rupiah had depreciated by some 75 percent and traded at Rp 10,000 per $1, one-month interest rates were at 64 percent, and real GDP had collapsed by 16 percent. At that time, no one knew whether things would get better or worse in the months to come. Significant political uncertainties lay ahead.

Today the Indonesian economy is in far better shape but, unfortunately, similar uncertainties remain. Inflation has almost been eradicated, with the annual rate falling to less than 6 percent in August. The one-month interest rates have dropped below 13 percent. By mid-July of this year the rupiah had strengthened to Rp 6,600 per $, before it weakened again to the current level around Rp 8,400 per $. Share prices on the Jakarta Stock Exchange have risen by more than 60 percent from their level one year ago. Consumer spending, agricultural production and a few manufacturing activities are starting to look up. With oil prices

having doubled from the beginning of the year and commodity prices beginning to stabilize, Indonesia's external payments position should improve in coming months.

In recent weeks, these clear signs of economic recovery have been blurred by uncertainties arising from the emergence of a bank scandal, events in East Timor and rising political temperature in the run up to the Presidential election. There is a lesson to be learned here. The underlying message of this experience is that despite two years of unprecedented economic misfortune, the Indonesian economy remains alive and fundamentally strong. Given half a chance, it will bounce back. At the same time, it is also clear that the recovery remains fragile and requires constant nurturing by a steady and caring hand.

Much of the credit for the improved outlook is due to the implementation of a consistent economic stabilization and restructuring program, in support of which the international community has played a crucial role. We wish to express our appreciation for this support. Financial sector restructuring and corporate debt resolution have been key elements of this program. Over the past year, notable progress has been made on both fronts, which I shall not elaborate here.

However, recent events threaten to undo much of such progress. The restructuring program has been paralyzed by a banking scandal that strikes at the integrity of the institutions charged with recapitalizing and restructuring our banks. We consider it to be a very serious matter and we know that we need to resolve it in a transparent manner and in a manner that is consistent with Indonesian law. A judicial process for the case will start within a matter of days. I should add that the prevailing public sentiment ensures that only a transparent and complete resolution will meet the public's expectations.

The upcoming Presidential election is another source of uncertainty. It is our hope that the resolution of these two issues will allow us to regain the momentum that we had attained earlier this year.

Finally, I would like to express the deep regret of the people of Indonesia for the loss of life caused by events in East Timor. Let me reaffirm that the government of Indonesia is committed to taking the steps necessary to enable the fulfillment of the newly expressed will of the majority of East Timorese to seek a new destiny outside Indonesia.

IRAN: HOSSEIN NAMAZI

Governor of Bank

Global economic and financial conditions after the turbulence in emerging markets in 1997-98, which gave rise to fears of a widespread credit crunch and global recession, have now markedly improved, and

most of the economies recently in crisis have begun to recover. Economic improvement in economies afflicted by the Asian crisis has been faster and more robust than expected earlier, and the further bouts of financial turbulence in other parts of the world have been effectively brought under control. Nevertheless, many challenges remain to be addressed to ensure that these recoveries are sustainable and that prerequisites for a stronger and more stable growth in the world economy in the next decade are in place.

Now, the concern over the collapse of the international financial system has given way to the need for better policy coordination among the industrial countries to maintain the continuity of orderly economic growth in the world. There are positive signs for the restoration of an atmosphere of trust and confidence in the international financial markets. Despite such a positive development and the relative improvement in global financial and economic conditions, those crises, mainly the Asian crisis, have made the international economic environment more difficult and uncertain for developing countries, and the financial flow from international capital markets to developing countries has been cut in half compared to the pre-crisis period. Moreover, access to these resources has become prohibitively costly and limited solely to creditworthy borrowers.

The developing countries are the essential partners of the industrial nations in the globalized world. It is, therefore, incumbent on the industrial countries to work closely with all developing countries, especially with the poorer nations, and to increase the volume of official development assistance in support of their efforts to eradicate poverty, launch effective policies for sustainable development, and build the economic capacity of their countries. Needless to say, the stability and integrity of the world economy depend on rational relationships between the industrial and developing countries and the political support for the efforts of every developing country that seeks to achieve sustainable development.

Our meeting is taking place at a time when the dawn of the new millennium approaches, and our world is facing pressing challenges in all areas of political, economic, financial, social, and cultural endeavors. Accordingly, the need to have a holistic and comprehensive approach toward development issues has become more critical, both at national and international levels. The significance of this comprehensive approach has been duly recognized by the Bretton Woods institutions. Many issues that are interlinked with comprehensive and multifaceted economic, social, and cultural development of human societies have made their way onto the agendas of these institutions. These issues are essential parts of human prosperity and well-being, such as debt reduction of heavily indebted poor countries, poverty alleviation, strengthening of the international financial architecture, management of social

dimensions of crisis, and in particular, a multifaceted approach, under the theme of "Comprehensive Development Framework."

The comprehensive approach to development in the conceptual plan is welcomed. However, it should be ensured that this framework does not constitute an intrusion on national decision making. While supporting the need for such a comprehensive approach toward all economic, political, financial, social, and cultural issues, I wish to express my concern over any instrumentalization of this concept.

Now that there is a clear recognition at the international level of the significance of this comprehensive approach, we need to pay attention to the following facts:

- The main objectives of the founders of the Bretton Woods institutions, according to their Articles of Agreements, were to assist the member countries in the reconstruction and development of their territories and to promote economic cooperation among them. To achieve these objectives, the Bretton Woods institutions offer advisory services that is of the utmost importance. The important point in these efforts lies in the distinction between offering advisory views and dictating a series of inflexible instructions to developing countries with a view to putting their economic house in order.

  - The target audience for the rules and regulations of these institutions has consistently been a set group of member countries, while the issues dealt with by these institutions are very broad and universal, and should target, as a general rule, all members—industrialized or developing. Indeed, a one-sided and selective approach will not serve the above-mentioned purposes and objectives.

  - The chief objectives of the founders of the Bretton Woods institutions were purely economic in their nature and character. It is imperative that these institutions adhere to principles clearly stated in their founding agreements and strive to achieve these concrete objectives. Tainting the decisions of these institutions with political considerations will inevitably lead to imposition of discrimination on certain members, which is neither desirable nor in line with the objectives of these institutions.

- Differences in the structure of economies and institutional capacities among countries with varying levels of development requires the Bretton Woods institutions to adopt a broader view in advising member countries, and to refrain from forging one-size-fits-all policies. As it has been increasingly realized, country-specific features play a greater role than previously envisaged in determining the set of appropriate macroeconomic policies toward stability and growth. This point should be truly recognized and fully appreciated in dealing with the member countries.

The most obvious policy recommendation that needs to be revisited in the light of recent experiences is the liberalization of the capital account. Recent experiences suggest that the liberalization process should be very cautious and orderly. The member countries should not be advised, let alone pressed, to liberalize their capital accounts in the absence of necessary financial structures and a supervisory and regulatory capacity. Structure and capacity development requires time, which in itself varies with the social and cultural foundations of countries. It would also require a substantial amount of financial and technical support from the Fund and the Bank. I would like to reiterate that the Executive Board of the Fund must also carry on very careful deliberations in designing an effective and protective framework, allowing the members to undertake capital account liberalization at their own pace and with full confidence that appropriate safety nets are in place should their economies be subjected to shocks in the process.

We welcome the international support for poverty reduction and commend the Fund and the World Bank for further progress being made in the initiative to assist heavily indebted poor countries (HIPCs) and post-conflict societies. It is hoped that by broadening the scope for eligibility under the HIPC Initiative and by increasing financing, more substantial assistance to a larger number of poor countries will be made available. We also welcome the efforts made in ensuring adequate funding for the ESAF (The Poverty Reduction and Growth Facility).

In conclusion, I would like to present a general view of the economic condition in my country. The continuation of global recession and the declining trend in the oil market, particularly the sharper fall of oil prices in the second half of 1998, brought about heavy pressure on the balance of payments and resulted in a carry-over of the budget deficit to the first months of 1999. Nevertheless, the available statistics indicate that, despite the shocks, the nation's economy managed to absorb to a large extent these pressures, and the negative effects of these shocks were much less than what we initially expected, mainly because of advance preparations and capacity building, and investments in the past decade.

The preparation of the third five-year economic development plan, which will be implemented in the next fiscal year, is going through its final stages. Some of the main objectives of this plan are as follows:

- greater transparency in the macroeconomic system and regulatory frameworks;
- budget reforms;
- tax reforms;
- downsizing of the government's role in economic activities and privatization of government enterprises;

- promotion of the private sector;
- dismantling of monopolies and promotion of competition; and,
- establishment of a comprehensive social safety net to protect the most vulnerable groups.

Once fully operational, the program will pave the way for the full integration of the Iranian economy into the global system.

IRAQ: ISSAM RASHID HWAISH

Governor of the Bank

Governors, ladies and gentlemen, I am honored to greet you on behalf of the Iraqi delegation and to express our wishes for continued success to you, and to the Managing Director of the International Monetary Fund, the President of the World Bank Group, and the governors attending this meeting today, in your efforts to achieve the goals pursued by the international community, and by the Bretton Woods institutions in particular.

Over the past nine years, the Iraqi delegation has pointed out that the economic sanctions imposed on Iraq, along with the freezing of its assets and bank deposits, contradict one of the Fund's most important purposes set forth in Article I, paragraph (iv) of the Fund's Articles of Agreement: to eliminate restrictions that hamper the growth of world trade and to strive to achieve international economic stability and prosperity. This abnormal situation, which is in conflict with the Fund's philosophy and its Articles of Agreement, remains in effect after more than nine years. That is why I am requesting the Fund, in accordance with its objectives, to denounce the continuation of these long-standing economic sanctions against Iraq, one of the founding members that signed the Bretton Woods Agreement in 1945.

The suffering of the Iraqi people and humanitarian considerations require that the international community raise its voice to rectify the deteriorating situation in Iraq, which could lead to a great human tragedy if measures are not taken soon to lift sanctions. The Iraqi delegation has addressed this assembly on several occasions over the past years, describing in detail the economic and social effects of continued sanctions, including their direct adverse effects on the production of goods and services in all sectors of the economy, rising inflation rates and the concomitant deterioration of household incomes, the shortage of medicines and medical equipment, potable water, and sewerage facilities, resulting in significantly higher death rates in the various age groups and the spread of communicable diseases that had once been practically

eliminated from Iraq, such as polio, cholera, hepatitis, etc., not to mention the contamination of the environment and its harmful effects on life in Iraq.

More than two years have elapsed since the initial implementation of the memorandum of understanding concerning the "Food for Oil" agreement signed by Iraq and the United Nations on March 20, 1996, whereby limited quantities of crude oil would be exported in order to import food, medicines and medical equipment, and other basic necessities of life. Yet Iraq continues to face a number of artificial obstacles to implementing contracts signed on the basis of this agreement, owing to the position taken by the United States and supported by the United Kingdom—alone in the international community—which contradicts the agreement's objective of relieving a small measure of the suffering and pain the Iraqi people are enduring as a result of these protracted sanctions, which are unprecedented in human history and in complete contradiction with the provisions of international law.

Governors, I am speaking not only of the sanctions imposed upon the Iraqi people and their harmful effects upon an entire nation, a nation that had a pivotal role in advancing human civilization. I am also speaking of sanctions that are being used as a political weapon against particular countries, in conflict not only with the Articles of Agreement of the Bretton Woods institutions, but also with their principles and announced policies, and with the desires of the international community to promote development, fight poverty and hunger, and achieve a world in which justice and peace prevail.

Iraq has both rights and obligations with respect to the Fund and the Bank, and we wish to exercise these rights to meet our obligations. Therefore, Iraq requests the Fund's management to consider the possibilities for legally accommodating such a situation, whereby countries facing economic sanctions—on the basis of international legitimacy or other pretexts—would be allowed to exercise their rights and meet their obligations in accordance with the agreements signed with the international institutions concerned.

I stand before you today, asking the Fund and the 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 in international banks. I likewise call on the distinguished governors, ministers of finance, and central bank governors to spare no effort in urging their governments to help end the suffering of the Iraqi people, restore balance to our relations with the international community, and prevent the domination and coercion of Iraqi society carried out by certain countries today, with no guarantee that such domination will not be extended to other countries tomorrow. I call for a joint effort to end economic sanctions and airspace restrictions, which are unsupported by any Security Council resolution or international endorsement.

IRELAND: CHARLIE MCCREEVEY, T.D.

Governor of the Bank and the Fund

Ireland's general views on current issues are reflected in the statement made on behalf of the European Union. There are, however, a number of topics I would like to highlight that are of particular concern to Ireland.

International Financial Architecture

Considerable thought and debate has taken place in the past year about the appropriate structure for what is referred to as the international financial architecture. As a small open economy, Ireland has a vital interest in a stable international economic and financial environment, and we strongly support current efforts to address the challenges posed by globalization. As recent crises have shown, various aspects of this process are interrelated, and it is important to develop a holistic approach, particularly in dealing with developing economies.

Role of Bretton Woods Institutions

The Bretton Woods institutions have a vital and central role in the international economic and financial area. To carry it out adequately, they will need to intensify cooperation among themselves and with other agencies in the economic, social, and political arenas and with the various informal groupings. Cooperation will need to be intensified not only with member governments, but also with a wide range of civil society, particularly in program countries. Ownership of programs by stakeholders is a prerequisite for successful implementation. An implication of this is that, for example, Fund programs need to take on board, at the design stage, the social and civic implications of their implementation. This is not the same as saying that the Fund should engage directly in the social or developmental aspects, but that the macro-design of its programs should be able to fully integrate outside expertise.

Transparency

In keeping with evolving trends at the national level, the Bretton Woods Institutions need to be more transparent. Such a trend has been quite marked in the past 12 months, not only with the publication of hitherto unpublished information, but also with its speedy publication in a widely accessible form over the Internet. This has enabled many interested parties to have easier and quicker access to the work of the institutions. This, in itself, constitutes a form of empowerment of stakeholders, which will become more evident as time goes on.

Information is not, however, a substitute for active participation by stakeholders, and the current trend needs to be accompanied by positive

efforts by the institutions to involve stakeholders more in their work, as the ultimate responsibility lies with the member governments representing their citizens.

HIPC Initiative

Debt relief is a vital element in a more broad-based development strategy aimed at growth and poverty alleviation. The HIPC Initiative, driven by the Bank and the Fund, is clearly at a crucial stage in its development. Although its beginnings were relatively modest, its ideals—or declared aims—were ambitious. It aims at both freeing the most heavily indebted poorest countries from the burden of the unpayable element of their debt, and offering them a definitive exit from the debt treadmill, which is seriously undermining their development.

We are all aware of the wide public support for a serious attack on the problem of unbearable debt, which is reflected in the extent of popular support for Jubilee 2000. This must be addressed, and the HIPC Initiative must be implemented in a way that achieves its basic aims. We must remain open to any further enhancements required for this to be achieved, in particular, taking greater account of human needs in determining eligibility and the extent of the relief required. I would, therefore, call on Governors to resolve any outstanding difficulties in implementing the enhanced HIPC Initiative at this stage, particularly in regard to its financing.

Earlier this year, Ireland adopted legislation enabling it to participate in funding the enhanced initiative to a degree commensurate with its relative standing in the donor community.

ISRAEL: AVRAHAM B. SHOCHAT

Governor of the Fund

It is an honor and a privilege for me to address this distinguished assembly on the occasion of the Annual Meetings of the International Monetary Fund and the World Bank Group. Before I begin, I would first like to thank the staffs of both the Fund and the World Bank for all their hard work in organizing this conference, which holds great significance for the world economy and for Israel as an active participant in it.

The peacemaking process in which we are now involved is a historic one. When the late Prime Minister Rabin and Shimon Peres decided to conclude an agreement with the Palestinians after a hundred years of conflict, they understood that the matter would require painful compromises. The Oslo process marks the beginning of a complicated path to peace. This complex process is having an impact on the entire Middle East—peace with Jordan, economic conferences, reducing the intensity

of the Arab boycott, and opening of Arab countries' diplomatic missions in Israel. For the Israeli people, the peace process will create an environment that stimulates economic growth.

The Health of Israel's Economy

The shocks of the world economic crisis last year did not pass over Israel; they did not leave permanent scars either. Israel's economy, like those of the industrial nations of Europe and North America, demonstrated resilience, stability, and strength. Our ability to weather the storm is based on strong fundamentals.

The international investment community has recognized the inherent stability and health of the Israeli economy, and, through its actions, has expressed confidence in it. In fact, foreign direct investment (FDI) in Israel has grown steadily.

There is good reason for the confidence of the international community in Israel's economy. Since the mid-1980s Israel has been undergoing a revolution, marked by two major features:

- the transition from an economy troubled by excessive government intervention to a free-market economy, driven by the private sector and open to competition both at home and from abroad; and
- the transition from an economy based on traditional industries to one based on information technologies and hi-tech industries.

The public sector has played an important role in these developments. Responsible fiscal policy, control of inflation, liberalization of trade and foreign currency regimes, antitrust legislation, and capital market reform have contributed to the business-friendly environment in Israel.

The primary credit for Israel's transformation, however, goes to the private sector. Our human capital—significantly boosted by the arrival of 1 million new immigrants who have blessed our shores since 1990—has once again proven to be our greatest resource. Know-how and entrepreneurial spirit has launched new enterprises, many of which today comprise some of Israel's largest companies.

- We will continue to control both inflation and the budget deficit through sound and responsible fiscal and monetary policies.
- We will mobilize resources to stimulate growth through renewed investments in infrastructure, education, human capital, and peace.
- Structural reform of the economy and privatization will continue, encouraging a competitive business environment.
- We will go forward with capital market reforms, with an eye to promoting international integration.
- We will continue to invest heavily in research and development.

Israel and the Region

The strategic location of the southeast Mediterranean as an axis between three continents and two oceans offers vast business opportunities for all economies in the region. The economic potential created in this simple geographic fact has been ignored far too long. Only through regional cooperation and partnership can we create an economic environment that favors peace. To encourage this process, international assistance is needed.

While some groundwork toward establishing regional cooperation was laid in years past, the time has now come to vigorously move forward. On September 13, Israel and the Palestinian Authority began working on a final political settlement. Teams on both sides have started to negotiate a comprehensive agreement that will bring full reconciliation and create a new political and economic environment.

Israel as a Donor Nation

On the eve of the new millennium, Israel sees itself as a fully developed post-industrial economy and we are prepared to take our place in the global community as a donor nation, and joined the International Development Association.

Finally, the new government is moving the peace process ahead, including sincere and genuine negotiations with Syria—negotiations that, among other things, will solve the Lebanon problem and eventually result in comprehensive peace in the Middle East. We are looking forward to an era of newly formed partnerships both inside and outside the Middle East for the benefit of all involved.

ITALY: GIULIANO AMATO

Governor of the Fund

International economic conditions have considerably improved since our last meeting. The US economy continues to perform strongly. Economic activity in the euro-area is accelerating. Signs of an upturn are coming from Japan. The financial and real instability that has recently characterized the emerging markets has been subdued.

While the risks for the world economy seem to have diminished, steadier economic growth continues to be burdened both by the imbalances in the current account positions of the main industrial countries and by delays in structural reform and fiscal consolidation in several developing and transition countries.

Action is certainly needed in the United States, to increase private savings while ensuring a soft landing of the economy; structural policies

are needed in Europe, to improve the functioning of markets and increase the overall productivity of European economies, as well as in Japan, where the efforts to sustain aggregate demand and press ahead with structural reforms are key for the turnaround of the economy.

At the close of this decade, inflation has been driven to very low levels in almost all industrial countries. This is the result of appropriate monetary policies and of structural factors, including increased competition and technological advances. Somewhat paradoxically, though, price stability has been accompanied by more, not less, exchange rate volatility between the major currencies.

We must be aware that such volatility produces repercussions on other countries' economies. This does not mean, however, that we should introduce forms of exchange rate rigidity between the three major currencies, which would only come at the expense of domestic stability.

Emerging market economies must be careful in choosing their exchange rate regimes. With increased capital mobility, countries should peg their exchange rate only if they can implement economic policies that are consistent with both domestic and external requirements. The Fund has the responsibility to assist countries in devising the most appropriate exchange rate regime and supporting policies.

Major challenges remain for achieving a stable international financial system.

First, efforts should be renewed to preventing financial crises. Standards and codes of good practice have been designed by the Fund and the Bank, in collaboration with other standard-setting bodies in a number of areas. They should now be implemented by all countries on a voluntary basis, but according to an agreed-upon and transparent timetable. The Fund has a major responsibility in monitoring the implementation of these standards. In this endeavor, the Fund and the Bank must strengthen cooperation among themselves and with other relevant international organizations as well.

Second, progress has to be made in involving the private sector in crisis resolution. Building on existing experience, and on the broad principles that have been agreed upon, the Fund must now design the "rules of the game" for a consistent approach to crisis management.

Third, and most important, poverty reduction must come at the core of the activities of the international financial institutions. The enhanced HIPC Initiative provides deeper, faster and broader debt relief and establishes a close link between debt relief and poverty reduction. The funding of the initiative needs to preserve the principles of additionality and the financial integrity of the international institutions. Multilateral institutions thus need additional support on a bilateral basis to cover the costs associated with the enhanced framework. Let me say that Italy has already made a substantial contribution to a stronger link between debt

relief and poverty reduction by canceling all commercial and ODA debt to HIPC countries with a per capita income lower than 300 dollars. In addition, Italy has contributed its full share, around $60 million, to the ESAF-HIPC Trust of the Fund. Italy will contribute $70 million to the HIPC Trust managed by the World Bank.

Let me stress again, going toward my conclusion, that no economic progress and no social progress is attainable without a parallel process of poverty reduction. Priority must be given to assist countries affected by conflicts. Marginalization, social unrest, and external conflicts always have their roots in inadequate economic development and inequality. The World Bank, which is engaged in efforts to help countries that are in post-conflict transition, must use its resources to provide assistance for reconstruction thereby reestablishing stability and growth in these countries.

These are ambitious tasks. And our task will have to be even more ambitious in the not-so-distant future, when many people will live in this world, and an increasing number of them may fall below the poverty line. The significant progress achieved in these days is the result of effective and meaningful cooperation among the member countries. It is a good promise for the future. In this respect, Italy fully supports the institutional changes proposed to the Board of Governors. They will strengthen the role of our institutions and make them better equipped to meet the challenges ahead.

JAPAN: MASARU HAYAMI

Alternate Governor of the Bank and the Fund

Introduction

I am very happy to have this opportunity today to address the Annual Meetings of the World Bank Group and the International Monetary Fund as Alternate Governor for Japan.

First of all, I sincerely welcome the reappointment of Mr. Wolfensohn as President of the World Bank. Since his appointment in 1995, Mr. Wolfensohn has been taking the lead on bold reforms of the institution and strategy in the World Bank, and has been tackling many challenges, such as the response to the Asian crisis. I am confident that Mr. Wolfensohn will play, in his next term, an increasingly important role in addressing various development issues that the Bank Group will face.

The Post-Crisis World Economy

As I look back to our meeting last year, I am reminded of the grave sense of uncertainty and tension that gripped the international financial

markets at that time. The negative impact of the Russian crisis that had erupted in August was spreading to Brazil and other Latin American countries, as well as to Asia's emerging market economies, which were just beginning to regain their footing after the previous year's crisis. The United States was shocked by the near collapse of Long-Term Capital Management, while in Japan, major banks were in dire difficulty. But what a difference a year can make. The Brazilian crisis has been brought under control through the assistance program led by the Fund, the United States has successfully calmed the market through a number of interest-rate cuts, and Japan has taken the necessary actions to strengthen its financial sector. These and other efforts by the international community have helped shake off the uncertainty in the international financial markets and reestablish a sense of stability in the world economy. It is particularly noteworthy that positive growth has been projected this year for almost all of the Asian emerging economies that were in crisis two years ago_Korea, Indonesia, Malaysia, the Philippines, and Thailand. Their growth is expected to accelerate next year, with the region enjoying a conspicuous upturn in economic activity.

Let me now turn to the Japanese economy. For the first time in nearly two years, we have experienced positive growth of real GDP in two consecutive quarters. The worst is now over, and economic activity is improving somewhat. The positive signs that we are beginning to see are the result of assiduous efforts with regard to macroeconomic and structural policy. Since last summer, the government has made economic recovery its main priority, while recognizing the eventual need to implement fiscal structural reform. We have also tackled the problems of the financial sector by recapitalizing banks with public funds on condition that they implement far-reaching restructuring plans. The financial sector is now regaining the confidence of the markets, and financial institutions are making dramatic moves that will facilitate the reform of this sector. We will continue to monitor carefully developments in the economy and to concentrate our efforts on the implementation of various measures to strengthen the foundations for recovery.

The Need for Global Response

As I mentioned, conditions in the international financial markets have improved significantly in the past year. However, we must consider preventive measures for the future, as we cannot completely avoid the risk of crisis, and be prepared to implement them swiftly when a crisis erupts. We have discussed the relevant issues from various perspectives, and now two years after the Asian crisis, a consensus has been established on a number of important matters. Based on this consensus, the Fund Executive Board is currently discussing various reform measures and moving toward their implementation. We must remember that no

single reform measure can act as a panacea for reinforcing the international monetary system. All parties should be required to implement their share of reforms: emerging market economies, which are exposed to the risk of currency crises; private investors who are investing in these countries; developed countries, which are responsible for instituting prudential regulations covering their investors; and the Fund and other international financial institutions. I would like to present Japan's thinking on various points pertaining to these reforms.

Issues for the Emerging Market Economies—Responses of Capital Recipients

The massive inflow of foreign capital into the emerging market economies creates opportunities for accelerated economic growth in these countries. However, at the same time, it entails potential risks. In order to minimize these risks, it is essential for individual governments to pursue sound macroeconomic and structural policies. The Asian crisis has also impressed upon us the importance of reinforcing the financial system by instituting appropriate prudential regulations and strengthening the existing supervisory arrangements. In this context, we must not forget that when steps are being taken toward capital liberalization, it will be even more important than before to closely monitor private sector liabilities, including those of the financial sector. It is also necessary to improve debt management and liquidity management for countries as a whole. This issue is currently being considered by the Fund and the World Bank, and we look forward to seeing the results of these deliberations.

On the question of what type of exchange rate regime should be adopted by emerging market economies, we must remember that numerous crises have been caused by misguided efforts to maintain a de facto fixed exchange rate pegged to a single currency. Based on extensive past experience, the Fund should provide appropriate advice on this matter through the programs it supports and its surveillance activities.

Issues related to capital liberalization and restrictions on capital flows are of vital importance and require continued examination. In the course of recent IMF discussions, we have seen growing support for the view that, if combined with appropriate measures, such as a more flexible exchange rate system, restrictions on capital inflow can suppress the inflow of speculative short-term capital. Malaysia's recent use of restrictions on capital outflow was effective in drawing a line of defense against speculative attacks and stabilizing the foreign exchange market. We expect further discussions on the usefulness of restrictions on capital flows from a practical point of view. Possible effects include the reinforcement of appropriate macroeconomic policies and strengthening of the financial sector in some cases, especially the supplementing of prudential regulations.

Issues for Private Investors and the Developed Countries—Response of Capital Providers

To maintain stability in the international monetary system, improved risk management is needed on the part of investors. A particularly important issue, which is currently being discussed in the Financial Stability Forum, is the question of hedge funds and other highly leveraged institutions (HLIs). A consensus has been reached on the need to expand the scope of disclosure for all market participants, including HLIs, and to institute more thorough risk management by counterparties to transactions. As an initial step, it is important to translate this consensus into concrete action. At the same time, we believe that it is also necessary to further examine the following types of defensive actions by the emerging market economies. When there is a possibility of market manipulation, measures may be taken, such as requiring HLIs to report on their activities in the interest of maintaining market integrity. The use of nonstandard interventions like those recently made by the Hong Kong SAR and Malaysian authorities—which are different from traditional policy responses, namely, intervention in foreign exchange market or the adjustment of interest rates—may be necessary in special circumstances.

Even more important on the investor side is to increase private-sector involvement in order to both prevent crises and help resolve those that do occur. The continued use of public funds to bail out private investors is not viable and invites moral hazard. We now have an international consensus that private creditors, including bond holders, must be asked to cooperate appropriately. However, it is true that the actual implementation of such a cooperative approach entails numerous difficulties. There are certain matters that must be borne in mind in promoting greater private-sector involvement. It must be clarified that the objective is to promote appropriate burden-sharing and cooperation between public-sector and private-sector creditors. From this perspective, measures should be taken to promote dialogue with the private sector concerning conditions in borrowing countries and to improve ways and means to encourage private-sector involvement. Moreover, a framework should be developed for cooperative action for individual country cases. It is important that the Fund lead the way in discussing specific measures in this area, and that the entire international community cooperate toward achieving appropriate private-sector involvement.

IMF Reform

As the central institution in the international financial system, the Fund should strengthen its functions of providing assistance to countries in crisis—subject to proper terms and conditions—and providing appropriate policy advice to member countries. A decision has been reached

to re-institute the Fund's Interim Committee as a standing committee to be renamed the "International Monetary and Financial Committee." We urge the new Committee to work toward enhancing the functions of the Fund and to play an important role in the international community's engagement in problems related to international finance. In this connection, I would also like to mention the Group of Seven's proposal for the first meeting of a new mechanism for informal dialogue, which would include the emerging market economies, to be convened at the end of this year. We hope that this forum will play a constructive role in reinforcing the international monetary system.

Finally, I should like to touch briefly upon some recent improvements in Fund procedures. We welcome the higher level of transparency achieved through the publication of Fund staff papers. This year has also seen Fund surveillance and research activities undergo external evaluation, yielding a number of positive recommendations. Let me reiterate a point made in this external evaluation process: Fund surveillance and programs should remain focused on the core areas of fiscal and monetary policies, exchange rate regimes, the financial sector and capital movements, and problems directly related to these core areas.

Regional Responses—The Manila Framework and the New Miyazawa Initiative

Today's international financial crises are both global and regional in nature: global in the sense that they are rooted in characteristics of an international financial system, regional in that, once started, they tend to spread very rapidly within specific regions. Therefore, intraregional cooperation among countries with close ties has proved particularly effective in coping with such crises. For example, in the case of the Asian crisis, Japan hosted a meeting of countries in the region to rescue Thailand, and the participating countries complemented the Fund's global action with a speedy and large-scale regional response. Based on the experience of the Thai currency crisis, the Manila Framework was created, and it has functioned effectively in complementing the actions of the Fund in terms of both surveillance and financing.

In addition to this, last October, Japan launched the New Miyazawa Initiative, which includes a $30 billion financial support package for the affected Asian countries. The urgent capital needs of each Asian country were met through funding via the New Miyazawa Initiative and other public assistance, and the economies in the region are bottoming out. It is now essential to mobilize domestic and foreign private sector funds to achieve a full-scale, vigorous recovery in these economies. With this purpose in mind, Japan announced the "Resource Mobilization Plan for Asia (Second Stage of the New Miyazawa Initiative)" on May 15, 1999 at the APEC Meeting of Finance Ministers. As part of this program, in

line with the scheduled establishment of the Japan Bank for International Cooperation in October, we have enacted the necessary legislation to allow it to guarantee public-sector bonds issued by the Asian countries. Japan has also contributed about $3 billion for the creation of the Asian Development Bank's "Asian Currency Crisis Support Facility" which is to be used to provide guarantees for raising of funds from the markets and for interest subsidies.

Recently, Japan called on various countries in the region to participate in cooperative efforts for the establishment and development of bond markets throughout the Asian region, and discussions are already under way. We will also increase our efforts to provide technical and personnel assistance for the establishment of a stable financial system in the region. I would like to reiterate that Japan is committed to implementing this initiative while maintaining close cooperation with related countries and international institutions.

Issues in Development

The World Bank's Response to Crises

During the past two years, the central issue in the area of development has also been how to respond to the crises in the emerging market economies. The World Bank and other multilateral development banks (MDBs) have responded to the crises by providing a wide range of assistance, which was beyond their traditional functions. At the outset of the crises, by utilizing their fund-raising functions from the markets, together with the Fund, they supplied funds expeditiously to the affected countries, and prevented the entire loss of the fruits of development for years. The New Miyazawa Initiative, Japan's bilateral assistance that responds to the sharp economic downturn, has been also implemented in close coordination with the World Bank and the Asian Development Bank.

The World Bank's swift and effective response to the crises should be highly appreciated now. Such a response was made possible by the World Bank's flexible management and financial soundness, and we must spare no effort in restoring and maintaining the World Bank's risk-bearing capacity.

As a recent example of such a swift response by the World Bank, I would like to point out the World Bank's announcement of its assistance to aid in the aftermath of the Marmara earthquake within 36 hours. As a country that has also suffered from earthquakes, Japan expresses its deepest sympathies to the victims of the earthquake in Turkey and will extend reconstruction support. At the same time, we fervently hope that as the core of the international community's assistance, the World Bank will contribute to the reconstruction in Turkey by providing timely and large-scale loans. Another important challenge is assistance for recon-

struction and development from the recent turmoil and destruction in East Timor. We expect the World Bank to lead the reconstruction process, and Japan intends to play an important part in the reconstruction and development.

In a number of Asian countries, signs of recovery from the crisis are now discernible in economic dimension, although with regard to the social dimension the situation is still serious particularly in the poor and vulnerable groups. Those who had received the smallest fruits of economic growth are now being left behind. Moreover, this is not unique to directly crisis-hit countries, but also to those affected indirectly.

We call on the World Bank to challenge the new poverty generated by the crises as one of its top agenda items and to further strengthen its assistance in areas such as health, sanitation, education, and employment, underpinned by high standards of governance. In close coordination with MDBs, Japan will identify its support to meet these urgent needs by making new contributions to the World Bank and the Asian Development Bank.

The Enhanced HIPC Initiative

Assistance to heavily indebted poor countries (HIPCs) represents another vital area in combating poverty. I welcome the fact that the enhanced framework of the initiative for "broader, deeper and faster" debt relief was recently endorsed. Under the enhanced initiative, Japan will provide the largest-scale bilateral official development assistance for debt relief. The enhanced initiative is now expected to be implemented speedily.

In the implementation of the enhanced HIPC Initiative, it is necessary to identify financial resources to meet the increasing cost to international organizations. Maximizing the use of their internal resources should come first and then, bilateral contribution on the basis of the principle of fair burden sharing. I welcome the agreement on a financing plan that will permit the enhanced HIPC framework to be launched and the delivery of debt relief to begin for countries requiring retroactive relief and those expected to reach their decision points over the near term. I would like to express my appreciation for the efforts made by the managements of the Bank and the Fund.

It is also important to clearly identify the initiative as an integral part of the World Bank's poverty-reduction strategies and to ensure a link between debt relief and poverty reduction. It is essential to secure developing country governments' ownership and participation of civil society during implementation. We should fully recognize the necessity of tailoring assistance to reflect each country's poverty situations, available resources from debt relief, and implementation capacity.

A New Vision for the Asian Economies

It has been only six years since the World Bank published its highly acclaimed "East Asian Miracle," in which it analyzed the high growth of the Asian emerging market economies during the 1980s and presented the growth potential and policy issues in the region. The recent crisis in the region was not only an economic crisis, but also a challenge to our vision of the Asian economies. From this viewpoint, it would be meaningful for the World Bank as a "knowledge bank" to comprehensively analyze the unprecedented recent economic turmoil, to show its long- and medium-term prospects on the road to overcome poverty, and to indicate a direction on policy management for the region. I would like to propose that the World Bank undertake a comprehensive research project, under a title such as "Toward a New East Asia—Revisiting Its Miracle," and hereby announce that Japan will support this project.

Conclusion

Throughout the twentieth century, and particularly during the first half of the century, the global society repeatedly suffered the calamities of war and serious economic dislocation. However, when we look back at this century in its entirety from our current vantage point, we realize that this was a century in which mankind sought to liberate itself from the shackles of poverty, and growing numbers of people were in fact able to do so. It goes without saying that the Fund and the Bank have made extremely important contributions to the stability and development of the world economy during the second half of the century.

As we stand on the threshold of the twenty-first century, we have been made to witness and to realize that our globally integrated international financial system has a shadow side of putting national economies at risk of grave crisis through sudden and massive reversals in capital flows. Yet, in crisis, we have observed how the countries of the world, including those directly affected by the crisis, in earnest consultation with the Fund and the Bank, have been drawn together as a single international society to work toward the prevention and resolution of future crises. Herein lies our hope for the twenty-first century. Let us remember that we have overcome numerous difficult problems during the twentieth century. In the process, we have been able to develop a firm foundation for international cooperation and coordination, and have learned to bring together and share our knowledge and our wisdom. If we continue to apply these valuable global assets to the challenges and issues that lie ahead, I am certain that we will be able to overcome the problems of the twenty-first century as well.

KOREA: BONG-KYUN KANG

Governor of the Fund

It is a great pleasure and honor for me to represent the Republic of Korea at this fifty-fourth Annual Meeting of the Fund and the World Bank Group. I would like to take this opportunity to express my profound gratitude to the Fund and the World Bank, and to member countries for helping Korea to not only overcome the financial crisis, but also quickly restore economic vitality.

International Cooperation for Stable Global Economic Growth

I am pleased to see that most economies in Asia have recovered from financial crisis faster than expected, and that the instability in other regions of the world has largely abated.

In this regard, international financial institutions have played an indispensable role in stopping the spread of financial crises. Indeed, they have done this in many ways, but most importantly, they have guided crisis-affected countries in the right direction by assisting them to set up and implement their own structural reform programs. I praise the World Bank and the Fund for their accomplishments.

Yet for structural reforms to become deep-rooted and effective, it is critical that the global economic environment remains stable. Specifically, we look to a soft-landing for the U.S. economy and a sustained economic rebound in Japan and EU member countries. For achieving stability in the global financial environment, we will all benefit from strengthened policy coordination among the world's major countries.

Korea's Economic Reform and Recovery

Since the onset of the crisis, Korea has spared no efforts in overcoming the crisis and reforming its economy. We have acted to reinvigorate our economy; we have continuously implemented structural reforms to build a foundation for sustainable growth; and we have greatly emphasized a social harmonization policy throughout the reform process.

Thanks to the strong leadership of President Kim Dae-jung and the resolve of the Korean people, Korea's economic recovery has been remarkable. GDP growth recorded 7.3 percent for the first half of this year and is expected to be around 7 percent for the year as a whole. Other major macroeconomic indicators show equally favorable developments, including a historically low inflation rate of 0.7 percent during the first eight months of this year.

Korea's foreign exchange reserves have reached record-high levels, rising dramatically from near depletion at the onset of the crisis to more than 65 billion US dollars. The large current account surpluses and the active capital inflows contributed to the rapid build-up of reserves. At

the same time, foreign exchange markets have stabilized since the beginning of the year. The total amount of external debt has continued to decline and its structure too has improved toward a much lower share of short-term debt. Based on these achievements, Korea was able to repay the entire amount of its SRF borrowings from the Fund—13.5 billion US dollars—nine months ahead of schedule

A significant improvement has also been achieved in Korea's financial markets, now equipped with greater capacity to absorb shocks. Interest rates have declined to the single digit range for the first time ever, and the stock market index has nearly doubled this year, recovering above pre-crisis levels. These conditions have translated into an environment conducive for corporate sector reform, particularly for the rapid improvement of debt-equity ratios. The success of corporate restructuring is paramount for enhancing the overall competitiveness of the Korean economy and achieving international credibility.

Korea's strong reform drive proved to be painful to many of our people, especially those in the middle- and low-income class. Thus, following through on our conviction that the government's drastic structural reforms cannot succeed without strong social cohesion, we have greatly expanded the social safety net to provide adequate protection for those most vulnerable. The government has also strengthened its support programs for small- and medium-sized firms and venture capital enterprises to help contain unemployment problems.

Reforming the International Financial Architecture

I would now like to turn to the issue of reforming the international financial architecture. I welcome the international community's efforts to enhance transparency through the establishment of more stringent global information standards. Also, to promote an orderly financial integration, the international community should cooperate closely in strengthening regulations on short-term capital flows and devising safeguards that can be readily implemented during times of crisis. In this context, I urge stepped-up international efforts for improved monitoring and regulation of hedge funds to minimize their disruptive effects on emerging market economies.

In the spirit of a more balanced approach to improving the global financial system, I strongly support the expansion of the existing G-7 consultation framework to include so-called "systematically important countries" such as Korea.

Helping the Heavily Indebted Poor Countries

Before closing, I would like to take this opportunity to express Korea's support for the Fund-World Bank initiative to help heavily indebted poor countries. Korea is willing to contribute to the ESAF-HIPC trust fund on the basis of a fair burden-sharing principle.

Conclusion

This Annual Meeting takes place as we approach the turn of a century, at the time when the world economy is moving into a new era marked by challenges and opportunities. I can assure you that Korea is fully committed to playing an important role toward promoting global economic prosperity. To this end, Korea will push forward major reforms to achieve its historical goal of a simultaneous achievement of democracy and 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-fourth Joint Annual Meetings of the World Bank and the International Monetary Fund. These Annual Meetings are being held in the midst of an improving global economy compared with the past year. With assistance from the international financial institutions, especially the World Bank, the Fund, and developed countries, the economies of the countries encumbered with the financial crisis in Asia and other parts of the world have been able to restore the confidence of investors, enabling the economies of those countries to emerge from the recession. This is the preliminary achievement of the concerted efforts of the international financial institutions and developed countries toward resolving the adverse effects of the crisis. However, the challenge in the future is the maintenance of coordination and cooperation, so as to ensure that the global economy in the twenty-first century be truly rid of the recession trend. In my view, I think that it is the responsibility of this Joint Annual Meeting to consistently explore approaches and measures to guarantee the persistent efficiency of the international coordination, particularly ensuring that the concentration of efforts for solving problems in countries facing the economic crisis does not impede the needs of other groups of countries of the world.

The Lao People's Democratic Republic is one of the least developed countries in Asia that is being affected by the financial crisis in the region. During the 1998 Annual Meetings, the impact of the regional financial crisis on our economy were not clearly portrayed in our report to the Meetings. Even though macroeconomic problems had started to emerge, specifically the devaluation of the kip and the increase in the consumer price index, the annual growth rate of the economy of the Lao People's Democratic Republic was sustained at a level of about 7 percent—a level witnessed by the years during which the Lao People's

Democratic Republic has embarked on an open-door policy in investment and cooperation with other countries. For 1998, the adverse effects of the regional financial crisis could be clearly seen, particularly in the decrease in the flows of foreign investments, which were reduced by 48 percent, compared with 1997. Moreover, owing to the rigidity of the conditionalities of the external assistance, disbursements of foreign loans were also diminished. Meanwhile the volume of Lao commodity exports was limited. This adverse situation caused the growth rate of the economy to be reduced to a level of 4 percent in 1998.

The growth of the economy in Lao PDR could have dropped to even a lower level had it not been for the government's effort to concentrate public investment in the agricultural sector, the base of the Lao economy, by expanding the irrigation network. Agricultural production in 1998 increased by 3.7 percent, accompanied by the growth in hydropower production following the completion of the Theun Hinboun dam, which began producing in the second quarter of 1998. In addition, the recovery of the textile industry following the restoration of the Generalized System of Preferences (GSP) given to garments made in the Lao People's Democratic Republic by the European Union has substantially contributed to the maintenance of the recorded level of economic growth in 1998.

Because the domestic production base has not expanded in recent years, society's demand for consumption and capital goods continues to depend heavily on imports. Public investments are largely dependent on domestic loans in the form of advances from the central bank, as a result of the shortfall of budget revenue collection owing to the slow growth of production in the economy. As a consequence, broad money (M2) increased by 113 percent by the end of 1998, compared with 65 percent at the end of 1997. This has resulted in increasing pressure on foreign exchange demand to finance imports, which, in turn, caused the kip to depreciate even further, resulting in a consumer price index increase to a three-digit level that continues to persist through the present days. With such high inflation, even the upward adjustment of public service salaries by 100 percent at the end of 1998 could not resolve the hardships in the living conditions of the poor and low-income public servants. The devaluation of kip and the increase in the consumer price index can be explained by the deterioration of balance of payments which witnessed the reduction in official foreign reserves from a level equivalent to 2.7 months of imports at the end of 1997 to only 2.2 months at the end of 1998.

The prevalent macroeconomic instability can be attributed to the lack of conduct of appropriate and prudent fiscal and monetary policies. In order to restore macroeconomic stability in the immediate and medium terms, the government of the People's Democratic Republic of Lao has committed to implement more prudent fiscal and monetary pol-

icies, with an aim of bringing down the inflation to a two-digit level and confining the devaluation of kip within a limit acceptable to the society.

In this connection, the government, within the framework of 1999/2000 budget, will exert efforts toward fiscal consolidation, with a revenue collection target of about 12 percent of GDP. By adhering to a prudent and tight fiscal stance, the government expects to realize a budget deficit not exceeding 5–6 percent of GDP, while maintaining investments in the priority sectors within the range of 11–12 percent of GDP.

With respect to monetary policy, the Bank of the People's Democratic Republic of Lao is determined to implement measures to curb inflation by limiting credits to all sectors. Furthermore, in view of limiting the devaluation of kip and supporting the exchange rate policy, a policy involving the use of the interest rate as a means to absorb excess liquidity into the banking system has been put in place. The structural adjustment, especially the reform of the banking system, will be steadfastly carried out. The newly merged state-owned commercial banks have set up the reserves for nonperforming loans to improve their financial situation. Concurrently, the process is ongoing to establish plans for recapitalization and to upgrade the knowledge and skills of managers of the newly merged state-owned commercial banks through the process of modern banking technology transfer training to be conducted by foreign experts. To enhance the confidence in the Lao banking system, the Bank of the Lao has committed to improve its regulatory and supervisory role through the prudential regulations for commercial banks. In this connection, emphasis will be placed on the importance of external auditing and the publication of an annual report to increase transparency and promote public confidence in the Lao banking system.

In the area of international cooperation and trade, the government continues to implement the open door policy to foreign direct investment and to promote production of tradable goods and services. This is particularly important to enable the country to make greater benefits from the present era of globalization, especially after having integrated itself into the ASEAN. To promote trade as a means of attaining sustainable growth and poverty reduction, work is under way to prepare the ground for future involvement under the regional free trade agreement, the AFTA. Furthermore, preparation is ongoing for the purpose of accession to WTO membership in the near future.

Prior to the outbreak of the regional financial crisis, the Lao People's Democratic Republic was able to witness strong growth and thereby the improvement in the quality of life for the multi-ethnic people thanks to the strong foreign investment and assistance flows. The future efforts to sustain high growth and stability are highly dependent on the external environment, particularly the continuing recovery in the crisis-stricken countries in the Asian region. The speedy recovery of those economies

becomes, therefore, imperative to enable the investment projects presently on hold to resume and the negotiation or implementation of new projects to be expedited. We, therefore, commend the authorities of the economies concerned for their remarkable progress made thus far and wish them all the best for their continuing endeavors.

The improved global economic environment is also very important for the purpose of ensuring the environment of a more balanced treatment among groups of countries of the world. In the recent past, we feel that the concentration of efforts by the international community to address the problems of the crisis-stricken emerging markets and large economies was made at a cost to other groups of countries. While appearing more accommodating to countries in crisis, the treatment given by the international community to other countries also suffering from the adverse impact of the crisis seemed to have become more rigidly orchestrated. Had a more flexible and balanced approach been followed in the recent past, the much needed financial aid flows would have been forthcoming to enable our authorities to stabilize the kip and thereby reduce inflation.

As a consequence, our already poor population and low-income public servants would have been salvaged from the intense hardship caused by the long-lasting high inflation.

We strongly believe that any efforts toward macroeconomic stabilization without the availability of financial support and assistance from the international community would not be productive, particularly in the case of a least-developed economy in the process of transition, having a very small and fragile economic base and suffering from the contagion effects of the regional crisis like the Lao People's Democratic Republic.

However, we have been very encouraged by developments during the recent months and days leading to the present Joint Annual Meetings. We welcome and fully endorse the proposals made by the G-24 countries concerning the attenuation of conditionalities attached to assistance and loans provided by the international community to countries with low level socioeconomic development. At the same time, we welcome the initiative made at the G-7 Summit in Cologne to further enhance the HIPC Initiative and the proposal to replace the ESAF by the new Poverty Reduction and Growth Facility. We congratulate those institutions, countries, and individuals concerned for their contribution to this very desirable and timely move to address the long-lasting problems of debt and poverty in the world and to an expeditious and successful realization thereof.

At this juncture, our government would like to thank countries, international financial institutions, international organizations, and nongovernmental organizations for their past financial and technical support, as well as for the investment flows that our country has received. We

strongly hope that you will continue to give us your support and assistance in the future to enable people to exit from poverty and enjoy their share of the fruits of globalization in the next millennium.

Allow me, on behalf of the Lao delegation, to wish the Chairman a glorious success in presiding over these historical Joint Annual Meetings.

LATVIA: ROBERTS ZILE

Governor of the Bank
(on behalf of the joint Baltic Group)

Let me address the honorable meeting on behalf of the three Baltic countries: Lithuania, Estonia, and Latvia.

The year between the two Annual Meetings has once again reminded us that we all are an integral part of the world economy and subject to both regional and global turbulence. This has put extra challenges to the World Bank. This also has induced the Bank to think more in long-term categories about its own financial standing. Therefore, we fully support President's position on the issue of maintaining the financial strength of the Bank. Without this, the Bank will not be able to fulfill its core mission of fighting the poverty.

We, the Baltic countries, would like to express our appreciation to the World Bank's flexibility in responding to the developments at the burning spots on the world map. We appreciate its readiness to step in with the most urgently needed and indispensable assistance. Yet, we hope that this will not cause the funds to flow away from the ongoing projects, or those in the pipeline. We hope this will not become an extra borrowing cost for the rank-and-file borrowers.

We suggest that both the Bank and the Fund develop strict criteria in order to evaluate countries' defaults. Natural disasters, business failures, and mistakes in management should be clearly distinguished from deliberate fraud and corruption. The latter deserves a very different handling and attitude. This is especially important now, when the Bank's long-term financial capacity is on the agenda.

I can say with pride that our three countries have been insistent and dedicated in pursuing the goals set by ourselves. Our own motivation, combined with the highly constructive macroeconomic monitoring and economic analysis carried out by the Bank and the Fund, has delivered good results. The financial sector vulnerability studies have helped us to focus the spotlight on the issues that need a closer analysis and care.

I believe that everybody will agree readily that the three Baltic countries are definitely in the most advanced group of the transition economies. Latvia was the first of the Baltic countries to be admitted to the World Trade Organization. Estonia has already been invited to the EU accession

negotiations, to be followed eventually by Latvia and Lithuania. All three countries intend to join the North Atlantic Treaty Organization as well.

Our countries—Latvia, Estonia, and Lithuania—have attained macroeconomic stability. It is a precondition for any government to win the confidence and support of its own nation and of the international community. The investment grade credit ratings, repeatedly assigned to our countries, are evidence of our credit-worthiness and reliability.

All the Baltic countries have demonstrated a sustainable growth over the past four to five years. However, one has to admit the impact of the global crisis. It started in Asia and extended to other regions, including the Russian Federation, and has caused certain, although limited, setbacks in the Baltic countries as well. During the past twelve months, growth has slowed down, but all three countries are still expecting a positive GDP in 1999. Long-term growth prospects continue to be optimistic. Our governments have adjusted the budgets for the remainder of 1999 to minimize deficits; the next year's budgets, under discussion right now, will be in compliance with the Fund criteria. The inflation rates are presently in the range of 2 to 4 percent. National currencies have retained stability over time. We can conclude that the external pressures have given a hard test to the durability of our structural reforms, and we are glad we have managed to pass this test.

The Baltic countries congratulate the Comprehensive Development Framework initiative launched by the Bank. We see this as an attempt to recognize the complexity and integrity of the world. An attempt to address all the factors—economic, financial, structural, and social—to support a balanced development of the countries. This matches perfectly with our intent to enhance social sector reforms and development. We believe that the local expertise on welfare, health, and education projects in the Baltic countries could be helpful to developing countries. We are ready to assist the World Bank in disseminating the lessons learned.

Our governments have always been encouraged that it is themselves, and not the World Bank, who—speaking in CDF metaphor—are sitting in the driver's seat and holding the wheel. The World Bank is only an instructor. Nor is it teaching the "ABC's" of driving—it is rather advising how to improve our driving habits and techniques. The decision of the Baltic states was a road leading to market economy and democracy, with the well-being of all people as the ultimate goal. And we have not deviated from this goal on any single occasion.

LEBANON: GEORGES CORM

Governor of the Bank

It is my pleasure to address this distinguished audience in my capacity as a member of the new government of the Republic of Lebanon that

came to office in December 1998 with a pledge to undertake a full reform of its public finance. This reform is targeting two main goals: establishing transparency and efficient governance in public spending and in the taxation system on the one hand, and addressing effectively the issue of ever-increasing public deficit that has plagued the Lebanese economy and led to an unbearable level of real interest rate, on the other.

As you may know, through its regular constitutional process, Lebanon elected a new president in October 1998. Our government that took office in December, within the framework established by President Emile Lahoud, is dedicated and committed to implementing all the basic elements of good governance and accountability. More specifically, we have pledged to abide by the rule of law, to reinforce the role of institutions, to introduce transparency in public accounts, and to ensure full disclosure of data and statistics. We are also addressing the issue of distributing fairly the tax burden among citizens, and we will attempt to stop the continuing damage to the environment.

It is our feeling that the issues of good governance and accountability, which are receiving more international support and focus, are key issues for the next century. We have to thank the Fund, the World Bank, and other UN institutions for promoting these issues and bringing them into the limelight, but more efforts have still to be made. The development of free market economies, the dismantling of cumbersome regulations, and the opening of markets to international trade and to financial flows have all created a new frontier for development but also with potential negative side effects. What has happened in certain parts of the world, in terms of economic instability, financial disruption, and abuse of public assets, shows that the global markets are indeed needing better governance and accountability to become more beneficial.

In fact, the transition to free market economies and the globalization of the international economy and financial markets constitute a difficult turning point. Neither all countries, nor all social groups inside each country, are taking advantage of global markets and more productive economic freedom. Social inequalities are on the increase in many parts of the world. Too often, globalization is associated with undue and unproductive windfall profits. State institutions are encountering many difficulties in adapting to the new role of impartial regulator of liberalized domestic markets. Low-paid and inadequately trained civil servants are not always able to resist being influenced by large private companies. However, corporate governance rules that are enforced in some countries are not being introduced or implemented in many other countries. Owing to this situation, privatization does not always yield the expected benefits for the consumer and the economy in general. This is why we believe that both the Fund and the World Bank, in their remarkable

efforts to induce member states to fight corruption more efficiently, should put the same emphasis on corporate governance in the private sector as is being put on state and public sector governance, transparency, and accountability rules. In many emerging markets, private sector companies are resisting the introduction of corporate governance and business ethics rules. Legal rules and the judicial system are not being adequately modernized and made more efficient to secure the minimum level of corporate governance to the benefit of the economy as a whole.

We in Lebanon consider that putting economic growth on a sound and sustainable basis requires clear priorities to be addressed. This is why our government has devoted its first months to producing a five-year fiscal consolidation plan to address the need to reintroduce financial discipline in public finance. After 15 years of war and 8 years of high annual deficits and a huge pile-up of domestic debt, we have developed a package of financial reforms to curb public deficits, reduce the very high and unsustainable level of domestic debt, and allow real interest rates to fall down from their very high level. This first priority is designed to allow for a come-back of private investment as the main engine of growth. During the reconstruction years, private investment has been oriented toward real estate and contracting, which has come to a stop after a few years. Oversupply in the real estate sector and the piling-up of state arrears to contractors have affected negatively the private sector, in addition to the crowding-out effect of the private sector on the credit market owing to the increasing need for public sector financing. An additional result of this situation has been the high costs of running the economy and a lack of competitiveness of domestic products, and thus an ever-increasing gap in our external current account balance.

This is why our package of financial reform is designed to cure the unhealthy situation prevailing in both the public and private sectors. We need to slim down the inflated role of the public sector in the economy and bring back domestic private investment in the various sectors of the economy at the forefront of economic development. Investment will have to be oriented toward increasing the competitiveness of the economy and diversifying its productive capacity.

Our financial reform package is based on two main components. The first is a comprehensive plan to review and modernize our outdated tax system, which is yielding only 14 percent of GDP as tax receipts, while our level of spending is above 35 percent. Our plan is to increase tax receipts to the level of 19 percent of GDP in five years while, at the same time, trimming down expenses to 25 percent of GDP. The main components of our tax reform program are the following:

- the introduction of a value added tax to replace most excise duties and reduce the very high dependence of tax receipts on custom duties that will have to be trimmed down in the future;
- the introduction of a global income tax system to replace the old system of scheduled income taxes that assess separately, and at different rates, the various sources of revenues of the tax payer;
- the modernization of the stamp duty;
- a package of tax incentives that will induce companies to invest and to upgrade their productive capacities, to open their share capital to foreign participation, and to register their capital stock on the local stock exchange; and
- the raising of the ceiling of income tax rates from the present low level of 10 percent for the higher tranches of revenues to 20 percent.

The changes in income tax rates have already been adopted by the Lebanese Parliament in the 1999 budget law. A draft law on the value-added tax will be presented to parliament before the end of the year.

The second main component of our financial reform package is privatization. Although Lebanon has never had a large number of public enterprises, there is a need to modernize public services and secure better-priced and more efficient services for the consumer, mainly in the areas of water, electricity, and telecommunications. However, in our privatization program, we want to avoid the mistakes that have been done elsewhere. It is extremely important for our government that we do not just transfer a public monopoly into the hands of a private monopoly consisting of a few large shareholders from the private sector. The aim of our privatization efforts will be to enhance competition to the benefit of the consumers, thus reducing prices and optimizing the flow of resources accruing to the State Treasury. In addition, we would like to see the largest distribution of shares among the Lebanese public so as to activate the domestic financial market and avoid any monopoly position.

To abide by transparency rules and fair competition principles, we have prepared a draft law that is now being discussed in parliament. The law states clear procedures to be implemented and requires that adequate regulatory authorities be created to supervise privatized sectors.

Our financial reform package has already produced very beneficial results on the domestic financial markets. The previous negative trends have been reverted, and interest rates on domestic treasury bills have declined by almost 2 percent. The budget deficit is being held below 40 percent, against an average of more than 50 percent in previous years, and the balance of payments has returned to a positive trend after last year's huge deficit of more than $400 million.

In addition, our government has also recognized state and public sector unbudgeted arrears piled up by the former government to the private sector. The parliament has approved the government's request to pay these arrears and allowed the ministry of finance to issue three-year treasury bills to be delivered to the beneficiaries of the arrears as payment. But we still have a long way to go to establish proper governance and transparency. Our next steps will be the following:

- determining the exact amount of arrears inside the public sector and clearing them to suppress financial distortions and unfair situations between public entities, or between the state and public entities;
- establishing a fair and acceptable tax framework. In this context the ministry of finance intends to settle old unaudited tax payers' file in an acceptable and fair way, to induce people unknown to the tax authorities to register themselves with the concerned tax department, and to review and simplify all tax procedures and suppress sources of corruption;
- setting up an efficient, fair, and transparent system for the management of the public domain in Lebanon. As in many other Arab countries, this is a big issue in Lebanon. Too often, the public domain is being leased at very low rates—when it is not being illegally occupied;
- improving public procurement procedures to secure proper competition; and
- improving expenditure control procedures by shifting the emphasis from ex-ante control to ex-post control, so as to establish a real accountability in spending procedures instead of diluting responsibilities; creating effective cost control criteria; setting a transparent management system for non-privatizable public enterprises; and establishing an adequate social network to tackle enlarging social pain and help the poor to adapt to economic and financial structural adjustment.

In our endeavor, we are very grateful for all the assistance we are receiving from the Fund, the World Bank, and the IFC. We are developing a very fruitful dialogue with all three institutions and are trying to make the best use of their experience and advice. We are very glad that the World Bank is opening an office in Beirut, and we are looking forward to more cooperation with the Bretton Woods institutions.

We do hope that all the efforts that are being developed to reinforce the architecture of the international, financial, and monetary system, as well as efforts for poverty alleviation, will be successful in the near future. We need to enter into the next millennium with a more stable and more transparent world, and a much fairer and more equitable system for the distribution of chances within the new context of global markets.

LIBYA: MOHAMED A. BAIT ELMAL

Governor of the Bank

It is a great pleasure to me, Mr. Chairman, to congratulate you, personally and on behalf of the delegation of the Great Libyan Arab Jamahiriya, for being chosen to chair the meeting of the Boards of Governors of the International Bank for Reconstruction and Development and the International Monetary Fund in its current session. We wish you all success in conducting these meetings and realizing results that will reflect the hopes that the peoples of the world pin on both of these institutions. I would also like to express gratitude and appreciation to Mr. Wolfensohn, President of the World Bank Group, for his efforts to push forward economic and social development in developing countries and for his skillful management of crises. I would also like to express gratitude and appreciation to Mr. Camdessus, Managing Director of the Fund. Despite the recent modest global economic growth, economic and financial crises still face us and their economic and social impacts still wreak havoc among numerous economies worldwide, albeit on different scales. The lesson learned from the financial crisis experienced by some countries of the world is the need to create a financial and banking system that operates under an effective and transparent oversight framework coupled with a framework of moral responsibility.

We believe that developing countries do not need capital that is intent on realizing quick profits, usually at the expense and for the detriment of the financial and economic stability of the countries involved. Developing countries need capital that is ready to contribute, along with national investments, to increased production and the development of national productive forces. Consequently, we believe that there is a need for developing and organizing means and instruments for the movement of capital among the various countries of the world. The challenges facing many countries worldwide as we approach the third millennium are reflected by escalating poverty, the spread of disease, mounting indebtedness, the ever-growing gap between developed and developing countries, as well as increased conflicts, civil war, and globalization. Such challenges make it incumbent on us to study and discuss such phenomena and their economic and social impacts on the world community at large and developing countries in particular. We need to find appropriate solutions and to mobilize adequate financial resources and proper technical assistance with a view to achieving development in such countries. Although the IBRD formulated, in recent years, programs aimed at eradicating poverty in developing countries, such programs have not been put under actual implementation so far. This will require that the IBRD take practical and urgent actions to combat such a phenomenon in the context of increasing the effectiveness of its efforts in this respect, thereby strengthening the world community's confidence in such efforts.

The concepts of globalization, partnership, cooperation, and liberal international trade—collective, bilateral, and multilateral—have led to extensive controversy between industrial and developing countries. Moreover, the promotion of globalization as the freedom of movement of goods, services, labor, capital, and information will lead to monopolization by a few countries and corporations of international trade in goods and services. It will also help giant international corporations to control global economy and to weaken the economies of developing nations in the absence of regulatory arrangements and controls. Unless such arrangements and controls materialize, developing countries will pay an exorbitant price, owing to a lack of ability to compete with developed nations. Developing countries will then be transformed into consumer markets for the products of advanced countries. From this forum, we stress the fact that the Fund and the World Bank operate, in their capacity as international institutions, in the framework of the respective Articles establishing each of them, to provide economic stability, and support development and progress opportunities in the various countries of the world. Consequently, their approach must be characterized by absolute professional objectivity removed from any political, racial, religious, or any other influences.

Experience has shown that the methods of using economic might, as exercised by some countries, in a coercive and arbitrary manner to achieve political objectives have failed. Besides being devoid of any moral justification, such methods are not in agreement with the requirements of economic freedom in the world. They have proved to be, in principle, detrimental to the interests of all the parties involved.

Finally, it is true that the economies of many countries—particularly developing countries—experienced crises in the decade. But my country, as you all know, depends entirely on a single and nonrenewable source of income (i.e., oil) whose prices fluctuate sharply from time to time. Yet, we have paid increased attention for a long time to the diversification of our country's income and the identification of alternative non-oil sources of income. In this respect, my country invested its oil revenues in implementing infrastructure projects, establishing numerous agricultural and industrial projects, providing public services, particularly in the education and health care sectors, and creating new job opportunities for residents.

Despite the major challenges that my country had to face over the recent years, we succeeded in maintaining an appropriate standard of living for our citizens and in achieving a remarkable rate of growth in GDP in the various non-oil economic sectors of activity. The achievements that my country accomplished in this respect would not have been realized had it not been for the desire to establish strong economic ties with various countries in the world, based on the principle of mutual and

reciprocal respect and the achievement of benefits and interests in common among countries, in addition to continued cooperation with the various regional and international economic and financial institutions. In conclusion, allow me to express gratitude and appreciation to you again for providing this opportunity for me to address this honorable meeting. I wish you all success and good results. Peace be with you.

MADAGASCAR: TANTELY R.G. ANDRIANARIVO

Governor of the Fund
(on behalf of the African Governors)

I have been given the honor and privilege of sharing with you, on behalf of my fellow African Governors, Africa's achievements in establishing macroeconomic stability and an appropriate environment for sustained growth as a necessary condition in its fight against poverty, which continue to be our priorities as we approach the new millennium. Africa is now at a crossroads in its history, and we must move forward resolutely toward its successful integration into the global economic and financial system. This is a joint responsibility that begins with the reform efforts of the African countries, to be complemented by the international community, if Africa is to make its rightful contribution to global prosperity. We are convinced that this approach to international cooperation will open the way to a peaceful, equitable, and stable world economic order.

On our part; our countries have been implementing deep economic and structural reforms with the support of the Fund and the World Bank. We have embarked on political pluralism, which is contributing to greater accountability and transparency, and the private sector has been given a pivotal role as the engine of growth. We are hopeful that the encouraging results achieved in recent years can be sustained and improved, with the help of the international community. Our economies face tremendous development challenges that will require strengthened cooperation with the international community. These include, inter alia, financing development and poverty reduction in the face of declining resource flows, the high instability of Africa's export earnings, the debt burden, Africa's marginal role in the international financial system, the threat of the HIV/AIDS epidemic, and weak human and institutional capacity.

Financing Development

In order to achieve a significant reduction in poverty, Africa requires an average annual real growth rate of at least 7 percent over a sustained period, which calls for a substantial increase in the investment rate.

Given Africa's low level of savings and the reduction in official development assistance and in foreign direct investment, a major effort is needed to mobilize resources necessary to support this ambitious growth objective. Greater public savings can be mobilized through improved tax administration; prudent monetary policy and increased financial intermediation can also help promote private savings. However, much of the needed resources will still have to come from foreign savings.

Given the low level of income in most of our economies, external financing should be on concessional terms. In this context, we welcome the twelfth replenishment of the International Development Association (IDA-12), which has increased the association's capacity to respond to Africa's needs in the areas of poverty reduction, investment in human capital, the environment, and private sector development. Africa's current economic recovery- and its continued commitment to reform-should constitute grounds for increased development assistance. In this context, we urge the donor community to reach a timely agreement on the funding of the ESAF, so that it can focus more on growth and poverty reduction. We also call for adequate provision of international technical and financial assistance to post-conflict countries, including those in arrears to multilateral institutions.

In assuming greater ownership of our economic programs, we have given increased emphasis to transparency, accountability, poverty reduction, and social safety nets, as well as regional integration. We look forward to the continued support of the Bank and the Fund in this endeavor, and encourage them to play a catalytic role in the matter of resource mobilization. In this connection, we urge the Fund and the World Bank to increase their partnership with the donor community and to enhance collaboration in support of these objectives.

The increased uncertainty about emerging markets in general that has resulted from the recent financial crises has had an adverse effect on the ability of African countries to attract private capital. However, tremendous investment opportunities have been opened up through greater economic integration, continued economic and structural reforms, the establishment of an investment-friendly environment, and the consolidation of the rule of law. We therefore expect to attract greater flows of foreign private capital into Africa in the near future.

Export Diversification

The continuing decline in commodity prices has highlighted the vulnerability of our economies to external shocks, leading to significant losses of real income. So far, African economies have coped with the deterioration of the terms of trade and the international financial crisis by strengthening their adjustment effort. This has not been an easy task. In this connection, we welcome the International Task Force on Com-

modity Risk Management in Developing Countries, recently established by the Bank, to seek market-based hedging mechanisms that could reduce Africa's vulnerability to commodity price fluctuations and increase the predictability of export revenue flows.

If commodity prices were to remain depressed, domestic adjustment policies would reduce economic activity and dramatically increase poverty. We believe that our adjustment efforts need to be complemented by concessional external financing. However, the long-term solution for commodity-exporting economies lies in the diversification of exports and of export markets. This requires that industrial countries liberalize their markets for African exports in areas where our economies have a comparative advantage.

The Debt Problem

In addition to the development financing problems, the economic expansion of Africa faces a major handicap, namely, its heavy debt burden, which absorbs over 50 percent of government revenues in most countries. Most of the heavily indebted low-income countries are in Africa, which calls for special attention. Creative solutions need also to be found for the debt burden of middle-income countries. There is a danger that, unless debt cancellation or substantial debt relief is granted, any potential for high economic growth expansion in Africa will be further jeopardized.

The launching of the HIPC Initiative in 1996 by the Fund and the World Bank had raised hopes for a comprehensive solution to the debt problem. However, so far, only two African countries (Uganda and Mozambique) have benefited from it. We reiterate our call for a fundamental change in its structure and for a relaxation of the eligibility criteria so as to include a larger number of countries. Funds released through debt reduction would enable our countries to allocate additional resources to the development of the social sectors and to poverty reduction. We welcome the recent initiatives to reduce further the debt burden of the poorest countries, so as to foster sustainable development. In particular, we welcome the recommendations of the Group of Seven in its recent Cologne Summit and the global consensus for reform. We therefore urge a rapid implementation of the modifications to the HIPC Initiative as approved by the Boards of the Fund and the World Bank. We are well aware that the proposed reforms would entail additional costs, and we support the ongoing efforts by the international community to secure financing in the context of an appropriate burden-sharing arrangement. We would like to emphasize that enhanced debt relief should not be provided at the expense of Official Development Assistance funding or IDA operations.

Africa and the International Financial System

Since the Asian crisis—the repercussions of which appeared to threaten the stability of capital markets throughout the world—African countries have shared the view that, although the consequences of the crisis have been contained, the financial sector should be extensively reformed. Our efforts are being directed to crisis prevention through strengthened supervision, increased surveillance, improved transparency and implementation of internationally recognized standards, so as to detect weaknesses in a timely manner and protect our economies against the adverse effects of any similar crises.

In this connection, we welcome the recent creation of the Financial Stability Forum (FSF), which should contribute to the establishment of a sound and stable international financial system. We call for an extension of the FSF's membership to include developing countries and urge the FSF to ensure that African countries and their views are suitably represented during its deliberations. Similarly, African governors insist that the relevant organs of the new international financial system maintain a constituency-based structure that is representative of member countries. This would increase the chances that solutions to crises will be reached through consensus.

We believe that the integration of our economies into the international financial market is a precondition for harmonious integration into the process of globalization. However, the liberalization of capital movements should be done within a sound macroeconomic framework and should go hand in hand with the development and strengthening of our financial systems.

The HIV/AIDS Epidemic

In Africa, as highlighted in the recent meeting in Lusaka, more than anywhere else in the world, the scourge of HIV/AIDS epidemic has spread with alarming speed. According to United Nations statistics, 22 million Africans are living with HIV/AIDS, and more than 11 million have died of AIDS. Last year alone, 4 million Africans were infected, and in at least four African countries one adult in every five is living with the HIV virus. At this rate, and given the fact that it is the young, and therefore the most productive, who are the most vulnerable, it is sadly obvious that the disease poses a threat to the continent's economic development.

In these circumstances, a concerted effort must be launched, both within and outside Africa, by the entire international development community to eradicate this scourge.

Capacity Building and Technical Assistance

Africa regards its human resources and institutional capacities as the basis for securing sustainable development. In this regard, we urge contin-

ued donor support for the recently established Partnership for Capacity Building in Africa (PACT); in particular, we call upon our development partners to contribute to the PACT Trust Fund.

Africa is reforming its policies, its structures, and its institutions. African countries are also willing to implement transparency codes and appropriate standards in the context of the new international financial architecture, and are preparing to deal with the Y2K computer problem. We are concerned that this Y2K problem could disrupt economic activity in a wide range of sectors. To this end, assistance from the Fund, the World Bank, and the international community in human and financial resources is desired. However, we are of the view that these new demands should not be addressed at the expense of traditional technical assistance.

Conclusion

Economic reform efforts of African countries have produced some positive results. However, much remains to be done to achieve sustainable development. We are determined to redouble our adjustment efforts and to strengthen our regional integration process, and, therefore, call for the coordination of economic policies at the international level so as to revive the global economic activity. We are confident that, as we enter the new millennium, Africa can start reaping the fruits of its economic, structural, and political reform efforts. However, sustained growth will require a steady development of our human resources, effective HIV/AIDS prevention and care programs, increased concessional and private capital flows, debt cancellation or substantial debt relief, and increased access to export markets. We trust that we can count on the continued support of the international community and thus ensure a successful integration of African countries into the global economic system.

MALAYSIA: DATO' MUSTAPHA MOHAMED

Governor of the Bank and the Fund

When we gathered here last year, the growth outlook for the crisis-affected East Asian economies was gloomy. Since then, economic conditions in these economies have improved markedly and there is greater optimism that the worst may finally be behind us. Reflecting this, there have been upward revisions in growth projections for East Asian economies. Similarly, prospects for world growth have also been revised upwards.

In September 1998, Malaysia imposed selective exchange controls in order to prevent further internationalization of our currency, the ringgit, and restore stability in the financial market. In the past year we have

used this window of opportunity to strengthen the fundamentals of the Malaysian economy. The banking and corporate sectors were restructured. We adopted an expansionary monetary and fiscal stance to prevent further contraction of the Malaysian economy.

Despite the severe criticism leveled at us when we first adopted selective exchange controls, the unorthodox measures have yielded positive results as they provided the stability required for recovery measures to be effective. What is perhaps most significant is that the economic recovery was achieved with minimal social costs to the most vulnerable segments of society. Unemployment remained low, and poverty did not increase significantly. Our experience has shown that the standard Fund policy prescriptions introduced during the earlier part of the crisis did not work for Malaysia.

We are encouraged by the progress that we have made so far. Our GDP grew by 4.1 percent in the second quarter after five consecutive quarters of negative growth. Malaysia's economic recovery reflects broad-based strength and is expected to be sustainable. Key monetary aggregates have improved, and the multiplier effects of a more expansionary stance have begun to manifest themselves more strongly. Economic recovery was also stimulated by the strong export growth that we have enjoyed for eight consecutive quarters. This followed the large monthly trade surpluses we have registered for twenty-one consecutive months since November 1997. At the same time, there has been a significant revival in private consumption. The fiscal stimulus package further reinforced the expansion in domestic activities. Meanwhile, Malaysia's balance of payments continues to be in substantial surplus, and the external reserves position has improved significantly from 3.8 months of retained imports in August 1998 to 6.8 months at end-August, or $31.3 billion, four times larger than the nation's short-term external debt. The total external debt remained manageable at about 59 percent of GNP. Our debt-servicing ratio remains low at 6 percent.

The return of stability to the financial markets allowed Malaysia to liberalize the exchange controls within six months of its implementation. In February 1999, a graduated exit levy was introduced to allow funds to be repatriated freely. Subsequently on September 21, the two-tier levy system was streamlined. The expiry of the 12-month holding period for portfolio funds on September 1, did not result in a major exodus of foreign funds.

At the onset of the crisis, the Malaysian banking system was at its strongest, with the RWCR at 12 percent, while nonperforming loans (NPLs) were at a low of 3 percent.

The financial sector was less affected by the crisis, primarily because a sound and relatively well-developed financial infrastructure was already in place. This reflected the results of earlier comprehensive reg-

ulatory changes to restructure the financial system, following the recession in the mid-1980s. Such measures included a new Banking and Financial Institutions Act, with stringent prudential regulations on connected lending. Over the past decade, continuous measures were implemented to keep in line with international banking standards. In addition, Malaysia had in place an adequate bankruptcy legislation and corporate governance structure.

During the crisis, Malaysia adopted a preemptive strategy to address emerging problems in the banking sector, well before they reached serious levels. The institutional framework was established early in the crisis to address the emerging problems of NPLs and recapitalization of affected banking institutions. Because of the preemptive measures, Malaysia could effectively use the period of stability accorded by the selective exchange controls to accelerate the pace of financial and corporate restructuring, which helped to hasten the economic recovery process.

The asset management corporation, Danaharta, has made significant progress, with its initial acquisition phase completed six months ahead of its target. To date, Danaharta has acquired and managed a total of RM 39 billion worth of NPLs from the financial system. Of these, RM 29 billion were from the banking system, accounting for 35 percent of total nonperforming loans in the banking system. With the carve-out of NPLs by Danaharta, the net nonperforming loans of the banking system had eased to 7.9 percent of total loans (RM 29.7 billion) at end-June 1999, based on the six-month NPL classification period, and (12 percent) on a three-month basis.

With the completion of the purchase of NPLs, Danaharta has embarked on its loan and management process and this is progressing well. To date, Danaharta has met with 1,732 borrowers with NPLs amounting to RM 38 billion. Approximately 2 percent of these accounts have been regularized or fully settled, while 423 borrowers with loans of RM 10.3 billion (representing 27 percent of total loans under management) have submitted their restructuring proposals. These proposals are at various stages of evaluation. In total, Danaharta has initiated recovery with 61 percent of the borrowers.

On asset disposal, Danaharta conducted a restricted open tender on July 5, 1999 to dispose of its foreign loan assets, which comprise nonringgit loans and marketable securities extended to or issued by foreign companies amounting to $142.82 million. The recovery rate on this loan was 55.3 percent.

At the same time, Malaysia has recapitalized 10 banking institutions. With the economic recovery, however, the capital position of some of the recapitalized banking institutions has improved and consequently, total investment by Danamodal, the special purpose vehicle set up to recapitalize financial institutions, had declined from RM 6.2 billion to

RM 5.9 billion. This amount is substantially lower than the initial estimate made a year ago of RM 16 billion needed to recapitalize banking institutions. With the capital injection from Danamodal, the risk-weighted capital ratio of these banking institutions had strengthened to 13.3 percent at end-July from 9.9 percent at end-September 1998.

The Corporate Debt Restructuring Committee (CDRC) has made good progress in its debt-restructuring exercise for the larger debts. Currently, CDRC is in the process of working out the restructuring schemes of 39 applications involving debts worth RM 20.9 billion, while the debt restructuring schemes for 10 applications have been completed and are at various stages of implementation. In addition, the restructuring of corporations is also being implemented by merchant banks and Danaharta in the process of managing the NPLs.

While we are heartened by the progress that we have achieved thus far, we are mindful that sound domestic policies alone are not enough. Adverse external factors can negate good domestic policies. It is for this reason that reform of the international financial architecture is of great urgency to reduce the impact or avert future crises.

The globalization of financial markets has been the outcome of concerted efforts to free trade in goods and services. The greater liberalization of trade flows has created much wealth to exporting countries. This has resulted in owners of this wealth seeking to maximize returns on their capital. Unfortunately, the absence of prudential rules to guide the profit-maximizing behavior of owners of capital has significantly negated much of the benefits of free capital flows. In the case of trade, the push toward free trade was matched by adequate rules on market-opening measures and procedures for dispute settlement. In contrast, the push to liberalize capital movements has not been matched by a parallel move to develop rules to safeguard economies from the adverse consequences of market excesses.

In the absence of rules to manage capital flows, small emerging market economies have become extremely vulnerable to volatility. The global financial system clearly does not provide a level playing field, as large players can effectively corner and manipulate small markets with impunity. In our view, reforms are needed to safeguard the interests of small emerging markets so that they will not be subjected to the predatory tendencies of large market players.

It should also be noted that in spite of the best institutional framework, small countries can be completely overwhelmed by a liberalized capital account framework. Without a parallel institution at the international level, countries may be forced to resort to more inward-looking policies in order to protect incomes and employment.

The recent Group of Seven initiatives, particularly the establishment of the Financial Stability Forum and its working groups, represent an

important step forward. However, given the restrictive nature of this forum, the concerns and interests of small emerging market economies have not been adequately addressed. This is further aggravated by the exclusion of smaller economies in the Group of Twenty (G-20) that was set up over the weekend. None of the ASEAN countries has been included, although their economies are open and well integrated into the global financial system and have been the major victims of the crisis. We urge for an expanded membership in the Financial Stability Forum and the G-20 to ensure greater acceptance and ownership of the recommendations of both these fora.

Current efforts on the new architecture need to consider options for some form of indirect and direct regulation of highly leveraged institutions, in addition to measures to enhance the transparency of their operations. Given the increasingly important role of the private sector in the global economy, a more balanced approach to the issue of transparency and disclosure by both the public and private sectors is essential. Ongoing efforts to promote greater transparency of government operations must be complemented by a mechanism to strengthen the surveillance and transparency of private sector market participants that are of systemic importance to guard against market failure. Consideration of the issues associated with managing volatile capital flows should include both debt as well as non-debt-related flows. Lest we forget, let me remind you that the Asian crisis was largely due to the non-debt-creating capital flows by the private sector.

In addition to extending disclosure requirements to the private sector, we also need a global mechanism to supervise international financial markets. Such a global regulator would ensure the orderly functioning of the international capital markets and compliance with measures to inhibit cross-border manipulative activities in financial markets and design rules against the cornering of financial markets, circuit breakers, and appropriate international standards for financial institutions.

The experience in the past two years indicate that small countries are most vulnerable to liberalization. It is our view that they should not be coerced into accepting capital account liberalization at any cost. Instead, they should be allowed to liberalize at a pace commensurate with their stage of development. Liberalization of the capital account should not be part of Fund conditionality. Malaysia believes that a more productive approach is to create a conducive environment, which would serve as an incentive for countries to liberalize their capital accounts. This requires stable financial markets that would make it "safe" for countries to open their capital accounts.

In our view, any expansion of the Fund's jurisdiction over the capital account should await the outcome of discussions in various international fora on reform of the international financial architecture. The issue of

Fund jurisdiction over capital movements can be revisited at a future date. At this juncture, the priority should be ensuring a sustainable recovery in the crisis-affected countries and on reforming the architecture of the international financial system to restore stability and order in global financial transactions.

While prospects for recovery have improved, indicators show that global poverty continues to worsen. Extreme poverty, as measured by the proportion of the population living on less than $1 a day, has been increasing over the years, and progress in meeting the goals set for poverty reduction and elimination has been limited. Against this background, Malaysia believes that the international community, including the Bank and the Fund, need to reexamine current strategies and policies to redress poverty.

In this regard, we welcome the ongoing efforts to modify the ESAF and HIPC Initiatives through the simplification of its conditionalities as well as enhancing its accessibility to more heavily indebted poor countries. While Malaysia believes that countries should settle their debt obligations, this new ESAF-HIPC Initiative would provide breathing space for them to use their limited resources to undertake social spending to reduce poverty levels.

In concluding, let me reiterate the importance of addressing issues of liberalization and globalization and their impact on small open economies. Given the vulnerability of these economies to the risks arising from globalization, we need to move forward aggressively to achieve better progress in reforming the international financial architecture. In this, the voice of developing countries that are most vulnerable to destabilizing capital flows is important. In pushing for liberalization and globalization, let us not forget the adverse implications of such a policy on small economies. We do not want globalization and liberalization to further aggravate the sufferings of smaller developing economies. We urge the international community to be mindful of the adverse consequences that globalization and liberalization may have on these economies whose success in providing a better life for their citizens has fallen far short of expectations. Let us redirect our efforts to eliminate poverty and humanize globalization.

MALTA: JOHN DALLI

Governor of the Bank

It is a pleasure and an honor for me to address once again the Annual Meetings of the Fund and the World Bank.

We are pleased to note that the outlook for the world economy has improved considerably over the last year. Most of the economies that

were seriously affected by the international financial crises are showing strong signs of recovery, while those that emerged relatively unscathed from the crises have managed to maintain a steady rhythm. It is encouraging to observe that forecasts for world economic growth in 1999 have been revised upward, and prospects for the year 2000 are definitely brighter than they were a year ago. The developments over the past year have also demonstrated that governments in major economies were able to respond to the international financial crises in a rapid, concerted, and determined manner. This ensured that a potentially prolonged and severe economic crisis, which could have had serious repercussions on developing countries, was generally averted.

The financial crises in Asia, the Russian Federation, and recently, Brazil has also highlighted the important role that the Fund and the World Bank are playing in strengthening the architecture of the international financial system. We are convinced that the outcome would have been very different today had it not been for the effectiveness of both the Fund and the Bank in tackling the crises. In this regard, we are glad to note that the collaboration between the two institutions has been enhanced, especially where this is related to the monitoring of member countries' financial systems. The Fund has continued to stress the importance of surveillance and transparency in economic policymaking. It is essential that policy processes are as transparent as possible, as greater transparency helps to improve both the quality and the timeliness of decision making by both international institutions and member countries. The development by the Fund of a Code of Good Practices on Transparency in Monetary and Financial Policies is certainly a major step forward, as it promotes more transparent institutional arrangements. We believe that transparency and accountability are the key factors that need to be in place before structural reforms are undertaken. Otherwise any institutional arrangements would tend to lack credibility and, hence, the authority to carry out the necessary changes. My country has adopted a number of measures in recent years to strengthen accountability and transparency in the financial sector. Apart from putting in place various pieces of legislation to ensure high ethical standards as far as financial operators are concerned we have also strengthened the powers of the government auditor to carry out investigations and the powers of parliament to examine in detail the activities of various public financial agencies.

Malta fully supports the Fund in its efforts to further enhance the standards of economic and financial data published by members. We are monitoring closely developments of both standards for data dissemination established by the Fund. While at present we have decided to participate in the General Data Dissemination System, it is very much our intention to subscribe to the Special Data Dissemination Standard as

soon as possible. We are in the process of upgrading our statistical agencies to improve the quality and integrity of our data. In recent months we have set up a number of task forces to enhance the method of statistical compilation where government finance statistics and the balance of payments are concerned. In this regard we are grateful to the Fund's Statistical Department for providing us with technical assistance in both these fields.

We have observed also that the Fund has taken new initiatives to strengthen the transparency of the surveillance process. Members are being encouraged to release more information on the discussions that take place at Executive Board level after Article IV consultations have been conducted by the Fund with member countries. Malta recently agreed to participate in the Fund's pilot project under which member countries voluntarily release the Fund staff report prepared by the Fund at the conclusion of Article IV consultations. As a result, Malta was among the first group of countries to release the staff report to the media in Malta early this summer.

Our policy of openness and transparency is consistent with our overall strategy, which is to modernize and upgrade our economic structures ahead of accession to the European Union. We are taking action on all fronts, particularly in the financial sector, which has been liberalized almost totally. Interest rates now move in line with market forces and the central bank is free to formulate and implement monetary policy. Our banking sector has recently been enhanced by the participation of a large international bank that has purchased one of the largest commercial banks in the country after this was privatized by the government. All financial institutions in Malta are supervised actively by the competent authorities, and it is my government's intention in the near future to consolidate all supervisory functions under a single financial services regulator. An important step over the next three years will be to complete the process of capital control liberalization. This will enable the Maltese financial markets to integrate closely with the large and deep European financial markets, particularly in the light of the rapid developments of these markets following the introduction of the single currency, the euro.

Malta is fully aware of the benefits of having a liberalized capital account and is conscious that such a condition is essential for membership in the European Union. However, having observed the experiences of a number of countries with capital account liberalization, we feel that we should proceed cautiously and not get carried away by the attraction of unlimited capital inflows. The implementation of sound and consistent macroeconomic policies, together with the attainment of a sustainable position on the current account of the balance of payments, are necessary preconditions for full capital convertibility. Thus before capital controls are completely relaxed, we will aim at achieving much more

stability in our economy by first addressing the structural imbalances, particularly in the fiscal sector.

Following the revival of its application to join the European Union, Malta is currently undergoing a screening process prior to the commencement of negotiations for membership, which will probably start early next year. Our aim still remains to join the EU as part of its next enlargement process. In this regard, Malta is rigorously pursuing policies aimed at restructuring the economy in line with EU requirements. This includes the reduction of the fiscal deficit, maintaining public debt at a sustainable level, and keeping inflation in line with that of our major European trading partners. As part of an overall strategy, the Maltese government has reformed its tax collection strategies and reintroduced the value added tax. It has also embarked on a program for the removal of government subsidies, the abrogation of protective levies, and the gradual abolition of monopolies, as well as the privatization of public sector enterprises. Privatization is expected to contribute positively to efficiency in the economy, and so it is the intention of the government to embark on a long-term program of privatization. A strategy document on the privatization process has recently been prepared with the assistance of World Bank experts, and this is expected to be presented for discussion in parliament in the next month.

The small size and vulnerability of our economy necessitates constant vigilance and an effective economic strategy to counter external shocks. We recognize clearly the need to upgrade continuously and strengthen our economic structures in order to compete effectively in the international environment. However, while the main focus of our attention is our own internal development we are concerned about the plight of the highly indebted developing countries and are willing to support all measures that contribute toward their developments particularly if this takes the form of debt relief or concessional finance.

In this regard we are pleased to observe that the Interim and Development Committees of the Fund endorsed a strengthening of the current framework of the Initiative for Heavily Indebted Poor Countries to provide deeper debt relief in a way that strengthens the incentives to adopt and implement economic and social reform programs, and provides a clear exit from unsustainable debt burdens. We also noted with satisfaction that this item stood high on the agenda of the Cologne summit of heads of governments of the Group of Seven countries in June 1999, which pledged their full support to this initiative. On its part, Malta despite its limited resources has agreed to contribute to the HIPC Initiative by contributing the balance held in the second Special Contingent Account, after having made these funds available as an interest-free loan for the past two years. Malta has always sought to contribute to such Fund assistance programs and, in the past, has granted credit at low interest rates to the ESAF subsidy account.

We are also satisfied that the Fund has agreed to provide Contingent Credit Lines as a new instrument of crisis prevention for member countries with strong economic policies, when faced with potential balance of payments problems from international financial contagion.

In conclusion, I would like to thank the managements and staffs of the Fund and Bank for their continued support and wish them all success in their operations. Finally, I would like to express my country's appreciation for the assistance and advice that is provided throughout the year by the Executive Directors who represent Malta on the Boards of the Bank and the Fund.

MAURITANIA: MAHFOUDH OULD MOHAMED ALI

Governor of the Fund
(on behalf of the Arab Governors)

I am honored to speak today on behalf of the Governors representing the Arab members of the World Bank Group and the International Monetary Fund, and I would like to begin by extending my congratulations on your selection as this year's Chairman of the Boards of Governors.

At our Annual Meetings this year, we are pleased to note the success that the international community has achieved in containing the adverse effects of the series of financial crises that caused great damage to the economies of Southeast Asia, then spread to Russia and a number of Latin American countries, in particular Brazil. The people of these countries witnessed a large reduction in the growth rates of their economies, a significant increase in unemployment, and a sharp decline in their standards of living. Yet despite all these difficulties, the Asian countries affected by the crisis diligently implemented ambitious reform programs aimed at restructuring their economies, and within a relatively short period of time, succeeded in restoring confidence in world financial markets and achieving positive real growth rates. Brazil also implemented a difficult structural reform program, which helped restore stability to its financial markets. As for Russia, we hope that the authorities will proceed quickly to implement the comprehensive reforms necessary to revive the economy. The situation has also improved in other parts of the world, such as Japan, whose economy shows signs of recovering after a long period of stagnation, and Europe, where economic growth rates are expected to increase. In the United States, the economy continues its exceptional performance, accompanied by general price stability.

Yet despite the recent marked improvement in the world economic environment, a number of latent dangers remain that could hinder continued increases in world economic growth in the foreseeable future.

These dangers are largely related to an expected slowdown in the American economy. The international community hopes that other regions of the world, particularly Europe and Japan, can achieve sufficient increases in the growth rates of their economies to compensate for the slowdown in growth in the United States and ensure continuation of the current revival of the world economy. At the same time, we are aware that this reform process could also result in great fluctuations in the prices of the principal currencies, which could pose a threat to the soundness and stability of world financial markets. This danger will increase if the expected slowdown in the U.S. economy occurs suddenly, as a result of overly strict monetary policies enforced by the authorities or a sudden correction in the stock market, among numerous other factors that affect the U.S. economy.

It goes without saying that the international community places great importance on the economic policies adopted by the major industrial countries, given their tremendous effect on the degree of stability that will accompany the expected reform of the world economic system. We therefore call upon these nations to adopt appropriate policies to protect the world from the latent dangers currently facing the world economy. We call upon the U.S. monetary authorities to follow closely developments in the stock market and take them into consideration in determining monetary policies. We hope that the European authorities will hasten to intensify structural reforms, especially in their labor markets, to stimulate growth in their economies. In Japan, it is hoped that the authorities will continue their expansionary policies to stimulate growth of the country's economy while continuing to implement important structural reforms in the banking sector, which have recently begun to produce positive results.

I would now like to turn to a discussion of the initiatives proposed to strengthen the international monetary and financial system, in order to control outbreaks of future economic crises and the adverse effects that they produce.

We wish to assert first of all that, while we acknowledge the advantages of the globalization of financial markets and its effect on developing countries through the transfer of private capital and support of their development efforts, we must also acknowledge that the recent financial crises warned the international community of the dangers of premature capital account liberalization in developing countries, as well as the importance of strengthening the financial and banking sectors to ensure that they are well established, before proceeding to liberalize the capital account.

We support the efforts of the Fund to assist member countries in controlling short-term capital flows, which we believe played an important role in the outbreaks of recent financial crises. We also support the

Fund's efforts to create mechanisms to help reduce dependence on these flows as a source of financing, and to stimulate long-term capital flows, especially those related to foreign direct investment.

We call on the Fund to expand and complete its study concerning systematic capital account liberalization in order to help developing countries determine the appropriate pace for liberalizing their accounts, and to take appropriate measures to maximize the benefits obtained from capital inflows and reduce the possible adverse effects upon their economies. It is important to take the particular circumstances of each country into consideration in determining the appropriate pace and phases for liberalizing their capital accounts.

We welcome the efforts of the Fund and the World Bank to help developing countries strengthen their financial and banking sectors, and we call on them to give greater importance to technical assistance in this area, focusing on the establishment of adequate precautionary measures to help the economies of these countries absorb the shocks that may result from fluctuations in capital flows.

We also welcome the Fund's increased interest in developing and publishing internationally accepted economic regulations and standards, while we stress the importance of taking into consideration the particular circumstances of each member country and how they affect its ability to comply with these standards. Technical assistance from the Fund is necessary to help member nations publish and comply with the standards that are applicable to them, although we have some reservations concerning attempts to make the Fund responsible for monitoring the application of standards not directly related to its area of specialization. We would also like to mention the strong interest of the Arab countries in improving the management methods of their public and private institutions, and in taking the required measures to comply with the principles of transparency and accountability.

We applaud the efforts of the Fund to get the private sector involved in reducing the likelihood of future financial crises and sharing the burden of handling such crises when they occur. It is also important to improve surveillance of the international activities of private financial institutions in the advanced countries, and to require these institutions to publish accurate data on their activities, in particular their high-risk activities.

The Arab countries support international efforts to reduce poverty and improve living standards among the world's poorest. The assistance provided to the poorest countries by the countries and institutions of our region testifies to the importance we attach to this goal. We support in particular the international initiative to reduce the debt burden of low-income countries, and we welcome the recently proposed measures to increase the amounts of assistance provided and to accelerate the deliv-

ery dates, while strengthening the link between debt forgiveness and the requirement that countries take the necessary steps to reduce poverty within their borders. We also support the recommendation of the Group of 24 concerning the future expansion of this initiative to include highly indebted countries with mid-level incomes. We believe that the World Bank should take the leading role in implementing this initiative, as it is the institution with considerable experience in developing and implementing social policies aimed at reducing poverty. Close cooperation between the World Bank and the Fund is essential in order to distribute the tasks appropriately on the basis of each institution's area of specialization, to ensure that the objectives of this initiative are achieved in the optimal manner.

The success of this noble initiative naturally depends on its receiving adequate funding. We support the international financing plan that includes selling a portion of the Fund's gold reserves and investing the proceeds of the sale. A large number of Arab countries, both oil producers on non-oil producing countries, are willing to help finance this initiative to the extent they are able, while maintaining the financial soundness of the Arab funds and other institutions concerned.

As was the case in other regions of the world, the Arab countries did not escape the adverse effects of the financial crises of 1997 and 1998. The decline in world demand for oil and the sharp fall in prices led to a marked reduction in resources available to the governments of the oil-exporting Arab countries and a corresponding reduction in their economic growth rates, especially in 1999, despite the fact that oil prices began to rise again last March. Although oil prices have risen lately, their actual levels still remain below the average rate over the past 10 years.

The oil-producing Arab countries have confronted this significant decrease in revenues by intensifying their efforts at economic reforms aimed at reducing the deficits in government budgets and the balance of trade, by reducing expenditures, diversifying the sources of government revenue, and privatizing public projects. They have also increased their efforts to diversify the base of economic activities to reduce the effect on their economies of fluctuations in world oil prices. These efforts have included additional structural reforms aimed at encouraging private sector participation in various economic activities, including such infrastructure components as communications, electricity generation projects, water systems, and construction and management of airports and seaports, in addition to attracting foreign investments. At the same time, a number of oil producing Arab countries are making concentrated efforts to develop financial market systems in order to increase participation by foreign investors.

The adverse effects of the successive world financial crises have not spared the non-oil-producing Arab countries, which have witnessed a

general reduction in capital inflows and demand for their exports, along with a significant increase in the size of their imports, owing to the fall in prices of imports from the countries hit by the crisis. These developments have had an adverse effect on the balance of payments in many countries of the region, although the economic reform policies and structural reform programs being implemented in these countries since the beginning of the decade have helped to reduce the severity of the effects of the world financial crisis upon them. These policies and programs, which are currently being intensified, have produced a marked improvement in the investment climate in these countries, which has in turn helped to increase private sector participation in economic activities. Important progress has also been made in privatizing public enterprises in many Arab countries, and private sector participation in various infrastructure projects has increased in a number of sectors. The banking sector in many Arab countries has been developed by strengthening bank supervision systems and updating regulations for trading in the stock market, to achieve the required transparency.

Regional cooperation among the Arab countries was enhanced last year, as a reduction of customs tariffs was implemented within the framework of the Greater Arab Free Trade Zone agreement, starting in January 1998, to stimulate development in the Arab countries. Partnership agreements were also signed between a number of Arab countries and the European Union, which we hope will help attract investments to the region and increase exports from Arab countries to foreign markets.

I would now like to discuss a number of topics that concern the World Bank Group. The past fiscal year was characterized by a continued improvement, both quantitative and qualitative, in the Bank's activities. Loans and credits increased compared to the past year, and a larger percentage of projects achieved their development targets. Agreement was reached last year concerning the twelfth increase in the resources of the International Development Association, and the Bank's net income also increased.

Last year the World Bank Group participated in confronting the current challenges on a number of levels. Loans and credits increased considerably compared to amounts granted during the past two years, and assistance has been focused on promoting policies of reform and open markets, supporting the private sector, and providing relief to the poorest sectors of society. Borrowing countries in our region obtained loans and credits for projects in critical areas including human resource development, management systems, the agricultural sector, social services, and water resources. The Bank also provided technical services and sponsored research aimed at developing various aspects of economic and financial policy and benefiting from the exchange of experiences. The International Finance Corporation and the Multilateral Investment

Guarantee Agency also continued their activities focused on supporting the private sector.

We applaud these efforts and call for a continued focus on assistance in priority areas for the borrowing countries, as well as expansion of the World Bank Group's activities to include countries that have not received assistance from the Bank for many years. We also call for continued assistance to the Palestinian Authority to develop its infrastructure and improve the living standard of the Palestinian people, as well as technical assistance to the non-borrowing Arab countries. We hope that the International Finance Corporation and the Multilateral Investment Guarantee Agency will likewise expand their activities to include a wider range of beneficiaries.

With respect to the policies of the World Bank Group in the foreseeable future, we call for increased efforts to reduce poverty, given the limited success that has been achieved to date, and a focus on long-term projects, along with continued efforts to achieve tangible results through development activities and projects. We call for efforts to reduce the debt burden of the largest number possible of low-income countries and assistance to developing countries—including Arab countries—to help improve their position in the upcoming trade negotiations in Seattle. With respect to the Comprehensive Development Framework project, we would like to see a verification of its feasibility at the trial stage, with due consideration given to the particular circumstances and degree of readiness of each country. As for the Bank's financial situation, we commend the negotiations currently begin conducted by the Executive Board and the Development Committee, and we look forward to the recommendations they may produce for strengthening the Bank and its financial position.

We applaud all these positive developments and the efforts of the World Bank Group in a period of difficult and complicated world circumstances. At the same time, we wish to emphasize that the principal objective of the Group—the reduction of poverty—remains a distant goal, especially in light of the recent financial crises that have increased the number of the world's poor and greatly reduced economic growth rates in the developing countries, in addition to the destruction caused by armed conflicts and natural disasters. These challenges will require greater efforts and additional resources, directed in particular at the low-income developing countries.

The Arab countries look forward to playing an effective role in helping the international community to confront the many challenges that face it. The Arab countries—like all the developing regions—have met with great difficulties as a result of the financial crises that recently shook the world economy. We are still suffering from weak economic activity, the slow improvement of social conditions, and continually

increasing unemployment rates, in addition to the most severe water crisis of any region in the world. Furthermore, the peace process continues to constitute one of the principle obstacles to achieving greater economic development and creating a suitable environment for investment.

In conclusion, I would like to express my appreciation to the Executive Directors of the Fund and the World Bank for deciding to hold the Annual Meetings for 2003 in Dubai, in the United Arab Emirates. These meetings, the first ever to be held in an Arab country, will enhance the position of the Fund and the World Bank in the Arab world, which over the years has demonstrated its commitment to international cooperation in all forms and all fields.

MONGOLIA: YANSANJAV OCHIRSUKH

Governor of the Bank

It is a great privilege and pleasure for me to represent the government of Mongolia at the fifty-fourth Annual Meetings of the Boards of Governors of the World Bank Group and the Fund, here in Washington D.C.

Economic recovery in the transition economies has been mixed during 1999. Most of the countries of the Commonwealth of Independent States and those in southeast Europe have been experiencing a lower economic recovery in relation to the central European and Baltic countries, which clearly demonstrates that growth is achieved when there is progress on structural reforms. Rapid disinflation has been achieved by many of the transition economies, which has been possible because of the timely strong stabilization support package of the international communities. Growth has been generally fastest in the areas where reforms were most far reaching and bolder. The countries in transition had the benefit of a relatively large agricultural sector and labor rural surpluses. There has been a mixed approach on the methods of privatization, but all agree that there is no alternative to privatization. Regarding banking sector reform, transition economies have set a priority for improving corporate governance, prudential regulation, and supervision. Countries have now begun to realize the potential of the underground economy, which in some countries amounts to more than 20 percent of GDP. Excessive regulatory discretion, weak rule of law, and corruption are perhaps common to the transition economies. All the growth witnessed by these countries has been accompanied by an increase in income inequality and social instability. The vital steps needed for the creation and strengthening of legal, fiscal, and regulatory infrastructures are needed for the operation of a market-led economy. Let me now discuss my point on how Mongolia is performing within this framework.

The Economy

For three consecutive years; Mongolia has been experiencing an annual growth of 3–4 percent. The year 1998 was hard on Mongolia because of a steep decline in key export commodity prices and the deepening of the regional financial crisis. Copper prices plunged 42 percent in 1998 and 17 percent in the first quarter of 1999. In addition, the international prices of gold and cashmere dropped, resulting in a terms of trade shock of about 9 percent of GDP. This has resulted in a chain of deterioration in other sectors of the economy. External shocks led to a large cut in fiscal revenue and resulted in the widening of the fiscal deficit to over 11 percent of GDP. The adverse external conditions and resulting fiscal stress strained Mongolia's financial system. The increased deficit plus reduced foreign financing sharply increased the domestic bank financing of the budget and put upward pressure on interest rates. The bank loan portfolio performance deteriorated as a result.

Despite all the adversities at the end of 1998 and the beginning of 1999, Mongolia managed to achieve a growth of 3.5 percent and a sharp decline in inflation from over 53 percent in 1995 to single digits in 1998. With little prospect for significant improvements in the terms of trade over the medium term, the government has embarked on a strong adjustment program: to maintain inflation at a low level of below 10 percent, to promote sustained growth of about 4–5 percent and strengthen Mongolia's external position with the assistance of the second Fund-supported program under the ESAF. The parliament of Mongolia has approved a fiscal policy package designed to progressively reduce the government deficit through a reduction in the net bank credit to government, a consolidation of price stability, and the freeing of additional resources through the privatization of remaining public assets; the government will thus be better positioned to promote the fragile private sector. The government has also moved to address financial system distress by placing three insolvent banks under conservatorship and taking a whole set of measures aimed at bank restructuring.

Social Issues and Structural Adjustment

Consolidating price stability and achieving economic growth closer to Mongolia's potential will be essential to improving living standards and reducing poverty. For the purposes of improving the social safety net, the government enacted the law on social safety net early this year. A Mongolian proverb called the plentiful life states, "a country prospers when its citizens prosper." The government recognizes the need for health care reform in order to improve the efficiency of public health services. The introduction of the health insurance system is easing considerably the

budgetary burden of health care. Reforms in the pension system are being undertaken as well. It is the aim of the government to improve the financial position in these sectors, first by the introduction of cost recovery measures, and later by putting them on a sounder financial footing.

Governance Reform

A new Public Sector Management and Financial Act awaits parliament decision. The act would introduce a new framework to rationalize government functions and improve the delivery of public services, and is aimed at enhancing the accountability of all budgetary entities while increasing their flexibility. The public sector reform will help significantly in the reengineering of the Mongolian public sector. Over a 10-year period, it is expected that the pilot administrative reforms and the public financial reforms will undoubtedly lead to significant economic and social benefits for the whole country.

Environmental Issues for Sustainable Development

Extensive livestock production supports at least half the population, and since 1990 it has become the social safety net of last resort. Pasture land is now under severe pressure because of overconcentration of herds around urban centers. Effective policy interventions are needed to alleviate rural poverty, tackle pressure on grazing land, and ensure natural resource conservation and sustainable development. It is necessary to develop land management practices, clarify the land law, promote alternative income-generating activity, and rehabilitate the local infrastructure.

Potential for Future Growth

Mongolia has a tremendous growth potential, despite its obvious disadvantages. In many ways, Mongolia has only scratched the bottom of the mountain. Regional integration is in the interest of the whole economy. Beyond better exploiting its comparative advantages, Mongolia needs to invest more resources in its people, as the education of its people is essential in today's high-tech age of globalization.

The years 1999–2002 are crucial to enhancing Mongolia's economic stabilization and establishing a strong foundation for future development. The major economic objectives of the Mongolian government over the medium term are to enhance further macroeconomic stabilization, intensify structural reforms in the economic and social sectors, institute the private sector-led economic structure, and on this basis, rapidly develop export-oriented production and increase domestic savings. With all these challenges ahead, we are approaching the new millenium.

Over the past few years, we have learned that a good deal of judgment is involved in preparing monetary and fiscal programs under the ESAF. In rapidly changing economies such as ours, and where the global

environment is also rapidly changing, it is impossible to derive truly scientific and precise performance criteria, the lack of which will lead to substantially worse outcomes in terms of inflation, interest rates, exchange rates, and international reserves. And therefore, on the behalf of the government of Mongolia, I would like to ask the senior management of both the Bank and the Fund to be lenient and flexible with Mongolia and not to impose conditions that will be too tough or unnatural to meet. We have noted that the Fund has demonstrated these qualities in the past with Mongolia as well as other countries, and therefore request that the Fund continue to be flexible over the course of the ESAF-supported program, the second year of which commenced in June 1999.

Transitional economies, including that of Mongolia, are receiving handsome assistance from the donor countries and multilateral financial institutions. However the utilization of these funds remains a sensitive issue in these countries. In order to avoid the duplication of funds in the sectors of the economy, we would be encouraged by continuing support from the Bank. In June, Mongolia successfully organized the seventh donor's conference, held for the first time in Ulaanbaatar, the capital of Mongolia. In fact, the successful outcome of the conference, the donors' willingness to assist, and their commitment are based, in part, on the tremendous efforts of the Bank staff.

In conclusion, I would like to take this opportunity to record our heartfelt gratitude and appreciation for the willingness of the Bank and the Fund to support Mongolia in its critical period of transition.

MYANMAR: U KHIN MAUNG THEIN

Governor of the Bank

On behalf of the Myanmar delegation, I wish to join my fellow Governors in expressing our sincere thanks to the management and all concerned in the Fund and the Bank for their excellent arrangements in convening the Annual Meetings. May I also congratulate you, Mr. Chairman, on your election as Chairman of these important meetings.

First of all, may I touch upon Myanmar initiatives for economic development. As you are aware, since late 1988, after introducing the market-oriented economy, concerted efforts have been made for the development of Myanmar's economy, and achievements have been made in implementing short-term and long-term plans. Necessary fundamental reform measures were instituted in line with the political, economic, and social objectives laid down by the state, and in line with these objectives, with national perspectives, administrative and international relations are embodied in it. Our ultimate goal is to build up a new modern developed nation in accordance with the new State Constitution.

While adopting a market-oriented economic system and by undertaking measures systematically for national reconciliation for the emergence of a peaceful and stable nation with disciplined democracy, Myanmar is determined to build a democratic system in accordance with our culture, traditions, and historical background, as well as the desires and aspirations of the entire people. Necessary policy guidelines have been put in place to ensure adequate basic human needs, such as food, clothing, shelter, and to improve the living standards of its entire people. As agriculture is the base in building the national economy, entrepreneurs are encouraged to engage in cultivating vacant, virgin fallow lands and wetlands to increase agricultural production on a commercial scale with the use of their capital, management skills, and technical know-how. They are urged to increase sown acreage, boost per acre yield, upgrade the quality of crops, and double or triple cropping with that momentum. On the other hand, conventional cultivation methods have been substituted with modern scientific techniques, and the state has also been providing the necessary farm implements and machinery. Moreover, dams and reservoirs are being built all over the country with our own financial resources for sufficient water supply in the dry zone area.

Myanmar is striving to develop its national economy not only in the agricultural sector, but also in promoting industrial development by establishing industrial zones throughout the country. Entrepreneurs are encouraged by the government to increase output and improve the quality of products, aiming toward import substitution. We have recognized that the forces of agriculture and industrial sectors should be combined for national development. To meet this harmonious efforts for combination of these two sectors, the state has laid down the following objectives for the industrial sector:

- to develop agrobased industries;
- to raise the quality and quantity of industrial products;
- to produce new machinery items;
- to produce machines, parts, and tools for industries; and
- to obtain good foundations for turning the country into an industrialized nation.

Myanmar has been endeavoring to develop her economy in conformity with the market system to meet the basic needs of the people and maintain environmental norms all over the country. A Bank mission visited Myanmar in June, and during its stay, fruitful discussions were made between the Bank mission and responsible officials from respective ministries, and some mission members visited areas related to their assigned duties in the fields of health, education, and infrastructure development in relation to poverty alleviation.

I would like to reiterate that, as you are quite aware, in the past year, I have presented our intention to cooperate with the Bank as before. However, one year has elapsed, and we do not have significant progress toward a normal relationship between us. Myanmar has been a legitimate member of the Bank and the Fund since 1952. As a legitimate member, Myanmar is fully eligible for the Bank's development assistance. However, the Bank has neglected Myanmar's development efforts, and it has failed to assist Myanmar for the past 12 years—even though we have cooperated with the Bank and the Fund and have been servicing our outstanding payments to the Bank regularly, up to the end of 1997. We are still looking forward to having close cooperation and coordination for our mutual benefit. As they are multilateral institutions, we expect them to have a full understanding of our endeavors and achievements, with constructive views and an optimistic outlook for a brighter and better future.

In conclusion, I wish to express our deep appreciation and best wishes to the Boards of Directors, the managements, and the staffs for their valuable contribution to the Fund and the Bank Annual Meetings. Let us move forward to shape a better future of peace and prosperity in the next millennium.

NEPAL: RAM BINOD BHATTARAI

Alternate Governor of the Bank

It is indeed a great pleasure and privilege for me to address these Joint Annual Meetings of the Board of Governors of the World Bank and the International Monetary Fund. On behalf of Nepalese delegation and on my own, I express sincere appreciation to the people and the government of the United States for their hospitality and to the Bank and the Fund for the excellent arrangement made for these meetings. Let me also take this opportunity to congratulate the management and staff of the Bank and the Fund for their able and close partnership in managing the financial turbulence in East Asia and other parts of the world. As a member of these institutions, it is a matter of great satisfaction to note that these institutions have served its members well at the times of the greatest need.

The slower growth witnessed in the recent years in the world output in general and that in developing world in particular has become the serious concern of the developing countries, the affected economies and the international community as a whole. However, the growth outlook for 1999 has improved moderately. These outcomes have direct bearing on the growth and development prospects of developing countries. The hopes that we had while the Uruguay Round Agreements were signed

are still to be felt by many of us. Many countries are yet outside the realm of the World Trade Organization. Some industrial countries need to fulfill their global commitments toward easing constraints of international trade and development. The progress in poverty reduction is not satisfactory to all of us. A lot more needs to be done in safeguarding the acute needs of small and least developing countries like ours. There are, however, some indications of positive nature. Recent recovery in international commodity prices and of East Asian economies as well as positive growth outlook in industrial countries present some hope for the revival of global economy and, in turn, increase in development assistance.

We are now at the verge of next millennium, whereby globalization of markets has provided both opportunities and challenges to all of us, for promoting growth, equity, and development. Many small and poor countries have not been able to reap the benefit of globalization. Therefore, greater attention is needed, particularly by industrial countries and international institutions to create an enabling environment that can take care of the interests of the poor and least developed countries.

Our experience has shown that, unlike the developed countries, developing countries need relatively a long transition period to fully realize the benefits of economic liberalization. Developing countries including Nepal have hard time to make the process of liberalization a widely beneficial phenomenon to the society as a whole, at a time when we are faced with huge agenda of institutionalization of democratic process and heavy burden of external debt servicing.

The transfer of official development assistance to developing countries has not shown any serious move toward the tune of international call and our appeal for many years. The relevance of foreign grant and highly concessional assistance for the growth of developing countries is still very important and appears to remain so for a number of years to come as many of these countries have to develop key sectors of the economy, where private sector is still shy in making investments.

Having said that let me turn to the Bank and the Fund related matters. It is very much encouraging to learn about the progress made by the Bank and the Fund in strengthening the international financial structure. We welcome the initiative taken by the Bank and the Fund in reducing the unsustainable debt of heavily indebted poor countries. We note the Bank and the Fund are currently working for enhanced framework for faster, deeper and broader debt relief of the poor countries. We support additional financial assistance from the donors toward this framework. Similarly, further considerations should be given to include the poorest countries, which are being presently excluded from these arrangements.

The Bank and IDA deputies deserve our special thanks for the successful conclusion of the IDA-12. We stress that the Bank Group should

focus IDA lending to those countries where the need is greatest to meet the need of the poor and least developed countries. It should also focus on the environment-related issues, which the private sector is least capable of addressing.

We are encouraged by the Bank's activities focused on flexibility, change, and partnership to serve its clients better in the days to come. In this regard, we believe that the Comprehensive Development Framework would prove to be a vehicle for sustainable growth. We understand that this process is based on a holistic approach to development and recognizes the importance of institutional, structural and social aspects of the development along with macroeconomic fundamentals.

We appreciate the strategy of making ESAF arrangements a central point of poverty reduction program and Fund's effort to help member countries in handling structural and institutional reforms. The role of IMF in strengthening the financial sector and the establishment of the Contingent Credit Lines would help attain the objective of a more sustainable growth in member countries.

Now let me turn to my own country, Nepal. Nepal is a landlocked country in South Asia, which has not so far been a party of either to any miracle or debacle. The country's per capita income is one of the lowest in the world and more than two-fifths of its population are living in a state of absolute poverty. The average growth rate of GDP during the past two years was estimated at slightly above 3 percent against the target of 6 percent average growth as set forth by the Ninth Plan (1997–2001). The ratio of gross domestic saving and investment of GDP is still very low. The rate of inflation crossed single digit and reached almost 12 percent toward the end of the last fiscal year. Deteriorating performance of the agricultural sector despite the highest priority assigned to it has been the major factor for the grave situation of poverty in Nepal. The unfavorable climate, uncertainties in economic reforms, slowdown in resource utilization and increased fiscal imbalances are considered as responsible factors for slowing economic activities. The balance of payments situation, however, has improved basically due to better performance of the export sector and the decline in imports. As a result, the foreign exchange reserve, at present, is at comfortable position.

After the restoration of democracy in 1990, people's expectation rose to a new height. The impressive economic progress made in the first half of the 1990s could not be sustained during the past four and half years due to the political instability that transpired from the nature of the composition of the last Parliament. As a result, considerable slackness surfaced in the economy and the utilization of resources including external resources slowed down.

In the aftermath of general elections held in May 1999, the present government has come to power by holding a comfortable majority in the

Parliament. Taking into account the overall performance needs in various fronts of the economy, the new government is committed for creating a strong macroeconomic situation. In this regard, the balance of payments position continues to be strong, inflation appears to be moderate, and economic growth picked up slightly from the last years' depressed level. The actions of the government have been well sequenced to alleviate widespread poverty and unemployment. On the fiscal side, revenue growth has increased in the past few months and the fiscal deficit has been kept within the affordable limit. The government is also fully committed to resume the process of liberalization as was initiated in the beginning of this decade.

Nepal has put poverty reduction agenda always at the forefront. For this, we have focused on achieving high economic growth rate, expanding social and safety programs, encouraging participatory development and ensuring good governance. In order to achieve these, we have adopted strategies of the modernization of agriculture, rural development, community participation, and creation of employment opportunities. Likewise, other strategies have been developed for the development of social and economic infrastructure, better mobilization and use of economic resources including external resources, promotion of private sector development. This will be achieved through continued persuasion of economic reform programs and the transformation of the development administration into a service and result oriented one. Various measures are adopted to strengthen the institutional capacity of project implementation. Civil service reform process is on the way. The government has also adopted various measures to make its affairs more transparent.

Implementation of the 20-year Agriculture Perspective Plan (1997–2016) has been our priority in order to increase economic growth and alleviate poverty. We have emphasized the development of social sector and increasingly allocated financial resources for education, health, drinking water, and human resource development. The empowerment of women is one of the prominent agenda of our development. The process of privatization of public corporations has been reactivated.

We consider financial resources as the most effective and critical means of development and a major instrument of the success of policy implementation. We are committed to manage public expenditure more efficiently. Prioritization of the development expenditure is being further improved and projects are selected based on cost/benefit analysis, availability of sustainable resources and implementation capacity. The new financial rules formulated with a view to reduce discretionary power in awarding contracts, and ensure transparency of statements and records as well as develop time-bound decision making system is already in operation. In order to enhance the effectiveness of overall resources,

Aid Receiving Strategy is being formulated and enforced within this fiscal year.

The need for internal resources mobilization is enormous in Nepal. The structure of the tax administration is being reviewed to raise its quality of performance. The value-added tax system has been fully implemented as the main instrument of revenue mobilization. Tax and customs administrations are being made more transparent and supportive. A system of regular and continuous dialogue with private sector is being developed in order to generate mutual confidence and enhance tax collection. Customs administration are being made more efficient in line with the requirements for membership in the World Trade Organization, the South Asia Preferential Trade Arrangement, and the South Asia Free Trade Arrangement.

Currently, we are actively engaged in the devolution of power to local government bodies. The process of decentralization has achieved its milestone as the Act relating to it has come into effect. The Act provides extensive economic, administrative and political power to local authorities. The new arrangement would also address issues of governance throughout the country. Similarly, the government has launched several programs for urban sector development. In this regard, our capital city, Katmandu has been facing acute shortage of drinking water supply for over a decade. In order to solve this problem, we have proposed the Melamchi Water Supply Project for donors' assistance. I, therefore, take this opportunity thank the donors for their support and commitment to this project and would appreciate any additional assistance to meet the financial gap and for the speedy implementation of the project.

It is important for us to build on the achievements made in the past and also continue address necessary issues that stand as hurdles along the path of poverty alleviation and sustainable development. The current year's budget and the Ninth Plan have placed clear directions for reforming policy course. We believe that greater efforts are essential to enhancing domestic resource mobilization and improving public resource management. Another equally important task is to build technical and institutional capability in order to prepare and implement complex and sweeping reforms over a broad front and prevent potential crisis.

It is a matter of common experience of developing countries like Nepal that no matter how important the reform process may be it invariably encounters with a great resistance and the process itself is long and painful. In order to overcome these difficulties while, we, as a member of developing countries have to put all our resources in achieving the development goals, the continued support of bilateral and multilateral agencies would be required more than ever before. I would also like to emphasize the importance of sequencing reforms as a critical factor in making the reform program a success.

The role of the Bank and the Fund in the twenty-first century will be even more challenging. We are confident that the Bretton Woods institutions are better prepared to surmount such challenges and will continue to remain as reliable, flexible and dynamic development partners for their member countries in the new millennium. We are thankful to the international donor community for their consistent and strong support in Nepal's economic development programs. I would like to mention here that Nepal Aid Group Meeting would be held in March, next year in Paris. As in the past, we are confident to receive strong support from the members of Nepal Aid Group to implement our development programs.

Let me express our sincere appreciation to the World Bank and the Fund for providing valuable technical and financial cooperation to our development efforts. I look forward to rewarding partnerships with these institutions in the future.

NETHERLANDS: GERRIT ZALM

Governor of the Bank

The recent international financial crisis clearly demonstrated that improvements must be made to enhance the effectiveness and the fairness of the international monetary and financial system. Already, the system has been made more open and transparent. The Fund deserves praise for the role it has played in the development of international transparency standards and the promotion of the implementation of these standards. However, I think we should be more ambitious. I have three particular areas in mind in which work remains to be done: the involvement of the private sector in financial crisis prevention and resolution; the strengthening of the Bretton Woods institutions; and the HIPC Initiative and its financing.

Private Sector Involvement

On private sector involvement, in the absence of a set of clear internationally accepted rules on how to promote private sector involvement, the Fund has proceeded on an ad hoc basis. Although this approach succeeded in securing private contributions to the funding of members' financing gaps, the approach carries a number of risks. First, this is not very transparent, making the pricing of debt difficult. Furthermore, considering every case on an ad hoc basis might also lead to unequal treatment of countries as well as of creditors. While recognizing that every crisis situation has its own specific characteristics, I see a clear need for establishing some general principles and instruments for the involvement of the private sector in international financial crises. A key princi-

ple is that of equal treatment. Therefore, the following instruments should remain on our agenda: collective action clauses, creditor committees, and the use of rollover options in debt contracts.

The For a: International Monetary Fund and Interim Committee

I now turn to our institutions. Recent experiences have clearly shown us how important it is to have strong Bretton Woods institutions. The Fund should remain at the heart of the international monetary and financial system. By combining wide membership with well-defined procedures for representation through constituencies, the Fund and its for a are better suited than any informal or ad hoc grouping to discuss and decide on matters relating to the monetary and financial system. The participatory nature of the decision-making process in the Fund guarantees ownership of and accountability for Fund policies with all IMF members. I welcome the fact that the role of the Interim Committee as the preparatory body for the Board of Governors has been reconfirmed. Improving the preparation of the Interim Committee by Interim Committee deputies on an as-needed basis can contribute to this. Further strengthening could take place through the creation of working groups of flexible composition under the Interim Committee, with the appropriate participants being selected on the basis of the topic under consideration.

Capital Adequacy and the World Bank Group

Let me now turn to the World Bank. Unfortunately, progress with respect to strengthening the financial position of the World Bank Group has been limited since the spring meetings. Naturally, the need for an increase in its risk-bearing capacity and its size are directly related to the IBRD's strategy. We are not in favor of a strategy that takes the excessive liquidity support of the past years as a starting point. I would sympathetically consider proposals for additional capital for the World Bank Group, including the IFC, if this is needed for a strategy aimed at long-term structural development and poverty alleviation.

ESAF and HIPC

It is of central importance to develop a concept of economic growth that is centered around durable poverty reduction. In that respect, I warmly welcome the enhanced link between debt relief and poverty reduction as exemplified in the new HIPC Initiative. It should therefore come as no surprise that the Netherlands supports the proposed modifications of the HIPC Initiative with the purpose of providing wider and deeper debt relief while encouraging recipient countries to conduct good policies. We support the idea of using floating completion points, and stress the importance of including key social and economic reforms as conditions for completion. It is of the greatest importance that we

maintain the focus on good policies in the modified HIPC Initiative and secure full and equitable financing for debt relief quickly, so that the road to sustained growth and poverty reduction in highly indebted poor nations is cleared. In this respect, I hope that improved cooperation between the Bank and the Fund takes off. Better quality and depth of the Bank's poverty analysis should help the Fund to adequately sequence and fine-tune macroeconomic stabilization policies. In addition, the financing of the self-sustained ESAF deserves the full attention of the international community.

Southeastern Europe

In addition to their tasks in promoting international financial stability and sustainable growth, the Bretton Woods institutions have an important responsibility to help members whose economies have been severely damaged by a war or natural disaster to get back on their feet. I welcome the efforts that have been made by World Bank and the Fund, in good cooperation with the EU, to help southeastern Europe overcome the hardship caused by the crisis in Kosovo. A combination of well-targeted international assistance and sound domestic policies should facilitate a speedy recovery.

Conclusion

The world economy is in far better shape than we could envisage last year. The Fund and the World Bank have played a key role in this improvement. I trust that under the leadership of the President and the Managing Director, the Bank and the Fund will continue their further work on the various issues that I have outlined. Rest assured of the continued support of the Netherlands in doing so.

NEW ZEALAND: SIR WILLIAM BIRCH

Governor of the Fund

I am pleased to be speaking at these Annual Meetings of the World Bank and the Fund in very different circumstances to those of last year. Twelve months ago, this felt like a crisis meeting. It was crucial that we endorsed open market fundamentals and that we resisted the urge to return to protectionism. The international institutions held their nerve, member nations held their focus, and we are better off for it.

Last October, consensus forecasts were for New Zealand's top 10 trading partners to grow by only 1.4 percent in 1999. Now, those forecasts are more than double at 3.2 percent. Given our top four trading partners comprise the United States, Australia, the European Union, and Japan, that is a good sign that the world economy is improving, and it is definitely good for New Zealand.

The Article IV staff report on New Zealand publicly released on September 16 projects growth of 3.3 percent in our economy for the next two years. We are confident those forecasts can be bettered.

New Zealand is one of a growing number of countries participating in the pilot program where the Fund staff report is made public. The release of staff reports will increase the need to have confidence in, and justification of advice by, the Fund. Similarly, if a country is not following advice recommended by the Fund, the authorities of that country will have to justify their reasoning to the public. The advantages of open disclosure are equally true with respect to World Bank advice.

There is the potential for publication to reduce the frankness of discussions and the candor of the staff reports. However, New Zealand's experience with giving policy advice that is subject to the freedom of information laws is that transparency does not substantively alter advice—rather it increases incentives for advice to be of the highest quality. And the sound policies that transparency encourages have real payoffs for people.

Without reform, the impact of the Asian crisis on New Zealand would inevitably have been high interest rates, serious bankruptcy, and massive unemployment.

A policy framework of five principles—an open and competitive economy, low inflation, quality fiscal policy, flexible labor markets, and low taxes—has allowed the economy to cope with shocks and to keep making progress. Our own bounce back from the Asian crisis has been rapid and sustainable.

Economic reform has made New Zealand the master of its own destiny. Our future is no longer tied to any one market or to surviving any particular shock. Our future is with the world. As a small economy, our domestic market is limited to 3.8 million people. But no matter the size of any economy, the global market is the real prize for us all.

That is why I was so pleased with the outcome of the recent meeting of APEC Leaders in Auckland. In New Zealand, APEC Leaders reconfirmed their commitment to achieve their goals of free and open trade and investment for the developed APEC economies by 2010 and the developing ones by 2020. Many of those economies, including our own, are already making substantial steps to remove all tariffs.

APEC wants to conclude an agreement in the WTO this year on the Accelerated Tariff Liberalization Initiative, which includes fish and forest products, and launch at the Seattle WTO ministerial a new round of multilateral trade negotiations for comprehensive market access, including the abolition of export subsidies. That is to be concluded in three years.

In conclusion, I would like to make the following observations. First, despite the severity and depth of the recent economic crisis, few if any

economies resorted to protectionism to try to stave off its impacts. On the contrary, many responded by maintaining, if not advancing, their efforts to reduce barriers to trade and investment flows.

Second, it showed the need for greater transparency and openness of markets, of policy settings, of rules and regulations, of standards, and of performance against them—including improved reliability and timeliness of information. Accountability is fundamental. If banks can make bad lending decisions with relative impunity from financial consequences, there will be no end to bad loans they make. The Fund has to be more than a financial bank. It should also be a knowledge bank—a provider and facilitator of surveillance, expert advice and even more important, an assurance of transparency.

Third, countries faced with economic challenges can accomplish much on their own, but much more in cooperation with their colleagues. The crisis mobilized the international community like never before, and the fruits of that cooperation are already evident in the improved economic performance of many of the most affected countries.

But the events of last year and the challenges we face today serve to remind all of us there are no easy answers to sustained economic performance and there will always be risks.

Fourth, and finally, for the poorest and most vulnerable in our societies the continuing challenge is to work to ensure that they too benefit from sustained economic growth—in terms of their living standards, health, education, and overall quality of life. Building stronger economies through open and efficient markets is ultimately directed at that goal.

NORWAY: HILDE FRAFJORD JOHNSON

Governor of the Bank
(on behalf of the Bank Nordic Countries)

It is a pleasure for me to address this forum on behalf of the Nordic countries.

Last year I attended my first Annual Meetings as Governor. It was in the midst of the Asian financial crisis, and the meeting was overshadowed by the fear of international contagion. Even though a worldwide recession is no longer imminent, we must not relax our efforts to strengthen the international financial architecture to prevent similar crises in the future.

The international financial crisis opened our eyes. Not only did it illustrate the interdependence between developing and developed countries, it was also clear evidence that development is a multifaceted process, where economic, financial, structural, and social factors form a single, seamless web.

The World Bank President, Mr. Wolfensohn, expressed this eloquently in his address to the Annual Meetings last year, and he reverted to it in more practical terms when launching the Comprehensive Development Framework early this year. The CDF sums up the experience gained through decades of development efforts. Many have said that the messages of the CDF are not new. This is true. But the momentum, the concept, and acting on them would be. We should note that the CDF initiative came from an institution that for years had the reputation for being concerned primarily with economic issues, for paying too little attention to the social issues related to successful development, and for having a tendency to override local ownership. Now the tide is turning. The Nordic countries welcome the CDF. This initiative puts the country in charge of its own development and presupposes cooperation and coordination with the UN system and other development actors.

I want to give the Bank credit for refocusing its business and for its crucial role in initiatives such as the CDF and the HIPC debt relief mechanism. At the same time, I would urge the Bank management to make sure that new values and priorities are internalized by each and every staff member. It is important to remember that to the various stakeholders in the borrowing countries, it is the individual country director or task manager who is the World Bank. Furthermore, the skills mix of the Bank staff and the budget structure must be such that it is possible to deliver quality work on social aspects of development.

Changing an institution like the World Bank takes time. Changing the world is an even greater challenge. But that is really what we are trying to do. The responsibility for making change happen obviously does not rest with the Bank alone—or with the Fund or other parts of the multilateral system. These institutions have an important role in facilitating change, and constitute important fora where developing and developed countries can meet. But the prime responsibility lies with us, with the individual members of these institutions.

I dare say there is now fairly broad consensus—at least on a theoretical level—on what it takes to foster development. But what does it take to translate this into real change? This question deserves our full attention. We must get beyond the rhetoric and the good intentions. We must act.

And the climate for concerted action is promising. The international community is now discussing some fundamental issues that continue to hamper change. For a long time some of these issues were taboo, not to be mentioned aloud in international debates on economic development. And some of them are still controversial.

I am talking about issues such as governance, democratization, and respect for universal human rights. I am talking about moral obligations and solidarity between human beings—both at the national and at the international level.

The inequalities between rich and poor countries are paralleled by the inequalities between rich and poor people within a country. I would like to spend the rest of my address talking about the responsibility of the political and economic leadership in the poor countries—and the responsibility of the rich countries—to make the necessary changes happen.

Increased weight has been put on the individual country's own responsibility for its development. And this is crucial. It is basic psychology. We all need to be in charge of our own development. And countries are increasingly ready to take this responsibility. This was evident at a recent workshop in Stockholm a few weeks ago, where participants from Tanzania, Uganda, Vietnam, the Nordic countries, the World Bank, and the UN came together to discuss how to make partnerships work on the ground. However, focus on country responsibility does not mean that the rich countries can mind their own business from now on, and leave the whole process to the poor countries alone.

At the country level, it must be clear that ownership and responsibility do not only mean government ownership and responsibility. The leaders must have the people behind them. Democracy and development are inseparable. Economic reforms are necessary but not sufficient. Unless the political leadership is committed to fighting corruption and putting in place good governance, and unless people feel that their leaders represent them, sustainable development is not going to happen. Developing countries must continue their efforts to promote good governance and ensure respect for human rights.

I think we have made progress in improving our policies and actions when it comes to development assistance. We are concerned with local ownership and donor coordination. We have taken steps toward untying aid. We have come a little further down the road, but we still have a long way to go before what we say matches what we do.

I am referring in particular to the need to see aid policies and trade policies as a coherent whole. A globalized world offers many benefits, but there are also many countries, particularly the poorest ones, that have not yet been able to profit from this process. Unless we cease to treat development and international trade as two separate issues, we will never be able to integrate all the developing countries into the global economic system, and do so in a more just manner.

The marginalization of the poorest countries warrants exceptional treatment. I would like to quote from IMF Managing Director Camdessus' ECOSOC address in Geneva on July 5 this year: "The international community can (also) make a major contribution. The industrial countries could open their economies to all exports of the poorest countries, not only encouraging existing primary commodity exports, but—more important for long-term growth—creating the potential for new, more diversified, export production."

This leads us to one of the most difficult and challenging dilemmas of international development. How can we avoid a situation where ministers responsible for development cooperation, like myself, advocate more reasonable distribution of resources in fora like this, while other ministers restrict the import of agricultural products as well as textiles and clothing from developing countries? I am not pointing a finger at anyone in particular. I am afraid almost all of us are faced with dilemmas like this in our respective countries.

We, who are concerned with development assistance, must convince the rest of our constituencies that it is our common responsibility to do away with the injustice and suffering that poverty represents.

Closing the gap between the "haves" and the "have-nots" *within* developing countries as well as *between* countries is a question of mindsets, morals, and ethics. It is very much a question of solidarity.

In an ideal world, each and every one of us would be eager to do something about poverty.Our motivation would be that we could no longer endure seeing another human being suffer. But even with a pragmatic and less altruistic view of the world, it is in our own interest to close the gap. The truth is that developing countries represent future growth for us all. And equitable growth means peace and stability for our planet as a whole.

PAKISTAN: M. ISHAQ DAR

Governor of the Bank

It is a matter of privilege and pleasure for me to attend the Annual Meetings of the Fund and World Bank Group. This happens to be the last meeting of the present millennium. An eventful century is coming to a close and, in another 14 weeks' time, a new millennium with multiple challenges and immense promise will be ushered in. This meeting provides us with a unique opportunity to reflect back as well as look forward.

Looking back, one notes that despite the Great Depression, two World Wars, natural calamities, and ideological and territorial conflicts, the twentieth century has witnessed tremendous technological and economic advancement. Even the developing countries have experienced substantial economic progress. Notwithstanding these remarkable advances, the fact remains that one-third of the developing world's population is still caught in the web of abject poverty. As a matter of fact, poverty has started rising again in the wake of the East Asian crisis and the outbreak of conflict in many countries. Further, the economic achievements have not been without heavy cost. The pressure on global resources has intensified, reflecting the fourfold increase in the world population and the indiscriminate exploitation of resources, which has

endangered the environment. Given these grim realities, there should be no doubt that the task ahead for the world community will be a challenging one, and we have to persist with rapid economic and social advancement while ensuring that the gains are widely and equitably shared and poverty is reduced in a lasting fashion.

We are entering the next millennium with an increasing emphasis on globalism and liberalism. It is no coincidence that the present century also began with similar circumstances: with freer movement of goods and services across national frontiers and economic thought dominated by market-based solutions. The current situation is, however, more complex, as it goes beyond the traditional areas of trade and commerce to new areas of finance, technology, information, communications, and similar fields whose global flows are expanding rapidly.

Most developing countries are responding to the challenges posed by globalization by liberalizing their markets and disengaging their governments from many economic activities. 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 tending to enlarge the economic and social gap between rich and poor nations and make many economies fragile and susceptible to external shocks. Mr. Camdessus, the Managing Director of the Fund, in his address yesterday had urged that globalization be given a human face and its cost be shared equitably. To translate his hope into reality, the developed countries need to increase the concessional resource transfers to the developing countries, reduce their debt burden, and facilitate their access to the developed markets.

The turmoil in East Asia has taught us important lessons. We are now more aware of the various elements that are needed to reduce the severity of potential risks in the process toward liberalization: consistent macroeconomic policies, a sound and well-regulated domestic financial sector, and an appropriate contingency mechanism to deal with potential threats to sustainability of open regimes. On the latter point, as noted in the communiqué of the G-24, the limited applicability of the Contingent Credit Lines calls for a reexamination of all possible options, including consideration of a global lender-of-last-resort. We would also urge further analysis of the efficacy of specific capital controls and look forward to an early agreement on a comprehensive and structured framework for involving the private sector in crisis resolution. We hope that this will be done in a manner that does not cause widespread disruption, nor raise the cost of capital flows to developing countries. The Fund can play a crucial role in this endeavor as a facilitator of good relations of sovereign debtors with their creditors.

We welcome the new initiatives for strengthening the international financial architecture, especially as it relates 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 HIPC Initiative and poverty reduction, to judiciously blend policies of poverty alleviation with structural adjustment and other reform, and transform the ESAF so as to give greater emphasis to poverty reduction, are especially noteworthy. We hope that the necessary financing for the enhanced HIPC Initiative will be forthcoming and that the funding embodies genuine additionality and does not come at the expense of non-HIPC developing countries. In this context, we are concerned about using IDA resources in any form to fund the initiative. While these developments are praiseworthy, we should not lose sight of the debt problems of low-income non-HIPC countries.

I also welcome the proposal of Mr. Wolfensohn, the President of the World Bank, for a Comprehensive Development Framework. This is a timely and useful concept that promises to ensure integrated and coordinated economic and social development policies in developing countries. We are watching with great interest CDF pilot countries and hope that it will be possible to apply the concept widely in the light of experience gained in those countries. It should be ensured that the adoption of this approach does not lead to burdensome conditionalilties in program design. I may add that a similar approach has already been taken in Pakistan where a comprehensive and integrated medium-term development strategy is being followed. The government of Pakistan has recently launched a long-term "Vision 2010" project which, in addition to sustaining high levels of economic growth and financial stability, emphasizes social and human development, poverty alleviation, and good governance within an integrated and mutually reinforcing framework, with active involvement of the community and stakeholders.

Let me now briefly comment on the economic situation in Pakistan. The comprehensive program of macroeconomic adjustment and structural reforms that was initiated by our government in February 1997 with the support of the international financial community had started to yield positive results. Economic growth accelerated, and inflation was brought down from double-digit to single-digit levels, against a backdrop of tight macroeconomic policies and the implementation of a number of efficiency-enhancing structural reforms. Unfortunately, the momentum of our efforts was derailed by the unavoidable events of May 1998 and its aftermath. However, I am pleased to note that, since those extraordinarily difficult times, we have been able to consolidate and build on our earlier gains and have succeeded in placing the Pakistan economy on a more sustainable growth path. Financial support from the international financial institutions has been reactivated, and we have reached agreement

with the Paris Club and the London Club on rescheduling our external debt-service obligations. Indeed, in the current fiscal year, we have broadened and deepened our adjustment effort and strengthened our focus on poverty alleviation. Concurrently, we have taken steps to improve governance and ensure accountability and transparency. We firmly believe that the challenges of globalization, as well as those arising out of the low stage of economic and social development of the country, can only be met by significant improvements in governance.

PAPUA NEW GUINEA: JOHN R. KAPUTIN

Governor of the Bank

The core mandates of the World Bank and IMF remain fully relevant and consistent with the objectives and requirements of the Papua New Guinea government. Papua New Guinea's immediate concern is with her macroeconomic stability objectives. Although many of our problems originated from sources beyond our control (the Asian financial crisis and several natural disasters), Papua New Guinea has not been assisted by external donor financing since 1997.

Consistent with the Fund's advocated policy prescriptions—but, I emphasize, prior to any Fund program—Papua New Guinea has set itself firmly back within a prudent macroeconomic policy framework. Fiscal tightening, fiscal expenditure control and monitoring, and the independent conduct of monetary policy have been reestablished since July 1999. In fact, our macroeconomic objectives in 1999 are probably more stringent than those that would have been set by the Fund had it been able to respond to our policy stance with greater speed.

Consistent with both institutions' mandates, we are also embarking on a rejuvenation of the structural reform agenda. For some years, structural adjustment has been progressing at a less than satisfactory pace. The implications of procrastinating with structural reform are evident in so many case studies today. Papua New Guinea does not intend to become one of these case studies.

Transparency of the reform process is a feature of paramount importance. Striving to achieve the control of corruption will allow fuller benefits to be enjoyed. In this regard the Corporate Governance initiatives of the World Bank are very welcome. I point out that the public sector, and in particular its interaction with the private sector, must become an important target area of Corporate Governance reform. Furthermore, while Corporate Governance comprises internal and external architectures, the external aspect has appeared within the practiced policy mandate of the Bank to date.

Capacity-building within institutions is crucially important and a vital complement to the reform process if reform is to remain an ongoing

string of events. As well, capacity of institutions will impact on the effectiveness of poverty-reduction efforts made by donors and sovereigns alike. Papua New Guinea must ensure that, in reestablishing macroeconomic stability and the process of effective reform, her institutions are less vulnerable to crises and more able to deal with Papua New Guinea's long-term development demands.

Papua New Guinea has a need for capacity-strengthening in key institutions and has been lucky enough to receive expressions of interest from more than one donor in some areas. In other areas, such as road maintenance and rural development, Papua New Guinea is fortunate to enjoy the presence of more than one donor's interests. While it may seem desirable to receive such attention, a multiple of donors in one area puts a much greater demand on the capacity of institutions to coordinate and reconcile development effort. The Comprehensive Development Framework instrument would appear to be useful in this regard, and its development and use may hold benefits for many countries. I would like to encourage the ongoing work in refining this development tool.

Papua New Guinea has, relative to many less developed countries, a relatively diverse export product base. Our export range is almost entirely made up of mineral production (oil, gold, and copper) and agricultural commodities (coffee, oil palm, copra, cocoa, and timber). In 1998, agricultural commodities accounted for 28 percent of our export revenues, while 66 percent was accounted for by mineral exports, and the balance by marine products. It is clear then that commodity risk management is of great importance to Papua New Guineans. Much of our rural population relies on the production and sale of these commodities for its livelihood. As such, I am pleased that the President of the World Bank, in his address to the Development Committee, has committed the Bank to developing a framework for the development of a market-based approach to risk management.

Papua New Guinea strongly supports the Fund and Bank's objectives in addressing the debt burdens of heavily indebted poor countries. There are very real human consequences that need to be addressed. However, we do have very strong reservations regarding the possible sale of gold to finance the initiatives. Gold exports made up 33 percent of Papua New Guinea's export revenues in 1998 and were responsible for a significant portion of our fiscal receipts.

PARAGUAY: FEDERICO ANTONIO ZAYAS CHIRIFE

Governor of the Bank

It gives me great pleasure to address you on behalf of the Republic of Paraguay at this fifty-fourth Joint Annual Meetings of the World Bank Group and the Fund.

This is a particularly significant occasion for my country, as we wish to reaffirm here today that the Paraguayan people are committed to defending our republic's democracy and its institutions and are willing to undertake a successful structural transformation of our society and national economy. This will only be possible, however, if we can count on the full cooperation of multilateral organizations and friendly nations around the world. Viable reforms of economic systems require a climate of social, political, economic, and financial stability. Paraguay managed to overcome a difficult challenge to its institutions as recently as six months ago, and must now face another major challenge: the reconstruction of our country, a task which our government of National Unity has been focusing on since it took office. As the President of the Republic of Paraguay said at the recent United Nations General Assembly, "the government of National Unity today faces the dramatic challenge of rescuing Paraguay from its state of chronic economic stagnation and grave social inequality."

To gain a sense of my country's critical economic situation, consider that Paraguay's economy grew by 2.9 percent a year on average between 1990 and 1994, but by only 2.0 percent a year between 1995 and 1998. This clearly illustrates the slowdown in the Paraguayan economy, which is made worse by the natural population growth rate of over 2.5 percent a year on average recorded during the 1990s. We are aware that Paraguay's economy must attain higher growth rates in the years ahead, if it is to meet its social needs while maintaining political, economic, and financial stability.

Empirical evidence shows that those countries that have achieved economic success have done so in the context of free market systems, and, by generating sustained economic growth, have enabled large segments of the population to escape from poverty. We therefore wish to express our support for the poverty reduction and sustained growth initiative. We believe, moreover, that options for reducing or offsetting the effects of barriers to free trade need to be explored, and we wish to voice our disapproval of the use of agricultural subsidies.

Our challenge in this process is to overcome the manifold constraints that are seriously complicating our efforts to improve the welfare of our people.

The government of National Unity has taken an historic step by forming a Cabinet representing different political groups and by recently forging a consensus on a medium- and long-term economic program designed with the participation of representatives of the various political parties, thereby ensuring that the members of the National Congress are committed to its implementation. Our government is striving to bring about a consensus on the pathways to reform and has reached agreement with the various political parties and the National Congress on a

government program containing a substantial package of structural reform measures, which is in the process of being implemented.

My country's government has launched a frontal attack on corruption, as witnessed by the signing of a cooperation agreement with the World Bank and by tangible measures to combat smuggling and brand piracy, coordinated among the nation's various institutions with the support of the country's grassroots organizations.

A draft government banking reform law has been prepared, with a view to rationalizing the financial public sector and converting it into a unified, streamlined, and efficient entity.

As regards government expenditure administration, and with a view to improving and making efficient use of treasury resources, a draft financial administration law has been prepared, which seeks to modernize the current management of government expenditure and thereby establish more effective quality control over fiscal outlays. Moreover, the financial crises that recently shook world markets have undoubtedly left their mark on our small, open economy. This makes it imperative for us to join in the efforts of the Bretton Woods institutions to design a new international financial architecture that will help developing countries strengthen their financial markets and ensure their proper integration into the globalized world.

Now that 54 years have elapsed since the creation of the Bretton Woods institutions, and as a representative of one of their founding countries, I wish to state my conviction that these institutions must endeavor to maintain their effectiveness and their relevance as they pursue their objectives. We believe it essential that equity be included among the aims of the programs implemented and that the anticipated effects of international cooperation and partnership should materialize in a more favorable climate, so that our people can—in the not-too-distant future—begin reaping the benefits of their efforts. Adjustment programs must show their human face and must contain remedial social policies that mitigate societal differences.

We call for support and cooperation from multilateral organizations, in order to ensure the success of our economic revitalization and antipoverty programs, as such measures will be essential to strengthening our government's effort to sustain democracy.

In this context, we are heartened by the 1998 review of the Concordat, the purpose of which was to reconsider the principles of Bank-Fund cooperation and collaboration with a view to increasing the effectiveness of both institutions. The World Bank should be able to present us with various options for enabling it to maintain its financial capacity, in terms of the specific challenges facing its member countries, while safeguarding its net income.

Paraguay's present government has shouldered an immense historical responsibility, imposed by the heavy costs of the events in our country in March 1999 (*Marzo Paraguayo*). Furthermore, our government is committed to focusing its actions on implementing the structural reforms necessary to achieve sustained and sustainable economic growth through the development of a production framework based on competitiveness, with a view to fostering social progress for the Paraguayan people. The role of the state will be to promote the rationalization and redirection of government expenditure toward social sectors, investment in infrastructure, and the strengthening of the production sector. Also, our government's responsibilities include achieving qualitative improvements in poverty analyses, making it possible to direct government expenditure toward the specific objective of improving the welfare of our people.

In closing, I urge you to appreciate our government's desire to have an open and structurally coherent economy—an economy in which our leadership is committed to facilitating the attainment of economic growth in an environment of freedom and democracy, while advocating the balanced and reciprocal liberalization of trade and finance, so that we can usher in the new millennium with zero-inflation growth, fiscal equilibrium, and a dynamic and competitive private sector that responds innovatively to the challenges of competitiveness, technology, and efficiency, for the sake of all those who inhabit our land and who yearn to live in peace and happiness.

PERU: VICTOR JOY WAY

Governor of the Bank
(on behalf of the Latin American Governors of the Bank)

It is a great honor and privilege for me to address this assembly as the representative of Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Spain, Suriname, Trinidad and Tobago, Uruguay, Venezuela and my own country, Peru, on the occasion of the fifty-fourth Annual Meetings of the Governors of the World Bank and the International Monetary Fund.

Global and Latin American Economic Development

The countries of the region regard the slow but steady recovery of the global economy with hope and a certain measure of optimism. On the one hand, the United States continues to lead the world leader in economic growth, at the same time maintaining low inflation and a high level of employment. The European countries are showing signs of

increased economic activity, Japan is emerging from recession, and the other Asian countries have succeeded in stabilizing their economies and resuming growth. The resurgence of these economies will contribute to renewed demand for our region's major exports and normalization of their international market prices.

Throughout 1999, the Latin American economies continued to be affected by deteriorating terms of trade and the reduction in capital flows that had begun in 1998. However, thanks to their sustained prudent policies and greater dynamism in the global economy, conditions have been created that can be expected to result in 3.9 percent GDP growth in the region in the year 2000. This achievement goes hand in hand with a continuing decline in the inflation rate. There can be no doubt that these improved prospects are ascribable to some extent to the positive developments in the economy of Brazil, which has managed, after a major effort, to reverse the conditions of uncertainty that prevailed a year ago and achieve a higher level of economic growth than initially projected.

On the other hand, elections are to be held in several countries in the region in 1999 and 2000. However, given the consolidation of our democratic systems and the fact that a consensus has emerged in favor of economic stability, we do not expect this heavy electoral calendar to be a cause of economic disruption. At the same time, we are aware that we are still at risk should there be adverse developments in the global economy—such as an economic slowdown in the United States. On this score, we take a positive view of U.S. preventive monetary policy measures, which will contribute to the stability of international financial markets.

The unforeseen, major shocks that many of our economies have had to contend with since mid-1997, not to mention the rapidity and extent of their contagion, have proved a sharp reminder that the individual countries, as well as the international financial system as a whole, need to strengthen existing preventive mechanisms. The Contingent Credit Lines introduced by the Fund in April this year is a valuable tool in this regard, although we believe its design could be improved in certain respects.

This initiative, designed to prevent the contagion effects of international financial crises in countries that are following sound economic policies, is a major element in the new international financial architecture. Nevertheless, there is still no clear view in the markets as to whether a country's access to the Contingent Credit Lines should be interpreted as insurance against risk, or, on the contrary, as a factor that increases the perception of risk and so adds to the country's cost of access to capital.

I would now like to review some of the key proposals for strengthening the international financial system and expanding the scope and coverage of the initiative to reduce the debt burden of the heavily indebted poor countries. Strengthening of the links between debt relief and poverty reduction, in the context of the programs the Fund and the World Bank provide for their poorest and most indebted member countries, is of particular importance to several of our countries.

Strengthening the International Financial System

Given the globalization of international capital markets, it is difficult to imagine a system in which private operators would not play an important role not only in the prevention but also in the resolution of financial crises. Our countries support the initiative calling for voluntary participation by the private sector in the resolution of international financial crises, and in doing so wish to reiterate that it is necessary to exercise caution in designing and implementing the arrangements through which such participation would materialize. In our opinion, creditors should participate on a voluntary basis and in their own best interests; steps should be taken to minimize possible adverse effects on the risk premium applied to the developing countries; and the mechanism should be sufficiently flexible to accommodate the varying circumstances surrounding the issue of debt instruments by private entities.

In this process, the Fund must help seek solutions that will be viable for both sides and not impose any one specific solution on private creditors. The proposal by the industrial countries to incorporate provisions in bonds that would facilitate their restructuring is a positive initiative that should first be adopted in the developed countries, in both the public and private sectors, so as to establish a new standard. Nevertheless, until conditions such as these prevail in the market, it is likely that this clause would adversely affect the access of developing countries to the international capital market.

The countries in our region approve of the efforts to strengthen the international financial system by going beyond the Basle standards. Nevertheless, the role to be assigned to risk assessment agencies must be approached with extreme caution, and care should be taken in general to ensure that the measures do not affect our countries' access to international markets or the costs they incur in the process.

On the subject of choice of a particular exchange rate arrangement, our position is that countries are entitled to opt for whatever exchange system they consider best suited to their needs. The experience of our countries has demonstrated that the most important factor is the fit between the country's economic policies and the exchange system that it has chosen.

There is general consensus that the process of capital account liberalization should follow an ordered sequence so as to minimize risks like those stemming from the contagion effect of crises originating outside the particular country. Our countries stand to benefit from the opening up of the capital account, as long as they follow sound macroeconomic policies and move ahead with essential structural reforms, including stronger financial system regulation and supervision. The Bretton Woods institutions should continue assisting those countries that require it to strengthen their public administration and the institutional framework through which such policies and reforms are implemented.

Linking the HIPC Initiative to Poverty Reduction

The countries in the region have consistently supported proposals for providing substantial debt relief for the heavily indebted poor countries. Consequently, we regard as very important the proposal submitted at the G-7 meeting in Cologne, calling for an increase in the scope and coverage of debt reduction for the HIPC countries; it is also essential, therefore, that the necessary financing be provided.

The countries in our region are making considerable efforts to contribute to this financing, not only through the multilateral institutions, but also in some cases by reducing the official debt of countries that have qualified for HIPC assistance—as Brazil has done. Some of the non-HIPC countries in the region should join in a plan to share the cost of such financing equitably.

In this connection, we wish to express our concern regarding the financial stability of the regional multilateral institutions, whose commitment to the HIPC Initiative could jeopardize their continuing role in financing development projects in the countries of the region. There is also some concern regarding the financial position of the World Bank and IDB, which are facing serious problems in financing their participation in the enhanced debt relief framework. In our view, the main source of additional financing should be the bilateral contributions from the countries with the largest economic capacity, particularly those that took the lead in enhancing the HIPC Initiative.

The countries in our region applaud the Fund's efforts to find a creative solution to the problem of selling 14 million ounces of its gold reserves by employing a procedure that takes account of both the legitimate interests of gold-producing developing countries, and also the need to secure adequate resources to enable it to contribute to the enhanced HIPC Initiative.

The region welcomes the joint efforts of the Fund and the World Bank to strengthen the links between debt relief and poverty reduction, in the context of the economic programs introduced under the HIPC Initiative. But we wish to emphasize that this is an instance of cooperation

between two institutions with different mandates. The Fund should continue to concentrate its experience and expertise on issues relating to the macroeconomic stability of its member countries, while the World Bank should focus on development, including poverty reduction.

The countries in our region agree that it would be very difficult in practice to include specific social indicators in the quantitative and structural targets in Fund programs in general, although we acknowledge that, in HIPC countries, substantial progress on social issues and poverty reduction should form part of the final objectives of the Initiative.

The Peruvian Economy

I would now like to refer to the economic situation in Peru. Fiscal stability and monetary prudence, combined with the ambitious program of structural reform that has been implemented over the present decade, have enabled Peru to reduce its inflation rate from 7,600 percent to the level of about 4 percent projected for this year. The stability thus achieved has created favorable conditions for sustained economic growth, spurred by private investment and exports. Over the past five years, annual GDP growth has averaged 6 percent.

This year, despite a continuing deterioration in the terms of trade and reduced capital inflows, we expect increases in output to reach 3 percent, with 5 percent in the year 2000. From 1993 to 1999, exports doubled, thanks to a sound macroeconomic base and maintenance of a floating exchange rate. The current account deficit has been narrowed, and this year it should be reduced by approximately 4 percent of GDP. It has been financed by the long-term private capital associated with investment projects resulting from the government's commitment to macroeconomic stabilization and the adoption of measures to strengthen the existing legal framework, which is clearly favorable to domestic and foreign investment.

We have been able to deal with the adverse external events that have affected our economy since 1998, including El Niño, because of the soundness of the economy and maintenance of both a prudent level of international reserves and a strict framework of regulations and prudential supervision. It must be emphasized that the level of international reserves is more than enough to cover short-term debt and future external-debt maturities.

However, the shocks we have had to face have resulted in a slowdown in domestic demand and in tax collection. As part of the process of approving the budget for the year 2000, the government has announced austerity measures to improve its fiscal position and foster the necessary conditions for the recovery of private sector activity.

Peru's economic progress has brought about substantial advances in poverty reduction and improvements in the living standards of its peo-

ple. I must emphasize how important it has been to win a victory over terrorism and finally establish peace with Ecuador. These events have been especially significant in improving the prospects for investors and, above all, in enhancing the welfare of our citizens.

Over the past decade, Peru's achievements have been substantial, consisting of economic stability, domestic and international peace, and integration into the global economy. We have established the basic conditions necessary for Peru's sustained growth over the coming years, providing opportunities for all its citizens within a market economy based on private investment, this being the foundation we are endeavoring to consolidate.

The great challenge of our time, and our principal national objective—the aim upon which a consensus must be reached by all social and productive sectors and all political groups, regardless of any ideological considerations or circumstantial disagreements—is poverty reduction, or, in other words, an increase in wealth through the creation of productive employment throughout the country. All our efforts are directed toward this basic goal and should continue to be directed toward it, with increasing determination.

The challenges facing Peru are to achieve growth, which is first and foremost equitable; to develop a market-based economy; to strengthen democracy and institutions; and to guarantee access to health care and education for all. In Peru, we have taken up these challenges with the same earnestness and conviction that have characterized the country's performance over the past decade.

I wish to express the appreciation of the Peruvian government for the efforts of the Fund, and particularly the work of Michel Camdessus and the President of the World Bank, James Wolfensohn, and for the support that both institutions have provided for the economic and financial policies that the country has pursued since 1991. This year, Peru has signed a new three-year Extended Arrangement with the Fund, a fact that confirms the county's commitment to macroeconomic stabilization, reaching beyond the approaching elections.

The approach of the new millennium, and these Annual Meetings of the Fund and the World Bank, provide an appropriate time for us to renew our faith in a higher destiny for all the men and women on this planet. The twenty-first century will find Peruvians working and helping build a more humane and just world.

POLAND: HANNA GRONKIEWICZ-WALTZ

Governor of the Bank

I am honored to participate in the Annual Meetings of the International Monetary Fund and the World Bank taking place on the eve of the

new millennium. The turn of the century is an excellent opportunity to sum up our recent accomplishments and to set clear objectives for the future. After the latest financial crises that so strongly affected many countries of Asia, Latin America, and Europe, the global situation is gradually stabilizing, although its far-reaching effects will persist for a long time. However, that does not mean that the most serious problems faced by an ever-increasing number of the poor of our planet are vanishing. We welcome the fact that international financial institutions attach growing importance to the problem of poverty.

The discussions on the necessity of reforming international financial system and creating a basis for new international financial architecture are already bringing noticeable effects. Our viewpoint is that capital flow liberalization, in combination with the implementation of adequate and rational fiscal and monetary policies, can contribute to foreign capital inflows—to an increasing extent from private sources—which are essential to achieving a fast sustainable economic growth. However, because of a huge volume of daily capital flows, the question of liberalization needs to be considered with due care, as free capital can be a source of potential turmoil in international financial markets. Poland actively takes part in all discussions on these subjects, taking the view that the most important question is the actual implementation of internationally accepted standards of conduct that may be instrumental in alleviating problems related to the flows. A decision to join the Fund's operational budget on September 1, 1999 was our practical contribution to increasing the Fund's lending capacity.

Within the process of strengthening financial systems, we attach great importance to the analyses and assessments made by the Financial Stability Forum. Its works on capital flows, risk related to excessive short-term debt, and the role played by international financial organizations able to exert political and economic influence will significantly contribute to the implementation of a reasonable policy in all areas relating to a stable financial system. We believe that the forum should take into consideration the opinions of as many countries and international institutions as possible. The first-hand experience of the emerging markets affected by the recent crisis and, to an even greater extent, of the ones that have managed to withstand it, can undoubtedly heighten the effects of the actions undertaken by this body.

One of the key elements in the process of strengthening the international financial system and successful carrying out economic reforms is transparency of actions taken by governments and central banks. Disclosure of information related to fiscal and monetary policies enables the public to understand and evaluate financial policy as a whole, thus facilitating the authorities' undertaking actions leading to financial and systemic stabilization. It is obvious to us that only a credible information

system can guarantee an effective execution of the economic policy. Since the beginning of the transformation process, Poland has conducted an open information policy, which has contributed to a successful implementation of the economic policy in our country.

For many years, preventing financial crises and alleviating their adverse effects have been the focus of attention of the international financial community and governments, as serious financial difficulties can turn at a fast rate into devastating economic crises. Investors very often include all emerging markets in the same investment risk group. A crisis arising in one country brings about deleterious consequences for others in the region, and owing to the contagion effect, an immediate foreign capital flight follows. We are glad to notice that at present much consideration is given to this question, but we believe that it should remain the center of attention.

We should also aim at increasing the involvement of the private sector in the process of preventing and overcoming a crisis. Cost-sharing should be determined on a voluntary rather than obligatory basis. Emerging markets' governments should attach more importance to regular cooperation with the private sector on creating advantageous conditions for long-term foreign investment as well as to maintaining current contacts.

The international community—especially international financial institutions and governments of the most developed countries—has a crucial role to play in the fight against poverty and in assisting the countries suffering from the effects of crises. We are satisfied with the fact that the terms of alleviating the poorest countries' debts under the HIPC and ESAF programs have been agreed. It is definitely a desirable step toward improving their situation and beginning the process of an economic revival. To support this valuable initiative, Poland has declared a 20-year interest-free deposit with the Fund and additionally declared 5 million SDRs.

However, it ought to be emphasized that the debt reduction itself, without a tailor-made assistance program for each country, will not yield expected results. Debt reductions should supplement and not replace assistance offered to help achieve economic development. We also need to be aware of a crucial task of determining the size of the necessary assistance and a period of time during which it is supplied. We should consider ways of providing political consulting on the steps which have to be taken by the local authorities toward opening the economy, administering public and assistance funds, and pursuing sound economic policy. Taking into account situations specific to individual beneficiaries, we can learn from the useful experience of the countries that have already gone through this difficult stage of their history. The Comprehensive Development Framework, presented by Mr. Wolfensohn, President of the World Bank, can be instrumental in pursuing this objective.

Another priority we must not fail to recognize is taking up a determined fight against a phenomenon of widespread corruption, which is one of major factors hampering economic and social development. Corruption diminishes the effectiveness of international assistance to the poorest countries, which, in extreme cases, can even be discontinued. However, applying only legal means in this fight is not sufficient. Such actions need to have strong political and social support. Eliminating the adverse effects of corruption on international financial and commercial transactions requires the close cooperation of developed and developing countries. In the ever-changing international situation, defining new forms of corruption as well as increasing pressure on applying effective means, which have already been used in numerous developed countries, of counteracting corruption at any level, should also be taken into consideration.

Poland is ready to combine her efforts with those of all the countries that are represented here today, and with the Fund and the Bank, to find the way out of the difficulties that still lie ahead of us to enter the new millennium with a more stable global situation.

PORTUGAL: ANTONIO DE SOUSA FRANCO

Governor of the Bank

Since our last meeting, global economic prospects and financial markets have improved significantly, mainly in the past few months, largely eliminating earlier concerns of a worldwide economic recession. We are especially happy with the right policies and international solidarity, which made possible the containment of the Brazilian crisis and the quick beginning of recovery in Brazil. However, all over the world, the recovery is uneven across regions and remains unbalanced among industrial countries, while developing countries are growing at a rate that is still insufficient to make a difference in the poverty situation.

You will understand, my fellow Governors, that for my country, the most important event in the past months is the referendum in East Timor and the following massive destructive actions. Let me pay homage to the brave people of East Timor, who in spite of risking their lives, gave to all of us a lesson of their firm commitment to take their future into their hands and pursue an independent democratic state. This was a first step in creating the necessary conditions for peaceful development within the country. Before initiating that process, however, peace, law, and order have yet to be restored and emergency assistance is extremely urgent, with the help of all friendly countries, all East Timor's neighbors and the international community as a whole.

Looking toward the future, let me stress that, as the sources of financial instability subside and world recovery expands and takes root, it is

our obligation to address urgently the needs of the poorest countries. Fighting against poverty is a long-term and complex process, and we can not afford set-backs and further marginalization of countries or groups of people within countries. We warmly support the proposals to enhance the HIPC Initiative and call for its effective implementation. Debt relief is just an instrument for achieving sustainable poverty reduction and development in a broader sense. What is needed is not just growth, but growth that creates jobs; eliminates inequalities of income, and gives access to education, health, water, sanitation, and other basic services—in other words, growth that provides opportunity to all people. We have the political commitment, we have closer cooperation between the Bank and the Fund, and we need the means to translate our commitment to debt relief into results on the ground, under the leadership of recipient countries. Portugal has long been granting debt relief; it has already contributed to the HIPC Trust Fund, and my country stands ready to further contribute at a higher level of commitment toward this joint effort.

Development is a long-term, multifaceted, and interrelated process. It will require strong multilateral financial institutions, capable of—along with recipient countries and other partners—assisting countries in this process. The World Bank Group's financial situation has been put under some stress, and we have a responsibility to undertake measures to strengthen its financial capacity. We strongly support having an institution that is able to fulfill its development mandate and serve its members.

Globalization is a fact of life, but not all countries are taking part equally in this irreversible process, and inequality is an undesirable consequence of that. One way to help countries to become more integrated with the world economy is through participation in international trade. We concur with the proposed approach by the Bank to help developing countries to participate in the upcoming round of World Trade Organization negotiations.

It is time to rethink globally, on the other hand, a new financial architecture. Both the Bank and the Fund are moving in the right direction, but we urge all countries—especially the Group of Seven members—to quickly and globally rethink the current situation. Otherwise, new crises will certainly emerge out of the slow pace of reform. Deep and quick reform is not only needed by each one of our countries, it is also needed urgently by international institutions.

Before ending, I would like to return to my first topic: East Timor. We call for the international community to take firm action to restore peace, provide emergency aid, and contribute to the reconstruction needs of this devastated territory and people. We have to focus on immediate humanitarian needs—protecting and feeding displaced people, helping them returning safely to what is left of their homes, preventing any recurrence of violence, reconstructing families and communities,

and providing basic infrastructures. At the same time, we have the obligation—an obligation of solidarity—to begin the urgent and demanding process of reconstruction, and to help East Timor in building schools, health facilities, starting up economic activities, and setting up institutions and training people for a democratic and self-governed nation. Otherwise, words like democracy, human rights, law and order, social and economic development, would become quite empty. As our institutions have shown in the past, and will show again in the future, cooperation for democracy and development shall be the right and urgent medicine for this situation.

RUSSIAN FEDERATION: VIKTOR KHRISTENKO

Governor of the Bank

World Economic Outlook

Since our previous meeting last year, the global economic situation has improved substantially. Economic recovery in the countries hardest hit by the crisis came about faster than previously expected. Projections for growth in the Asian economies in 1999–2000 have been substantially upgraded, the economic downturn in Brazil turned out to be less serious than previously expected, and in Russia a return to economic growth that was interrupted in 1998 is now expected in 1999.

I would also like to mention the signs of economic recovery in Japan, which has been in recession for a long time. The stabilization of world commodity prices, together with increases in world prices for oil, have helped to improve the financial position of commodity exporting countries. The increase in capital flows to emerging market economies creates a background for stable economic growth in these countries over the medium term.

Despite the general improvement, however, the latest edition of the *World Economic Outlook* notes the remaining uncertainties and risks. In an environment where a slowdown in the U.S. economy seems unavoidable and the recovery in Europe and Japan remains problematic, it is not clear who will act as the "engine" for the global economy. Moreover, the longstanding divergence in growth rates among the leading industrial economies has already resulted in serious current account imbalances.

Crisis Resolution in Emerging Market Countries

In the Asian region we see a gradual improvement in the economic situation, which manifests itself in renewed growth and inflow of foreign private capital. This is particularly true of Korea and Thailand, which pursued the most steadfast and consistent policies in the period follow-

ing the financial crisis. At the same time, these countries have not yet completed the complex structural reforms, especially in the banking and corporate sectors.

Economic contraction in a number of countries of Latin America this year is explained largely by the impact of the financial crisis in Brazil. On the other hand, the decline in output in Brazil itself was not as severe as had been previously expected. This was primarily the result of responsible macroeconomic policy and vigorous structural reforms carried out in the country, which made it possible to restore investor confidence quite rapidly. It is expected that in many Latin American countries there will be a resumption of growth as early as next year.

As far as the Russian Federation is concerned, we can already say today that the worst fears expressed after the severe financial crisis in August 1998 have not materialized. The policies of the government and the central bank largely stabilized the situation. Moreover, the devaluation of the ruble had a positive impact on the real sector. For example, in the first half of this year industrial output grew by 3 percent compared to the same period last year.

A reasonably tight monetary policy helped reduce inflation to 1.2 percent in August 1999, in comparison with double-digit monthly inflation last year. It is expected that this year, as a result of the devaluation of the ruble and higher oil prices, there will be a substantial improvement in Russia's current account (which is expected to reach a surplus of up to 14 percent of GDP). This, in turn, is stabilizing the central bank's foreign exchange reserves and the exchange rate of the ruble.

Noticeable progress has been achieved in the fiscal sector, which has been the weakest point in Russia's economic policy over the recent years. Tax and tariff collection improved significantly; in the first half of this year federal budget revenues exceeded 13 percent of GDP as compared to 11 percent last year. Moreover, all federal budget revenues are being collected in cash, since the practice of mutual offsets has been terminated. It is already clear that the federal budget primary surplus of 2 percent of GDP stipulated for this year will be successfully achieved. The draft federal budget for 2000 calls for an increase in the primary surplus to 3.2 percent of GDP.

Of course, many problems remain, especially on the structural front. We must complete the restructuring of the banking system, which was hard hit by the crisis. Strengthening payment discipline and reducing the degree of "barterization" of the economy continue to be among the most important objectives. The government and the central bank intend to address all these issues in close cooperation with the Fund and the World Bank. Currently, Russia is successfully implementing a Stand-By Arrangement agreed with the Fund.

Increasing globalization of international capital markets is bringing new challenges to exchange rate regimes in emerging market economies. As the recent experience of many countries shows, defending the exchange rate with interventions counter to the market sentiment merely leads to rapid exhaustion of foreign exchange reserves. Many believe nowadays that the only choice for emerging market countries should be either a freely floating system or a currency board arrangement.

It is true that during the recent financial crisis, countries with currency board arrangements successfully defended their national currencies. They paid for this, however, with a loss of competitiveness, and an economic downturn. Meanwhile, some countries that were pursuing a more discretionary exchange rate policy managed to avoid both an economic downturn and a sharp depreciation of the national currency. These countries are known for their healthy macroeconomic situation and stable financial system, and also for a high level of foreign reserves, which significantly exceed their monetary base. It seems that precisely these factors also determine the stability of the currency.

Clearly, exchange rate stability is of great importance for robust development of the economy, since it reduces the degree of uncertainty for all agents. Successful management of the exchange rate, however, requires a whole range of conditions, such as a healthy macroeconomic situation, a strong financial system, and a high level of foreign exchange reserves. For emerging market countries where these conditions do not hold, it is better to adhere to a floating exchange rate policy. This is especially true for countries that are heavily dependent on world commodity prices, since a floating exchange rate makes it easier to absorb terms of trade shocks.

Liberalization of capital flows is useful and beneficial. At the same time, it does entail considerable risks and requires careful preparation. The main condition for success, in addition to general macroeconomic stability, is the need to have strong financial and banking systems backed by independent regulatory bodies. Prudential control of capital flows (especially short-term ones) are permissible, and in certain cases even desirable. The very term "orderly liberalization of capital movements" assumes the sensible use of restrictions and their gradual relaxation in line with the pace of economic reforms. The advisability of employing such restrictions is determined by a whole set of circumstances, such as the overall level of country's economic development, depth of financial markets, state of the banking system, and so on. As noted in Fund reports, many countries view such restrictions as a useful instrument and their own experience in using these restrictions as an obvious success. Moreover, interest in the experience of these countries has been growing lately. Therefore, we believe that there is a need to continue the stud-

ies of experience with using capital control measures. We are not opposed to amending the Fund Articles of Agreement to add the capital account liberalization to the Fund's objectives. At the same time, capital account liberalization should not become a condition for access to Fund resources.

The question of involving the private sector in forestalling and resolving financial crises is very important for strengthening the global financial architecture. We have no doubt about the need for the private sector to participate in the resolution of financial crises. At the same time, we believe that this is a very complicated task requiring a cautious approach. On the one hand, we understand the desire to work out a set of rules on this issue, which would both help reduce uncertainties on financial markets and provide for a more equitable burden-sharing among various groups of creditors. On the other hand, any hasty and unwise steps in this area could lead to a drastic deterioration in borrowing conditions for emerging market countries. We would also note that some useful experience is being gained in this area now.

We also need to maintain an ongoing dialogue with representatives of the private sector. We need to explain that the Fund does not seek to impose specific parameters for restructuring private sector claims, and that the Fund simply evaluates the status of a country's balance of payments, while all decisions should properly be based on the outcome of negotiations between creditors and debtors. It is also important that the private sector not get the wrong idea that some specific decision taken with regard to one country or another will henceforth necessarily become a rule.

We support the transparency and international standards initiatives undertaken by the Fund to increase the degree of openness of its activities, as well as its relations with member countries. Substantial progress has been achieved in the development and implementation of international standards in the areas directly related to the Fund's mandate. We support the strengthening of the Special Data Dissemination Standard (SDDS) with respect to international reserves and external debt. We also believe that the codes of good practice for fiscal, monetary, and financial policies developed at the Fund will be very useful to countries working to strengthen their budgetary and financial systems. At the same time, we believe that the use of standards in the Fund's activities should be restricted to the analysis of progress achieved by the countries, and recommendations about further improvements; in no way should they be used to categorize countries for whatever purpose.

Cooperation between the Fund and the World Bank

Successful cooperation between the Bretton Woods institutions is a crucial element of the international financial architecture. This cooperation becomes even more important during major financial crises. The

Fund and the Bank are currently faced with a dual task: dealing with the aftermath of the crises and preventing contagion and recurrence. We are pleased to note significant progress achieved in this area. The Interim and Development Committees devoted much attention to the specific aspects of cooperation between the two institutions.

This cooperation should be based on two fundamental principles—complementarity and avoiding duplication. On the one hand, each institution should focus on its own area of expertise; on the other, the knowledge and experience should be shared between the two and integrated into respective policies and documents. Contacts should be established at all levels of the hierarchy. In our view, the activities of the Financial Sector Liaison Committee of the Fund and the Bank may be viewed as a model for such of cooperation.

However, the mandates of the two institutions remain different. Specifically, national fiscal and monetary policies tend to affect the situation in other countries and regions. The Fund is thus charged with a special surveillance mandate. This function is not a part of the World Bank mandate, which, therefore, is not a standard-setting body. The Bank's role is to provide resources for development and poverty alleviation in developing and transition economies. The Bank's valuable role as a knowledge institution should remain client-driven and advisory only.

Initiative for Heavily Indebted Poor Countries

We support the HIPC Initiative and the reallocation of resources currently going to service external debt toward funding poverty reduction programs. The countries pursuing sound macroeconomic, structural, and social policies should be able to escape from the "debt trap" in the nearest future. The Russian Federation will continue to fully participate in operations to assist individual countries on the basis of the agreed principles of burden sharing. We particularly welcome the new emphasis on poverty reduction in the initiative design, which fits so well the Comprehensive Development Framework.

However, our support for the expansion of the initiative is conditioned on its adequate financing. At the same time, we would welcome a compromise solution that takes into account budgetary and domestic political problems of individual donors and creditors. Firm donors' commitments can be combined with a more flexible schedule of actual payments.

SRI LANKA: G.L. PEIRIS

Alternate Governor of the Bank and
Temporary Alternate Governor of the Fund

It is a privilege for me to address the fifty-fourth Joint Annual Meetings of the Fund and the Bank on behalf of the government of Sri Lanka.

Let me join my fellow Governors in congratulating you on your assumption of the chairmanship of the 1999 Annual Meetings.

World Economy and Policy Challenges

Global economic and financial market conditions have improved since the last Annual Meetings, allaying our earlier fears of a worldwide economic recession. Despite further prospects reflected by some factors, risks, and uncertainties remain high, posing challenges to policymakers. A major concern in this regard arises from the imbalanced growth pattern among major industrial countries, leading to persistence of macroeconomic imbalances and aggravating systemic risks for potential sharp corrections in response to reassessment of market confidence and monetary policy changes. Furthermore, net capital flows into developing countries and transition countries remains low and costly. The continuation of depressed nonfuel commodity prices creates terms of trade difficulties for commodity exporting countries. Furthermore, potential reactions to actual or perceived Y2K compliance in the run-up to the year 2000 may create an additional risk factor.

These concerns underscore the necessity of strengthening macroeconomic policy coordination among the major industrial countries. Such policy coordination is also crucial to minimize sharp exchange rate fluctuations among major international currencies. Meanwhile, strengthening of noninflationary demand in industrial countries and further opening of their markets for developing country exports are necessary to create a conducive external environment for developing countries.

Let me turn now to my own country. Despite the adverse impact of international financial crises, Sri Lanka achieved 4.7 percent economic growth in 1998, reflecting improved resilience in the economy and the benefits of continuing prudent macroeconomic management. The policies in place, and new policy responses could not eliminate the completely adverse impact of external shocks, but they mitigated the contagion effect to a large extent. The inflation rate further declined owning to improved supply conditions, lower import prices, and successful monetary management. The rate of unemployment continued its downward trend for the sixth consecutive year, reflecting expansion of job opportunities; mainly in the private sector. Investment has expanded, reflecting improved investor confidence. Domestic savings increased at a faster rate, reducing the investment savings gap. Even though export revenue has been affected during the first half of 1999 on account of depressed commodity prices in the international markets, economic prospects are now improving in the second half as expected.

The government has been actively pursuing its primary objectives, moving toward sustainable high economic growth, and ensuring the fair distribution of benefits of such growth. Improving macroeconomic stability,

promoting private investment, strengthening international competitiveness, and addressing directly the problems of poverty and unemployment are the main elements of our strategy. Within this strategy, special emphasis has been placed on structural reforms in order to address deep-rooted growth-hindering issues. In the political sphere, considerable progress has been made in building consensus among all parties on major issues addressed by the proposed constitutional reform package in order to find a political solution to the ongoing conflict. I greatly appreciate the increasing support of the international community for this difficult but necessary endeavor.

Bretton Woods Institutions

Turning to the Bretton Woods institutions, we commend their efforts to facilitate world economic recovery and to develop crisis-preventive and resolving measures. We appreciate the progress made by the Fund in improving the existing instruments and introducing new instruments, in order to provide faster and adequately necessary resources to crisis-affected countries. We also welcome the introduction of a facility to help members to meet their balance of payments need, related to Y2K compliance problems. My country strongly supports efforts for improving the effectiveness of the ESAF and enhancing the HIPC Initiative to provide deeper, broader and faster debt relief. I am happy to state that my country has decided to make available its balance in the second Special Contingent Account as an interest-free deposit for the HIPC financing.

While noting recent improvements in the Fund's liquidity position following the quota increase under the Eleventh General Review, we underscore the necessity of early completion of the amendment to Article II for a one-time "selective" SDR allocation. We welcome the appointment of the Quota Formula Review Committee, necessary as it is to improving the quota allocation of the Fund by taking into account developments in the world economy. Given the increasing demand for the Fund's resources, an early resumption of new "general" SDR allocation under the current Articles of Agreement, giving due recognition to increasing the share of developing countries in the world economy, is also an essential step.

We welcome the Fund's efforts in expanding external evaluations to improve its surveillance and research activities. I am confident that implementation of constructive proposals in these evaluations will strengthen the Fund's surveillance activities and its role as policy adviser.

While commending the successful accomplishment of IDA-12, I wish to emphasize the necessity of ensuring proper burden sharing in the mobilization of the required resources. We appreciate the World Bank's efforts in poverty alleviation activities. However, we underscore the necessity of mobilizing a more bilateral contribution for financing the

enhanced HIPC Initiative in order to ensure resource availability for the World Bank's normal development credit facilities.

Given the increasing demand for World Bank resources, it is essential to explore all equitable options, including a general capital increase. I welcome the World Bank Group's innovative approach to facilitating and encouraging private sector investment in developing countries. We welcome the progress made so far on a number of fronts by the Fund and the World Bank in collaboration with other institutions in their efforts to strengthen the international financial system. However, I wish to reiterate the necessity of adequate and effective involvement of developing countries in this process in order to develop measures acceptable to all of us.

We welcome the World Bank's increasing efforts, together with other international organizations, to provide the necessary assistance to strengthen institutional capabilities in developing countries to handle trade-related issues. Developing countries look forward to the outcome of the ongoing work of the task force led by the World Bank to formulate a new initiative for stabilizing and hedging commodity prices.

SWITZERLAND: KASPAR VILLIGER

Alternate Governor of the Fund

A remarkable change has taken place in the global economic situation since our meeting last year. The risk of serious slowdown has receded, and financial markets have calmed down significantly. In my statement last year, I cautioned that we should not overdramatize existing problems, but tackle them. Positive developments over the last year underscore that we have been quite successful. Overall, skillful economic management, implementation of ambitious structural reforms in many crisis-hit countries, as well as some progress in strengthening the international financial system are the main reasons for the improvement of the global situation.

This being said, we have no reason to be complacent. It would be a fundamental mistake to relent on our efforts to tackle the still remaining challenges based on improved circumstances. Developments in recent months have shown that financial markets can become volatile very quickly, given the remaining uncertainties. Abrupt corrections in exchange rates of major currencies cannot be excluded, given existing imbalances between major economies. Furthermore, the uncompleted agendas of structural reform in the banking and corporate sectors in many countries could become a serious source of concern in the event of a deterioration of the global economic picture.

To reduce further the risks of future financial crisis, we must continue with our endeavor to strengthen the international financial system. I am convinced that our efforts to date are beginning to bear fruit.

Significant progress has been achieved in the area of promoting greater transparency of members' policies and IMF advice. Article IV reports are being published by a large number of countries, and most members with IMF-supported programs are publishing their policy documents. Better-informed populations and market participants translate into less uncertainty and strengthened ownership of economic policies. I also commend the Fund for its efforts in establishing international standards and best practices in the areas of its core activities. The next step is to ensure the implementation of these standards and practices and monitor the progress. The Fund plays a key role in this area, given its universal membership and its surveillance mandate. In the context of standards, I also welcome progress made by the World Bank in the areas of corporate governance and social policies. Our experiences in recent crises have demonstrated how macroeconomic difficulties can be exacerbated by weaknesses in corporate governance. Furthermore, we have all witnessed the social hardships associated with economic crises. Therefore, defining and implementing standards and good practices also in these areas is important. A strong cooperation between the Fund and the World Bank will be crucial in this respect. We should continue our endeavor to make full use of the complementary nature of the two institutions and reduce work duplication.

We must continue our efforts to involve the private sector in forestalling and resolving financial crises. Progress has been relatively slow in this area because of the complexity of the issues involved. However, in my view, market participants have received the most important message, namely that private creditors should no longer be bailed out by official resources. Future policies will have to be based on the ongoing experience with specific cases of private sector involvement. This will allow us to develop consistent approaches over time. The private sector is only able to assess the risks of its lending correctly if the rules of the game are clear.

Let me now turn to the HIPC Initiative. Switzerland has strongly supported this joint IMF-World Bank initiative and has contributed generously to its financing. I welcome the proposals to enhance the current HIPC framework. Providing deeper and faster debt relief and strengthening the link to poverty reduction should help ensure that the stated goals of the initiative can effectively be reached. However, increasing the amount of debt relief and providing it faster will not be sufficient to do the job. Debt relief has to be accompanied by sound economic policies and a solid institutional framework that will allow the financial resources to be used effectively. This means an efficient tax system, a transparent budgetary process, and good debt management capacities.

The enhancement of the HIPC Initiative has entailed a significant rise in financing costs. I am pleased that after a long period of uncertainty, a satisfactory solution could be found to secure the necessary financing. However, I would have preferred to see a greater share of the costs financed through bilateral contributions. This, particularly, given the forcefulness with which several major donors have pushed for enhancing the HIPC framework. I urge all members to ensure that their current pledges will result in effective payments.

The HIPC Initiative is only one element in our endeavor to reduce poverty. I note with satisfaction that poverty reduction has moved to the top of our agenda more generally. I fully support the view that poverty reduction has to be the objective for all of our assistance and of our policy dialogue. I welcome the strengthened cooperation between the Fund and the World Bank to ensure that poverty alleviation is a priority for all the activities of both institutions with regard to developing countries. The proposed new Poverty Reduction Strategy Papers will be a useful instrument to concentrate the minds of the governments, the Fund, and the World Bank on this central challenge and to outline concrete action plans.

It will be impossible to reduce poverty in a sustainable way without improving the quality of public governance. Strengthening public institutions and their partnership with civil society has to become an integral part of all World Bank projects and programs. All lending instruments should be analyzed as to their impact on strengthening institutions and as to their contribution to strengthening governance.

We must also continue with our efforts to reduce the scope of corruption. Such behavior has a negative impact on poor people's access to public services and results in an inequitable redistribution of resources. Specific anticorruption programs designed by governments should be fully supported by the Bretton Woods institutions in addition to improving the functioning of the public administration, increasing fiscal transparency, and improving the regulatory framework in general.

Another key element to fight poverty is the strengthening of the private sector in developing countries. It is urgent for the World Bank Group to create synergies in private sector development. A close look must be taken at the respective functions of the Bank, the IFC, and MIGA. The World Bank Group has to become more effective in supporting privatization; small, medium, and microenterprises; private investment in utilities; and linking the productive and the financial sectors. These are all essential elements for the future World Bank Group. They should be implemented urgently.

Let me conclude by thanking the staff and management of both the Fund and the World Bank for their commitment to the work of our institutions. I remain fully convinced that the Bretton Woods institutions

with their well-established structures provide the best framework for finding solutions for the multiple challenges we are facing. Therefore, we must be careful not to undermine it by creating parallel structures. I can assure you that the Fund and the World Bank will continue to have Switzerland's full support.

THAILAND: CHATU MONGOL SONAKUL

Governor of the Fund

It is an honor for me to address the Bank-Fund Annual Meetings, which will be the last in this century. Looking back over the past years, there are many accomplishments that the two Bretton Woods institutions can be proud of. We have gained virtually universal membership. Economic development has kept a strong momentum, although disparity continues to widen between the developed and developing worlds. While we are witnessing many positive trends, large challenges remain for developing and transition economies as they enter the next millennium.

Global Economy

It is worth noting that the global economy is yielding surprises, recovering more rapidly than previously expected from the severe effects of the currency and financial crisis. The net effect of interest rate cuts in the industrial countries, fiscal stimulus in Japan, stabilization and modest growth of Asian imports, and improved financial conditions in emerging markets have been stronger than expected, leading to increased global growth forecasts. These events and trends have been bolstered by a number of positive developments, including the unexpected speed with which some larger developing countries are adjusting to adverse shocks, the stronger-than-expected Asian recovery, the continued strong performance of the U.S. economy despite some signs of slowing, and the strong first-quarter advance in Japan. With the rapid recovery in Asia, world trade has rebounded strongly, stimulating activity around the world. And in Asia itself, strong interregional trade is accelerating the recovery in domestic activity.

Though these are all positive developments, 1999 remains a year of weak growth for developing countries, particularly relative to pre-crisis levels. The overhang of bad debt and troubled banks and other financial institutions will limit our prospects for a rapid growth rate. Not surprisingly, capital flows to developing countries remain disappointing. Spreads remain high, and banks continue to reduce their exposure to emerging markets. Nevertheless, liquidity conditions in emerging markets have loosened considerably this year, with lower domestic interest rates; rising equity prices; and, in some cases, upward pressure on currencies.

The overall outlook remains positive. A stronger and positively reinforcing Asian recovery and a sharper rebound in Europe are both upside possibilities. A stock market correction and hard landing in the United States and a relapse into recession in Japan are the principal downside risks. Nevertheless, the considerable reform efforts undertaken in many developing countries make it unlikely that another currency crisis will trigger the contagion effects of 1997/98. As in Thailand, I hope the global economy continues to surprise on the upside as we put the recent crisis behind us and move into the new millennium.

Thai Economy

I am pleased and encouraged that Thailand, along with many other countries, has turned the corner on the recent crisis. Having bottomed out in the second half of 1998, we expect positive growth of 3–4 percent this year, driven by export growth, increased government expenditure, and private consumption. A stable macroeconomy with inflation of less than 1 percent, a current account surplus of $11.5 billion and reserves of $33.5 billion, intensified efforts to resolve financial sector difficulties, and broad-based structural reform will all help to ensure that the recovery is sustainable.

Of course, obstacles remain. Unemployment remains significant. Bank lending remains sluggish in light of remaining problems with risk and nonperforming loans. The latter remain unacceptably high at 47.7 percent and reflect the difficulties many businesses still face in restructuring.

I am confident, however, that Thailand is laying the groundwork for a sustained recovery. Demand, both domestic and export, has picked up. And, on a more fundamental level, we have also seen a positive supply-side adjustment, with a sustainable portion of businesses shifting toward the tradable sector. Foreign direct investment and foreign strategic partnership have strongly supported the adjustment.

Efforts have been intensified to resolve financial sector difficulties. A voluntary market-based approach to corporate debt restructuring has been facilitated. Overall recapitalization has advanced at an impressive rate, with over B 725 billion raised by banks and finance companies since the beginning of 1998. With new strategic partners, banks are acquiring better technology, management, and professional skills—leading to increased strength, transparency, and competitiveness. Recognizing the importance of legal and regulatory reforms as the foundation for sustained recovery, we have intensified the momentum for reform. We are now in the final stages of drafting a new Financial Institution Law and a new Bank of Thailand Law. The Code of Civil and Commercial Procedure Bill on Default Judgment is well on its way to timely passage. The new bankruptcy court is now in session, with more than 100 cases currently under consideration.

To preserve and enhance human resources so as to strengthen the adjustment and consolidate the recovery over the medium-term through increased productivity and competitiveness, Thailand is embarking upon broad restructuring in social and public sectors, as well as implementing social and welfare programs, emphasizing training, health care, and job creation. The international community has supported these efforts through structural adjustment lending and social safety net programs.

Macroeconomic policy will continue to support recovery. The latest fiscal package announced in August aims at ensuring a sustained recovery, facilitating the restructuring of the manufacturing sector, and strengthening private sector competitiveness. The package focuses on the small and medium enterprises as a cornerstone for recovery. The government continues to maintain the expansionary fiscal stance to stimulate the economy and alleviate social ills. On the monetary side, policy will continue to accommodate the recovery while remaining vigilant against the build-up of inflationary pressures and excessive exchange rate volatility. In addition, Thailand is moving to adopt flexible inflation targeting as a monetary objective in the medium term, helping to preserve our remarkable record of low inflation, even with the removal of the nominal anchor of the fixed exchange rate.

Thailand's outlook has improved dramatically since last year's meetings and, with continued progress and reform together with favorable external conditions, we fully expect further improvement by next year this time. With macroeconomic stability firmly established and financial and corporate sector adjustments steadily advancing, we will increasingly turn our attention to implementing supply-side policies.

Bank and Fund Matters

Let me now turn to Fund matters, we would like to compliment the Fund on its role in and contribution toward the reform of the international financial architecture. In this area, there are a number of issues on transparency, international standards, and the strengthening of the Interim Committee. The voluntary preparation and publication of transparency reports—focusing on a description of a member country's practice and progress on meeting the standard—is an important step toward strengthening the overall financial system. Many crucial issues, however, still require further work. We urge that concrete mechanisms be established for securing private sector involvement in resolving and forestalling the financial crisis. In this regard, careful consideration should be given to allow the international community to sanction a temporary stay on creditor litigation in extreme circumstances. Regarding the Fund's role in the liberalization of capital movements, we would like to reiterate that the sequence and pace of liberalization should be closely linked to stage of economic development and to a country's individual circumstances, given the complexity of the issues.

On the HIPC Initiative, we welcome the Bank and Fund's efforts in providing faster, deeper, and broader debt relief for the poorest countries, which demonstrate a commitment to reform debt and poverty reduction. We therefore support the off-market gold sale and other initiatives to secure the ESAF and HIPC financing. We, however, share the concerns of other developing countries regarding the financial burden that the enhanced HIPC framework will have on the multilateral development banks. We urge that major industrialized economies take a strong leadership in this important endeavor through bilateral contributions based on a fair burden-sharing principle.

Regarding Bank matters, I believe that the World Bank and the Asian Development Bank have been helpful partners throughout the crisis, supporting our initiatives and complementing the efforts of the Fund. I am gratified by the way the Bank has helped to put together assistance for financial and corporate restructuring and for its role in supporting our social agenda to cushion the impact of the crisis on the poor and vulnerable. The role it plays also reflects very much the approach embodied in the Comprehensive Development Framework, which we fully support. However, strong partnership and ownership of the government must be central to the CDF initiative, and we urge that Bank must be flexible and mindful of the government's view. The Bank also has a crucial role to play in the new international financial architecture and must go beyond its current role as coordinator and collaborator, and influence the consensus at the international level with the perspective of the developing countries. It also has a key role in the international trade agenda, promoting issues of interest to developing countries. With the resource and knowledge that it has, the Bank can help developing countries to prepare and develop the trade agenda as well as to support their institutional capacity for trade negotiation.

TURKEY: SELCUK DEMIRALP

Governor of the Bank

It is a great pleasure and honor for me to address the joint Annual Meetings of the Fund and the Bank. I will begin with a few remarks on the current state of the world economy, and then will describe recent economic developments in Turkey following the recent earthquake, which was the worst disaster in the history of the Turkish Republic.

Developments and prospects in the world economy during the past year have generally been satisfactory and encouraging. This is certainly a relief after witnessing the two consecutive crises of 1997 and 1998. The world economy has steadily improved since last year's Annual Meetings. There are signs of a real recovery and revival of activity in many parts of

the world, and a general mood of optimism concerning the immediate global outlook.

However, these favorable signs are accompanied by serious challenges that leave no room for complacency. There are risks that must be met with precautionary policy actions. Careful fine-tuning of U.S. policies will be needed to control potential inflationary pressures. Structural reforms must be completed before Japan's recovery can be considered durable. In Europe, serious efforts must be made to remove the obstacles blocking the reduction of structural unemployment. For the emerging market economies, the picture is mixed. For some Asian countries, the recovery from the crisis has been much faster and stronger than expected, but Latin American growth has never really recovered from the debt crisis of the 1980s. Here, too, further progress with structural reforms is badly needed.

At the present juncture, there is general recognition of the risks in the global financial markets and an international consensus that the time has come to restore the stability of the international financial system. We must now translate that consensus into action. The Fund and the Bank, each preserving its specialized function and nature, must improve the coordination of their responses to countries' financial problems. Enhancing the effectiveness of Fund surveillance will enable it to help its members adjust before market discipline forces adjustment upon them.

In this connection, we join the emerging consensus that private financial institutions must play a more active contribution to the stability of the international financial system by accepting orderly debt work-outs based on equitable burden sharing. This appears to be one of the thorniest issues facing the international community today.

Having summarized our thoughts on these agenda items, I would now like to touch on some very serious matters affecting the Turkish economy, particularly the effects of the recent earthquake.

Although extremely serious, and likely to result in missing macroeconomic targets, we do not believe that the economic losses caused by this natural disaster will derail Turkey's structural adjustment process. The solid but resilient structure of the Turkish economy will enable it to limit the effects of the shock to the short term. With support from the international community, the government will be able to fulfill its commitment to finish its program of structural adjustment. In fact, we were in the midst of calibrating our macroeconomic targets for the next stage of our anti-inflationary program when the earthquake struck.

In addition, implementation of the stabilization program monitored by the Fund in the framework of Turkey's "staff-monitored program" has gone fairly smoothly: the program stance has been maintained, and the fiscal targets, in particular, have been met. Progress so far is fairly in line with last July's agreement with the Fund.

Other steps taken in line with this understanding with the Fund include significant progress in the structural area, including increasing the financial system's efficiency and strengthening banking supervision; a constitutional amendment permitting international arbitration for the telecommunications and energy sectors; and reformation of the social security law. All this legislation has been approved by parliament.

These accomplishments will be complemented by the government's firm determination to reduce the budget deficit and impose fiscal discipline on the public sector. These goals will shape Turkey's budgetary and fiscal plans for the year 2000, and Turkey will continue pursuing its anti-inflationary program, working in cooperation with the Fund and Bank to achieve lasting results. We count on the continued support of the international community as we make progress with our program.

Here, on behalf of my country and its people, I wish to pay due tribute to the international community, and particularly the Fund and the Bank, for the immediate and splendid aid and cooperation provided to help us cope with the effects of the earthquake. Now I would like to discuss, briefly, what we have been able to learn so far about the economic effects, immediate and more remote, of this catastrophe. This natural disaster is one of the most serious to occur during the century just ending. Over 15,000 lives have been lost, and there is extensive damage to Turkey's industrial heartland. An estimated half-million people are homeless. As the nation digs out of the rubble, it is clear that a major reconstruction and restoration plan is needed. World Bank studies indicate that direct costs, including material damage and wealth loss, will amount to 1.5 to 3.0 percent of GNP. A detailed survey of capital and inventory losses in the housing and enterprise sectors is not yet complete, but a more or less precise estimate will eventually be available. Preliminary estimates indicate that the earthquake will reduce GNP for 1999 by about 1.0 percent. Employment losses in the affected areas are expected to exceed 20 percent. The disruption of Turkey's economic recovery creates challenges that are enormous, but not insurmountable.

Let me thank the Fund, the Bank, other multilateral institutions, and bilateral donors for their early support in the design of streamlined emergency arrangements for the massive rescue operations. We are confident that this essential cooperation will continue during reconstruction efforts to restore essential facilities and services and reestablish basic economic activities in the disaster zone, so that long-term economic and social disruption can be avoided. We are also grateful to the Fund, the Bank, and other donors for their coordinated assistance within the comprehensive plan toward the effective restoration of normal economic and social conditions.

Let me end by restating our appreciation to the Bank and the Fund for their help with our development efforts. I hope that 1999 Annual

Meeting will lead to a fruitful exchange of views on international economic and financial matters, and I look forward to a closer development partnership in the new millennium.

TURKMENISTAN: KHUDAIBERDY ORAZOV

Governor of the Fund

It is a great pleasure and honor for me to address the Annual Meetings of the World Bank Group and the Fund. The continuing efforts of both organizations to implement reforms of the international financial system in order to avoid future global financial crises are well appreciated. Significant financial and technical assistance from these organizations enables developing member countries to implement the reform process and to create a basis for strengthening their economies. However, the global crisis is undermining the efforts of developing countries to achieve economic growth. This is particularly true for Central Asian countries and countries of the former Commonwealth of Independent States that have much work to do to complete the transition process.

The economic development process depends more on factors of regional character, than on existing global problems. Countries whose economies are largely dependent on external trade deserve special attention. Turkmenistan has been particularly affected by the economic crisis in our region with a combination of falling commodity prices, slower growth in trading partner countries, and chronic nonpayment of debts by debtor countries.

I will not try to discuss all the problems of our economy at this time, many of which are within our own capacity to control, but would like to draw the attention of my fellow Governors and the Fund staff to the need to make urgent progress in improving the external payment arrangements in the countries of the former Soviet Union.

A smooth working payment system is vital to the future development of this region. While the region as a whole is likely to run a considerable current account deficit with the rest of the world in the coming future, this should not blind us to the fact that some countries—such as Turkmenistan—are inherently creditor countries within the region and need to be paid in cash on time for their exports if they, in turn, are to meet their trade and debt obligations to the rest of the world.

Resolution of this issue would also assist the Fund's goal to stamp out inefficient and inequitable barter trade. Turkmenistan agrees with this objective and has made considerable strides in reducing barter trade within its own borders. However, in attempting to apply that same principle to trade and payment relations with our neighbors, we find that the system does not work. Therefore, with no basis for enforcing payment

for exports, we must often fall back on barter payments as a second best alternative.

I would like to highlight three areas where urgent action is needed to improve the payments system. First, attention needs to be given to the rules of conduct of inter-governmental trade transactions. In our early period of independence, exports of gas and other commodities within our region were always regarded as being an intergovernmental transaction between sovereign states. Such transactions were given a special status that provided some protection to the exporter, since collection of payments for such exports could be enforced under Fund programs. In a sense, it acted as a substitute for the export insurance facilities available to western countries. While countries in this region may eventually also move in the insurance direction, the stability of intergovernmental arrangements provides important glue for existing trade arrangements.

Unfortunately, we saw a disturbing abrogation of this long-standing principle, when Ukraine declared that its obligations under the agreement on gas supplies signed by the governments of two countries were not the state's obligations, referring to the status of the organizations responsible for the execution of this agreement. In fact, these organizations are operated and managed within the state management system. This has led to the strange outcome whereby the Fund is formally unable to assist the Turkmenistan authorities in collecting vital export payments because of a mere technicality.

Indeed, we now see the hugely inequitable outcome from the fact that high-interest debt owed to international banks—on the assumption that the Fund would always bail them out through its program—is required to be paid back by the Fund, whereas debt owed to an impoverished nation like Turkmenistan is not subject to the same condition.

The need for early action to correct this anomaly should be evident to all, as other countries throughout the region are trying to follow such an example. Already we have been informed by Tajikistan and Kazakhstan that debts formerly conceded as being of an intergovernmental nature were in fact "private sector" transactions even where the entities involved were owned and controlled by the nation concerned.

The second principle relates to the need to provide a mechanism to enforce previously agreed debt payment schedules. In 1996 Turkmenistan bilaterally agreed to reschedule about $400 million of debt owed from Georgia. However, this agreement was not honored. At present, the amount of outstanding arrears has risen to $120 million. This situation does not allow us to address our social and economic development issues and complicates the servicing of our external debt. While larger creditors can afford to adopt a benevolent approach to this issue, Turkmenistan's financial position—worsened by nonpayment for our exports—does not permit such an approach.

In that context, we have welcomed efforts by the Fund to establish an orderly and certain approach to settlement, but are concerned that the Fund will not pay adequate regard to the economic situation of individual creditors. Clearly, it is one thing for the United States, the European Union, or Japan to offer debt relief and restructuring to countries such as Georgia for well-intentioned reasons. However, in the case of Georgia, it is more difficult for us to take such decisions because, being the largest creditor, Turkmenistan has been in fact receiving fewer payments than other creditors. If debt relief is to be provided in such circumstances, we see it as essential that the burden be borne equitably and that the larger nations be asked to make a more than proportionate contribution to the relief provided.

Third, the Fund needs to assist a quick resolution of the correspondent account debts among countries of the former Soviet Union—most of which were incurred before the introduction of independent central banks and currencies in our countries.

The existence of debts is a running sore in country relationships, often impeding more fundamental agreements on what trade and investment arrangements should be in place in the future. In fact, irresponsible approaches to the solution of correspondent account debts, incurred in the early stages of independence, have led to more complex issues of increasing amounts of external debt and outstanding arrears on bilateral and multilateral credits. It would be most useful, therefore, if the Fund could require resolution of these debts in the normal course of program design and implementation.

The Annual Meetings and regular discussions with two major development organizations provide us with an appreciation of the need for unity in the international community and the genuine desire by that community for outcomes that benefit all countries of the world and further strengthen the international financial system. My purpose here today has been to highlight the need to ensure that the financial architecture being put in place takes into account the needs of countries such as Turkmenistan.

UNITED ARAB EMIRATES: MOHAMMED KHALFAN BIN KHIRBASH

Governor of the Bank

I am honored to convey the thanks and appreciation of the government of the United Arab Emirates for the Boards of Governors' decision to select the city of Dubai to host the 2003 Annual Meetings. I am also honored to express my thanks to the Boards of Governors for their decision, which embodies the principle of maintaining a geographic bal-

ance in selecting the sites for these meetings. Holding the meetings for the first time in an Arab country has great significance in light of recent developments in the international arena, as well as the economic and political stability enjoyed by the United Arab Emirates, along with its particular geographical location and its forward-looking position with respect to the challenges of the new millennium.

The choice of the United Arab Emirates is an affirmation from the international community of the tremendous development and great successes in all areas that have been achieved by our country under the skillful leadership of Shaikh Zayed bin Sultan Al-Nahayan, our President. These successes have allowed the United Arab Emirates to play an effective role in both the international and regional arenas, on the basis of its strong belief in international cooperation and its continued support of the development efforts and economic reforms being carried out by developing countries.

I would like to take this opportunity to commend the efforts of the Fund and the World Bank to confront the challenges resulting from the fundamental changes taking place in the world economy, as well as their valuable contributions to helping member countries meet these challenges by monitoring economic developments and providing financial assistance, including their efforts to reduce the debt burden of the poorest countries and the historical IMF-World Bank initiative to develop a joint strategy for reducing poverty, encompassing the financial, structural, social, and humanitarian aspects of the problem.

I would also like to commend the Fund's recent initiative to determine the means for preventing future crises, to improve the performance of world markets, and to encourage private sector participation in this undertaking. In conclusion, I reiterate my thanks and appreciation for your efforts, and look forward to seeing you in Dubai in 2003.

UNITED KINGDOM: GORDON BROWN

Governor of the Fund and Alternate Governor of the Bank

Global financial stability depends on individual national governments pursuing strong domestic policies. There are two supremely important tasks that national governments must undertake in order to succeed in the global marketplace: first, building a platform of stability based on openness and transparency in policymaking; and, second, pursuing structural economic reform to promote productivity and employment.

In today's global economy, there is little place for the fine-tuning of the past that tried to exploit a supposed long-term trade-off between inflation and unemployment, which proved elusive. But equally in today's deregulated liberalized financial markets, governments can no

longer try to deliver stability through the application of rigid monetary targets.

The answer to the uncertainty and unpredictability of ever more rapid financial flows is, first, clear long-term policy objectives; second, the certainty and predictability of well-understood procedural rules for monetary and fiscal policy; and, third, an openness that keeps markets properly informed and ensures that objectives and institutions are seen to be credible.

On the continent of Europe, where the search for macroeconomic stability is being pursued through monetary union, the same lessons are being learned with a commitment to monetary stability through the creation of an independent European Central bank; a commitment to fiscal sustainability through the stability and growth pact of the European Union; and a system of multilateral surveillance within Europe involving commitment to fiscal targets and rigorous peer review.

As I said in my October 1997 statement to the British Parliament, we are committed to making an economic assessment of the case for British membership. The decisive test as to whether and when we will enter will be based on five economic tests we have set out.

Stability in Britain

In Britain we have set out clear long-term policy objectives:

- The monetary framework promotes price stability through a preannounced inflation target of 2.5 percent—a symmetrical target. Inflation outcomes below target are viewed just as seriously as outcomes above target;
- In fiscal policy, we have set two strict fiscal rules to ensure sustainable public finances: the golden rule requires that over the cycle we balance the current budget, and the sustainable investment rule requires that, as we borrow for investment, debt is set at a prudent and stable level.
- And we have established well-understood procedural rules: setting the inflation target, a clear remit for the Monetary Policy Committee of the Bank of England to meet this target and the open-letter system; and an equivalent and equally important set of fiscal procedures legally enshrined in the Code for Fiscal Stability.

Openness and transparency keep markets properly informed and ensure that objectives and institutions are seen to be credible. We have enhanced the transparency and openness of monetary policy in Britain. And the Code for Fiscal Stability requires the government to conduct fiscal policy in a transparent and responsible way, with key fiscal assumptions independently audited.

Following our own monetary and fiscal reforms I believe that we have now a sound and credible platform for stability for the British economy. Over the past 10 months, inflation has remained within 0.5 percentage points of the government's target. Headline inflation is down to 1.1 percent, and underlying inflation at 2.1 percent—around its lowest level for almost five years, and inflation is expected to remain close to target.

Short-term interest rates peaked at half their early 1990s level and have fallen to 5.25 percent now from 7½ percent in October. Long-term interest rates and mortgage rates are their lowest levels for over 30 years. The 10-year bond differential with Germany has fallen to about 0.7 percentage points now from 1.7 percentage points in April 1997.

Public borrowing has been reduced by £31 billion over the past two years—a cumulative fiscal tightening of 3¼ percent of GDP, the largest fiscal tightening since 1981—and we will continue to lock in that fiscal tightening by keeping the public finances under control, while allowing fiscal policy to continue to support monetary policy in the next stage of the cycle. As a result of our cautious and prudent approach to managing the public finances, we remain on track to meet the fiscal rules while guaranteeing an extra £40 billion for schools and hospitals over the next three years and more than doubling public investment, including in transport and infrastructure.

So, against a difficult world economic background, through early and decisive action on monetary and fiscal policy, both financial markets and the British public see that Britain is delivering—for the first time in this generation—economic stability. We have brought inflation to its target and the fiscal deficit under control. And, at the same time, the economy has continued to grow and create jobs throughout this year, with the consensus of outside forecasts now predicting growth in 1999 of 1.4 percent—within the government's own budget forecast range of 1 to 1.5 percent. We will publish new economic forecasts next month in our Prebudget Report.

Britain's National Economic Potential

Our task now is to raise our national economic potential. This year's Prebudget Report will focus on the next stage of reforms to labor, capital, and product markets needed to exploit the growth potential of Britain.

I believe that the British economy has the potential to reach the upper end of our growth ranges and in a way consistent with meeting our inflation target. But we can only do so if we combine prudence with long-term economic reform and modernization of our economy. The four conditions for our economy achieving high and stable levels of growth and employment opportunity for all—the modern definition of full employment for the twenty-first century—are therefore:

- first, a proactive monetary policy and prudent fiscal policy;
- second, strengthening the program to move the unemployed from welfare to work;
- third, responsibility and an avoidance of "short-termism" in pay and wage bargaining across the private and public sectors; and
- fourth, a commitment to what matters for higher productivity—namely, high quality long-term investment in science and innovation, new technology, and skills.

All of these conditions must be met. And if we can achieve these, then I believe Britain can not only continue to steer a course for stability and steady growth, but secure higher prosperity for all.

VANUATU: SELA MOLISA

Governor of the Bank and the Fund
(on behalf of the Federated States of Micronesia, Kiribati, Marshall Islands, Vanuatu and Western Samoa)

It gives me great pleasure to address the fifty-fourth Annual Meetings of the Fund and the World Bank Group on behalf of the Pacific Constituency comprising Kiribati, the Marshall Islands, the Federated States of Micronesia, the Republic of Palau, Samoa, the Solomon Islands, and Vanuatu.

This year's meeting is unique in that it ends the Annual Meetings of this century as we approach the new millennium. On the threshold of the new century, let us not forget to look back and reflect on the achievements and failures, the lessons from which we may be better equipped to face the challenges ahead.

Our struggle to achieve economic advancement has not always been easy going. The task is even harder for most of the small island nations, some of which I stand here before you to represent. Given the small size of the Pacific Island states and the pursuit to open up our economies, we are becoming more exposed, thus, vulnerable to external shocks. The financial turbulence in Asia, the crisis in the Russian Federation, and the turbulence in Brazil have sent out waves of shocks globally in varying magnitude, impinging upon our economies directly and indirectly making the years 1998 and 1999 particularly difficult for the Pacific Islands. The deceleration in growth in 1998 affected the Pacific Islands. The economies witnessed lower export earnings and an acceleration of commodity prices' downward trend, compounded by a sharp decline in demand. The situation was aggravated by an increased supply from the emerging countries facing economic difficulties over the period.

The Pacific Islands, although beautiful, are susceptible to natural calamities. We are hit by cyclones every year. We also have droughts and tidal waves, as was the trauma in Papua New Guinea last year, when part of Papua New Guinea was struck by severe tidal waves causing extensive damage and a loss of lives. The future prospects are bleak for the low-lying atolls of the Pacific, particularly those whose quality of life is threatened by the rise in sea level associated with global warming. Much too often, the negative externalities of our economic pursuits are ignored.

We note the signs of recovery in several Asian countries, which would seem to indicate that the worst of the financial crisis is over. Risks remain, however. There is a crucial need, therefore, for industrial countries to implement prudent policies. The improvement in the world economy is expected to have positive effects on the economies of the Pacific Islands. Nevertheless, the lesson learned is that "globalization" and liberalization have the potential to be disruptive, owing to their close financial and economic ties with other countries.

Some of the problems of the island states are very unique and require special attention. We have come to realize the need to maintain strong economic fundamentals through the pursuit of economic reforms and adjustments. Indeed many of our countries have used this opportunity to push through demanding reform agendas. Some degree of reform to that effect has begun in the region. These reform programs were implemented with assistance from other external sources and supported by the World Bank and the Fund.

Our island economies are small, and one-sidedly structured, and resources are too limited to insulate the economies from the spillover effects of external crises. In spite of these problems, the damage can be minimized by means of appropriate reforms, as are already under way in some countries. It is appreciated that in view of the need to revitalize the global economy, the Fund and the World Bank took the initiative to find ways to finance the ESAF and HIPC Initiatives. Indeed, we are proud to see members of our constituency already indicating their willingness to join the international effort by passing their SCA-2 balances to the HIPC Trust. We understand that the initiative would take into consideration the concerns of the gold-producing countries, some of which pertain to my constituency, especially the idea that the involvement of the Fund's gold be limited to off-market measures.

We are grateful for the services extended to the Pacific by the Bank and the Fund in running seminars as well as providing technical assistance. With regard to technical assistance, we note the review made by the Fund. It is hoped that future Fund technical assistance will be sensitive to the unique needs of small island economies and will be available in appropriate forms. The Pacific Technical Assistance Center based in Suva, Fiji plays a crucial role in the region and continues to serve its members well.

In the monetary field, sustained technical support and advice have been productive, particularly with central banking operations.

We welcome the Fund's intention to establish a new Fund facility for Y2K-related balance of payments difficulties associated with the millennium computer problem. We believe that this facility is an appropriate response by the Fund in the likely event of Y2K-related capital outflows.

We note with appreciation the increasing presence of the World Bank and the potential to increase its services to the region. We believe this to be undoubtedly a worthy endeavor. We welcome the Bank's initiative for small states envisaged under the Comprehensive Development Strategy. We also note the importance of the IFC and, in particular, the presence of the South Pacific Project Facility, both of which have helped sector development in the region.

We are thankful for the IDA resources that have been provided to us on concessional terms. It is hoped that this will continue. We commend the Bank and Fund activities in the region, as they well complement the reforms under way. We understand that special consideration will be given to our environment, given that it so much determines the quality of our lives. Let me conclude by thanking the managements, staffs, and Boards of both the Fund and the Bank for all your assistance, particularly some very constructive advice and assistance.

VIETNAM: LE DUC THUY

Governor of the Fund

From the outset, on behalf of the Vietnamese delegation I would like to express our high appreciation to the management of the International Monetary Fund and the World Bank Group, the Joint Secretariat, and the host country for their efforts and assistance in making conditions favorable for delegates from around the world to attend the Annual Meetings, a significant yearly event of the international financial community.

These Annual Meetings take place amid good signals showing that international financial markets have gradually stabilized, economic activity has bottomed out in the developing market economies of Asia, and the impact of this financial crisis on other parts of the world has been effectively checked. We are pleased to note that, according to recent forecasts, the economic growth rate in East Asian economies in 1999 will be higher than expected. However, there remain potential challenges to be overcome with bigger efforts to ensure a vigorous recovery and sustainable growth in the years to come.

Since the last Annual Meetings, these two international financial institutions have done their best to adjust and amend several policies, aimed at strengthening the international financial system and expanding

assistance and support to the developing member countries, especially the poor ones and those that have been experiencing the financial crisis. At this forum, I would like to touch upon a number of issues of our deep interest.

Since the late 1980s, the Fund and the Bank have extended many highly concessional loans, in the form of ESAF arrangements and SAC, to more than 50 low-income member countries in support of their medium-term structural adjustment programs. We call upon these two institutions to make greater efforts to ensure adequate financing for this assistance. If one desires to efficiently implement the SAC/ESAF-supported programs, it is necessary to promote the ownership of the program countries. The conditionalities contained in the agreement between the Fund and Bank missions and the authorities should take into full account all the realities and peculiarities of the host countries, since they vary from country to country. In establishing these highly concessional programs, closer coordination between the Fund and the Bank is warranted.

We warmly welcome the Fund and Bank's jointly launched HIPC Initiative to help poor countries toward external exit from the debt burden. However, many analysts have expressed deep concerns about the depth of debt relief and the pace of its implementation, especially the financing of the HIPC funds, and the limited coverage of beneficiary countries. Against this background, we highly value the joint statement of the Bank's President and the Fund's Managing Director, which contains the principles for modifying the original HIPC Initiative. In addition, it is necessary to stress that debt relief should be closely linked to poverty reduction. We would like to take this occasion to call for expedited multilateral and bilateral contributions to the HIPC funds so that this initiative can be delivered more quickly and more extensively.

We would like to warmly welcome the World Bank President's proposal for a Comprehensive Development Framework, in which Vietnam has been chosen as one of a dozen pilot cases. This proposal has been considered a potentially powerful management tool with the capacity of catalyzing a longer term development vision, strengthening country ownership, and providing a vehicle for enhancing partnerships and donor coordination.

Availing myself of this opportunity, allow me on behalf of the government and the people of Vietnam to convey our sincere gratitude to the managements and the staffs of the Fund and the Bank for their cooperation and assistance in the form of financial programs, project loans, and technical assistance programs to our country over the past few years. I sincerely hope for increasingly better relations between Vietnam and the Fund and the Bank.

Given the fact that the economies of many countries in our region have been in the process of recovery and have started to achieve higher-than-expected growth, the consequences of the financial crisis and economic recession and the complicated situation in the region and elsewhere are causing disadvantages in various sectors of our economy, especially export activity and foreign investment.

At a meeting to review the economic performance of the first half of this year, the Vietnamese government adopted an action plan comprising seven groups of measures that focus on such essential undertakings as promotion of investment and consumer demand to make full use of the internal strength and encouragement of production and business; stimulation of export activity; consolidation of the financial sector; stabilization of the production and investment environment; continued restructuring of the state-owned enterprises; poverty alleviation; and so on and so forth. With these measures, our government hopes to create the necessary preconditions to overcome the temporary difficulties and become prepared to enter into the year 2000, our first successful year of the next millennium.

In conclusion, I would like to express our firm confidence that, thanks to the enormous efforts of the state and people of Vietnam, making the best use of their existing internal strengthæand to the important assistance of the international communityæour country has been and will be surmounting innumerable difficulties; minimizing the adverse impact of the regional economic crisis; ensuring political, economic, and social stability; and moving forward in many areas.

CONCLUDING REMARKS BY THE PRESIDENT OF THE WORLD BANK GROUP

James D. Wolfensohn

Thank you very much indeed, Mr. Chairman, and let me start by expressing my gratitude to you for the way in which you have chaired these meetings and my admiration for the work you have done in this past year. We look forward to our continuing relationship with you.

I am told that the attendance at these meetings was a record—I think we had 19,960 people registered. That strikes me as a quite remarkable number, and I want to particularly thank the staff and the organizers for the remarkable work that they have done in preparing for these meetings and for the way in which they have been conducted.

I think that all of us probably feel that there has been a very good atmosphere at these meetings, of course, framed by the fact that we don't have the crisis that we did last year, but conscious of the fact that the problems are not all over. I think we are also conscious of the fact that this is the last session that we will have in this millennium. So there has been a real acceptance, I believe, of the fact that the main challenge is poverty and that we need to come together to face this. The future is not only full of challenges but full of hope if we can get together.

You were all pleased, I think, with the development of the new Poverty Reduction Strategy Paper, which will be jointly done between the Fund and the Bank to address the questions of growth and poverty together and come up with a single document that will guide the activities of the Bank in the context of ESAF and IDA. Certainly, on the Bank side, we are very pleased indeed with this new development. We look forward very much to our joint work with our partners not only for poverty reduction and growth but for the well-being of all who share our world.

There was also quite some interest expressed at these meetings in the Comprehensive Development Framework. I was delighted to have the chance to talk to many of you about this subject, together, not only at this meeting—at which many of the Governors referred to this initiative—but also in meetings that I had directly with the Governors. I found those meetings extraordinarily useful, both in terms of the substance of the observations and also the sense of movement there is for all of us to come together.

This issue of partnership between the participants in the development process: between the two Bretton Woods institutions, of course, but also the bilaterals, the regional banks, civil society, and the private sector—all in the service of your governments—is something that I think

has been accepted and agreed to by all of us. I was personally very delighted that this coming together is so apparent.

I talked of the creation of a new development architecture to parallel the financial architecture. That, too, I think, was something that had some resonance in the hallways. We are building coalitions for the improvement of the lot of our people who are less well-off; we are building coalitions for the next century, and it is certainly the position of the Bank that we are very anxious as we move forward to have our doors open to you for any ideas that you can bring to us, and we want to assure you that we are there to serve you and to work with you to achieve the objectives of your countries.

I was glad that there was such a good and interested reaction in the issue of the *Voices of the Poor*. This study we have done was announced here during the course of these meetings, and we will be continuing. I would like to say that, as far as the Bank is concerned, this listening to the voices and acting on the focus of their remarks are going to be central to our work as we move forward. It relates to all countries, really, and I think all of us, as we go into the next millennium, face this challenge to which I referred of both demographic changes and growth, and the notion that within another 25 years we will have another 2 billion people on our planet. This poses us with an extraordinary challenge, a challenge that relates to equity, a challenge that relates to justice, a challenge that relates to the type of world that we are going to leave our children.

So I conclude these meetings with a feeling that we are united to try and deal with this issue. I am glad that we were able to make such good progress on HIPC for debt forgiveness, for that is, indeed, an important element in the process; but what is most needed is for all of us to come together to reconstitute ourselves as a team that is enthusiastic, that is open, and that has as its top priority the establishment of a more just and a more peaceful world.

So I thank you. I thank the Governors for their contributions. I read with care many of the interventions that I did not attend. I look forward very much to the meetings next year in Prague and in the United Arab Emirates in 2003, and I am delighted that that location has been chosen. So thank you again.

CONCLUDING REMARKS BY THE CHAIRMAN OF THE BOARDS OF GOVERNORS AND THE GOVERNOR OF THE BANK AND THE FUND FOR NEPAL

Mahesh Acharya

We all understand that the power of time is great. It allows us to measure opportunities and set heavy duties and responsibilities. Our time here together has permitted us to set concrete and important goals. As Chairman of the Boards of Governors, it is now my duty to bring our deliberations to a close.

It has been a great honor for Nepal and also my great privilege to have served as Chairman of the Boards of Governors of the Bank and the Fund. I would like to take this opportunity to thank everyone for the tremendous support extended to me during my tenure here at the Annual Meetings.

On behalf of all Governors, let me first of all thank the President of the United States for his immensely meaningful address. We salute and are moved by his deep understanding and strong commitment toward poverty reduction and debt relief in developing countries. I would also like to take this opportunity to thank the people of Washington D.C. for their warm hospitality.

As these 1999 Annual Meetings draw to a close, I would like to review briefly some of the major themes that have emerged from our discussions and their implications for our two partner institutions and member countries. Governors have noted that, since our last meeting, global economic prospects and financial markets have improved significantly. Indeed, many developing as well as industrial economies are now experiencing favorable growth trends or are in a recovery phase and the world economy is likely to continue improving during 2000.

However, Governors have also stressed that we cannot afford to be complacent and that it would be a fundamental mistake to relent on our efforts to tackle the major challenges before us. At the opening of these meetings, I spoke about two major challenges that face us at the dawn of the new millennium. One major challenge is to continue our efforts to reform the international financial system to prevent future crises. Governors have commented favorably on the progress that has been achieved over the past year. But you have also noted that much remains to be done. Work needs to continue in a number of areas, including international standards and good practices, financial sector reform, private sector involvement in crisis prevention and resolution, and the liberalization of capital movements. Fellow Governors, these are complex issues that will require our personal attention over the coming year.

The second major challenge is to listen and respond to the "voices of the poor" that Mr. Wolfensohn and Mr. Camdessus described so vividly in their opening remarks. The progress that we have made in the last few days in enhancing the Initiative for Heavily Indebted Poor Countries (HIPC), ensuring that it is adequately financed and linking debt relief to poverty reduction should be of great benefit to the poor in heavily indebted countries. But much more needs to be done if we are to meet our objective of reducing by half the level of extreme poverty by the year 2015. At the national level, governments need to bring the social and structural aspects of development together with the macroeconomic and financial side. They need to enhance transparency and improve governance. Institutional capacity must be strengthened and the private sector energized. At the international level, we need to continue improving market access and reducing barriers to trade, especially for the benefit of developing countries. The worrisome decline in international development assistance must be reversed and broad-based support for international development must be built.

In addressing these challenges, Governors have emphasized the crucial importance of successful collaboration between the Bank Group and the Fund, as well as among member countries. Governors thanked the managements and staffs of the two institutions for the tremendous work they continue to do. I welcome the personal commitment of Mr. Wolfensohn and Mr. Camdessus to continue efforts to improve our institutions. Governors welcomed the progress made by both institutions in enhancing the transparency of their operations and encouraged them to continue working together to improve the functioning of the global economy. Governors also welcomed the concept of a Comprehensive Development Framework, the introduction of Poverty Reduction Strategy Papers, and the transformation of the Enhanced Structural Adjustment Facility (ESAF) into the Poverty Reduction and Growth Facility. These are all important steps in concentrating the minds of governments, the Fund, and the Bank on the central challenge of poverty reduction.

My fellow Governors, the message that I will take away from these meetings is that we have recognized the challenges before us in reforming the international financial system and in addressing the needs of the poorest. Our ultimate aim is to make a difference in the lives of our people. As a finance minister from a developing country like Nepal, I am aware that implementing many of the reforms that we have discussed will not be easy. However, with the support of our two institutions, I am confident that we can overcome these difficulties. Indeed, we are reassured that so many of our aspirations are at the core of the work of these two institutions. When we meet again next year in Prague, it is my sincere hope that we can say that we have together moved closer to these impor-

tant goals. With our renewed commitment to break the shackles of debt and poverty, we can indeed welcome a new international development architecture compatible with the emerging global financial architecture.

Before adjourning these last Annual Meetings of this millennium, I would like to congratulate Mr. Wolfensohn on his reappointment as President of the World Bank. I would also like to express my appreciation to both Mr. Wolfensohn and Mr. Camdessus for their relentless efforts, and I hope they continue to stand together and strengthen our coalition for global progress and prosperity. I also thank the staff of the Joint Secretariat for their hard work and dedication, which have helped make our meetings a success. I would also like to extend my best wishes to the Governor for South Africa, who succeeds me as Chairman of the Boards of Governors.

I conclude by once again thanking everyone and wishing all a safe journey home. The 1999 Annual Meetings of the World Bank Group and the Fund are hereby adjourned.

SOUTH AFRICA: TREVOR ANDREW MANUEL

Governor of the Bank

On behalf of South Africa and the countries of our region, I wish to express my sincere gratitude at being selected to serve as Chairman of the Boards of Governors of the World Bank Group and the International Monetary Fund for the coming year. In assuming this responsibility, I wish to express my admiration for the manner in which the outgoing chair, the Honorable Mahesh Acharya, has conducted these meetings.

As I assume this responsibility, I am deeply conscious of the many challenges we continue to face as we enter the new millennium. While the worst of the financial crisis is behind us, with growing signs of global economic recovery, no country is in any position to become complacent. Now is the time to enter into a real partnership and embark on a course of action that would see a tangible improvement in the lives of many who currently find themselves in conditions of abject poverty.

Over the last few days, many positive developments have taken place. These range from the endorsement in the Interim and Development Committees of the enhanced HIPC framework to improvements in the gold market. Clearly, these developments and others provide a sound basis for us to enter the new millennium. Successful poverty reduction efforts, however, require that the operations of the Bank and the Fund, together with donor assistance and other bilateral and multilateral partners, all pull in the same direction. At the same time, governments must develop their own programs and strategies needed to underpin this renewed and committed long-term partnership.

I offer Mr. Wolfensohn, Mr. Camdessus, and the staffs of the two institutions my heartfelt appreciation for the important work they have done and will continue to do in the future. I look forward to a constructive engagement with these two institutions over the next 12 months.

The agendas for these two institutions are full. The challenges are before us. The time for action has arrived. Let us work together for a better life for all.

I look forward to seeing you next year in Prague for the year 2000 Annual Meetings.

DOCUMENTS OF THE BOARDS OF GOVERNORS

SCHEDULE OF MEETINGS[1]

Tuesday		
September 28	10:00 a.m.	Opening Ceremonies Address from the Chair Annual Address by President, World Bank Group[2] Annual Address by Managing Director, International Monetary Fund
	3:00 p.m.	Annual Discussion
Wednesday		
September 29	9:30 a.m.	Annual Discussion
	3:00 p.m.	Annual Discussion
	6:15 p.m.	Joint Procedures Committee
	6:30 p.m.	MIGA Procedures Committee
Thursday		
September 30	9:30 a.m.	Annual Discussion
	Following the conclusion of the Annual Discussion	Procedures Committees Reports Comments by Heads of Organizations Adjournment

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[1] *All sessions were joint sessions with the Board of Governors of the International Monetary Fund.*

[2] *The World Bank Group consists of the following:*
International Bank for Reconstruction and Development (IBRD)
International Finance Corporation (IFC)
International Development Association (IDA)
International Centre for Settlement of Investment Disputes (ICSID)
Multilateral Investment Guarantee Agency (MIGA)

PROVISIONS RELATING TO THE CONDUCT OF THE MEETINGS[1]

ADMISSION

1. Sessions of the Boards of Governors of the World Bank Group and the International Monetary Fund will be joint and shall be open to accredited press, guests and staff.
2. Meetings of the Joint Procedures Committee shall be open only to Governors who are members of the Committee and their advisers, Executive Directors, and such staff as may be necessary.

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.

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[1] *Approved on June 23, 1999 pursuant to the By-Laws, IBRD Section 5(d), IFC Section 4(d) and IDA Section 1(a).*

BANK AGENDA[1]

1. 1998/99 Annual Report
2. Financial Statements and Annual Audit
3. Allocation of FY99 Net Income
4. Administrative Budget for FY2000
5. Annual Report of the Development Committee
6. Forthcoming Annual Meetings
7. Selection of Officers and Joint Procedures Committee for 1999/00

IFC AGENDA[1]

1. 1998/99 Annual Report
2. Financial Statements and Annual Audit
3. Administrative Budget for FY2000
4. Forthcoming Annual Meeting

IDA AGENDA[1]

1. 1998/99 Annual Report
2. Financial Statements and Annual Audit
3. Administrative Budget for FY2000
4. Forthcoming Annual Meeting

MIGA AGENDA[2]

1. 1998/99 Annual Report
2. Selection of Officers and Procedures Committee for 1999/00

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[1] *Approved on August 2 1999, pursuant to the By-Laws, IBRD Section 5 (a), IFC Section 4(a) and IDA Section 1(a).*

[2] *Approved on August 2, 1999, pursuant to Section 4 (a) of the MIGA By-Laws.*

JOINT PROCEDURES COMMITTEE

Chairman..... Nepal
Vice Chairmen..... Kenya
Philippines
Reporting Member..... Dominica

Members

China
Dominica
France
Germany
Ghana
Japan
Kenya
Kuwait
Latvia
Mali
Nepal
New Zealand
Panama
Peru
Philippines
Saudi Arabia
Spain
Sweden
Turkey
United Kingdom
United States
Uzbekistan
Venezuela
Zimbabwe

REPORT OF THE JOINT PROCEDURES COMMITTEE

REPORT I

September 29, 1999

At the meeting of the Joint Procedures Committee held on September 29, 1999, items of business on the agendas of the Boards of Governors of the Bank, IFC, and IDA were considered.

The Committee submits the following report and recommendations on Bank and IDA business:

1. *1999 Annual Report*

The Committee noted that the 1999 Annual Report and the activities of the Bank and IDA had been discussed at these Annual Meetings.

2. *Financial Statements, Annual Audits, and Administrative Budgets*

The Committee considered the Financial Statements, Accountants' Reports, and Administrative Budgets contained in the 1999 Bank and IDA Annual Report, together with the Report dated June 29, 1999

The Committee recommends that the Boards of Governors of the Bank and IDA adopt the draft resolutions ....[1]

3. *Allocation of Net Income of the Bank and Transfer from Surplus*

The Committee considered the Report of the Executive Directors dated July 29, 1999, on the Allocation of FY99 Net Income and Transfer from Surplus....[2]

The Committee recommends that the Board of Governors of the Bank adopt the draft resolution....[3]

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[1] *See pages 220 and 240.*
[2] *See page 248.*
[3] *See page 220.*

The Committee submits the following report and recommendations on IFC business:

1. *1999 Annual Report*

The Committee noted that the 1999 Annual Report and the activities of 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 1999 Annual Report, and the Administrative Budget attached to the Report dated June 10, 1999.

The Committee recommends that the Board of Governors of IFC adopt the draft resolution....[1]

Approved:

/s/Mahesh Acharya	/s/Cary A. Harris
Nepal—*Chairman*	Dominica—*Reporting Member*

(This report was approved and its recommendations were adopted by the Boards of Governors on September 29, 1999)

[1] *See page 222.*

REPORT III[1]

September 29, 1999

The Joint Procedures Committee met on September 29, 1999 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 Bank and the Fund pursuant to paragraph 5 of Resolutions Nos. 294 and 29-9 of the Bank and Fund, respectively....[2]

The Committee recommends that the Boards of Governors of the Bank and the Fund note the report and thank the Development Committee for its work.

2. *Place and Date of 2001, 2002, and 2003 Annual Meetings*

The Committee considered the recommendation of the Executive Directors of the Bank and the Fund that the 2001 and 2002 Annual Meetings be convened in Washington, D.C., on October 2 and October 1, respectively, and that the 2003 Annual Meetings be convened in Dubai, United Arab Emirates, on September 23, and recommends adoption by the Boards of Governors of the draft Resolutions....[3]

3. *Officers and Joint Procedures Committee for 1999/2000*

The Committee recommends that the Governor for South Africa be Chairman and that the Governors for Estonia and Honduras be Vice Chairmen of the Boards of Governors of the World Bank Group and of the Fund, to hold office until the close of the next Annual Meetings.

It is further recommended that a Joint Procedures Committee be established to be available, after the termination of these meetings and until the close of the next Annual Meetings, for consultation at the

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[1] *Report II related to business of the Fund.*
[2] *See page 22.*
[3] *See page 221.*

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: Algeria, Angola, Armenia, Australia, Bolivia, Canada, the Dominican Republic, Estonia, France, Germany, Guinea, Honduras, India, Indonesia, Japan, Malta, Nigeria, Saudi Arabia, the Slovak Republic, South Africa, Switzerland, the United Kingdom, and the United States.

It is recommended that the Chairman of the Joint Procedures Committee shall be the Governor for South Africa, and the Vice Chairmen shall be the Governors for Estonia and Honduras, and that the Governor for Saudi Arabia shall serve as Reporting Member.

Approved:

/s/ Mahesh Acharya	/s/ Cary A. Harris
Nepal—*Chairman*	Dominica—*Reporting Member*

(This report was approved and its recommendations were adopted by the Boards of Governors on September 29, 1999)

MIGA PROCEDURES COMMITTEE

Chairman ..... Nepal
Vice Chairmen ..... Kenya
Philippines
Reporting Member ..... Dominica

Members

China
Dominica
France
Germany
Ghana
Japan
Kenya
Kuwait
Latvia
Mali
Nepal
Panama
Peru
Philippines
Saudi Arabia
Spain
Sweden
Turkey
United Kingdom
United States
Uzbekistan
Venezuela
Zimbabwe

REPORT OF THE MIGA PROCEDURES COMMITTEE

REPORT I

September 29, 1999

At the meeting of the MIGA Procedures Committee held on September 29, 1999, 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. *1999 Annual Report*

The Committee noted that the 1999 Annual Report and the activities of MIGA had been discussed at this Annual Meeting.

2. *Officers and Procedures Committee for 1999/2000*

The Committee recommends that the Governor for South Africa be Chairman and the Governors for Estonia and Honduras 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: Algeria, Angola, Armenia, Australia, Bolivia, Canada, the Dominican Republic, Estonia, France, Germany, Guinea, Honduras, India, Indonesia, Japan, Malta, Nigeria, Saudi Arabia, the Slovak Republic, South Africa, Switzerland, the United Kingdom, and the United States.

It is recommended that the Chairman of the Procedures Committee shall be the Governor for South Africa and the Vice Chairmen shall be the Governors for Estonia and Honduras, and that the Governor for Saudi Arabia shall serve as Reporting Member.

Approved:

/s/Mahesh Acharya	/s/Cary A. Harris
Nepal—*Chairman*	Dominica—*Reporting Member*

(This report was approved and its recommendations were adopted by the Boards of Governors on September 29, 1999)

RESOLUTIONS ADOPTED BY THE BOARD OF GOVERNORS OF THE BANK BETWEEN THE 1998 AND 1999 ANNUAL MEETINGS

Resolution No. 525

Remuneration of the President

RESOLVED:

THAT, effective July 16, 1999, the annual salary of the President of the Bank shall be two hundred forty-seven thousand, seven hundred ninety US dollars (US$247,790).

(Adopted on July 26, 1999)

Resolution No. 526

Direct Remuneration of Executive Directors and their Alternates

RESOLVED:

THAT, effective July 1, 1999, the annual rates of remuneration of the Executive Directors of the Bank and their Alternates pursuant to Section 13(e) of the By-Laws shall be as follows:

(i) As salary, $151,630 per year for Executive Directors and $130,940 per year for their Alternates;
(ii) As supplemental allowance (for expenses, including housing and entertainment expenses, except those specified in Section 13(f) of the By-Laws), $9,000 per year for Executive Directors and $7,200 per year for their Alternates.

(Adopted on September 7, 1999)

Resolution No. 527

Maternity Leave for Executive Directors and their Alternates

RESOLVED:

THAT, effective July 1, 1999, as of the effective date of her term of office, each female Executive Director and Alternate of an Executive Director shall be entitled to twelve calendar weeks of leave in conjunction with her pregnancy and the delivery of her child.

(Adopted on September 7, 1999)

RESOLUTIONS ADOPTED BY THE BOARD OF GOVERNORS OF THE BANK AT THE 1999 ANNUAL MEETINGS

Resolution No. 528

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 1998/99 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 30, 1999)

Resolution No. 529

Allocation of FY99 Net Income and Transfer from Surplus

RESOLVED:

1. THAT the Report of the Executive Directors dated July 29, 1999 on "Allocation of FY99 Net Income and Transfer from Surplus" is hereby noted with approval;

2. THAT the addition to the General Reserve of the Bank of $700 million, and the allocation to the pension reserve of $255 million, of net income for the fiscal year ended June 30, 1999 (FY99), 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, an amount equivalent to up to $350 million in SDRs in the component currencies of the SDR as of June 30, 1999, $273 million to be transferred out of the FY99 net income of the Bank and up to $77 million from surplus, including up to $50 million in reimbursement of the Association's share of the FY99 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 net income, $200 million;

5. THAT the Bank transfer to the Trust Fund for Gaza and West Bank, by way of immediate grant out of the Bank's FY99 net income, $60 million;

6. THAT the Bank transfer $30 million for capacity building in Africa, $5 million by way of immediate grant to the African Capacity Building Fund, and $25 million by way of grant to the financing mechanism, when established, for the Partnership for Capacity Building in Africa; and

7. THAT any excess of FY99 net income over $1,518 million be retained as surplus and that, of the resulting total amount in surplus, $25 million be transferred from surplus to provide emergency rehabilitation assistance for Kosovo, at such time and in such manner as the Executive Directors shall decide.

(Adopted on September 30, 1999)

Resolution No. 530

Forthcoming Annual Meetings

RESOLVED:

THAT the 2001 and 2002 Annual Meetings shall be convened in Washington, D.C. beginning on October 2, 2001 and October 1, 2002;

THAT the invitation of the Government of the United Arab Emirates to hold the Annual Meetings in Dubai in 2003 be accepted; and

THAT the 2003 Annual Meetings be convened on Tuesday, September 23, 2003.

(Adopted on September 30, 1999)

RESOLUTION ADOPTED BY THE BOARD OF GOVERNORS OF IFC AT THE 1999 ANNUAL MEETINGS

Resolution No. 230

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 1998/99 Annual Report and the Administrative Budget attached to the Report dated July 29, 1999 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 30, 1999)

RESOLUTION ADOPTED BY THE BOARD OF GOVERNORS OF IDA BETWEEN THE 1998 AND 1999 ANNUAL MEETINGS

Resolution No. 194

Additions to Resources: Twelfth Replenishment

WHEREAS:

(A)The Executive Directors of the International Development Association (the "Association") have considered the prospective financial requirements of the Association and have concluded that it is desirable to authorize a replenishment of the resources of the Association for new financing commitments for the period from July 1, 1999 to June 30, 2002 (the "Twelfth Replenishment") in the amounts and on the basis set out in the Report of the IDA Deputies (the "Report"), approved by the Executive Directors on January 12, 1999, and submitted to the Board of Governors;

(B)The members of the Association consider that an increase in the resources of the Association is required and intend to ask their legislatures, where necessary, to authorize and approve the allocation of additional resources to the Association in the amounts and on the conditions set out in this Resolution;

(C)Members of the Association that contribute resources to the Association in addition to their subscriptions as part of the Twelfth Replenishment ("contributing members") are to make available their contributions pursuant to the Articles of Agreement of the Association (the "Articles") partly in the form of subscriptions carrying voting rights and partly as supplementary resources in the form of contributions not carrying voting rights ("subscriptions and contributions");

(D)Additional subscriptions are authorized for contributing members in this Resolution on the basis of their agreement with respect to their preemptive rights under Article III, Section 1(c) of the Articles, and provision is made for the other members of the Association ("subscribing members") intending to exercise their rights pursuant to that provision to do so;

(E)It is desirable to provide for the possible need for a portion of resources to be contributed by members to be paid to the Association as advance contributions;

(F)It is desirable to authorize the Association to provide financing in the form of grants and guarantees in addition to loans, in circumstances referred to in the Report and according to procedures to be determined by the Executive Directors of the Association;

(G)It is desirable to encourage countries that have the economic capacity to be, but are not now, contributing members to participate in the replenishment; and

(H)It is desirable to administer any remaining funds from the replenishment authorized by Resolution No. 183 of the Board of Governors of the Association (the "Eleventh Replenishment") as part of the Twelfth Replenishment;

NOW THEREFORE THE BOARD OF GOVERNORS HEREBY ACCEPTS the Report as approved by the Executive Directors, ADOPTS its conclusions and recommendations AND RESOLVES THAT a general increase in subscriptions of the Association is authorized on the following terms and conditions:

1. *Authorization of Subscriptions and Contributions.*
   (a) The Association is authorized to accept additional resources from each contributing member in the amount specified for each such member in Table 1 attached to this Resolution, and such amount will be divided into a subscription carrying voting rights and a contribution not carrying voting rights as specified in Table 2 attached to this Resolution.
   (b) The Association is authorized to accept additional resources from any member for which no contribution is specified in Table 1. Upon payment of such additional resources, such member will be a contributing member.
   (c) The Association is authorized to accept additional subscriptions from each subscribing member of the Association in the amount specified for each such member in Table 2.

2. *Agreement to Pay.*
   (a) When a contributing member agrees to pay its subscription and contribution, or a subscribing member agrees to pay its subscription, it will deposit with the Association an instrument of commitment substantially in the form set out in Annex 1 to this Resolution ("Instrument of Commitment").
   (b) When a contributing member agrees to pay a part of its subscription and contribution without qualification and the remainder is subject to enactment by its legislature of the

necessary appropriation legislation, it will deposit a qualified instrument of commitment in a form acceptable to the Association ("Qualified Instrument of Commitment"); such member undertakes to exercise its best efforts to obtain legislative approval for the full amount of its subscription and contribution by the payment dates set out in paragraph 3(b) of this Resolution.

3. *Payment.*
   (a) Each subscribing member will pay to the Association the amount of its subscription in full within 31 days after the date of deposit of its Instrument of Commitment; provided that:
      (i) if the Twelfth Replenishment shall not have become effective by December 15, 1999, payment may be postponed by the member for not more than 31 days after the date on which the Twelfth Replenishment becomes effective, and
      (ii) the Association may agree to the postponement of the payment for not more than one year.
   (b) Each contributing member that deposits an Instrument of Commitment that is not Qualified will pay to the Association the amount of its subscription and contribution in three equal annual installments no later than January 15, 2000, January 15, 2001, and January 15, 2002; provided that:
      (i) the Association and each contributing member may agree to earlier payment;
      (ii) if the Twelfth Replenishment shall not have become effective by December 15, 1999, payment of the first such installment may be postponed by the member for not more than 31 days after the date on which the Twelfth Replenishment becomes effective;
      (iii) the Association may agree to the postponement of any installment, or part thereof, if the amount paid, together with any unused balance of previous payments by the member concerned, is at least equal to the amount estimated by the Association to be required from that member up to the due date of the next installment for purposes of disbursements for financing committed under the Twelfth Replenishment; and
      (iv) if any contributing member deposits an Instrument of Commitment with the Association after the date when the first installment of the subscription and contribution is due, payment of any installment, or part thereof, will be made to the Association within 31 days after the date of such deposit.
   (c) If a contributing member has deposited a Qualified Instrument of Commitment and thereafter notifies the Association that an

installment, or part thereof, is unqualified after the date when it was due, then payment of such installment, or part thereof, will be made within 31 days after the date of such notification.

4. *Mode of Payment.*
   (a) Payments pursuant to this Resolution will be made, at the option of the member: (i) in cash, on terms agreed between the member and the Association; or (ii) by the deposit of notes or similar obligations issued by the government of the member or the depository designated by such member, which shall be non-negotiable, non-interest bearing and payable at their par value on demand to the account of the Association.
   (b) The Association will encash the notes or similar obligations of contributing members, on an approximately pro rata basis among donors, in accordance with the encashment schedule set out in Annex 2 to this Resolution, provided that at the request of a contributing member the Association may agree to vary the total encashment period for that member. With respect to a contributing member that is unable to comply with one or more encashment requests, the Association may agree with the member on a revised encashment schedule that yields at least an equivalent value to the Association.
   (c) The provisions of Article IV, Section 1(a) of the Articles will apply to the use of a subscribing member's currency paid to the Association pursuant to this Resolution.

5. *Currency of Denomination and Payment.*
   (a) Members will denominate the resources to be made available pursuant to this Resolution in SDRs, the currency of the member, or with the agreement of the Association in a freely convertible currency of another member, except that if a contributing member's economy experienced a rate of inflation in excess of ten percent per annum on average in the period 1995–1997, as determined by the Association as of the date of adoption of this Resolution, its subscription and contribution will be denominated in SDRs.
   (b) Contributing members will make payments pursuant to this Resolution in SDRs, a currency used for the valuation of the SDR, or with the agreement of the Association in another freely convertible currency, and the Association may freely exchange the amounts received as required for its operations. Subscribing members will make payments in the currency of the member.
   (c) Each member will maintain, in respect of its currency paid by it under this Resolution, and the currency of such member derived

therefrom as principal, interest or other charges, the same convertibility as existed on the effective date of this Resolution.

6. *Effective Date.*
   (a) The Twelfth Replenishment will become effective and the resources to be contributed pursuant to this Resolution will become payable to the Association on the date when contributing members whose subscriptions and contributions aggregate not less than SDR 6,471 million shall have deposited with the Association Instruments of Commitment or Qualified Instruments of Commitment (the "Effective Date"), provided that this date shall be not later than December 15, 1999, or such later date as the Executive Directors of the Association may determine.
   (b) If the Association determines that the availability of additional resources pursuant to this Resolution is likely to be unduly delayed, it shall convene promptly a meeting of the contributing members to review the situation and to consider the steps to be taken to prevent a suspension of the Association's lending operations.

7. *Advance Contributions.*
   (a) In order to avoid an interruption in the Association's ability to commit financing pending the effectiveness of the Twelfth Replenishment, and if the Association shall have received Instruments of Commitment from contributing members whose subscriptions and contributions aggregate not less than SDR 1,618 million, the Association may deem, prior to the Effective Date, one third of the total amount of each subscription and contribution for which an Instrument of Commitment has been deposited with the Association as an advance contribution, unless the contributing member specifies otherwise in its Instrument of Commitment.
   (b) The Association shall specify when advance contributions pursuant to subparagraph (a) are to be paid to the Association.
   (c) The terms and conditions applicable to contributions to the Twelfth Replenishment, except for paragraph 12 of this Resolution, shall apply also to advance contributions until the Effective Date, when such contributions shall be deemed to constitute payment towards the amount due from each contributing member for its subscription and contribution.
   (d) In the event that the Twelfth Replenishment shall not become effective pursuant to paragraph 6(a) of this Resolution, (i) voting rights will be allocated to each member for the advance

contribution as if it had been made as a subscription and contribution under this Resolution, and (ii) each member not making an advance contribution will have the opportunity to exercise its preemptive rights with respect to such subscription as the Association shall specify.

8. *Commitment Authority.*
   (a) Subscriptions and contributions will become available for commitment by the Association for financing to eligible members in three successive installments of one third of the total amount of each such subscription and contribution: (i) the first installment will become available to the Association for commitment for financing from the Effective Date, provided that advance contributions may become available earlier under paragraph 7(a) of this Resolution; (ii) the second installment will become available from December 16, 2000 or the Effective Date, whichever is later and (ii) the third installment will become available from December 16, 2001 or the Effective Date, whichever is later.
   (b) Any qualified part of a subscription and contribution notified under a Qualified Instrument of Commitment will become available for commitment by the Association for financing when it has become unqualified.
   (c) The Association shall promptly inform contributing members if a member that has deposited a Qualified Instrument of Commitment and whose subscription and contribution represents more than 20 percent of the total amount of the resources to be contributed pursuant to this Resolution has not unqualified at least 66 percent of the total amount of its subscription and contribution by January 15, 2001, or 31 days after the Effective Date, whichever is later, and the total amount thereof by January 15, 2002, or 31 days after the Effective Date, whichever is later.
   (d) Within 31 days of the dispatch of notice by the Association under subparagraph (c), each other contributing member may notify the Association in writing that the commitment by the Association of the second installment of such member's subscription and contribution shall be deferred while, and to the extent that, any part of the subscription and contribution referred to in subparagraph (c) remains qualified; during such period, the Association shall make no commitments for credits in respect of the resources to which the notice pertains unless the right of the contributing member is waived pursuant to subparagraph (e).
   (e) The right of a contributing member under subparagraph (d) may be waived in writing, and it shall be deemed waived if the

Association receives no written notice pursuant to such subparagraph within the period specified therein.

(f) The Association may enter into financing commitments, conditional on such commitments becoming effective and binding on the Association when resources under the Twelfth Replenishment become available for commitment by the Association.

9. *Authorization of Grants.* The Association is hereby authorized to provide financing under the Twelfth Replenishment in the form of grants in addition to loans, in the context of the HIPC Debt Initiative or assistance to post-conflict countries under a framework approved by the Executive Directors.

10. *Authorization of Guarantees.* The Association is hereby authorized to provide financing under the Twelfth Replenishment in the form of guarantees in addition to loans, subject to decisions by the Executive Directors of the Association (i) that the Association's pilot guarantee program was useful and effective; (ii) that IDA guarantees fit within the context of an overall private sector development strategy; and (iii) setting out terms and policies applicable to such guarantees.

11. *Procurement Eligibility.* The proceeds of financing provided under the Twelfth Replenishment may be spent only in the territories of contributing members and members that are eligible borrowers of the Association or the International Bank for Reconstruction and Development.

12. *Administration of IDA11 Funds.* On the effective date of the Twelfth Replenishment, any funds, receipts, assets and liabilities held by the Association under the Eleventh Replenishment will be administered under the Twelfth Replenishment, subject, as appropriate, to the terms and conditions applicable to the Eleventh Replenishment.

13. *Allocation of Voting Rights under Twelfth Replenishment.* Voting rights calculated on the basis of the current voting rights system will be allocated to members for subscriptions under the Twelfth Replenishment as follows:

(a) Each subscribing member that has deposited with the Association an Instrument of Commitment will be allocated the subscription votes specified for each such member in Table 2 on the effective payment date pursuant to paragraph 3(a) of this Resolution. Each subscribing member will be allocated the additional membership votes specified in Column c-3 of Table 2 on the date such member is allocated its subscription votes.

(b) Each contributing member that has deposited with the Association an Instrument of Commitment will be allocated one third of the subscription votes specified for each such member in Table 2 on each effective payment date pursuant to paragraph 3(b) of this Resolution. Each contributing member will be allocated the additional membership votes specified in Column b-3 of Table 2 for its subscription on the date such member is allocated the first one third of its subscription votes.

(c) Each member that has deposited with the Association a Qualified Instrument of Commitment will be allocated subscription votes to the extent of payments made in respect of its subscription and contribution.

(d) Any member that deposits its Instrument of Commitment after the date it was due will be allocated, as of the date of such deposit, the subscription votes to which such member would have been entitled if such deposit had been made when due.

(e) If a member fails to pay any amount of its subscription or subscription and contribution when due, the number of subscription votes allocated from time to time to such member under this Resolution in respect of the Twelfth Replenishment will be reduced in proportion to the shortfall in such payments, but any such votes will be reallocated when the shortfall in payments causing such adjustment is subsequently made up.

(Adopted on April 8, 1999)

Table 1: Commitments to the Twelfth Replenishment

Contributing Members	Basic Commitments (%)	Basic Commitments SDR Million	Supplementary Commitments SDR Million	Total Commitments SDR Million	National Currency Million	Euro Equivalent Million*	Exchange Rates (NC/SDR)**
Argentina	0.10%	8.64		8.64	11.55		1.33666
Australia	1.46%	126.14	3.22	129.36	275.00		2.12582
Austria	0.78%	67.65		67.65	1,145.43	83.24	16.93141
Belgium	1.55%	133.92		133.92	6,646.42	164.76	49.62978
Botswana a/	0.01%	1.14		1.14	6.30		5.52439
Brazil b/ c/	0.95%	82.08		82.08			
Canada d/	3.75%	324.00		324.00	607.00		1.95467
Czech Rep. a/ c/	0.05%	4.32	0.35	4.67			
Denmark b/	1.58%	136.51		136.51	1,251.79		9.16981
Finland e/	0.60%	51.84		51.84	378.99	63.74	7.31081
France	7.30%	630.72		630.72	5,089.08	775.82	8.06868
Germany	11.00%	950.40		950.40	2,287.34	1,169.50	2.40671
Greece e/	0.12%	10.00		10.00	4,080.91		408.23489
Hungary c/	0.06%	5.13		5.13			
Iceland	0.03%	2.59	0.65	3.24	311.01		95.93105
Ireland e/	0.18%	15.55	5.28	20.83	19.94	25.32	0.95742
Israel	0.11%	9.24		9.24	45.26		4.89571
Italy	3.80%	328.32		328.32	779,079.17	402.36	2372.92632
Japan	18.70%	1,615.68		1,615.68	295,052.86		182.61838
Korea b/	0.91%	78.62		78.62	145,685.24		1852.93599
Kuwait a/	0.14%	12.10		12.10	4.95		0.40934
Luxembourg	0.10%	8.64		8.64	428.80	10.63	49.62978
Mexico a/ c/	0.05%	4.32		4.32			
Netherlands	2.60%	224.64		224.64	609.30	276.49	2.71232
New Zealand	0.12%	10.37	2.41	12.78	32.00		2.50413
Norway	1.42%	122.69		122.69	1,241.89		10.12232
Poland c/	0.03%	2.59		2.59			
Portugal	0.20%	17.28		17.28	4,258.18	21.24	246.42261
Russia a/ c/	0.20%	17.28		17.28			
Saudi Arabia a/	0.65%	56.33		56.33	282.13		5.00834
Slovak Republic a/	0.04%	3.42		3.42	159.61		46.64855
South Africa	0.08%	6.91		6.91	50.18		7.25933
Spain b/	1.39%	120.10		120.10	24,533.49	147.45	204.28230
Sweden	2.62%	226.37		226.37	2,396.23		10.58555
Switzerland	2.43%	209.95		209.95	420.00		2.00046
Turkey b/ c/	0.18%	15.55		15.55			
United Kingdom e/	7.30%	630.72		630.72	511.26		0.81059
United States	20.86%	1,802.30		1,802.30	2,410.29		1.33734
Venezuela a/ c/	0.03%	2.59		2.59			
Sub-total	93.48%	8,076.66	11.91	8,088.57			
Supplementary commitments		11.91					
Encashment schedule		561.37		561.37			
Total donor commitments		**8,649.95**		**8,649.95**			

a/ These countries are not yet in a position to commit to IDA12. The levels shown are therefore indicative.
b/ Reflects higher share levels following the "harmonization" exercise completed on June 22, 1998.
c/ Commitments of countries with inflation rates greater than 10% per annum during 1995-1997 will be denominated in SDRs.
d/ Includes a commitment of 0.2% achieved through encashments faster than the defined encashment schedule.
e/ Finland, Greece, Ireland, and the United Kingdom increased their basic shares from those in IDA11.
f/ Iceland will pay its commitments in cash in three installments.

Note: Details do not add up due to rounding.
* Euro equivalent calculated from national currencies using fixed euro conversion rates for donors that have adopted the euro.
** Exchange rate averaging period March 1 to August 31, 1998.

Table 2: Subscriptions, Contributions and Votes
(Amounts in USD Equivalent)

Part I	Current Status (before IDA12)					Additional Votes Stemming from IDA12			Status Including IDA12 Adjustment				Adjusted Voting power				
							Additional		Total Cumulative Resources				Subscription Votes				
Member	Subscriptions Carrying Votes (a-1)	Contributions (a-2)	Total Cumulative Resources (a-3)	Subscrip-tion Votes (a-4)	Total Voting Power % (a-5)	IDA12 Resources (b-1)	Subscrip-tion Votes (b-2)	Member-ship Votes (b-3)	Account (d-1)	as % of part i (d-2)	Subcription Carrying Votes (d-3)	Contributions (d-4)	Subscrip-tion Votes (f-1)	as % of part I (f-2)	Member-ship Votes (f-3)	Total Votes (f-4)	Total Voting Power % (f-5)
AUSTRALIA	28,028,652	1,725,655,985	1,753,684,637	130,556	1.12%	183,366,571	10,209	2,700	1,937,051,208	1.92%	28,283,877	1,908,767,331	140,765	1.92%	27,100	167,865	1.10%
AUSTRIA	7,571,513	712,305,499	719,877,012	53,592	0.57%	96,778,600	5,754	2,700	816,655,612	0.81%	7,715,363	808,940,249	59,315	0.81%	27,100	86,446	0 57%
BELGIUM	13,200,507	1,516,074,082	1,529,274,589	113,849	1.00%	191,579,604	11,205	2,700	1,720,854,193	1.71%	13,480,632	1,707,373,561	125,054	1.71%	27,100	152,154	1.00%
CANADA	55,390,491	4,397,812,114	4,453,202,605	331,526	2.58%	463,499,042	25,769	2,700	4,916,701,647	4.88%	56,034,716	4,860,666,931	357,295	4 88%	27,100	384,395	2.53%
DENMARK	13,139,389	1,196,707,621	1,209,847,010	90,069	0.83%	229,787,596	14,549	2,700	1,439,634,606	1.43%	13,503,114	1,426,131,492	104,618	1.43%	27,100	131,718	0.87%
FINLAND	5,915,251	641,699,544	647,614,795	48,213	0 53%	74,159,847	4,238	2,700	721,774,642	0.72%	6,021,201	715,753,441	52,451	0 72%	27,100	79,551	0.52%
FRANCE	77,300,978	6,274,864,332	6,352,165,310	472,897	3.61%	902,278,135	54,281	2,700	7,254,443,445	7 20%	78,658,003	7,175,785,442	527,178	7 20%	27,100	554,278	3.64%
GERMANY	86,203,805	10,604,138,139	10,690,341,944	795,859	5.95%	1,359,597,189	79,807	2,700	12,049,939,133	11.96%	88,198,980	11,961,740,153	875,666	11 96%	27,100	902,766	5.93%
ICELAND	173,400	27,068,364	27,241,764	2,028	0 19%	4,637,852	289	2,700	31,879,616	0.03%	180,625	31,698,991	2,317	0.03%	27,100	29,417	0.19%
IRELAND	3,994,825	115,091,272	119,086,097	8,866	0 24%	29,801,272	1,954	2,700	148,887,369	0 15%	4,043,675	144,843,694	10,820	0 15%	27,100	37,920	0.25%
ITALY	31,222,273	4,413,234,407	4,444,456,680	330,874	2.58%	469,679,029	26,235	2,700	4,914,135,709	4.88%	31,878,148	4,882,257,561	357,109	4.88%	27,100	384,209	2.53%
JAPAN	72,640,833	16,427,308,739	16,499,949,572	1,228,364	9.09%	2,311,315,222	138,646	2,700	18,811,264,794	18 67%	76,106,983,00	18,735,157,811	1,367,010	18.67%	27,100	1,394,110	9.16%
KUWAIT	5,445,065	687,051,451	692,496,516	51,554	0.55%	17,303,964	27	2,700	709,800,480	0 70%	5,445,740	704,354,740	51,581	0 70%	27,100	78,681	0.52%
LUXEMBOURG	563,305	52,934,487	53,497,792	3,983	0.21%	12,359,974	803	2,700	65,857,766	0 07%	583,380	65,274,386	4,786	0.07%	27,100	31,886	0.21%
NETHERLANDS	39,796,877	3,103,375,229	3,143,172,106	233,998	1.87%	321,359,336	17,769	2,700	3,464,531,442	3.44%	40,241,102	3,424,290,340	251,767	3.44%	27,100	278,867	1.83%
NEW ZEALAND	215,702	115,679,974	115,895,676	8,628	0.24%	18,282,307	1,123	2,700	134,177,983	0 13%	243,777	133,934,206	9,751	0.13%	27,100	36,851	0.24%
NORWAY	10,654,112	1,236,087,565	1,246,741,677	92,816	0.85%	175,511,637	10,539	2,700	1,422,253,314	1 41%	10,917,587	1,411,335,727	103,355	1.41%	27,100	130,455	0.86%
PORTUGAL	4,356,203	37,456,961	41,813,164	3,113	0.20%	24,719,949	1,722	2,700	66,533,113	0.07%	4,399,253	62,133,860	4,835	0.07%	27,100	31,935	0.21%
RUSSIA	2,267,991	221,428,209	223,696,200	16,653	0.30%	24,719,949	1,399	2,700	248,416,149	0.25%	2,302,966	246,113,183	18,052	0.25%	27,100	45,152	0.30%
SOUTH AFRICA	12,322,372	95,186,280	107,508,652	8,004	0.24%	9,887,980	527	2,700	117,396,632	0.12%	12,335,547	105,061,085	8,531	0.12%	27,100	35,631	0 23%
SPAIN	15,885,098	514,551,997	530,437,095	39,489	0 46%	218,203,645	14,915	2,700	748,640,740	0.74%	16,257,973	732,382,767	54,404	0.74%	27,100	81,504	0.54%
SWEDEN	18,709,660	2,799,866,965	2,818,576,625	209,833	1.70%	323,831,331	18,525	2,700	3,142,407,956	3.12%	19,172,785	3,123,235,171	228,358	3.12%	27,100	255,458	1 68%
SWITZERLAND	11,413,814	1,136,871,964	1,148,285,778	85,486	0.80%	298,842,433	19,676	2,700	1,447,128,211	1.44%	11,905,714	1,435,222,497	105,162	1.44%	27,100	132,262	0.87%
UNITED ARAB EMIRATES	10,729	5,189,119	5,199,848	619	0 01%	-	-	2,700	5,199,848	0.01%	10,729	5,189,119	619	0.01%	748	1,367	0 01%
UNITED KINGDOM	174,635,366	7,322,212,255	7,496,847,621	558,114	4 22%	902,278,135	52,248	2,700	8,399,125,756	8 34%	175,941,566	8,223,184,190	610,362	8 34%	27,100	637,462	4.19%
UNITED STATES	438,789,112	23,004,357,930	23,443,147,042	1,745,261	12.84%	2,578,290,670	145,710	2,700	26,021,437,712	25.83%	442,431,862	25,579,005,850	1,890,971	25.83%	27,100	1,918,071	12 61%

Subtotal Part I	1,129,847,323	88,384,210,484	89,514,057,807	6,664,244	52.77%	11,242,071,264	657,919	70,200	100,756,129,071	100.00%	1,146,295,298	99,609,833,773	7,322,163	100%	678,248	8,000,411	52.59%
Subtotal Part II	570,868,229	2,814,244,624	3,385,112,853	3,194,129	47.23%								3,526,378	100%	3,685,600	7,211,978	47.41%
Grand Total	1,700,715,552	91,198,455,108	92,899,170,660	9,858,373	100.00%								10,848,541	100%	4,363,848	15,212,389	100.00%

Notes:

Current Status (a-1) to (a-5): It is assumed that the members that have outstanding commitments to subscribe or contribute to any previous Replenishment will fulfill their obligations. Amounts have been calculated, for purposes of the voting rights adjustment, by multiplying the subscriptions and contributions up to and including the Third Replenishment (which were expressed in terms of U.S. dollars of the weight and fineness in effect on January 1, 1960) by 1.20635 and adding thereto the dollar equivalents of the subscriptions and contributions under the Fourth through Eleventh Replenishments at the agreed exchange rates.

Allocation of Additional Votes with respect to Encashment: Subscription votes have been allocated on the imputed value of these contributions based on the related encashment schedule rather than the nominal amounts shown in contribution tables. For the Twelfth Replenishment, this is included in column (b-1) for Part I countries, and for Part II countries in column (e-4).

Special Contributions to IDA: The IDA12 resources for Brazil, Denmark, Korea, Spain and Turkey include special contributions to IDA approved by IDA's Executive Directors on May 7, 1998. adjustment, by multiplying the subscriptions and contributions up to and including the Third Replenishment (which were expressed in terms of U.S. dollars of the weight and fineness in effect on January 1, 1960)

Table 2: Subscriptions, Contributions and Votes
(Amounts in USD Equivalent)

Part II	Current Status (before IDA12)									Additional Resources Provided under IDA12 in SDRs or Freely Convertible Currencies				Adjusted Voting power				
				Additional										Subscription Votes				
Member	Subscriptions Carrying Votes (a-1)	Contributions (a-2)	Total Cumulative Resources (a-3)	Subscription Votes (a-4)	Total Voting Power% (a-5)	Subscription Carrying Votes (c-1)	Subscription Votes (c-2)	Membership Votes (c-3)	Total Voting Power % (c-4)	Subscription Carrying Votes (e-1)	Subscription Votes (e-2)	Contributions (e-3)	Total Additional Resources (e-4)	Subscription Votes (f-1)	as % of part II (f-2)	Membership Votes (f-3)	Total Votes (f-4)	Total Voting Power % (f-5)
AFGHANISTAN	1,450,497		1,450,497	8,098	0.24%	17,884	715	2,700	0.24%	0	0	0	0	8,813	0.25%	27,100	35,913	0.24%
ALBANIA	334,477		334,477	2,006	0.19%	4,430	177	2,700	0.19%	0	0	0	0	2,183	0.06%	27,100	29,283	0.19%
ALGERIA	5,780,740		5,780,740	31,983	0.41%	70,633	2,825	2,700	0.41%	0	0	0	0	34,808	0.99%	27,100	61,908	0.41%
ANGOLA	9,049,780		9,049,780	50,004	0.54%	110,431	4,417	2,700	0.54%	0	0	0	0	54,421	1.54%	27,100	81,521	0.54%
ARGENTINA	27,330,825	83,128,603	110,459,428	162,173	1.35%	358,150	14,326	2,700	1.34%	21,804	872	11,980,020	12,359,974	177,371	5.03%	27,100	204,471	1.34%
ARMENIA	607,130		607,130	3,519	0.20%	7,772	311	2,700	0.20%	0	0	0	0	3,830	0.11%	27,100	30,930	0.20%
AZERBAIJAN	1,037,575		1,037,575	5,903	0.22%	13,036	521	2,700	0.22%	0	0	0	0	6,424	0.18%	27,100	33,524	0.22%
BANGLADESH	7,717,349		7,717,349	42,675	0.49%	94,245	3,770	2,700	0.49%	0	0	0	0	46,445	1.32%	27,100	73,545	0.48%
BELIZE	290,869		290,869	1,746	0.19%	3,856	154	2,700	0.19%	0	0	0	0	1,900	0.05%	27,100	29,000	0.19%
BENIN	721,442		721,442	4,127	0.21%	9,114	365	2,700	0.21%	0	0	0	0	4,492	0.13%	27,100	31,592	0.21%
BHUTAN	75,963		75,963	567	0.18%	1,252	50	2,700	0.18%	0	0	0	0	617	0.02%	27,100	27,717	0.18%
BOLIVIA	1,522,750		1,522,750	8,511	0.24%	18,800	752	2,700	0.24%	0	0	0	0	9,263	0.26%	27,100	36,363	0.24%
BOSNIA & HERZEGOVINA	10,055,214		10,055,214	6,143	0.22%	13,575	543	2,700	0.22%	0	0	0	0	6,686	0.19%	27,100	33,786	0.22%
BOTSWANA	235,838	1,030,748	1,266,586	1,525	0.19%	3,375	135	2,700	0.19%	2,958	118	1,625,184	1,631,517	1,778	0.05%	27,100	28,878	0.19%
BRAZIL	27,457,799	127,959,376	155,417,175	167,2521	1.39%	369,375	14,775	2,700	1.38%	375,794	15,032	206,474,588	207,219,757	197,059	5.59%	27,100	224,159	1.47%
BURKINA FASO	721,223		721,223	4,127	0.21%	9,125	365	2,700	0.21%	0	0	0	0	4,492	0.13%	27,100	31,592	0.21%
BURUNDI	1,093,858		1,093,858	6,172	0.22%	13,625	545	2,700	0.22%	0	0	0	0	6,717	0.19%	27,100	33,817	0.22%
CAMBODIA	1,467,773		1,467,773	8,271	0.24%	18,275	731	2,700	0.24%	0	0	0	0	9,002	0.26%	27,100	36,102	0.24%
CAMEROON	1,450,497		1,450,497	8,098	0.24%	17,875	715	2,700	0.24%	0	0	0	0	8,813	0.25%	27,100	35,913	0.24%
CAPE VERDE	119,158		119,158	810	0.18%	1,800	72	2,700	0.18%	0	0	0	0	882	0.03%	27,100	27,982	0.18%
CENTRAL AFRICAN REP.	721,223		721,223	4,127	0.21%	9,125	365	2,700	0.21%	0	0	0	0	4,492	0.13%	27,100	31,592	0.21%
CHAD	721,223		721,223	4,127	0.21%	9,125	365	2,700	0.21%	0	0	0	0	4,492	0.13%	27,100	31,592	0.21%
CHILE	5,065,477		5,065,477	28,092	0.38%	62,050	2,482	2,700	0.38%	0	0	0	0	30,574	0.87%	27,100	57,674	0.38%
CHINA	43,482,655		43,482,655	243,143	1.94%	536,975	21,479	2,700	1.92%	86,750	3,470	0	0	268,092	7.60%	27,100	295,192	1.94%
COLOMBIA	5,188,574	29,095,715	34,284,289	33,001	0.42%	72,875	2,915	2,700	0.42%	0	0	0	0	35,916	1.02%	27,100	63,016	0.41%
COMOROS	119,158		119,158	810	0.18%	1,800	72	2,700	0.18%	0	0	0	0	882	0.03%	27,100	27,982	0.18%
CONGO, DEM REP. OF	4,334,718		4,334,718	24,064	0.35%	53,150	2,126	2,700	0.35%	0	0	0	0	26,190	0.74%	27,100	53,290	0.35%
CONGO, REP. OF	721,223		721,223	4,127	0.21%	9,125	365	2,700	0.21%	0	0	0	0	4,492	0.13%	27,100	31,592	0.21%
COSTA RICA	290,719		290,719	1,726	0.19%	3,800	152	2,700	0.19%	0	0	0	0	1,878	0.05%	27,100	28,978	0.19%
COTE D'IVOIRE	1,450,497		1,450,497	8,098	0.24%	17,875	715	2,700	0.24%	0	0	0	0	8,813	0.25%	27,100	35,913	0.24%

CROATIA	23,643,864		23,643,864	14,207	0.28%	31,375	1,255	2,700	0.28%	0	0	0	0	15,462	0.44%	27,100	42,562	0.28%
CYPRUS	1,093,858		1,093,858	6,172	0.22%	13,625	545	2,700	0.22%	0	0	0	0	6,717	0.19%	27,100	33,817	0.22%
CZECH REP	5,247,346	21,657,175	26,904,521	29,407	0.39%	64,950	2,598	2,700	0.39%	12,012	480	6,599,896	6,676,858	32,485	0.92%	27,100	59,585	0.39%
DJIBOUTI	233,938		233,938	1,449	0.19%	3,200	128	2,700	0.19%	0	0	0	0	1,577	0.04%	27,100	28,677	0.19%
DOMINICA	119,158		119,158	810	0.18%	1,800	72	2,700	0.18%	0	0	0	0	882	0.03%	27,100	27,982	0.18%
DOMINICAN REPUBLIC	578,920	68,614	647,534	3,380	0.20%	7,475	299	2,700	0.20%	0	0	0	0	3,679	0.10%	27,100	30,779	0.20%
ECUADOR	936,662		936,662	5,316	0.22%	11,750	470	2,700	0.22%	0	0	0	0	5,786	0.16%	27,100	32,886	0.22%
EGYPT, ARAB REP OF	7,309,891		7,309,891	41,231	0.48%	91,050	3,642	2,700	0.47%	0	0	0	0	44,873	1.27%	27,100	71,973	0.47%
EL SALVADOR	433,802	23,707	457,509	2,527	0.20%	5,575	223	2,700	0.20%	0	0	0	0	2,750	0.08%	27,100	29,850	0.20%
EQUATORIAL GUINEA	463,290		463,290	2,717	0.20%	6,000	240	2,700	0.20%	0	0	0	0	2,957	0.08%	27,100	30,057	0.20%
ERITREA	133,643		133,643	895	0.18%	1,975	79	2,700	0.19%	0	0	0	0	974	0.03%	27,100	28,074	0.18%
ETHIOPIA	721,574	23,707	745,281	4,135	0.21%	9,125	365	2,700	0.21%	0	0	0	0	4,500	0.13%	27,100	31,600	0.21%
FIJI	807,454		807,454	4,621	0.21%	10,200	408	2,700	0.21%	0	0	0	0	5,029	0.14%	27,100	32,129	0.21%
FRY (SERBIA/ MONTE-NEGRO)	29,352,717		29,352,717	17,596	0.30%	38,850	1,554	2,700	0.31%	0	0	0	0	19,150	0.54%	27,100	46,250	0.30%
GABON	721,223		721,223	4,127	0.21%	9,125	365	2,700	0.21%	0	0	0	0	4,492	0.13%	27,100	31,592	0.21%
GAMBIA, THE	387,243		387,243	2,293	0.19%	5,075	203	2,700	0.20%	0	0	0	0	2,496	0.07%	27,100	29,596	0.19%
GEORGIA	994,462		994,462	5,663	0.22%	12,500	500	2,700	0.22%	0	0	0	0	6,163	0.17%	27,100	33,263	0.22%
GHANA	3,387,217		3,387,217	18,792	0.31%	41,500	1,660	2,700	0.31%	0	0	0	0	20,452	0.58%	27,100	47,552	0.31%
GREECE	3,733,911	38,078,768	41,812,679	24,754	0.36%	54,675	2,187	2,700	0.36%	25,881	1,035	14,219,934	14,300,490	27,976	0.79%	27,100	55,076	0.36%
GRENADA	132,555		132,555	851	0.18%	1,875	75	2,700	0.18%	0	0	0	0	926	0.03%	27,100	28,026	0.18%
GUATEMALA	578,117		578,117	3,354	0.20%	7,400	296	2,700	0.20%	0	0	0	0	3,650	0.10%	27,100	30,750	0.20%
GUINEA	1,450,497		1,450,497	8,098	0.24%	17,875	715	2,700	0.24%	0	0	0	0	8,813	0.25%	27,100	35,913	0.24%
GUINEA-BISSAU	203,806		203,806	1,242	0.19%	2,750	110	2,700	0.19%	0	0	0	0	1,352	0.04%	27,100	28,452	0.19%
GUYANA	1,166,079		1,166,079	6,587	0.22%	14,550	582	2,700	0.23%	0	0	0	0	7,169	0.20%	27,100	34,269	0.23%
HAITI	1,093,858		1,093,858	6,172	0.22%	13,625	545	2,700	0.22%	0	0	0	0	6,717	0.19%	27,100	33,817	0.22%
HONDURAS	433,541		433,541	2,522	0.20%	5,575	223	2,700	0.20%	0	0	0	0	2,745	0.08%	27,100	29,845	0.20%
HUNGARY	10,840,538	44,736,364	55,576,902	63,531	0.64%	140,300	5,612	2,700	0.63%	13,083	523	7,188,441	7,341,825	69,666	1.98%	27,100	96,766	0.64%
INDIA	58,446,331		58,446,331	342,795	2.66%	757,050	30,282	2,700	2.64%	124,125	4,965	0	0	378,042	10.72%	27,100	405,142	2.66%
INDONESIA	15,917,273		15,917,273	87,874	0.81%	194,075	7,763	2,700	0.81%	0	0	0	0	95,637	2.71%	27,100	122,737	0.81%
IRAN, ISLAMIC REP OF	6,513,440		6,513,440	36,051	0.44%	79,625	3,185	2,700	0.44%	0	0	0	0	39,236	1.11%	27,100	66,336	0.44%
IRAQ	1,093,858		1,093,858	6,172	0.22%	13,625	545	2,700	0.22%	0	0	0	0	6,717	0.19%	27,100	33,817	0.22%
ISRAEL	2,425,014	1,932,275	4,357,289	13,853	0.28%	30,600	1,224	2,700	0.28%	23,971	959	13,170,602	13,225,173	16,036	0.45%	27,100	43,136	0.28%
JORDAN	433,541		433,541	2,522	0.20%	5,575	223	2,700	0.20%	0	0	0	0	2,745	0.08%	27,100	29,845	0.20%
KAZAKHSTAN	2,199,061		2,199,061	12,315	0.27%	27,200	1,088	2,700	0.27%	0	0	0	0	13,403	0.38%	27,100	40,503	0.27%
KENYA	2,412,595		2,412,595	13,433	0.27%	29,675	1,187	2,700	0.28%	0	0	0	0	14,620	0.41%	27,100	41,720	0.27%

Table 2: Subscriptions, Contributions and Votes (Amounts in USD Equivalent) *(contd.)*

Part II	Current Status (before IDA12)					Allocation for Exercise of Preemptive Rights to Maintain Part II Voting Power					Additional Resources Provided under IDA12 in SDRs or Freely Convertible Currencies				Adjusted Voting power				
						Additional									Subscription Votes				
Member	Subscriptions Carrying Votes (a-1)	Contributions (a-2)	Total Cumulative Resources (a-3)	Subscription Votes (a-4)	Total Voting Power% (a-5)	Subscription Carrying Votes (c-1)	Subscription Votes (c-2)	Membership Votes (c-3)	Total Voting Power % (c-4)	Subscription Carrying Votes (e-1)	Subscription Votes (e-2)	Contributions (e-3)	Total Additional Resources (e-4)	Subscription Votes (f-1)	as % of part II (f-2)	Membership Votes (f-3)	Total Votes (f-4)	Total Voting Power % (f-5)
KIRIBATI	90,370		90,370	649	0.18%	1,425	57	2,700	0.18%	0	0	0	0	706	0.02%	27,100	27,806	0.18%
KOREA	2,173,242	143,069,143	145,242,385	24,628	0.36%	54,400	2,176	2,700	0.36%	330,323	13,213	181,491,045	181,875,767	40,017	1.13%	27,100	67,117	0.44%
KYRGYZ REPUBLIC	578,063		578,063	3,346	0.20%	7,400	296	2,700	0.20%	0	0	0	0	3,642	0.10%	27,100	30,742	0.20%
LAO PEOPLE'S DEM. REP.	721,223		721,223	4,127	0.21%	9,125	365	2,700	0.21%	0	0	0	0	4,492	0.13%	27,100	31,592	0.21%
LATVIA	822,111		822,111	4,701	0.21%	10,375	415	2,700	0.21%	0	0	0	0	5,116	0.15%	27,100	32,216	0.21%
LEBANON	650,347		650,347	3,769	0.20%	8,325	333	2,700	0.21%	0	0	0	0	4,102	0.12%	27,100	31,202	0.21%
LESOTHO	233,938		233,938	1,449	0.19%	3,200	128	2,700	0.19%	0	0	0	0	1,577	0.04%	27,100	28,677	0.19%
LIBERIA	1,093,858		1,093,858	6,172	0.22%	13,625	545	2,700	0.22%	0	0	0	0	6,717	0.19%	27,100	33,817	0.22%
LIBYA	1,450,497		1,450,497	8,098	0.24%	17,875	715	2,700	0.24%	0	0	0	0	8,813	0.25%	27,100	35,913	0.24%
MACEDONIA, FYR	4,426,777		4,426,777	2,802	0.20%	6,200	248	2,700	0.20%	0	0	0	0	3,050	0.09%	27,100	30,150	0.20%
MADAGASCAR	1,451,392		1,451,392	8,098	0.24%	17,875	715	2,700	0.24%	0	0	0	0	8,813	0.25%	27,100	35,913	0.24%
MALAWI	1,093,858		1,093,858	6,172	0.22%	13,625	545	2,700	0.22%	0	0	0	0	6,717	0.19%	27,100	33,817	0.22%
MALAYSIA	3,616,505		3,616,505	20,057	0.32%	44,300	1,772	2,700	0.32%	0	0	0	0	21,829	0.62%	27,100	48,929	0.32%
MALDIVES	47,317		47,317	411	0.18%	900	36	2,700	0.18%	0	0	0	0	447	0.01%	27,100	27,547	0.18%
MALI	1,251,005		1,251,005	7,026	0.23%	15,525	621	2,700	0.23%	0	0	0	0	7,647	0.22%	27,100	34,747	0.23%
MARSHALL ISLANDS	18,828		18,828	258	0.18%	575	23	2,700	0.18%	0	0	0	0	281	0.01%	27,100	27,381	0.18%
MAURITANIA	721,223		721,223	4,127	0.21%	9,125	365	2,700	0.21%	0	0	0	0	4,492	0.13%	27,100	31,592	0.21%
MAURITIUS	1,238,817	35,560	1,274,377	7,011	0.23%	15,475	619	2,700	0.23%	0	0	0	0	7,630	0.22%	27,100	34,730	0.23%
MEXICO	12,947,832	137,739,943	150,687,775	85,729	0.80%	189,325	7,573	2,700	0.79%	10,883	435	5,979,779	6,179,987	93,737	2.66%	27,100	120,837	0.79%
MICRONESIA, FED. ST. OF	33,217		33,217	339	0.18%	750	30	2,700	0.18%	0	0	0	0	369	0.01%	27,100	27,469	0.18%
MOLDOVA	808,031		808,031	4,633	0.21%	10,225	409	2,700	0.21%	0	0	0	0	5,042	0.14%	27,100	32,142	0.21%
MONGOLIA	334,477		334,477	2,006	0.19%	4,425	177	2,700	0.19%	0	0	0	0	2,183	0.06%	27,100	29,283	0.19%
MOROCCO	5,065,477		5,065,477	28,092	0.38%	62,050	2,482	2,700	0.38%	0	0	0	0	30,574	0.87%	27,100	57,674	0.38%
MOZAMBIQUE	1,967,630		1,967,630	10,966	0.26%	24,225	969	2,700	0.26%	0	0	0	0	11,935	0.34%	27,100	39,035	0.26%
MYANMAR	2,901,320		2,901,320	16,169	0.29%	35,700	1,428	2,700	0.29%	0	0	0	0	17,597	0.50%	27,100	44,697	0.29%

NEPAL	721,223		721,223	4,127	0.21%	9,125	365	2,700	0.21%	0	0	0	0	4,492	0.13%	27,100	31,592	0.21%
NICARAGUA	433,541		433,541	2,522	0.20%	5,575	223	2,700	0.20%	0	0	0	0	2,745	0.08%	27,100	29,845	0.20%
NIGER	721,223		721,223	4,127	0.21%	9,125	365	2,700	0.21%	0	0	0	0	4,492	0.13%	27,100	31,592	0.21%
NIGERIA	4,820,630		4,820,630	26,687	0.37%	58,925	2,357	2,700	0.37%	0	0	0	0	29,044	0.82%	27,100	56,144	0.37%
OMAN	435,702	1,031,863	1,467,565	2,603	0.20%	5,750	230	2,700	0.20%	0	0	0	0	2,833	0.08%	27,100	29,933	0.20%
PAKISTAN	14,534,254	118,533	14,652,787	82,447	0.77%	182,075	7,283	2,700	0.77%	0	0	0	0	89,730	2.54%	27,100	116,830	0.77%
PALAU	28,817		28,817	1,153	0.19%	2,558	102	2,700	0.19%	0	0	0	0	1,255	0.04%	27,100	28,355	0.19%
PANAMA	34,336		34,336	375	0.18%	825	33	2,700	0.18%	0	0	0	0	408	0.01%	27,100	27,508	0.18%
PAPUA NEW GUINEA	1,238,356		1,238,356	7,001	0.23%	15,450	618	2,700	0.23%	0	0	0	0	7,619	0.22%	27,100	34,719	0.23%
PARAGUAY	433,541		433,541	2,522	0.20%	5,575	223	2,700	0.20%	0	0	0	0	2,745	0.08%	27,100	29,845	0.20%
PERU	2,542,019		2,542,019	14,205	0.28%	31,375	1,255	2,700	0.28%	0	0	0	0	15,460	0.44%	27,100	42,560	0.28%
PHILIPPINES	7,233,807	180,180	7,413,987	40,127	0.47%	88,625	3,545	2,700	0.47%	0	0	0	0	43,672	1.24%	27,100	70,772	0.47%
POLAND	44,249,910	26,252,383	70,502,293	245,792	1.96%	542,825	21,713	2,700	1.94%	5,750	230	3,159,417	3,707,992	267,735	7.59%	27,100	294,835	1.94%
RWANDA	1,093,858		1,093,858	6,172	0.22%	13,625	545	2,700	0.22%	0	0	0	0	6,717	0.19%	27,100	33,817	0.22%
SAMOA	132,555		132,555	851	0.18%	1,875	75	2,700	0.18%	0	0	0	0	926	0.03%	27,100	28,026	0.18%
SAO TOME & PRINCIPE	104,816		104,816	732	0.18%	1,625	65	2,700	0.18%	0	0	0	0	797	0.02%	27,100	27,897	0.18%
SAUDI ARABIA	14,598,192	2,075,619,389	2,090,217,581	400,977	3.09%	885,525	35,421	2,700	3.06%	144,797	5,792	79,556,711	80,587,033	442,190	12.54%	27,100	469,290	3.08%
SENEGAL	2,412,595		2,412,595	13,433	0.27%	29,675	1,187	2,700	0.28%	0	0	0	0	14,620	0.41%	27,100	41,720	0.27%
SIERRA LEONE	1,093,858		1,093,858	6,172	0.22%	13,625	545	2,700	0.22%	0	0	0	0	6,717	0.19%	27,100	33,817	0.22%
SLOVAK REPUBLIC	2,631,729	7,139,383	9,771,112	15,302	0.29%	33,800	1,352	2,700	0.29%	8,831	353	4,851,919	4,894,550	17,007	0.48%	27,100	44,107	0.29%
SLOVENIA	12,949,862		12,949,862	7,861	0.23%	17,350	694	2,700	0.24%	0	0	0	0	8,555	0.24%	27,100	35,655	0.23%
SOLOMON ISLANDS	132,555		132,555	851	0.18%	1,875	75	2,700	0.18%	0	0	0	0	926	0.03%	27,100	28,026	0.18%
SOMALIA	1,093,858		1,093,858	6,172	0.22%	13,625	545	2,700	0.22%	0	0	0	0	6,717	0.19%	27,100	33,817	0.22%
SRI LANKA	4,347,827		4,347,827	24,088	0.35%	53,200	2,128	2,700	0.35%	0	0	0	0	26,216	0.74%	27,100	53,316	0.35%
ST. KITTS & NEVIS	190,775		190,775	1,202	0.19%	2,650	106	2,700	0.19%	0	0	0	0	1,308	0.04%	27,100	28,408	0.19%
ST LUCIA	219,357		219,357	1,357	0.19%	3,000	120	2,700	0.19%	0	0	0	0	1,477	0.04%	27,100	28,577	0.19%
ST VINCENT & GRENADINES	104,752		104,752	729	0.18%	1,600	64	2,700	0.18%	0	0	0	0	793	0.02%	27,100	27,893	0.18%
SUDAN	1,450,497		1,450,497	8,098	0.24%	17,875	715	2,700	0.24%	0	0	0	0	8,813	0.25%	27,100	35,913	0.24%
SWAZILAND	463,426		463,426	2,719	0.20%	6,000	240	2,700	0.20%	0	0	0	0	2,959	0.08%	27,100	30,059	0.20%
SYRIAN ARAB REP	1,365,499		1,365,499	7,653	0.23%	16,900	676	2,700	0.23%	0	0	0	0	8,329	0.24%	27,100	35,429	0.23%
TAJIKISTAN	535,471		535,471	3,124	0.20%	6,900	276	2,700	0.20%	0	0	0	0	3,400	0.10%	27,100	30,500	0.20%
TANZANIA	2,412,595		2,412,595	13,433	0.27%	29,675	1,187	2,700	0.28%	0	0	0	0	14,620	0.41%	27,100	41,720	0.27%
THAILAND	4,347,328		4,347,328	24,088	0.35%	53,200	2,128	2,700	0.35%	0	0	0	0	26,216	0.74%	27,100	53,316	0.35%
TOGO	1,093,858		1,093,858	6,172	0.22%	13,625	545	2,700	0.22%	0	0	0	0	6,717	0.19%	27,100	33,817	0.22%
TONGA	104,752		104,752	729	0.18%	1,600	64	2,700	0.18%	0	0	0	0	793	0.02%	27,100	27,893	0.18%

Table 2: Subscriptions, Contributions and Votes (Amounts in USD Equivalent) *(concl.)*

Part II	Current Status (before IDA12)					Additional				Additional Resources Provided under IDA12 in SDRs or Freely Convertible Currencies				Adjusted Voting power				
														Subscription Votes				
Member	Subscriptions Carrying Votes (a-1)	Contributions (a-2)	Total Cumulative Resources (a-3)	Subscription Votes (a-4)	Total Voting Power% (a-5)	Subscription Carrying Votes (c-1)	Subscription Votes (c-2)	Membership Votes (c-3)	Total Voting Power % (c-4)	Subscription Carrying Votes (e-1)	Subscription Votes (e-2)	Contributions (e-3)	Total Additional Resources (e-4)	Subscription Votes (f-1)	as % of part II (f-2)	Membership Votes (f-3)	Total Votes (f-4)	Total Voting Power % (f-5)
TRINIDAD & TOBAGO	1,939,828		1,939,828	10,845	0.26%	23,950	958	2,700	0.26%	0	0	0	0	11,803	0.33%	27,100	38,903	0.26%
TUNISIA	2,170,561		2,170,561	12,141	0.27%	26,825	1,073	2,700	0.27%	0	0	0	0	13,214	0.37%	27,100	40,314	0.27%
TURKEY	8,491,443	72,795,379	81,286,822	52,853	0.56%	116,725	4,669	2,700	0.56%	58,738	2,350	32,272,491	32,447,954	59,872	1.70%	27,100	86,972	0.57%
UGANDA	2,412,595		2,412,595	13,433	0.27%	29,675	1,187	2,700	0.28%	0	0	0	0	14,620	0.41%	27,100	41,720	0.27%
UZBEKISTAN	1,769,050		1,769,050	9,945	0.25%	21,975	879	2,700	0.25%	0	0	0	0	10,824	0.31%	27,100	37,924	0.25%
VANUATU	276,551		276,551	1,669	0.19%	3,675	147	2,700	0.19%	0	0	0	0	1,816	0.05%	27,100	28,916	0.19%
VENEZUELA	17,256,792	2,527,816	19,784,608	96,456	0.88%	213,025	8,521	2,700	0.87%	6,349	254	3,488,618	3,707,992	105,231	2.98%	27,100	132,331	0.87%
VIETNAM	2,170,561		2,170,561	12,141	0.27%	26,825	1,073	2,700	0.27%	0	0	0	0	13,214	0.37%	27,100	40,314	0.27%
YEMEN, REP OF	2,310,869		2,310,869	11,650	0.26%	25,725	1,029	2,700	0.26%	0	0	0	0	12,679	0.36%	27,100	39,779	0.26%
ZAMBIA	3,861,079		3,861,079	21,468	0.33%	47,400	1,896	2,700	0.33%	0	0	0	0	23,364	0.66%	27,100	50,464	0.33%
ZIMBABWE	5,907,670		5,907,670	32,601	0.41%	72,000	2,880	2,700	0.41%	0	0	0	0	35,481	1.01%	27,100	62,581	0.41%
Subtotal Part II	**570,868,229**	**2,814,244,624**	**3,385,112,853**	**3,194,129**	**47.23%**	**7,054,212**	**282,168**	**367,200**	**47.23%**	**1,252,050**	**50,081**	**572,058,646**	**380,606,546**	**3,526,378**	**100%**	**3,685,600**	**7,211,978**	**47.41%**
Subtotal Part I	**1,129,847,323**	**88,384,210,484**	**89,514,057,807**	**6,664,244**	**52.77%**									**7,322,163**	**100%**	**678,248**	**8,000,411**	**52.59%**
Grand Total	**1,700,715,552**	**91,198,455,108**	**92,899,170,660**	**9,858,373**	**100.00%**									**10,848,541**	**100%**	**4,363,848**	**15,212,389**	**100.00%**

Notes:

Current Status (a-1) to (a-5): It is assumed that the members that have outstanding commitments to subscribe or contribute to any previous Replenishment will fulfill their obligations. Amounts have been calculated, for purposes of the voting rights adjustment, by multiplying the subscriptions and contributions up to and including the Third Replenishment (which were expressed in terms of U.S. dollars of the weight and fineness in effect on January 1, 1960) by 1.20635 and adding thereto the dollar equivalents of the subscriptions and contributions under the Fourth through Eleventh Replenishments at the agreed exchange rates.

Allocation of Additional Votes with respect to Encashment: Subscription votes have been allocated on the imputed value of these contributions based on the related encashment schedule rather than the nominal amounts shown in contribution tables. For the Twelfth Replenishment, this is included in column (b-1) for Part I countries, and for Part II countries in column (e-4).

Special Contributions to IDA: The IDA12 resources for Brazil, Denmark, Korea, Spain and Turkey include special contributions to IDA approved by IDA's Executive Directors on May 7, 1998.

Additional Resources Provided under IDA12 in SDRs or Freely Convertible Currencies: The amounts shown in column (e-4) represent the total additional resources provided under the Twelfth Replenishment by Part II members in SDRs or freely convertible currencies, as set out in Table 1. The U.S. Dollar equivalent has been obtained by converting the SDR amounts using the average exchange rates for the U.S. Dollar against the SDR over the period March 1 to August 31, 1998 (1.33734). These amounts are divided into subscriptions carrying votes (columns (c-1) and (e-1)) and contributions (column (e-3)).

FRY (Serbia/Montenegro): The Federal Republic of Yugoslavia (Serbia/Montenegro) is not yet a member of the Association. The amount shown in column (a-1) is its allocation as one of the five successor Republics of the former Socialist Federal Republic of Yugoslavia (SFRY), in accordance with the agreement reached between the successor Republics and the Association on the division of the SFRY's subscriptions and contributions.

RESOLUTION ADOPTED BY THE BOARD OF GOVERNORS OF IDA AT THE 1999 ANNUAL MEETINGS

Resolution No. 195

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 1998/99 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 30, 1999)

RESOLUTION ADOPTED BY THE COUNCIL OF GOVERNORS OF MIGA BETWEEN THE 1998 AND 1999 ANNUAL MEETINGS

Resolution No. 57

1998 General Capital Increase

WHEREAS the original authorized capital stock of the Agency amounted to One billion Special Drawing Rights (SDR 1 billion) at a fixed value of 1.082 United States dollars per each SDR;

WHEREAS, in accordance with Article 5(c) of the Convention, the Council of Governors, may at any time, by special majority, increase the capital stock of the Agency;

WHEREAS Article 39(e) of the Convention states:

> In case the capital stock of the Agency is increased pursuant to Section (c) of Article 5, each member which so requests shall be authorized to subscribe a portion of the increase equivalent to the proportion which its stock theretofore subscribed bears to the total capital stock of the Agency, but no member shall be obligated to subscribe any part of the increased capital.

WHEREAS the Board of Directors has submitted a proposal to the Council of Governors for an increase in the authorized capital of the Agency;

WHEREAS the Board of Directors has proposed regulations for the subscription by members of the additional capital, prescribing in accordance with Article 39(f) "reasonable time limits for the submission by members of requests to make such subscriptions";

NOW THEREFORE the Council of Governors resolves as follows:

1. The authorized capital stock of the Agency shall be increased by SDR 785,590,000, divided into 78,559 shares, each having a par value of SDR 10,000. All payment obligations shall be settled on the basis of the value of the SDR in terms of United States dollars at the rate of exchange of SDR 1 equals US$1.082, as set forth in Article 5(a) of the Convention.

2. The provisions of this Resolution shall become immediately effective when Governors exercising not less than two-thirds of the total voting power representing not less than 55 percent of the subscribed shares of the capital stock of the Agency shall have voted in favor of this Resolution.

3. The subscription period shall commence on the date of approval of this Resolution and will cease three years thereafter. During this period, each signatory to the Convention listed in the attached Annex, entitled "Allocation, Subscription and Payment of the 1998 General Capital Increase," may subscribe up to the number of shares set forth opposite its name; provided those signatories that have not completed their membership requirements before the end of the subscription period shall not be entitled to subscribe the additional shares of capital stock. Members shall not be required to submit requests to subscribe the shares. It is understood that by making their payment each member has taken all necessary internal legislative steps to authorize its subscription of MIGA's 1998 General Capital Increase.

4. The subscription price shall be at par, and payment of subscriptions shall be made as follows:

- 17.65 percent cash in a "freely usable currency," as defined in Article 3(e) of the Convention; and
- 82.35 percent subject to call by the Agency and payable in a "freely usable currency" when required to meet its obligations.

The Council of Governors encourages members to make the subscription increase payments in two installments, the first during the first year of the subscription period for 50 percent of the paid-in portion, and the balance during the second year of the subscription period.

5. Each member that subscribes the additional shares shall have one additional subscription vote for each share of the additional capital subscribed. No additional membership votes (apart from the 177 membership votes that each member already has in accordance with Article 39(a) of the Convention) shall be allocated to subscribers of the additional capital.

6. As set forth in Article 39(c) of the Convention, shares that remain unsubscribed at the end of the three-year subscription period shall be utilized towards achieving parity of voting power between Category One and Category Two members.

(Adopted on March 29, 1999)

ALLOCATION, SUBSCRIPTION AND PAYMENT OF THE 1998 GENERAL CAPITAL INCREASE

COUNTRIES	Number of Additional Shares Allocated	Total Subscription (in SDR)	Total Subscription (in US$)	Freely Usable Currency (in US$)	Callable Capital (in US$)
CATEGORY ONE:					
Australia	1,306	13,060,000	14,130,920	2,494,107	11,636,813
Austria	591	5,910,000	6,394,620	1,128,650	5,265,970
Belgium	1,547	15,470,000	16,738,540	2,954,352	13,784,188
Canada	2,260	22,600,000	24,453,200	4,315,990	20,137,210
Denmark	547	5,470,000	5,918,540	1,044,622	4,873,918
Finland	457	4,570,000	4,944,740	872,747	4,071,993
France	3,705	37,050,000	40,088,100	7,075,550	33,012,550
Germany	3,865	38,650,000	41,819,300	7,381,106	34,438,194
Greece	213	2,130,000	2,304,660	406,772	1,897,888
Ireland	281	2,810,000	3,040,420	536,634	2,503,786
Italy	2,150	21,500,000	23,263,000	4,105,920	19,157,080
Japan	3,884	38,840,000	42,024,880	7,417,391	34,607,489
Luxembourg	88	880,000	952,160	168,056	784,104
Netherlands	1,653	16,530,000	17,885,460	3,156,784	14,728,676
Norway	533	5,330,000	5,767,060	1,017,886	4,749,174
Portugal	291	2,910,000	3,148,620	555,731	2,592,889
Spain	980	9,800,000	10,603,600	1,871,535	8,732,065
Sweden	800	8,000,000	8,656,000	1,527,784	7,128,216
Switzerland	1,143	11,430,000	12,367,260	2,182,821	10,184,439
United Kingdom	3,705	37,050,000	40,088,100	7,075,550	33,012,550
United States	15,641	156,410,000	169,235,620	29,870,087	139,365,533
Subtotal:	**45,640**	**456,400,000**	**493,824,800**	**87,160,075**	**406,664,725**
CATEGORY TWO:					
Albania	44	440,000	476,080	84,028	392,052
Algeria	495	4,950,000	5,355,900	945,316	4,410,584
Angola	143	1,430,000	1,547,260	273,091	1,274,169
Argentina	956	9,560,000	10,343,920	1,825,702	8,518,218
Armenia	61	610,000	660,020	116,494	543,526
Azerbaijan	88	880,000	952,160	168,056	784,104
Bahamas, The	76	760,000	822,320	145,139	677,181
Bahrain	59	590,000	638,380	112,674	525,706
Bangladesh	259	2,590,000	2,802,380	494,620	2,307,760
Barbados	52	520,000	562,640	99,306	463,334
Belarus	178	1,780,000	1,925,960	339,932	1,586,028
Belize	38	380,000	411,160	72,570	338,590
Benin	47	470,000	508,540	89,757	418,783
Bolivia	95	950,000	1,027,900	181,424	846,476
Bosnia-Herzegovina	61	610,000	660,020	116,494	543,526
Botswana	38	380,000	411,160	72,570	338,590
Brazil	1,127	11,270,000	12,194,140	2,152,266	10,041,874
Bulgaria	278	2,780,000	3,007,960	530,905	2,477,055

ALLOCATION, SUBSCRIPTION AND PAYMENT OF THE 1998 GENERAL CAPITAL INCREASE *(contd.)*

COUNTRIES	Number of Additional Shares Allocated	Total Subscription (in SDR)	Total Subscription (in US$)	Freely Usable Currency (in US$)	Callable Capital (in US$)
Burkina Faso	47	470,000	508,540	89,757	418,783
Burundi	56	560,000	605,920	106,945	498,975
Cambodia	71	710,000	768,220	135,591	632,629
Cameroon	82	820,000	887,240	156,598	730,642
Cape Verde	38	380,000	411,160	72,570	338,590
Chad	46	460,000	497,720	87,848	409,872
Chile	370	3,700,000	4,003,400	706,600	3,296,800
China	2,392	23,920,000	25,881,440	4,568,074	21,313,366
Colombia	333	3,330,000	3,603,060	635,940	2,967,120
Congo, Dem. Rep. of	258	2,580,000	2,791,560	492,710	2,298,850
Congo, Republic of	50	500,000	541,000	95,487	445,513
Costa Rica	89	890,000	962,980	169,966	793,014
Cote d'Ivoire	134	1,340,000	1,449,880	255,904	1,193,976
Croatia	143	1,430,000	1,547,260	273,091	1,274,169
Cyprus	79	790,000	854,780	150,869	703,911
Czech Republic	339	3,390,000	3,667,980	647,398	3,020,582
Dominica	38	380,000	411,160	72,570	338,590
Dominican Republic	112	1,120,000	1,211,840	213,890	997,950
Ecuador	139	1,390,000	1,503,980	265,452	1,238,528
Egypt, Arab Rep. of	350	3,500,000	3,787,000	668,406	3,118,594
El Salvador	93	930,000	1,006,260	177,605	828,655
Equatorial Guinea	38	380,000	411,160	72,570	338,590
Eritrea	38	380,000	411,160	72,570	338,590
Estonia	50	500,000	541,000	95,487	445,513
Ethiopia	53	530,000	573,460	101,216	472,244
Fiji	54	540,000	584,280	103,125	481,155
Gabon	73	730,000	789,860	139,410	650,450
Gambia, The	38	380,000	411,160	72,570	338,590
Georgia	85	850,000	919,700	162,327	757,373
Ghana	187	1,870,000	2,023,340	357,120	1,666,220
Grenada	38	380,000	411,160	72,570	338,590
Guatemala	107	1,070,000	1,157,740	204,341	953,399
Guinea	69	690,000	746,580	131,771	614,809
Guinea-Bissau	38	380,000	411,160	72,570	338,590
Guyana	64	640,000	692,480	122,223	570,257
Haiti	57	570,000	616,740	108,855	507,885
Honduras	77	770,000	833,140	147,049	686,091
Hungary	430	4,300,000	4,652,600	821,184	3,831,416
India	2,323	23,230,000	25,134,860	4,436,303	20,698,557
Indonesia	800	8,000,000	8,656,000	1,527,784	7,128,216
Israel	361	3,610,000	3,906,020	689,413	3,216,607
Jamaica	138	1,380,000	1,493,160	263,543	1,229,617
Jordan	74	740,000	800,680	141,320	659,360

ALLOCATION, SUBSCRIPTION AND PAYMENT OF THE 1998 GENERAL CAPITAL INCREASE *(contd.)*

COUNTRIES	Number of Additional Shares Allocated	Total Subscription (in SDR)	Total Subscription (in US$)	Freely Usable Currency (in US$)	Callable Capital (in US$)
Kazakhstan	159	1,590,000	1,720,380	303,647	1,416,733
Kenya	131	1,310,000	1,417,420	250,175	1,167,245
Korea, Republic of	342	3,420,000	3,700,440	653,128	3,047,312
Kuwait	709	7,090,000	7,671,380	1,353,999	6,317,381
Kyrgyz Republic	59	590,000	638,380	112,674	525,706
Latvia	74	740,000	800,680	141,320	659,360
Lebanon	108	1,080,000	1,168,560	206,251	962,309
Lesotho	38	380,000	411,160	72,570	338,590
Libya	418	4,180,000	4,522,760	798,267	3,724,493
Lithuania	81	810,000	876,420	154,688	721,732
Macedonia, FYR of	38	380,000	411,160	72,570	338,590
Madagascar	76	760,000	822,320	145,139	677,181
Malawi	59	590,000	638,380	112,674	525,706
Malaysia	441	4,410,000	4,771,620	842,191	3,929,429
Mali	62	620,000	670,840	118,403	552,437
Malta	57	570,000	616,740	108,855	507,885
Mauritania	48	480,000	519,360	91,667	427,693
Mauritius	66	660,000	714,120	126,042	588,078
Micronesia, Fed. States of	38	380,000	411,160	72,570	338,590
Moldova	73	730,000	789,860	139,410	650,450
Mongolia	44	440,000	476,080	84,028	392,052
Morocco	265	2,650,000	2,867,300	506,078	2,361,222
Mozambique	74	740,000	800,680	141,320	659,360
Namibia	82	820,000	887,240	156,598	730,642
Nepal	53	530,000	573,460	101,216	472,244
Nicaragua	78	780,000	843,960	148,959	695,001
Niger	47	470,000	508,540	89,757	418,783
Nigeria	643	6,430,000	6,957,260	1,227,956	5,729,304
Oman	72	720,000	779,040	137,501	641,539
Pakistan	503	5,030,000	5,442,460	960,594	4,481,866
Palau	38	380,000	411,160	72,570	338,590
Panama	100	1,000,000	1,082,000	190,973	891,027
Papua New Guinea	73	730,000	789,860	139,410	650,450
Paraguay	61	610,000	660,020	116,494	543,526
Peru	284	2,840,000	3,072,880	542,363	2,530,517
Philippines	369	3,690,000	3,992,580	704,690	3,287,890
Poland	582	5,820,000	6,297,240	1,111,463	5,185,777
Qatar	104	1,040,000	1,125,280	198,612	926,668
Romania	423	4,230,000	4,576,860	807,816	3,769,044
Russian Federation	2,391	23,910,000	25,870,620	4,566,164	21,304,456
Rwanda	57	570,000	616,740	108,855	507,885
Samoa	38	380,000	411,160	72,570	338,590

ALLOCATION, SUBSCRIPTION AND PAYMENT OF THE 1998 GENERAL CAPITAL INCREASE *(contd.)*

COUNTRIES	Number of Additional Shares Allocated	Total Subscription (in SDR)	Total Subscription (in US$)	Freely Usable Currency (in US$)	Callable Capital (in US$)
Saudi Arabia	2,391	23,910,000	25,870,620	4,566,164	21,304,456
Senegal	111	1,110,000	1,201,020	211,980	989,040
Seychelles	38	380,000	411,160	72,570	338,590
Sierra Leone	57	570,000	616,740	108,855	507,885
Singapore	118	1,180,000	1,276,760	225,348	1,051,412
Slovak Republic	169	1,690,000	1,828,580	322,744	1,505,836
Slovenia	78	780,000	843,960	148,959	695,001
Solomon Islands	38	380,000	411,160	72,570	338,590
South Africa	719	7,190,000	7,779,580	1,373,096	6,406,484
Sri Lanka	207	2,070,000	2,239,740	395,314	1,844,426
St. Kitts & Nevis	38	380,000	411,160	72,570	338,590
St. Lucia	38	380,000	411,160	72,570	338,590
St. Vincent and the Grenadines	38	380,000	411,160	72,570	338,590
Sudan	157	1,570,000	1,698,740	299,828	1,398,912
Suriname	63	630,000	681,660	120,313	561,347
Swaziland	44	440,000	476,080	84,028	392,052
Syrian Arab Republic	128	1,280,000	1,384,960	244,445	1,140,515
Tajikistan	56	560,000	605,920	106,945	498,975
Tanzania	107	1,070,000	1,157,740	204,341	953,399
Thailand	321	3,210,000	3,473,220	613,023	2,860,197
Togo	59	590,000	638,380	112,674	525,706
Trinidad and Tobago	155	1,550,000	1,677,100	296,008	1,381,092
Tunisia	119	1,190,000	1,287,580	227,258	1,060,322
Turkey	352	3,520,000	3,808,640	672,225	3,136,415
Turkmenistan	50	500,000	541,000	95,487	445,513
Uganda	101	1,010,000	1,092,820	192,883	899,937
Ukraine	582	5,820,000	6,297,240	1,111,463	5,185,777
United Arab Emirates	284	2,840,000	3,072,880	542,363	2,530,517
Uruguay	154	1,540,000	1,666,280	294,098	1,372,182
Uzbekistan	133	1,330,000	1,439,060	253,994	1,185,066
Vanuatu	38	380,000	411,160	72,570	338,590
Venezuela	1,088	10,880,000	11,772,160	2,077,786	9,694,374
Vietnam	168	1,680,000	1,817,760	320,835	1,496,925
Yemen, Republic of	118	1,180,000	1,276,760	225,348	1,051,412
Yugoslavia, Fed.Rep.of	176	1,760,000	1,904,320	336,112	1,568,208
Zambia	242	2,420,000	2,618,440	462,155	2,156,285
Zimbabwe	180	1,800,000	1,947,600	343,751	1,603,849
Subtotal:	**32,919**	**329,190,000**	**356,183,580**	**62,866,406**	**293,317,174**
GRAND TOTAL	**78,559**	**785,590,000**	**850,008,380**	**150,026,481**	**699,981,899**

REPORTS OF THE EXECUTIVE DIRECTORS OF THE BANK

June 23, 1999

Remuneration of the President

1. The Executive Directors have reviewed the remuneration of the President, which consists of his salary plus an allowance for general representation expenses payable without certification. The President's remuneration was last adjusted on January 1, 1997. The Executive Directors have taken into account the evolution of the staff salaries since the last adjustment in the President's remuneration, relevant external comparators, and real income developments, and have concluded that an adjustment of 10.3 percent in the President's salary and of 4 percent in the general representation allowance are justified. While the adjustment in the representation allowance falls within the competence of the Executive Directors, the adjustment in salary requires action by the Board of Governors.

2. Executive Directors further agreed that the process for adjusting the President's remuneration as well as the issue of parallelism with the remuneration of the International Monetary Fund's Managing Director, should be reviewed before the drafting of the next contract of the President.

3. The Executive Directors therefore recommend to the Board of Governors that the salary, which is at present two hundred twenty-four thousand, six hundred fifty US dollars (US$224,650) per annum, should be adjusted to two hundred forty-seven thousand, seven hundred ninety US dollars (US$247,790) per annum. In conjunction with this increase, the Executive Directors approved by this report the increase in the general representation allowance, which is at present one hundred eleven thousand, four hundred ten US dollars (US$111,410) per annum, to one hundred fifteen thousand, eight hundred seventy US dollars (US$115,870) per annum. The two adjustments, which together would amount to a combined adjustment of 8.2 percent, would be effective July 16, 1999.

4. Accordingly, the Executive Directors have approved the submission of the following Resolution...[1] to the Bank Board of Governors for a vote without meeting pursuant to Section 12 of the By-Laws.

(This report was approved and its recommendation was adopted by the Board of Governors on July 26, 1999)

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[1] *See page 218.*

July 29, 1999

Allocation of FY99 Net Income and Transfer from Surplus

1. The General Reserve of the Bank as of June 30, 1999 was $15,409 million. As of that date, the surplus of the Bank was $195 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, 1999 (FY99) amounted to $1,518 million.

2. The Executive Directors have considered what action to take, or to recommend that the Board of Governors take, with respect to FY99 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 $700 million of net income to the General Reserve;

(b) the allocation of $255 million of net income, representing the difference between actual funding of the Staff Retirement Plan and Staff Retirement Plan accounting expenses for FY99, to the pension reserve;

(c) the transfer to the International Development Association, by way of grant, of an amount equivalent to up to $350 million in SDRs in the component currencies of the SDR as of June 30, 1999, comprising $273 million out of FY99 net income and up to $77 million from surplus, $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 $50 million, in reimbursement of the Association's share of the FY99 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;

(d) the transfer to the HIPC Debt Initiative Trust Fund, by way of immediate grant out of the Bank's FY99 net income, of $200 million to be used to provide debt relief on debt owed to the Association under the HIPC Debt Initiative framework;

(e) the transfer to the Trust Fund for Gaza and West Bank, by way of immediate grant out of the Bank's FY99 net income, of $60 million;

(f) the transfer of $30 million for capacity building in Africa, $5 million by way of immediate grant to the African Capacity Building Fund, and $25 million by way of grant to the financing

mechanism, when established, for the Partnership for Capacity Building in Africa; and

(g) the retention as surplus of any excess of FY99 net income over $1,518 million, provided that, of the resulting total amount in surplus, $25 million would be transferred from surplus to provide emergency rehabilitation assistance for Kosovo, at such time and in such manner as the Executive Directors would decide.

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 recommendations was adopted by the Board of Governors on September 30, 1999)

August 26, 1999

Forthcoming Annual Meetings

The Governors of the Bank and the Fund for the United Arab Emirates have invited the World Bank Group and the International Monetary Fund to hold the 2003 Annual Meetings of the Boards of Governors in Dubai during the period of September 23 to September 25. The Executive Directors have considered the assurances given by the Government of the United Arab Emirates, have reviewed the proposed arrangements in Dubai, and have noted that acceptance of the invitation would be in accordance with the traditional practice of meeting elsewhere than in Washington, D.C. every third year. Acceptance of the invitation from the Government of the United Arab Emirates also would permit related decisions to be taken that the Annual Meetings should be convened in Washington, D.C. beginning on October 2, 2001 and, October 1, 2002.

Accordingly, the Executive Directors recommend that the Board of Governors adopt the resolution....[2]

(This report was approved and the Board of Governors adopted its recommendations on September 30, 1999)

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[1] *See page 220.*
[2] *See page 221.*

REPORT OF THE BOARD OF DIRECTORS OF IDA

January 12, 1999

Addition to Resources: Twelfth Replenishment

I. IDA'S PURSUIT OF POVERTY REDUCTION

1. The International Development Association (IDA) provides highly concessional resources to low-income countries to help them reduce poverty and achieve faster, more environmentally sustainable, broad-based growth. It is the largest single source of concessional assistance to the world's 80 poorest nations. IDA assistance is provided to countries with per capita income (in 1997) below $925, and more than 90 percent of IDA lending goes to countries with per capita income below $650, or less than $2 a day.

2. IDA's resources come primarily from periodic contributions by the governments of its donor countries. The number of donors that support IDA has grown to include both developed and middle-income developing countries. IDA's donors have decided to replenish IDA's resources to finance its operations for the next three fiscal years, 2000–2002, starting July 1, 1999 (the Twelfth Replenishment of IDA, or IDA12). This report describes the guidance provided by the representatives of the donor governments, known as IDA Deputies, on IDA's policy direction, objectives, and priorities and sets out their recommendations for the funding of this replenishment.[1]

3. IDA pursues a comprehensive policy framework, with poverty reduction as the overriding objective. This framework has evolved over time, drawing on the lessons and knowledge gained from the experience of the developing countries and the efforts of the development community to assist them. This framework was set out and endorsed by the IDA Deputies in IDA10 and was amended to reflect the evolving development consensus in the IDA11 Replenishment Report.

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[1] *The IDA Deputies met four times under the chairmanship of Mr. Sven Sandström, Managing Director. The papers and notes provided to the Deputies as part of these replenishment discussions are listed in Annex C. The IDA12 replenishment meetings took place in Paris (February 1998); London (May 1998); Washington, D.C. (October 1998); and Copenhagen (November 1998).*

4. The Deputies reviewed and welcomed the progress made in IDA's activities and in the implementation of the policy framework. They again emphasized that poverty reduction was the cornerstone of IDA's development efforts and confirmed that the comprehensive policy framework developed and refined in recent replenishments will remain the foundation for IDA's program during IDA12. They also reaffirmed the central role of the Country Assistance Strategy (CAS) as the instrument for planning IDA's assistance programs and ensuring that each CAS is tailored to each recipient country's needs.[2] They noted the continuing effort of IDA to increase the sustainable impact of its poverty reduction program through a strengthened CAS process. They recommended that IDA's activities be further strengthened and that best practice be incorporated into future activities. They looked forward to the preparation of the *World Development Report 2001* on poverty and development. They hoped that this report will provide important insights into the issue of poverty and ways to reduce it, which will increase the effectiveness of poverty reduction efforts by recipient countries and by donors. Deputies also emphasized the importance of partnership. IDA resources are limited and it is only one of the factors in the promotion of development. The first and most important factor is the country itself. The government and its civil society must have ownership of the effort to reduce poverty and promote broadbased employment-generating pro-poor growth. Other donors, bilateral and multilateral, also play important roles in the effort to promote development. Close coordination with IDA's development partners and selectivity in its development efforts to take into account the programs and efforts of others are therefore vitally important. Deputies welcomed the recent strengthening of IDA's partnership efforts and urged further progress in this area.

5. The IDA12 Replenishment will span the transition into the new century. The international community has articulated a set of poverty reduction and social development goals for the 21st century (International Development Targets for the 21st century), and operational policies which will help better focus development efforts on key areas that are crucial to

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[2] *The Country Assistance Strategy is a strategic document prepared periodically for each World Bank borrower by the World Bank in consultation with the member government. This document reviews recent economic and social reforms, the external environment, the country's development objectives and policies, and the World Bank Group's programs. Its role is to provide a means to assess and develop the strategic priorities for future World Bank Group assistance to the country with the objective of maximizing the development impact on the ground.*

improving the lives of the poor.[3] IDA's policy framework and programs work to reduce poverty by increasing the availability of and access to basic social services and by creating a policy environment that promotes employment-generating, pro-poor economic growth. Effective poverty reduction requires including the poor, affected groups, and women systematically in the development process, both policy formulation and program implementation. The Deputies emphasized that exclusionary policies and practices are inconsistent with sound development, and the corresponding need to ensure adequate treatment of gender and participation in IDA's policies and programs.

6. The Deputies have recommended that this replenishment provide funding for IDA activities that will be committed between July 1, 1999, and June 30, 2002. They have recommended that SDR 8.65 billion be provided in donor contributions in order to enable IDA to commit a total of about SDR 15.25 billion during this period.[4]

7. While donor contributions will be the main source of IDA12 commitment authority, reflows from past IDA credits represent a large and growing source of commitment authority. In addition, donors view the International Bank for Reconstruction and Development (IBRD) transfers as a key element of this replenishment. The constraints facing IBRD net income and the importance of maintaining IBRD's financial

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[3] *As a major step toward concerted action for development, the international donor community has agreed to focus on a series of key goals in partnership with developing countries. These goals, which are based on United Nations (UN) conferences and resolutions reflecting broad agreement by the international community as a whole, were set out in* ***Shaping the 21st Century: The Contribution of Development Cooperation****, issued by the Development Assistance Committee of the Organization for Economic Co-operation and Development (OECD) in May 1996. The goals for 2015 include reducing by half the proportion of people living in extreme poverty; achieving universal primary education in all countries and universal access to reproductive health services; reducing by two-thirds the mortality rates of children under five and by three-fourths maternal mortality; ensuring full access to primary health care; and reversing trends in the loss of environmental resources. The goals for 2005 include demonstrated progress toward gender equality by eliminating gender disparities in primary and secondary education and the implementation of national strategies for sustainable development in all countries.*

[4] *IDA credits and IDA replenishment subscriptions and contributions are denominated in Special Drawing Rights (SDRs), which comprise a basket of five currencies (US dollar, Japanese yen, French franc, Deutsche mark, and British pound sterling). The International Monetary Fund (IMF) has decided that after the launch of the Economic and Monetary Union in Europe on January 1, 1999, the euro will replace the current currency amounts of the Deutsche mark and the French franc in the SDR valuation basket. During the six-month period March 1, 1998, to August 31, 1998 (the time period used for establishing equivalence of value among different currencies and the SDR for donor contributions to IDA12), the average daily rate of the SDR equaled 1.337 US dollars.*

strength are fully recognized by donors. The Deputies acknowledged that the first use of IBRD net income must be for adequate reserves to ensure IBRD's continued financial strength. At the same time, they placed great importance on continued and substantial transfers to IDA out of available IBRD net income during IDA12. They urged Management to recommend that high priority continue to be given to these transfers within IBRD's policies on the allocation of net income. The Deputies also proposed that IBRD's Executive Directors recommend to its Board of Governors continued and substantial transfers from IBRD net income to IDA during IDA12 in line with those made in recent years.

II. POLICY FRAMEWORK FOR POVERTY REDUCTION

8. Poor people, in particular women who are often the majority of the poor, must be at the center of development efforts in general—and of IDA's in particular—if they are to be included in social and economic development. The Deputies reaffirmed that sound macroeconomic and structural policies, institutional reforms, and good governance are essential for pro-poor, sustainable development and labor-intensive growth. Government commitment to these policies is critical for their effective implementation. IDA therefore works closely with the government and other donors in the development of a strategy and program to ensure true ownership by the government.

9. Sustained poverty reduction is possible only with broad beneficiary involvement and the building of community-level institutions that help poor people take advantage of opportunities. It is important for governments to take the lead in assuring such involvement. Non-governmental organizations (NGOs) can be invaluable partners in helping involve beneficiaries in social and economic development efforts and tailor public services to the needs of the poor. Work is currently under way to better guide the World Bank's relations with NGOs. Two recent papers emphasized the growing importance of NGOs to development and the World Bank's work.[5]

10. The poor also need to be given more opportunities to increase their income and improve their standard of living. Adequate physical infrastructure and transparent and accountable public institutions are

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[5] *"The Bank's Relations with NGOs: Issues and Directions", SecM98-150, March 12, 1998, and "Partnership for Development: Proposed Actions for the World Bank", SecM98-421, June 9, 1998.*

key to this outcome. Wherever feasible, policy reforms and public investment programs should focus on the needs and capabilities of the poorest segments of the population—most of which are in rural areas and dependent on agriculture—to create opportunities for them to improve the living conditions of their families and communities. Women and the poor often suffer from exclusion and discrimination that limit their ability to improve their lives. Particular attention must be given to opening up economic and social development options for those excluded from public and economic life, since exclusion deepens poverty, imperils social stability, and impedes more rapid economic growth in the world's poorest countries.

Investing in People as a Means—and End

11. ***Investments in People through the Support of the Social Sectors.*** Investments in basic social services—primary education, clean water and sanitation, preventive and reproductive health, nutrition, and basic community infrastructure—are vital, not only to improve poor people's living standards but also to increase their productivity and hasten their emergence from poverty. Governments have the responsibility to ensure that these basic social services are provided to the people. Improvements in women's health and nutritional status and in their access to education and other economic assets are particularly crucial to poverty reduction efforts. In addition, there is growing evidence that effective participation by beneficiary communities, which provides a means to reveal the true needs and aspirations of the poor, substantially enhances the quality and sustainability of basic social services. To achieve ownership and inclusion, these programs need to be clearly based on the needs of the poor. In basic education and health, an adequate effort is also required from the government budget. A country's public expenditures in these areas—whether financed by domestic or external sources—must be structured appropriately to achieve the maximum development outcome. IDA-financed investment projects in education and health have the largest effect on poverty reduction when the overall pattern of spending and other policies in the secto: place priority on the needs of the poor, and when projects are coordinated with and take into account the assistance of other donors.

12. Progress in the social sectors, including better and broader services for the poor, depends on government policy and both government and community support. External financing, while often crucial, can only supplement the efforts of the recipient. Social sector lending is a vital component of IDA's poverty reduction efforts. The Deputies welcomed the substantial increase in IDA lending for health, population,

education, and water and sanitation investments that occurred in recent replenishments. This lending now accounts for some 40 percent of IDA investment lending.[6] Virtually all active IDA borrowers have ongoing projects in education and health, focused primarily on improving access to and enhancing the quality of basic services. In recent years, high priority has been given to improving the quality of implementation of these projects, resulting in rapid growth in disbursements.[7] The increase in social sector investment disbursements is concentrated in regions with the greatest needs. The Deputies recommended that social sector lending should represent around 40 percent of investment lending during IDA12, taking into account country conditions and financing available from the countries themselves and other donors. IDA will report annually on lending and disbursements for the social sectors.

13. The Deputies also discussed the trends and patterns of IDA social sector lending commitments during IDA11 and the fluctuations in commitment levels from year to year.[8] The Deputies agreed that IDA lending to the social sectors should remain anchored in each country's CAS. They recommended that CASs should reflect IDA's strong support for the social sectors—particularly for basic health and education services—and that IDA's lending for the social sectors take into account the country's needs, capabilities, and other sources of finance, recognizing that many bilateral donors place a high priority on support for the social sectors. IDA should work closely with other donors in the field, taking into account their assistance efforts and acknowledging their areas of emphasis and comparative advantage. In that context, the Deputies recommended that IDA support to the social sectors be strengthened to ensure in particular that support for basic health and education services remains consistent with development priorities and with each recipient's CAS. They emphasized the importance of effective domestic spending on health and education for the poor. They noted that it was a key

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[6] *The share of the social sectors in investment lending was 40 percent in FY95–97 and 43 percent in FY98.*

[7] *In education, IDA's investment disbursements have increased by more than 50 percent since FY94—to $565 million in FY98. In health, nutrition, and population, disbursements reached $506 million in FY98, more than twice the amount in FY94. In Africa, social sector investment disbursements grew by 15 percent a year, while in South Asia they grew by 11 percent a year.*

[8] *For example, in FY98, IDA commitments for education investment projects rose to $1,122 million from a low of $255 million in FY97. Over the FY95–98 period, IDA lending for education investment projects averaged $718 million per year. Because of the natural phasing of the project portfolio—where periods of intensive project preparation and assistance for program formulation need to be followed by periods of focus on implementation—new commitments tend to fluctuate from year to year.*

performance criterion and IDA's intention to undertake regular social sector expenditure reviews to help determine IDA's lending program. They recognized that institutional capacity can constrain IDA's lending in these areas and recommended that IDA continue its support for capacity building to implement social sector projects.

14. ***Education.*** Education provides major economic, social, cultural, and institutional benefits. The Deputies noted that a new Education Sector Strategy was being prepared by Management. This report is expected to provide a framework for deepening the policy dialogue with the world's poorest countries on the options for rapidly increasing access to quality basic education, with a focus on making better use of government, donor, and private resources. CASs should incorporate a strategy for the education sector. The Deputies noted IDA's intention to enhance country education action plans, which set out IDA's assistance strategy and three-year program for the sector, in the context of the country's needs, and the activities of the recipient country itself and other donors. These action plans will integrate the International Development Targets for the 21st century. They recommended that education sector action plans setting out the World Bank's education sector assistance strategy should be prepared and updated for each active IDA borrower. The Deputies reiterated that education for girls has been shown to have a strong catalytic effect on all other dimensions of development.[9] IDA's CASs, lending programs, and public expenditure analyses, as well as analytical work and advisory services, should emphasize opportunities for providing education to girls, in partnership with local communities, governments, and other donors where gender inequality is identified as a constraint to development. IDA should monitor progress in girls' education for countries with significant disparities in gender enrollment rates.

15. ***Health, Nutrition and Population (HNP).*** Deputies endorsed the multisectoral approach to supporting health, nutrition and population programs and programs to increase access to water and sewerage, as expressed through CASs. They noted the World Bank's new Health, Nutrition and Population Sector Strategy, which anchors the World Bank's enhanced commitment to improving health outcomes for the poor and vulnerable, promoting equitable access to health services, and securing sustainable health care financing. They recognized that these

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[9] *The education of girls can increase female productivity in formal and nonformal labor markets; reduce fertility rates; reduce infant, child, and maternal mortality rates; and provide important intergenerational* [illegible]

activities are fully consistent with HNP International Development Targets for the 21st century. They recommended that HNP issues should feature prominently in the country dialogue and that progress in achieving HNP targets should be tracked. HNP activities are critical for the welfare of the poor and must complement the programs of other donors and international agencies, such as the United Nations Children's Fund (UNICEF) and the World Health Organization (WHO). To deliver clean water and sanitation services effectively to a larger share of poor people, the performance of the responsible public agencies needs to improve. This has often been possible only when utilities are run as commercial enterprises, with due attention to cost containment and service quality. The Deputies recommended that, in those IDA countries where HNP is a priority for assistance, CASs should be based on a clear integrated strategy for HNP as well as a minimal HNP data set that includes health expenditure levels (public and private) and information on the access of the poor to health care.

16. ***Social Protection.*** Social protection activities complement World Bank efforts in education, health, and nutrition by improving the ability of the poor to cope with economic hardship and change. IDA-funded social protection projects support labor market reforms, create employment, and retrain unemployed or potentially redundant workers. They are targeted to situations where the poor and disadvantaged are unable to benefit from new economic opportunities. The bulk of social protection lending goes toward establishing social funds, which are set up through financial intermediaries to channel resources to poor communities, NGOs, and municipalities for small-scale projects for poor and vulnerable groups. Social protection programs also support targeted initiatives to address the specific problems of working children, to ensure that opportunities to learn are not sacrificed for work.

17. ***Gender.*** The Deputies emphasized the importance of integrating key gender considerations into all of IDA's work, and that all efforts to reduce poverty and support good governance must take gender into account. Donors were concerned that gender had not been given enough attention in some World Bank policy documents and IDA operations. They noted the progress and work under way in the World Bank Group in "mainstreaming" gender into IDA's operations and recommended that this effort should be intensified and monitored closely. IDA operations should refer to commitments made in national action plans for gender equality, and IDA in partnership with other donors should assist the borrowing countries to implement these plans. The systematic and comprehensive incorporation of gender perspectives and analysis is

becoming more evident in CASs and IDA activities.[10] The Deputies requested that a Gender Sector Strategy that will set strategic directions for the next three to five years be prepared by June 1999. The Deputies recommended that IDA should expand its dialogue on gender with its partners and interested segments of civil society. Deputies welcomed the dialogue provided by the External Gender Consultative Group and its guidance on the design and implementation of gender policies.[11] They recommended a further strengthening of this process. *World Development Report 2001*, on poverty and development, will consider intra-household allocation of resources, gender dimensions of poverty and inequality, the special risks and vulnerabilities faced by women, and gender inequalities in access to services, especially in agriculture. The Deputies again emphasized the importance they place on addressing the gender-specific constraints faced by women, including those that may inhibit them from participating in all forms of consultation, and urged IDA to encourage gender equality assessments. They noted that gender-disaggregated data as well as more qualitative data are needed on both the micro and macro levels relating to the economic, social and legal situation of women and men in order to monitor and evaluate the level and distribution of benefits from IDA activities. They recommended further strengthening of collaboration with researchers, NGOs and other donors in order to systematically increase understanding of gender issues.

18. ***Labor.*** Child labor, often exploitative and harmful, limits children's education possibilities and degrades their health and welfare, while forced labor damages the health and welfare of workers and undermines their future productivity. Deputies noted the recent inclusion of a condition in the Multilateral Investment Guarantee Agency's (MIGA) general rules for guarantees requiring the investor to refrain from using forced labor or employing harmful child labor and the steps towards ensuring that harmful child labor will not be employed in World Bank-financed projects. They also noted the World Bank paper "Child Labor: Issues and Directions for the World Bank" and urged that the World

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[10] *For example, 45 ongoing IDA education sector projects contain gender objectives. A review of the CASs for FY98 shows that 23 out of 30 outlined gender issues, 17 set out specific actions on gender in the CAS action matrix, and many included specific gender benchmarks and monitoring indicators.*

[11] *The World Bank External Gender Consultative Group (EGCG) was established in early 1996 to help the World Bank design and implement its gender policies and to help strengthen the dialogue on gender-related issues between the World Bank, its partners, and interested sectors of civil society. The EGCG has 12 members representing national women's organizations, non-governmental organizations, and academics. The EGCG meets annually with senior World Bank Management and staff to review progress in the implementation of the World Bank's gender policies and to provide guidance on key issues that must be addressed in the future implementation of these policies.*

Bank further strengthen its efforts in this area. Where country practices and policies have a negative impact on the country's development prospects, these issues should be part of the World Bank's dialogue with that country and addressed in the CAS. Deputies welcomed IDA's consultations with international organizations, such as the International Labour Organization (ILO), in its work with countries on labor issues and parallel work being carried out with the International Monetary Fund. They proposed further collaboration on core labor standards, possibly including the exploration of core labor standards in a conference with broad participation.

19. ***Capacity Building.*** Capacity building aims to enhance local and national capacity—both public and private—to promote economic and social development. Poorly functioning public sector institutions, however, have often been major constraints to the realization of this potential. IDA has long sought to encourage institution building in the projects it finances, as well as under other initiatives. *World Development Report 1997: The State in a Changing World* laid out an agenda for action to improve the performance of governments including by divesting responsibilities to private actors and devolving authority, where these are appropriate. Building effective budgeting systems and creating sustainable systems for employment and career incentives in the civil service are two aspects of this effort. Capacity-building challenges normally cut across many sectors in a country and affects also private activities. In recognition of this, the Deputies recommended that a new World Bank public sector development strategy should be developed by June 2000 that focuses on institutional development and capacity building. This involves the piloting of new analytical tools (National Institutional Reviews) to help focus the country assistance strategies better on public sector reform and capacity building. Therefore, IDA is developing pilot National Institutional Reviews and will integrate such analyses into country assistance strategy formulation. In addition, the Economic Development Institute has substantially expanded its menu of training in support of long-term capacity building.

20. IDA will also seek to reduce the demands that its procedures place on the capacities of its borrowers by further simplifying projects and standardizing procedures. Deputies noted these efforts as well as the range of instruments available to address capacity building in borrowing countries.

Economic Growth—for Sustainable Poverty Reduction

21. Strong economic growth is essential to reduce poverty in IDA countries. The nature of that growth and the way resources are allocated are extremely important. For effective poverty reduction, economic

growth must be broad-based and labor intensive and conducive to broader sharing of economic gains within the economy. Inequalities need to be reduced. Complementing macroeconomic stabilization and adjustment policies with appropriate fiscal choices and structural measures that increase the economic opportunities and enhance the productivity of the poor, increases the impact on poverty reduction. Such measures include: giving priority to public investments in education, health, and other social programs and reducing non-productive expenditures, such as excessive military expenditures; undertaking pro-poor policy reforms which address the needs of the rural poor, small farmers, and micro-enterprises, such as reducing regulations that limit the participation of the poor in the formal sector; opening agricultural markets and liberalizing agricultural prices; policies to ensure sustainable use of natural resources; assuring the access of the poor—including women—to land, credit, and information; establishing basic labor standards; and reforming legislation and policies that disadvantage the poor. IDA supports needed economic and sector policy changes, structural reforms, and related capacity building and provides budgetary support for priority public expenditures. This support is an essential aspect of IDA's overall assistance effort.

22. The private sector is the engine of economic growth in successful economies. The high, sustained economic growth needed to reduce poverty in IDA countries cannot be stimulated by the public sector alone—hence the importance of encouraging private sector development. The macroeconomic environment plays a critical role in stimulating opportunities for entrepreneurs and investors, both domestic and foreign, which leads to expansion of the private sector, fueling further employment-generating economic growth. The Deputies recognized the prominent role that microentrepreneurs and small farmers play in the private sector in IDA countries as providers of income for the poor, underscoring the importance of policies and programs that support micro and small entrepreneurs as part of a pro-poor, labor intensive growth strategy. Inadequate access to finance and unstable regulatory environments are serious constraints to local entrepreneurs. The Deputies recommended that IDA: give priority to reforms in the financial sector and regulatory framework to improve the environment for all entrepreneurs; support public investments that benefits private sector activity; and assist programs that promote the interests of poor small farmers, both men and women, including adequate technical and operational support services.

Supporting Good Governance for Broad-Based Poverty Reduction

23. Good governance is critical to the economic development process and to the effectiveness of development assistance. Deputies stressed that

governance is a broad concept that affects various aspects of social, political, and economic life. They underscored four dimensions of governance that are particularly important to economic development, poverty reduction, and the effective use of IDA resources: (i) accountable and competent public institutions; (ii) transparent economic and social policies and practices; (iii) a predictable and stable legal framework; and (iv) participation by affected groups and civil society (see Annex A). Good public sector management, policies and programs designed to reduce poverty and increase transparency are integral elements of good governance. The design and execution of IDA's activities should explicitly take into account these dimensions of governance.

24. Poor governance, including corruption,[12] undermines development and constrains aid effectiveness. It undermines the efficient and equitable provision of public goods and services as well as opportunities to participate in growth and development. It creates barriers to the effective promotion of private sector development, raising costs and reducing growth. Problems of governance often involve problems of fundamental institutional weakness combined with inappropriate or unenforced policy or legal frameworks. Deputies consider that certain issues, such as democratization and respect for human rights, can also have important long-term implications for the capacity of a country to initiate and sustain programs for effective poverty reduction, economic adjustment and growth, and environmental sustainability. They stressed that governance is a broad-based concept intended to encompass all factors that impact on a country's ability to assure sustained economic and social development and reduce poverty and noted that addressing those factors is compatible with IDA's mandate.[13]

25. Addressing many of the problems of governance, including corruption, will require a long-term effort, particularly to build up the institutional capacity needed to make the desired changes sustainable and internalized. It will require the commitment and will of the government to be truly effective. Governments with a strong will and commitment to address governance concerns will receive appropriate assistance to do so. The Deputies emphasized that IDA should work to address governance

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[12] *In September 1997, the World Bank adopted a policy statement that "corruption should be explicitly taken into account in country risk analysis, lending decisions, and portfolio supervision if it affects project or country performance."*

[13] *Article V, Section 6 of IDA's Articles of Agreement provides that "the Association and its officers shall not interfere in the political affairs of any member; nor shall they be influenced in their decisions by the political character of the member or members concerned."*

issues that affect economic performance and development effectiveness and stressed the importance of taking governance issues explicitly into account in the country dialogue, Country Assistance Strategies and in the design and execution of lending and non-lending services. They recommended that Management systematically assess the quality of governance for all countries and strengthen the linkage between the quality of governance and IDA lending levels and that lending to countries with weak governance should be scaled back or, stopped entirely if necessary.

Protecting the Environment for the Future

26. Recognizing that the effects of poverty and environmental damage are often mutually reinforcing, IDA supports economic growth and poverty alleviation strategies that promote environmentally sustainable development—enhancing human health and the quality of life. A growing number of IDA projects with environmental components take a cross-sectoral approach to environmental problems and emphasize capacity building in environmental management because of the potentially broad, cross-sectoral impact. The Deputies stressed the importance of promoting cross-sectoral initiatives including in the rural development, urban and transport sectors and the sustainable use of natural resources; stemming environmental degradation; and conserving national and global biodiversity.

27. The Deputies welcomed the fact that more than 65 IDA countries have completed or are preparing National Environmental Action Plans (NEAPs) or Country Environmental Strategies. They also noted the movement to more in-depth approaches, especially sub-national strategies or action plans focusing on specific regions or localized problems of a country, as well as country-level analyses related to global themes. These exercises are increasingly participatory, seeking public input and building local ownership. The Deputies emphasized the importance of significant public participation in the development of these strategies and programs to ensure that the priorities identified adequately reflect the needs of stakeholders.

28. The further challenge is to integrate the results and recommended actions of these strategies into each country dialogue and CAS, and ultimately into project development and implementation. The Deputies recommended that environmental considerations—local, national, regional as well as global—should be "mainstreamed" in IDA operations and into the country dialogue and CASs, especially where environmental degradation is diagnosed as a serious development constraint, taking into

account relevant international agreements. That is the first step in a broader effort, endorsed by the Deputies, to identify development policies, programs, and projects that reduce local and global environmental degradation while contributing to economic growth. Currently under preparation is an Environment Strategy for the World Bank Group, that will highlight further steps and new initiatives to mainstream environmental aspects—local, national, regional and global—in World Bank Group operations. The Deputies requested IDA to prepare a report by December 2000 on progress made in mainstreaming environmental considerations into IDA's regular assistance including collaboration with the Global Environment Facility (GEF).

29. Many NEAPs have highlighted the need for environmental management capacity building, including developing local professional staff, building cost-effective regulatory programs at the local level that reflect priorities based on health impacts, and strengthening public information programs and avenues for public consultation. Recognizing past weaknesses in this area, the Deputies recommended that, as a follow-up to the recommendations in NEAPs, IDA should support: (i) projects which strengthen environmental agencies and their legal and regulatory frameworks and avenues for promoting public awareness; and (ii) sub-national and cross-border pollution abatement or resource management strategies and programs. The Deputies also supported efforts by IDA to develop in-country ownership of environmental assessments. The development of in-country capacity for environmental assessment is a mechanism not only for improving the standard for these assessments, but also for going beyond project assessments to broader, strategic environmental assessments.

30. The Deputies emphasized that much remains to be done in mainstreaming global environmental objectives into the policies and operations of the World Bank Group—and thus maximizing global impacts and the effectiveness of operations. They recommended that more attention be paid to integrating global concerns (such as biodiversity conservation, transboundary water management, the phaseout of ozone-depleting substances, and global climate change), in line with the Policy Recommendations for the Second GEF Replenishment,[14] in the country dialogue, CAS, and economic and sector work. In doing so, IDA should build on the growing body of GEF-financed activities that have enabled

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[14] *"Global Environment Facility (GEF): Second Replenishment of the GEF Trust Fund—Request for Authorization of the World Bank to Act as Trustee", Annex B, R98-156, June 12, 1998.*

client countries to develop their own strategies and action plans on global themes. The Deputies also stressed that GEF activities should be country-driven and reflect national priorities, while underscoring the need to apply the principle of incremental cost in GEF-related projects. Recognizing that country ownership is key, the Deputies called for concerted efforts to advance recipient country knowledge of global environmental issues, to ensure the active involvement of recipient countries and interested stakeholders in project design and implementation, and to strengthen local institutional capacity to identify and implement such projects.

31. The Deputies noted the important role that energy plays in development as well as its effects on the local and global environment—and stressed the corresponding importance of efficient and sustainable energy resource development and use. IDA seeks to improve efficiency throughout the energy chain, from production to end use, in many countries through its support for sound sector policies and projects concerned with power reform, energy efficiency (in both energy and non-energy operations), development of renewable energy, and use of cleaner fossil fuels. The Deputies recommended that the World Bank's environment strategy for the energy sector should be implemented, promoting energy efficiency programs, rural energy availability, and the use of renewable energy and other low carbon technologies where economically justified. In addition, the World Bank is forming a strategic partnership with the GEF to create and expand renewable energy markets, through a programmatic approach in client countries supporting enabling policy actions and new instruments to address the considerable pre-investment risks and market barriers that exist. The aim is to accelerate the use of viable renewable energy technologies (including wind and photovoltaic, especially in rural areas) and expedite the adoption of energy-efficient and renewable technologies that can become economic once markets have been established. The Deputies recommended, within the framework of a country's CAS, that IDA seek to expand financing of renewable energy where it can be economically justified.

III. TRANSLATING POVERTY REDUCTION OBJECTIVES INTO COUNTRY ALLOCATIONS

Performance-Based Allocations

32. IDA Deputies noted the central role of CASs and welcomed the ongoing effort to improve their quality and usefulness, given their importance as a key tool defining the World Bank's relationships with

client countries and their continuously evolving nature since their inception in 1990. They recognized the progress that has been made in implementing a country policy and institutional assessment process which effectively differentiates IDA allocations according to the policy performance of recipient countries. They also recognized that this process is both wide ranging and specific, with significant emphasis being placed on policy indicators which directly impact poverty reduction. Since assessing a country against the criteria necessarily requires professional judgments, it is important that assessments are implemented, and are seen to be implemented, in a consistent and even-handed manner. The crucial role of policy performance in determining lending levels is consistent with the Strategic Compact,[15] which undertook that the overall allocation of IDA resources among individual countries would reflect their policy performance, development strategy, financing needs, and access to alternative financing.

33. Donors stressed the importance of concentrating IDA resources on the poorest and least creditworthy countries that have demonstrated commitment to good policy performance and to achieving poverty reduction and economic growth.[16] They welcomed the Strategic Compact target which calls for tightening per capita lending to IDA-only countries with poor policy and institutional performance. The Deputies also reaffirmed that the allocation of IDA resources should support IDA's overarching goals of poverty reduction, broad-based economic growth, and environmental sustainability. Therefore, IDA allocations should continue to be primarily determined by each borrower's policy performance in respect of these goals and by its project implementation performance. The Deputies recommended that when assessing performance, Management consider not only the policies that foster sustainable growth but also policies that mitigate inequalities and enable larger access of the poor to basic social services and income-generating opportunities.

34. Policy performance and governance issues should determine the size and delivery of the IDA program and influence its design. As noted in paragraph 25, the Deputies also asked Management to ensure that key

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[15] *The Strategic Compact is a plan for fundamental reform and for renewal of the World Bank's basic mission to reduce poverty ("The Strategic Compact: Renewing the Bank's Effectiveness to Fight Poverty", IDA/R 97-24, February 13, 1997). Under the Compact, the World Bank will invest in and implement changes to refocus the development agenda, improve products, expedite processes, lower costs, and increase development impact. One of its objectives is to exercise selectivity by strengthening the linkage between lending and performance.*

[16] *In this context, Deputies reviewed research [illegible] on the link between good country performance and the effectiveness of development assistance.*

indicators of governance which affect economic development (including the composition of public expenditures) are adequately taken into account in the assessment of performance and, thus, in the allocations and commitment of IDA lending resources. The Deputies strongly endorsed increased attention to sound governance in the World Bank's country policy and institutional assessments. They recommended that performance assessments which determine IDA resource allocations should include newly developed governance measures and be further improved to incorporate: (i) lessons emerging from operational experience; (ii) advice from inside and outside the World Bank, including from IDA borrowers; (iii) findings from further analytical work on key assessment criteria (including on participation, women and minorities, and non-developmental expenditures); and (iv) portfolio indicators (to identify problems with procurement practices, including corruption). They suggested that the assessment of policy areas that provide particular insight into governance be consolidated in a way that makes it easier to identify, early on, situations in which governance is a serious constraint to development.

35. The country performance criteria used by IDA are periodically reviewed and refined to reflect experience, and the Deputies recommended that modifications be made to these criteria as described in Annex A. The Deputies asked Management to ensure that the method for evaluating country performance be kept under review to strengthen the emphasis on policies leading to sustainable, pro-poor growth and requested annual reviews on the criteria and indicators used in the performance assessment, and the lending implications of performance assessments. They also asked Management to share country performance assessment information with development partners while safeguarding confidential information. Three issues are of particular importance and will be the focus of further work: the need to take fully into account the role of participatory processes in "sustainability" assessments; the need to incorporate access to resources and opportunities by the poor, particularly women and minorities, in all relevant criteria—including the role of factor markets and core labor standards; and the consideration of the extent and impact of non-developmental expenditures. In addition, further work will take into account lessons emerging from operational experience and advice from inside and outside the World Bank, including from IDA borrowers. Deputies requested an annual review of the country performance assessments and the criteria used for IDA allocations , including their implications for poor performers and turn-around countries and the treatment of governance.

36. The Deputies reviewed IDA's strategy for addressing poorly performing countries. They observed that since poor performance can

be due to very different causes, the strategy towards poorly performing countries needs to reflect these differences. They noted the empirical evidence showing that, where the overall country policy and institutional performance is poor and commitment to reform is absent, projects are not successful in meeting their development objectives, whether in the social sectors or elsewhere. They, therefore, agreed that assistance to countries which are not pursuing policies conducive to growth and poverty reduction should consist of primarily non-lending services—designed to establish sustained policy improvements—and of targeted lending such as for emergency rehabilitation. The Deputies acknowledged that the conditions of poorly performing countries present particularly difficult challenges. They recommended that IDA, where appropriate, identify ways to remain engaged in the country and with the government in order to strengthen its capacity and effectiveness in reaching the poor and to re-establish sustainable improvements in country performance.

37. At the same time, the Deputies recommended that IDA respond in a timely manner to the needs of countries that lack a satisfactory performance track record, but show prospects for much better performance. They noted that, provided that physical security, government ownership and adequate donor support are in place, technical and limited financial support has yielded satisfactory results. The core principles of commitment are: explicit, public endorsement of the objectives and schedule of reform programs and a clear process of stakeholder consultation. The Deputies, therefore, recommended that in these turn-around countries (countries that have had poor policies but are adopting policy reforms) IDA should: provide, in collaboration with other donor partners, technical advice and appropriate financial support as warranted by government progress in implementing reform programs, and build the partnership as successful milestones are completed. In these exceptional cases, close and continuous monitoring of the implementation of policy reforms is warranted, and the lending program should be adjusted in either direction as warranted by performance indicators.

38. Deputies also noted the severe problems faced by countries emerging from conflict and noted the strong support that the Development Committee gave to the work currently underway by the international community and the World Bank to identify ways to provide more timely and effective financial support to these countries. They encouraged the World Bank and the IMF, in cooperation with other major creditors, to continue the development of a comprehensive approach to guide assistance to these countries, including the refinement of eligibility criteria. They recognized the need to address these

countries' special needs and that current instruments available to the World Bank may not be adequate in specific cases. IDA should work with other international financial institutions and donors to develop a framework to guide financial assistance to low-income post-conflict countries. They recommended that lending and non-lending should be provided selectively to post-conflict countries, commensurate with government progress in implementing recovery policies and donor willingness to provide concerted support. In this context proposed World Bank measures were discussed and Deputies endorsed rescheduling of arrears and the use of Fifth Dimension type funding in these countries. These measures are envisioned to be the main additional instruments to assist post-conflict countries. However, Deputies recognized that in certain exceptional cases, where the needs are great and alternative sources of financing are inadequate or inappropriate, there is a potential need for very limited IDA grant funding prior to arrears clearance. They agreed that where the use of IDA credits would be inappropriate Executive Directors could approve the use of IDA grants as a last resort and as part of a concerted international assistance effort to assure positive flows to post-conflict countries as soon as performance warrants.

Regional Priorities

39. The Deputies agreed that contributing to the acceleration of economic and social development in Sub-Saharan Africa remains foremost among IDA's priorities. For African borrowers, as for all IDA borrowers, performance will continue to be the main criterion for determining the allocation of IDA resources. The Deputies reiterated that IDA should continue to help African and other borrowers reduce any capacity limitations that may inhibit their effective use of IDA resources. While welcoming recent performance improvements and increased lending in many African countries, they emphasized the need to continue and to expand efforts aimed at increasing Africa's share of IDA resources—as long as the performance of individual countries warrants it. Management will continue to monitor lending opportunities in Africa to ensure that its activities take advantage of the window of opportunity provided by the expected improvement in the policy performance of African countries. Deputies recommended that Africa's share of IDA resources should be increased with the aim of reaching 50 percent of IDA12 lending, as long as the performance of individual countries warrants it. In pursuit of this objective, IDA should support African governments in their efforts to increase absorptive capacity. In light of strong donor interest in this matter, IDA will report annually on the Regional distribution of IDA lending. The Deputies also emphasized

the need to coordinate the concessional assistance flows to Africa from multilateral development banks to ensure optimal development impact.

40. Deputies noted that the economic crisis that began in East Asia and Russia and has now spread to various other parts of the world has put at risk one of the most remarkable achievements in poverty reduction in modern history. Development gains are being rapidly eroded and many developing countries, particularly in East Asia and in the former Soviet Union, face the prospect of prolonged economic recession and worsening social conditions. The World Bank is supporting the international effort to restore confidence and sustainable growth in the most severely affected countries across all Regions by providing financial and technical assistance to address both the financial and human dimensions of the crisis. Deputies recommended that the impact of the global financial crisis on all Regions should be monitored and IDA lending adjusted to respond to IDA recipient needs within the agreed IDA12 criteria.

Eligibility Criteria

41. Eligibility for IDA borrowing is governed by two basic criteria: a country's relative poverty (as measured by per capita income) and its lack of creditworthiness. The current operational cutoff for IDA eligibility is a per capita income of $925 in 1997.[17] The Deputies recommended that the operational per capita income cutoff be maintained at the same real level. They also recommended that the exception for small island economies that are not creditworthy for IBRD borrowing be retained, in accordance with the criteria established under previous replenishments, noting in particular the exceptional vulnerability of small island economies to external economic shocks and disruptive natural disasters. In this regard, they noted the work being

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[17] *The per capita income cutoff for IDA was originally set at $250 in 1964. This has been periodically updated to account for inflation and is referred to as the historical eligibility cutoff. However, these adjustments did not take into account the gradual decline in IDA resources relative to the needs of members or the changes in the number of eligible borrowers over time. This led IDA Management during the mid-1980s to recommend to the Executive Directors that the effective income ceiling for eligibility for IDA lending be lowered, in order to direct the increasingly scarce IDA resources to the poorer countries. This new, lower cutoff became known as the operational cutoff. At the time of the negotiations of the Eighth IDA Replenishment (1986), the Deputies acknowledged that, for practical purposes, the operational cutoff had superseded the formal per capita income guideline for IDA eligibility. The historical cutoff is currently a per capita income of $1,505 in 1997. Creditworthiness is both the ability to access private capital markets and the consistency of commercial terms, including lending from IBRD, with the sustainable long-term financing of the country's development program.*

undertaken by the IMF and the World Bank on small states. In addition, the Deputies recommended that, on a limited and exceptional basis, IDA eligibility be permitted for countries with a per capita income between the operational and historical cutoffs that are not creditworthy for IBRD borrowing.

Blend Borrowers

42. The Deputies reviewed IDA's approach to borrowers that are also creditworthy for IBRD lending—the "blends."[18] They noted that there are more than 400 million people in IDA12 blend countries living on less than $1 a day, and that these countries vary considerably in economic development prospects and access to nonconcessional funds. They were pleased to note that China and Egypt will cease borrowing from IDA after fiscal 1999—owing to their improved creditworthiness and higher GNP per capita. To support poverty reduction in blend countries, Deputies recommended that IDA resources in these countries should generally finance priority social investments for the poorest and environment programs. Noting the limitations on overall IDA funding and the primary importance of meeting the needs of the poorest countries, the Deputies recommended that IDA's assistance strategy and lending allocations for blend countries take account of these countries' creditworthiness, access to other sources of funds and their ability to use IDA resources effectively to tackle poverty. The Deputies recommended that the share of IDA12 lending to blend countries should decline, consistent with the graduation of blend and other borrowers, and they asked that this share be closely monitored.

Terms of IDA Lending

43. The Deputies also discussed the feasibility and desirability of hardening the terms of IDA lending—for example, by changing the maturity, interest charges, grace period, or repayment arrangements for IDA credits, particularly for blend countries.[19] Among the possible options explored were adding an interest charge to new credits,

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[18] *As described in "Lending to Blend Borrowers", SecM97-992; IDA/SecM97-563, December 17, 1997, and in "The Blend Countries and IDA", September 1998.*

[19] *For IDA-only countries (IDA countries that are not creditworthy to borrow from IBRD) the terms of IDA credits are 40 years maturity, 10 years grace, and a service charge of 0.75 percent. IDA credits to blend countries have a 35-year maturity, also with 10 years grace and a service charge of 0.75 percent. All IDA credits also carry a contractual commitment fee of 0–0.5 percent, applicable to the undisbursed balance of the credit. This commitment fee is set annually by the Executive Directors, and since 1989 it has been set at zero.*

shortening the grace period, and shortening the repayment period. Any change in terms would apply only to new loans, so harder terms would have a very modest effect on IDA's financial position during IDA12. The possible hardening of IDA terms for "blend" countries was also reviewed in the context of the graduation of blend countries from IDA borrowing. It was noted that an equivalent financial effect for the IDA recipients could be achieved by "hardening the blend"—that is, increasing the share of IBRD lending in total IDA and IBRD lending to a country as its economic position strengthens. The Deputies recommended that the allocation of World Bank assistance (IBRD and IDA) for each blend country should be explained fully in the CAS to ensure an IDA graduation process consistent with established World Bank policies. Donors requested, as part of the IDA12 work program, a review of the graduation policy for IDA countries and a further examination of the options for the lending terms for IDA borrowers which would take into account the lending terms and practices of regional development banks. This report should be available by December 2000 as a basis for discussion early in the IDA13 replenishment process.

44. With the exception of grant funding for interim period measures under the Heavily Indebted Poor Countries (HIPC) Debt Initiative, IDA does not provide direct grant funding to its borrowers. The Deputies restated their view that IDA financial assistance should remain primarily in the form of IDA credits. However, they reaffirmed their support for the selective and limited use of IDA grant funding under the HIPC Debt Initiative. In addition, they recognized the unique problems faced by post-conflict countries—particularly in the immediate post-conflict phase, where quick action is crucial but normal donor relationships have not been (re)established. The Deputies agreed, in the context of a framework for post-conflict countries approved by the Executive Directors, that exceptional IDA grant funding could also be provided, as a last resort where other funding sources are inadequate and where the use of IDA-credits would be inappropriate. Such post-conflict IDA-funded grants, if any, during IDA12 will be very limited.

IV. INCREASING IDA'S EFFECTIVENESS IN REDUCING POVERTY

Working with Partners to Tailor IDA Programs: The Country Assistance Strategy

45. In recent years IDA has devoted significant resources to improving the quality and effectiveness of its assistance efforts. The Strategic

Compact and the strengthened CAS are two vehicles that foster increased IDA effectiveness. As discussed in paragraph 32 above, under the Strategic Compact efforts have been made to increase the role of country performance in the allocation of IDA resources. And, efforts have been intensified to ensure "quality at entry" (that is, that each operation is designed to produce the desired development impact and adequately reflects country conditions). Increased participation of affected groups and civil society in the design of the strategy and operations is a key element in achieving high quality at entry.

46. The CAS should be prepared with the active participation of government, civil society and other donors and should take into account the country's development strategy, objectives, and needs; its performance in economic management, poverty reduction, and portfolio implementation; IDA's comparative advantage in providing assistance; and the priorities and activities of other donors. On this basis, country operations are proposed and lending instruments and nonlending services identified. Special country circumstances—such as post-conflict status or blend status—are identified and taken into account. Deputies recommended that CASs should normally be prepared every three years or less with annual updates for large borrowers. The CAS should be finalized after discussion with Executive Directors by incorporating their comments as appropriate.

47. The Deputies endorsed the central role of the CAS to guide IDA programs in support of poverty reduction. They recommended that the poverty focus of CASs should be enhanced; for that purpose, CASs should include a thorough diagnosis of the poverty situation in the country as well as clear poverty reduction goals (in the context of International Development Targets), monitorable benchmarks for evaluating progress in achieving those goals, and an information strategy to monitor as well as specific measures to evaluate poverty reduction outcomes.

48. The Deputies emphasized that CAS diagnosis should incorporate fully the findings of up-to-date relevant assessments and sector analysis. These building blocks include Social and Poverty Assessments, Public Expenditure Reviews, and National Environmental Actions Plans. The Deputies recommended that these building blocks should be undertaken as necessary for those countries for which they are not yet available. Deputies also encouraged the completion of Country Procurement Assessment Reports and Country Financial Accountability Assessments in countries where these are priority inputs into the CAS process and for major borrowers. While the quality of these analyses continues to

improve, Deputies recommended that the quality of all analytical work conform more closely to best practice and that the findings of the building blocks that have been prepared for each country be taken into account more systematically in the CAS.

49. In addition to careful analysis of the poverty and macroeconomic situation, CASs need to be grounded in a systematic analysis of key issues with an impact across many economic and social sectors, including governance, gender, environment, core labor standards, and the financial sector. Deputies recommended that CAS diagnostic treatment of these cross-cutting issues should be improved. These analyses should draw as warranted on the expertise and support of the entire World Bank Group, including the World Bank's thematic networks, and of institutions such as the IMF, ILO and World Trade Organization (WTO).[20] Where these are identified as priority issues, they should be addressed in the operational program.

50. For IDA's assistance to be effective and to lead to sustainable poverty reduction, the borrowing country must have strong ownership of the strategy, taking the lead in formulating policies, consulting with civil society, and identifying the requirements for resources and advice in cooperation with donors. The Deputies recommended increased efforts to enhance recipient country ownership of the CAS. Participation by civil society, including NGOs, is important in ensuring that stakeholders' priorities are identified and in promoting broad support and ownership of the resulting programs. The degree of borrower ownership and the level of participation by civil society in the development of the strategy have increased substantially as the CAS process has evolved. Where differences of opinion exist between IDA and the borrower, CASs often candidly identify the differences and the reasons. Deputies recommended that participation in the CAS process be strengthened, and they encouraged candor even as CASs become publicly available.

51. Deputies noted that some recent CASs for countries with large gender gaps have included innovative work to identify gender issues in a wide range of sectors, and efforts are under way to identify countries

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[20] *The four Bank networks are Human Development (HD), Environmentally and Socially Sustainable Development (ESSD); Finance, Private Sector, and Infrastructure (FPSI); and Poverty Reduction and Economic Management (PREM). The networks bring together all World Bank staff working in a particular functional area, wherever they are in the World Bank, to increase the capacity to capture the experience of others.*

where the gender gap is so severe as to require exceptionally intensive efforts. They indicated, however, that there is considerable room for further improvement. IDA field staff need to be equipped with appropriate analytical resources to assist borrowing countries formulate and implement poverty reduction strategies that adequately incorporate gender. Women need to be able to participate in the definition of problems and needs, as well as in the design and implementation of projects and policy reforms.

52. The CAS diagnosis should systematically include consideration of governance. Where weak governance, including corruption, is a significant development constraint, the CAS should include explicit treatment of governance issues, specifying implications for the IDA program, including lending program levels and types of project interventions. This would include, where appropriate, identifying public sector management needs or assistance in formulating national anticorruption plans.[21] The Deputies recognized that governance is a difficult and sensitive issue but stressed that more needs to be done to ensure that limited IDA resources are used effectively; therefore, they recommended more explicit treatment of governance issues in the design of IDA country strategies.

53. Deputies recommended that future CASs should justify IDA allocations relative to country performance assessments (including governance), needs, capabilities and other sources of finance and explicitly link the assessments to the lending scenarios incorporated in the CAS. CASs should generally include realistic base case (most likely) and high/low case lending scenarios. These should have specific triggers to identify a significant improvement or deterioration in performance and should specify how these triggers would change the amount and composition of lending and nonlending services.

54. The Deputies noted the Retrospective and Outlook review of CASs carried out by the World Bank in the spring of 1998[22] and the revised CAS guidelines that became effective in August 1998 and were designed to strengthen the CAS process. They also noted the actions being taken to base CASs increasingly on client feedback and client surveys. They

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[21] *Recent CASs explicitly incorporating the issue of governance as part of the strategy discussion include those for Bolivia, Ghana, and Kenya.*

[22] *"Country Assistance Strategies: Retrospective and Outlook", SecM98-242, March 30, 1998. Building on the May 1998 Board seminar on that paper and comments from donors, a set of proposals to enhance CASs, "Enhancing Board Discussion of Country Assistance Strategies", R98-199, July 16, 1998, was approved by the Board on July 31, 1998.*

asked Management to continue to explore with the Executive Directors further options for setting out more completely the government's agenda in the CAS, even where there are differences between IDA and the borrower, since lack of such differences could indicate a lack of ownership by the government or insufficient openness in policy dialogue.

55. Increased transparency and disclosure is a goal shared by Management and the Deputies, and further movement toward that objective, with broad consensus among all involved, is needed. The CAS preparation process should involve the active participation by governments, civil society and other donors. CASs should be made public, starting in July 1999 (with sensitive information appropriately handled in consultation with the government), unless justified by exceptional circumstances as agreed in each case by the Executive Directors.

Partnership and Donor Coordination

56. Partnership with borrowing countries entails strengthening capacity for coordination based on their own development strategies and a readiness to adjust to local circumstances, to build local capacity and to systematically involve civil society. Forging strong partnerships with other donors and stakeholders in borrowing countries is critical, given that IDA has limited resources and that it is only one source of aid to low-income countries. Thus, ensuring the effective use of IDA's assistance requires each CAS to be selective in both the design of the program and in the allocation of resources, taking into account the country's other sources of aid. It also requires building the capacity of people in borrowing countries to be effective partners in the CAS formulation process. In this process IDA should aim to ensure that these stakeholders can assume the central role in coordinating aid within their countries. The Deputies welcomed the pilot aimed at strengthening partnerships, including national conferences on development strategies (for example, in Bolivia, Ghana, and Pakistan) and in-country Consultative Group meetings (Ethiopia, Haiti, Tanzania, and Vietnam).[23] They noted the

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[23] *The World Bank partnership strategy is spelled out in "Partnership for Development: Proposed Actions for the World Bank", SecM98-421, June 9, 1998. It includes: (i) promoting and encouraging national capacity and consensus building, through joint economic and sector work, and through consultative mechanisms led by the government, with participation of civil society, the private sector, and external partners; (ii) aiming for a core national development strategy [illegible] owned by the country, with assistance from official development institutions, pledging their support at a meeting convened by the government; and (iii) arranging partnership frameworks between key development actors, based on shared objectives and comparative advantages in support of the country's national development strategy.*

ongoing review of the partnership strategy and recommended that Management continue exploring practical mechanisms that effectively combine increased recipient country ownership with improved donor coordination. They requested Management, in consultation with the UNDP, to prepare for Board review proposals for strengthening partnership, taking into account the ongoing evaluation of Consultative Groups by the Operations Evaluation Department (OED). These proposals should address the need for in-country policy dialogue and consultative meetings focused on government policy priorities, led as much as possible by the host government.

57. The CAS should discuss all the World Bank Group's planned activities during the CAS period, including those of the International Finance Corporation (IFC) and MIGA if they are involved in the country. The CASs' strategic selectivity should reflect a broad partnership framework taking into account the roles and actions of other donors and the areas of IDA's comparative advantage—to increase aid effectiveness and avoid inefficiency and duplication by facilitating donor cooperation and showing where other donors take the lead. The CAS needs to prioritize IDA activities across and within sectors and by instrument and to identify the main sectors in which IDA will not be involved and the reasons why. The Deputies recommended that CASs should include adequate information on other donors' current and planned assistance to the country. To this end IDA, in preparing each CAS, should request such information from other donors and provide in the CAS a table showing current and planned donor assistance and key sectors (to the extent data are available); and the activities in which IDA takes the lead (and the reasons why) and those in which other donors take the lead. The Deputies recommended that IDA significantly strengthen the role of the CAS as a platform for aid coordination and partnership. As part of this effort, the CAS should include a thorough discussion of the World Bank's coordination and collaboration with external partners, including the IMF, other multilateral development banks, major bilateral donors to the country, UN agencies, the private sector, and civil society. In this context, they noted that CASs prepared jointly with the IFC enhance the treatment of private sector issues and recommended a broader use of joint CASs. They also noted that the CAS should help ensure consistency between GEF and IDA assistance.

58. Close coordination with these development partners, on both development activities and strategies, is vitally important to the effectiveness of IDA's program and to development assistance in general. The Consultative Groups (CGs), the Special Program for Africa, and the United Nations Development Programme (UNDP)

Roundtables are important instruments for promoting coordination among donors. The development community has also increasingly recognized the desirability of coordination in the field, both among donors and with civil society. To improve the effectiveness of its assistance and its work with other donors, IDA has substantially increased its field presence in recent years. The Deputies welcomed this decentralization and the delegation of authority to the field, provided that there are proper control systems. Still, the Deputies noted that some cases of inadequate coordination remained and needed to be corrected. They recommended that Management take a leadership role in this area, exploring ways to strengthen the role of CGs as a coordinating mechanism and to increase the coordination and involvement of civil society and NGOs in the CG process, including holding CGs in the recipient country.

59. Better coordination among international financial institutions is needed to enhance the effectiveness of development assistance and reduce administrative costs through more efficient use of staff resources. They noted the widespread use of joint World Bank-IMF missions and recommended that such joint missions be increased and coordination strengthened. The Deputies recommended that to ensure complementary approaches and effective use of assistance resources, a Memorandum of Understanding between the World Bank Group and the African Development Bank Group clarifying their respective roles in Sub-Saharan Africa should be prepared. The Deputies will review the Memorandum of Understanding as part of the IDA12 mid-term review meeting (para. 80). The Deputies also requested that the World Bank Group accord high priority to collaboration with the regional multilateral development banks on harmonization of evaluation procedures and on strengthened and more uniform procurement rules and documents.

Dealing with Debt—Continued Support for the HIPC Debt Initiative

60. For many low-income countries, high levels of external debt are a serious constraint to development. The World Bank has assisted these countries using a variety of mechanisms, including:

- Support for policy reforms aimed at removing constraints to economic growth, which increases a country's long-term capacity to service its debt.
- Supplemental IDA assistance to reforming countries, where warranted.

- The Fifth Dimension program.[24]
- The Debt Reduction Facility for IDA-only countries, which has helped these countries address outstanding commercial debt.[25]
- Technical assistance for debt management.[26]
- Debt relief under the HIPC Debt Initiative. This Initiative includes the limited and selective use of IDA grant funding and the funding from available IBRD net income for the World Bank component of the HIPC Debt Initiative Trust Fund to provide debt relief on IDA debt in eligible countries.

61. The HIPC Debt Initiative, developed jointly by the World Bank and the IMF and adopted in September 1996, represents a commitment by the international community—including all creditors—to act in a coordinated and concerted manner to reduce to a sustainable level the debt of poor countries with good policy performance. The Deputies noted the progress that had been made in implementing this Initiative since its adoption.[27] They recognized the need for IDA to have instruments available to respond to the needs of heavily indebted countries and to support the HIPC Debt Initiative. They noted the review of the Initiative undertaken by the Executive Directors of the World Bank and the IMF in September 1998 and the decision to extend the entry period for HIPCs under the Initiative for two years—until the end

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[24] *The Fifth Dimension Program assists IDA-only countries—countries no longer able to borrow on IBRD terms—that have outstanding IBRD debt. The program allocates, on an annual basis, additional IDA resources as supplementary adjustment credits to cover an amount equivalent to the country's interest payments on IBRD debt.*

[25] *The Debt Reduction Facility for IDA-only countries helps low-income countries reduce their commercial debt through grant financing. The Facility is funded by transfers of IBRD net income ($300 million between fiscal years 1989 and 1998) and bilateral donor contributions and cofinancing. Grant funding is used to reduce commercial debt primarily by supporting the cash buyback of commercial debt at a steep discount.*

[26] *Debt sustainability requires the development of strong foreign debt management practices and structures. This is particularly true as financial choices (for example, currency choices) and the complexity of instruments increase over time.*

[27] *Progress in implementing the HIPC Debt Initiative is periodically reviewed in reports to the Development Committee (see "Initiative for Heavily Indebted Poor Countries: Review and Outlook", DC/98-15, September 22, 1998, and "HIPC Initiative: A Progress Report", DC/98-22, September 29, 1998). Through the end of FY98, eligibility for debt relief under the HIPC Initiative was reviewed for 10 countries. Debt relief was agreed for 6 of these: Bolivia, Burkina Faso, Côte d'Ivoire, Guyana, Mozambique, and Uganda. The debt relief for these countries totals $3 billion in Net Present Value (NPV) terms (about $5.7 billion in debt service relief over time), of which $2.6 billion is for African countries. In addition, the Debt Sustainability Analysis for Mali and Guinea-Bissau [illegible] that they could be eligible. Additional countries are being reviewed for eligibility.*

of 2000.[28] As noted above in paragraph 44, they supported the continued availability of additional IDA lending and IDA grant funding in a limited number of exceptional cases, as approved by the Executive Directors. IDA grant funding for use as part of the HIPC Debt Initiative would continue to be presented to the Executive Directors for approval.[29]

Promoting Employment Generating, Private-Sector-Led Growth

62. IDA recognizes the role of the private sector in generating sustainable economic growth. IDA operations play a major part in many countries in supporting the development of a policy, legal, and institutional environment that promotes private sector growth and competition and attracts private investment. IDA operations also emphasize financial sector development and institution building in the financial sector, recognizing the crucial role of local financial intermediation in local private sector development. The Deputies endorsed IDA's support for sound local enabling environments for private sector development, including regulatory and price reforms, and for building up local financial systems.

63. IDA uses a variety of instruments to support the diverse elements constituting the private sector: the microenterprises that employ many poor people in rural and urban areas, the small and medium-sized enterprises in which future opportunities for sustained growth and greater employment lie, and the more formal business sector. The recent

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[28] *When the Interim and Development Committees endorsed the HIPC Initiative in September 1996, it was agreed that it would remain open for two years, after which a decision would be made whether the Initiative should be continued ("The Initiative for Heavily Indebted Poor Countries: Review and Outlook", IDA/SecM98-480, August 25, 1998). In approving the extension of the HIPC Debt Initiative in October 1998, the Development Committee also encouraged the establishment of closer ties between debt relief and support for poverty reduction, as a way of making progress toward achievement of the international development target and supported the undertaking of a comprehensive review of the Initiative as early as 1999.*

[29] *As a part of the evaluation of eligibility for assistance under the HIPC Debt Initiative, the staff of the IMF and World Bank prepare a preliminary assessment (Preliminary HIPC document) for Executive Director consideration that summarizes the joint IMF-World Bank-government Debt Sustainability Analysis (DSA) for the country and assesses the country's vulnerabilities and adjustment record. If the country's debt situation is judged to be unsustainable, a Final HIPC document is prepared that recommends to the Executive Directors the eligibility of the country for assistance under the HIPC Initiative, the timing of the decision point and completion point, the targets for sustainability, the relief to be provided by the creditors, including the IMF and the World Bank, and the key performance criteria under the Initiative. The interim period is the period between the decision point (when the country is declared eligible for assistance under the Initiative) and the completion point (when the country has completed the performance period and met the performance criteria set out at the decision point to qualify for assistance under the Initiative). A completion point document is prepared at that time. This document reviews performance and if it finds the performance satisfactory, recommends a final decision on HIPC assistance.*

growth of IDA operations targeted at micro, small, and medium-sized enterprises is especially noteworthy. The emphasis is on building capacity in microfinance and encouraging indigenous small business development, especially through the formation of local business associations and cost-sharing technical assistance programs, which also create opportunities for local private consulting. IDA's efforts are complemented by IBRD, IFC, and MIGA programs supporting local business development and financing. The Deputies expressed concern about possible duplication of effort and inefficiency in private sector development activities across the World Bank Group and with other donors. They recommended that a clear private sector development strategy should be established for the World Bank Group during the course of 1999 to guide the work of the IBRD, IDA, IFC, and MIGA so that each plays its appropriate role in improving human welfare. They also recommended that efforts should be undertaken to build programs that can provide financial services for micro, small, and medium-sized enterprises and deepen the financial sector, reducing the excessive costs faced by poor people in undertaking private economic activity.

64. Where privatization offers opportunities to attract private capital and initiative to improve services to the public, especially to the poorest people, and to streamline the public sector, IDA supports the privatization of public enterprises. IDA supports efforts to make privatization transparent and improve public information about the process. But it needs to give more attention to ensuring that privatization improves services to the poor, that social safety nets are in place, and that monitoring is undertaken to assess the employment and social effects of privatization and the ways in which it can directly affect environmental sustainability and social equity. For many countries, it may also be appropriate for IDA to assess relevant legal issues and to provide appropriate capacity-building assistance.

65. Many IDA countries are privatizing some of the large state enterprises that have been responsible for public infrastructure, including telecommunications, electric power, water, and transport. The investments required to rebuild or expand public infrastructure are massive. Thus, it is essential to attract private sponsors and commercial financing for such investments whenever this is possible in a cost-effective way because the capital needs cannot be met by governments alone. The World Bank Group has a range of guarantee instruments that provide risk coverage as a way to help attract private capital and commercial financing and to acquaint international markets with the client country, but most of these have not been available to the poorest countries.

66. An IDA "partial risk" guarantee is now available under a pilot program. Deputies agreed that Executive Directors may make IDA12 resources available for IDA guarantees provided: (i) that the pilot program is judged to have been useful and effective; (ii) that IDA guarantees fit within the context of an overall World Bank Group private sector development strategy; and (iii) that they are limited to a small proportion of IDA resources. The Executive Directors will need to review as part of this process the terms and policies applicable to such guarantees.

Setting Goals and Monitoring Progress

67. ***International Development Targets for the 21st Century.*** The inclusion of appropriate, realistic, monitorable, and measurable goals and benchmarks is an important vehicle for focusing efforts on agreed objectives, measuring progress, and realigning efforts where necessary. As noted above, the development community has agreed on a broad set of goals for the 21st century. Through the Strategic Compact, the World Bank is committed to working with its partners to help measure progress by borrowers toward these and other development goals. Such progress is an important aspect of country performance, which, as agreed in the Strategic Compact, is an increasingly important determinant of IDA allocations. In addition, the building blocks (e.g., poverty assessments, environmental action plans, public expenditure reviews) and other analyses used to develop the country strategy and program often suggest priorities and contain useful indicators, data, and targets that can be used in setting goals and monitoring progress. Deputies emphasized that to the extent feasible CASs need to set out clear goals and specific indicators for evaluating progress in terms of development results.

68. ***Poverty Reduction Targets.*** CASs have increasingly made specific reference to the International Development Targets for the 21st century and have identified ways to support government programs aimed at achieving them; this is now considered best practice in CAS formulation. Where government programs and plans are not sufficiently developed to make such goals operationally useful, the focus needs to be on assistance that will permit the identification of shared goals and a strategy to reduce poverty and achieve these goals. The Deputies recommended even greater use of poverty reduction targets, including those developed in the context of the "Shaping the 21st Century" initiative, strengthening their use in the development dialogue with governments and incorporating them into the CAS when a government has established such goals as part of its long-term development strategy. The CAS should systematically show how IDA's support through projects and

programs will contribute to the achievement of poverty reduction. Progress on poverty reduction should remain a key element in evaluating country performance and thus in allocating IDA and other donor assistance.

69. ***Poverty Assessments.*** The scarcity of information about the incidence of and trends in poverty in many IDA countries can be a serious obstacle in the fight against it. Poverty has many dimensions and implications, and there are important links between poverty and human capital, social exclusion, and environmental degradation. Poverty assessments, which IDA carries out in collaboration with each borrower, are a valuable tool for increasing understanding of the incidence and structure of poverty and the factors affecting it in a country and for identifying the most urgently needed and effective interventions.[30] Poverty assessments are one of the building blocks for the development of IDA's strategy in a country and for the design of lending and nonlending services. The Deputies recommended that IDA undertake in-depth analyses of the nature and causes of poverty in borrowing countries (including the special circumstances of poverty in post-conflict countries), that IDA work with borrowers to develop and strengthen capacity where weaknesses hinder the completion or limit the quality of such assessments, and that IDA help strengthen ownership by the client government. When warranted by country conditions, such Poverty assessments should be updated with active involvement by the government and other interested parties. The Deputies emphasized the continued importance of ensuring that CASs explicitly and systematically reflect the findings of poverty assessments, including gender-specific dimensions of poverty. They also welcomed the innovation in Participatory Poverty Assessments and recommended that these be used more widely.

70. ***Social Assessments.*** Local participation in the design and implementation of projects enhances both their quality and their sustainability. World Bank policy requires task teams to illustrate an appropriate approach to stakeholder participation through stakeholder identification and analysis. Social assessments are a valuable tool for analyzing how beneficiaries and stakeholders will be affected by a project and for enhancing their participation. The social assessment process is designed to result in a strategy for participation that will meet

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[30] *By the end of fiscal 1998, Poverty Assessments had been completed for more than 50 active IDA borrowers, representing more than 90 percent of the population of IDA countries and more than 90 percent of IDA lending.*

the needs of the project and the stakeholders. Criteria have been developed for social assessment screening of lending and non-lending activities. The Deputies reiterated their view that participation should become an integral part of IDA's operations. They noted that the World Bank is mainstreaming social assessments and is finalizing a Social Analysis Policy that will address social analysis in investment projects and in nonlending instruments such as CASs, poverty assessments, and sector studies. They called for the speedy implementation of this strengthened policy.

71. ***Poverty Monitoring and Analysis.*** In the context of an agreement with UN agencies and the OECD on monitoring progress in achieving the goals set out in *Shaping the 21st Century: The Contribution of Development Cooperation*, the World Bank has assumed a leading role in monitoring the incidence of extreme poverty, the poverty gap ratio, inequality, and other social indicators. These global goals are progressively being translated into country goals and incorporated into Country Assistance Strategies. Best-practice CASs also discuss how to measure and monitor progress in achieving these goals and the World Bank's contribution to such progress. A major effort is under way to broaden and deepen the capacity for data collection and poverty analysis in IDA countries, using both sample survey and participatory techniques. The World Bank will continue to work with other donors, international organizations, and NGOs to strengthen the information available on the incidence of poverty and to improve its timeliness and reliability.

72. ***Periodic Poverty Reports.*** All IDA interventions should aim at the ultimate objective of eradicating poverty. The Deputies recommended that IDA continue to use a periodic Poverty Report to examine and report on how IDA interventions are reaching the poor. Projects in IDA's Program of Targeted Interventions (PTI)[31] have been one instrument used by IDA to achieve its poverty reduction objective. Under certain conditions such targeting can help enhance projects' impact on poverty reduction. But all IDA projects, whether inside or outside the PTI category, should be designed to make important contributions to poverty reduction. The Deputies noted that the distinction between PTI and other IDA investment lending has become

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[31] *A PTI project is an investment operation approved since FY92 that meets one of two criteria: the project includes a [illegible] mechanism for identifying and reaching the poor; or the share of the poor among direct project beneficiaries is significantly larger than the share among the overall population.*

less meaningful, since the CAS and IDA operations increasingly build on poverty assessments and related analytical work. While the implementation experience of PTI projects will continue to be reported in the periodic Poverty Report, the primary focus of future periodic Poverty Reports will be on the roles of poverty assessments and updates and of poverty monitoring; the design of CASs and individual operations to reflect poverty assessments; and the overall progress in poverty reduction relative to country objectives.

73. ***Public Expenditure Reviews and Analyses.*** Deputies noted the important role of the public expenditure review process in strengthening borrowers' budget planning and execution capacities but recognized that capacity building in this area is a long-term challenge. IDA should therefore continue to use regular Public Expenditure Reviews (PERs) and other expenditure analyses to assist borrowers in identifying the investment and recurrent spending needs in each key development sector and in estimating the implications of these needs for the budget as a whole. These reviews should also consider the role of nondevelopment expenditures—including military expenditures, subventions to state-owned enterprises, and other nondevelopmental spending—and whether reallocations of some of these could enhance the development impact of public spending, especially for human resource development. PERs should take full account of uses of public resources that are not consistent with development objectives, highlighting these in the policy dialogue and CAS.

74. Public expenditure analysis is a changing field, witnessing both important innovations and an expansion in scope. The Deputies recommended that IDA improve the analytical basis for public expenditure reviews, integrate more fully their findings into the CAS, and ensure country ownership. The preparation of each CAS should be based on an up-to-date public expenditure analysis. The CAS should indicate how the borrower intends to implement changes in the size and pattern of development expenditures aimed at improving poor people's access to basic services. The Deputies also recommended increased coordination with donors, the IMF, and the regional development banks in the preparation of PERs and other expenditure analyses. Deputies also highlighted the importance of effective revenue policy and collection mechanisms.

75. ***Project Performance Indicators.*** IDA's portfolio performance is improving, and IDA projects are more effectively achieving their objectives, in part because of better project formulation and implementation. Equally important is the improved performance of IDA's clients. Better performance measurement and monitoring have

contributed to the improved results. At the project level, an important tool is the monitoring and performance indicators that have been mandatory for all new projects since July 1995. The Deputies welcomed this progress and noted the recently completed study of monitoring and performance indicators and the recommendations for improvements. They also stressed that adequate fiduciary oversight in the procurement and financial management areas was important and Management should make improvements in these areas and monitor the implementation of approved recommendations.

76. ***Enhancing Effectiveness through Openness and Transparency.*** Deputies recommended that Management and the Executive Directors undertake a review to determine which World Bank documents should be published in addition to those already publicly available. Executive Directors should have full access to documents needed for the discharge of their functions, while ensuring that institutional and personnel confidentiality is protected.

77. The Deputies endorsed the Executive Directors' and Management's support for an independent and effective Inspection Panel to provide a forum for private citizens affected by World Bank financed projects. They noted that it was imperative to ensure the Inspection Panel's effectiveness and independence, as provided for in the resolution establishing the Inspection Panel in 1993 and the clarifications issued in 1996.[32] They recommended that the Inspection Panel's findings, Management's response and the Executive Directors' decision should be made publicly available. Management should bring to the Executive Directors of IFC and MIGA a proposal aimed at instituting an appropriate and independent inspection function suitable for the private sector.

78. ***Country Portfolio Performance Reviews.*** At the country level, IDA has made the Country Portfolio Performance Review (CPPR) a standard tool for portfolio management.[33] The CPPR brings together IDA staff and country counterparts to review the country portfolio, identify systemic and project-specific problems, formulate monitorable programs to resolve these problems, restructure projects where appropriate, and cancel components or projects if necessary. CPPRs

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[32] *"The World Bank Inspection Panel," IBRD Resolution 93-10 and IDA Resolution 93-6, approved September 22, 1993; "Clarification of Certain Aspects of the Resolution," issued October 17, 1996.*

[33] *There were 24 CPPRs in FY95, 28 in FY96, 29 in FY97 and 27 in FY98.*

now regularly involve policy-level government officials and senior-level World Bank Management. OED plays an increasingly active role in improving the quality of IDA projects. With its country-specific rather than project-specific focus, it seeks to capture relevant lessons and help guide the program under implementation. The Deputies welcomed these improvements.

79. ***Implementation Action Plan and Reporting.*** The Deputies welcomed the IDA11 matrix reviewing implementation of the IDA11 framework as a valuable tool for tracking the implementation of their recommendations. The matrix showed that while there was significant progress in many areas, not all objectives were fully met. A summary of the Deputies' IDA12 recommendations was prepared and is included as part of this IDA12 Report in the Executive Summary. An action plan is also included as Annex D. The Deputies recommended that OED be requested to undertake by March 2001 a review of the IDA program during the IDA10-11 period and an interim review of IDA12, including performance in implementing the recommendations of the Deputies set out in each of these Replenishment reports.

80. As in IDA11, the Deputies requested: (i) that an annual update be provided to the Executive Directors covering IDA commitments and disbursements (including reviews of lending to blend countries, social sector lending and regional distribution of lending) and donor contributions for the IDA12 period at the end of each fiscal year; and (ii) a final report on the IDA12 replenishment reviewing the implementation of the three-year IDA12 replenishment agreement by December 2002. They also recommended that a mid-term meeting of IDA Deputies be held during the year 2000 to review progress. In addition, in the context of the *World Development Report 2001*, on poverty, the World Bank should further develop the concept of pro-poor patterns of growth and analyze success stories in achieving such growth. Results from this analysis should be incorporated into IDA operations as rapidly as feasible and included in the final IDA12 Report. A list of IDA12 reports to be prepared is included in the Executive Summary.

V. PRINCIPLES FOR MANAGING IDA RESOURCES

81. The Deputies observed that as donor funding for development assistance comes under increasing pressure, it is more important than ever to ensure that all high-income countries contribute to IDA in an adequate and timely way to preserve its multilateral character. They noted with concern that in recent years, a few donors have made

contributions that were below their economic capabilities. Others have not contributed their committed amounts in a timely way. The Deputies expressed concern that these difficulties jeopardize not only the supply of needed concessional finance to the poorest countries, but also the commitment to multilateralism and fair burden sharing that has been IDA's hallmark. The Deputies reviewed a number of approaches to strengthening the basis of IDA's financing during the IDA12 period.

Prospective New Members and Donors

82. The Deputies welcomed to the IDA12 discussions two new donors—Israel and the Slovak Republic—that had contributed to IDA11 after the conclusion of the IDA11 replenishment discussions. Venezuela is in the process of applying for IDA membership and plans to contribute to IDA12. The Deputies noted that, in their view, there are still a number of countries that have the economic capability to contribute to IDA but have not yet done so. These include The Bahamas, Bahrain, Barbados, Brunei Darussalam, Chile, Cyprus, Qatar, Singapore, and the United Arab Emirates. The indicative level of contributions from these prospective donors and their per capita income are shown in Annex B. The Deputies agreed that they and Management should continue to encourage countries to become IDA donors. They recommended that nationals of those potential donors that are not World Bank borrowers, whether or not they are members of IDA, be ineligible for procurement under IDA-financed credits until the countries contribute to IDA—at present these countries are The Bahamas, Bahrain, Barbados, Brunei Darussalam, Cyprus, Oman, Qatar, Singapore and the United Arab Emirates.

Reporting of Contributions

83. The Deputies requested that all contributions be provided on the agreed schedule, reiterating their concern that a few donors have not done so. They requested Management to report regularly to the Executive Directors on the status of each donor's commitment and actual contribution to IDA, including this information in the *World Bank Annual Report* and other publications as appropriate.

Pro Rata Provision

84. Since the Fifth Replenishment, donors under the *pro rata* provision, have had the ability to restrict the use of part of their contributions, subject to any shortfall in contributions from the United States. The Deputies have reviewed the effectiveness of this provision from time to

time and recognize that its usefulness in encouraging timely contributions is limited. Nonetheless, the Deputies agreed to retain the pro rata provision for IDA12, because some donors feel that this provision is an important element of equity and burden sharing among IDA donors.

RITO Resources and Risk Management

85. IDA's commitment authority for new lending is derived not only from donor contributions but also from RITO resources.[34] Future reflows are utilized to the greatest extent feasible to maximize IDA's commitment authority from RITO resources while ensuring that targeted liquidity remains at prudent levels.

86. The Deputies reviewed the projected level of RITO resources available for commitment during IDA12 as well as the projected levels for future replenishments. They confirmed the importance of keeping RITO resources under careful review. They recognized the need to balance the use of such resources to make advance commitments with the need for prudential management of risks and uncertainties associated with IDA's projections, which depend on estimates of financial flows and conditions well into the future. Because of the long-term nature of the growth in reflows from past credits, they concluded that further advancing RITO resources to reduce donor contributions in IDA12 was not feasible without unduly increasing IDA's exposure to potential cash shortages. They requested, however, that the potential for using additional outer-year RITO resources to reduce near-term donor contributions or alternatively to increase commitment authority and lending to meet unforeseen needs be reviewed in the context of the next replenishment, when the planning horizon for such reflows would be somewhat closer.

87. While recognizing the complexity of IBRD's income dynamics and the constraints faced by IBRD's Board of Governors in allocating IBRD net income in the coming years, the Deputies reaffirmed the high priority they attach to continued and substantial transfers from IBRD net income to IDA and noted that contributions in line with those made in recent years would be essential to ensure a successful replenishment of IDA.

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[34] *RITO stands for Reflows from credit repayments, Investment income, IBRD net income Transfers, and Other resources.*

88. The Deputies emphasized the importance they attach to the efficient management of IDA's resources to maximize and sustain the resource transfer to the poorest countries. In this context, they reviewed IDA's management of financial risks, which are of three types:

- Potential currency mismatch (that is, the SDR value of donor contributions denominated in national currencies, on encashment, might fall short of the SDR value of the IDA credit commitments made during the replenishment period).
- Delay in repayments by borrowers, which could affect the level of advance commitment authority.
- Need for faster than expected disbursement, which could necessitate faster disbursements of IDA liquidity, faster encashment of donor pledges, or both.

89. The Deputies endorsed the mechanisms that IDA uses to manage its risks. The risk of currency mismatch is dealt with by allocating the currency composition of IDA's RITO liquidity to bring the currency composition of all IDA resources—including both donor and RITO resources—closer to the SDR. Advance commitment levels are determined annually in the context of a three-year framework for RITO use, which is approved by the Executive Directors in order to ensure that such commitments are fully consistent with repayments by borrowers. Disbursements are monitored, and donor encashment schedules are periodically revised and made available to donors to ensure that IDA's liquidity needs are met, while donors have predictable—and to the extent possible—smooth encashment levels over time.

Contribution Procedures

90. The Deputies recommended a target effectiveness date for the replenishment of December 15, 1999. Donors will provide their contributions in the form of cash or notes in three equal annual installments. The first installment will be paid no later than January 15, 2000, or 31 days after the replenishment becomes effective, whichever is later, except for advance contributions which will be paid as specified by IDA after the advance contribution scheme becomes effective. The second installment will be paid no later than January 15, 2001, and the third installment no later than January 15, 2002.

91. ***Encashment.*** Deputies agreed that donor contributions will be encashed on the basis of a defined schedule on an approximately *pro rata* basis among donors (Annex 2 of the IDA12 Draft Resolution). The

Deputies noted that as an exception donors may, with the agreement of Management, adjust their encashments to reflect their budgetary requirements. The Deputies agreed to indicate any special preferences in this regard to Management when they deposit their Instrument of Commitment. Deputies recognized that the timing of encashments affects IDA's resource base. They noted that in previous replenishments almost all donors have provided their encashments on time—or in advance—but that encashments from one or two donors have been delayed, resulting in financial losses to IDA. Deputies urged all donors to comply with the timing of encashment calls. In exceptional cases, should unavoidable delays occur, Deputies agreed that IDA's encashment requests to the affected donor are expected to be adjusted to take into account any past payment delays by that donor and any lost income to IDA.

92. ***Valuation of Contributions.*** The Deputies agreed that donors can denominate their contributions in their respective national currencies, in SDRs or, with the approval of the Association, in any convertible currency of another member country. For the purpose of establishing the equivalence of value among different currencies and the SDR, donors agreed to use the average daily exchange rate for the period March 1, 1998, through August 31, 1998. To help maintain the value of contributions from donors with high inflation rates, contributions from donors with domestic annual inflation of 10 percent or higher in 1995–97 will be denominated in SDRs. The Deputies noted that as of January 1, 1999, the euro will be substituted for the currency of each of the 11 countries participating in the European Monetary Union.[35] The Deputies discussed the implications of the adoption of the euro for IDA's financial management, and welcomed IDA Management's efforts to adjust to this change.

Replenishment Size and Burden Sharing

93. Deputies acknowledged that the challenge of each replenishment is to reconcile two core objectives. First, the replenishment must be adequate in size, and second, it must be achieved within an acceptable burden sharing framework. They noted that adjusted GNP remains a useful point of reference for IDA shares, but it cannot be followed rigidly as the basis for determining replenishment shares. Deputies agreed that flexibility on the part of each donor is necessary for a successful outcome for the replenishment. In that context, the Deputies

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[35] *The 11 countries are Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal, and Spain.*

observed that in the past, and again in IDA12, a few donors have made contributions in excess of their adjusted GNP shares and that these donors have therefore contributed significantly to the successful completion of the replenishment.

94. The Deputies noted the recent approval by IBRD's Board of Governors of selective IBRD capital increases for Brazil, Denmark, the Republic of Korea, Spain and Turkey, especially with regard to the corresponding additional contributions these five donors will make to IDA and their increased shares in IDA12 and later replenishments. They also acknowledged the selective capital increase for Japan—which became effective in December 1997—as an affirmation of Japan's long and sustained support of IDA.

95. The Deputies proposed that IDA12 donor contributions reach SDR 8.65 billion. Commitments (subscriptions and contributions) shown in Table 1 reflect the agreement among donors.

Effectiveness and Advance Contribution Scheme

96. The Deputies recommended that donor financing for IDA12 be made subject to an effectiveness condition similar to that used under previous IDA replenishments. The purpose of such a condition is to ensure that most donor financing, including contributions by major donors, is in place on time. The Deputies recommended that donor contributions to IDA12 become effective when Instruments or Qualified Instruments of Commitment accounting for 80 percent of the total donor contributions have been received by the Association.

97. Some donors' budgetary and legislative timetables permit them to make their contributions at an early stage in the fiscal year. In past IDA replenishments, some donors agreed that a share of their contributions could be used before the replenishment became effective. The Deputies recommended that such a voluntary advance contribution scheme be established for IDA12 and that it become effective upon receipt of Instruments of Commitment by donors accounting for 20 percent of total donor contributions. Instruments received from contributing members prior to the effectiveness of the replenishment will be deemed applicable toward the advance contribution scheme unless the contributing member specifies otherwise in the Instrument of Commitment.

IDA Voting Rights

98. The Deputies reviewed IDA's voting rights system and considered whether amending it by increasing the weight applied to contributions

to the current replenishment relative to that of past contributions would encourage new and additional contributions. The Deputies concluded that, although such a change might encourage contributions by some donors, it could discourage others, and that the net additional contributions, if any, would be small. While a small number of donors strongly preferred to pursue a change in the voting rights mechanism, the Deputies decided that the existing IDA voting rights system should be retained, but agreed to revisit the issue in IDA13.

VI. RECOMMENDATION

99. The Executive Directors recommend to the Board of Governors the adoption of the draft IDA12 Resolution....[36]

(This report was approved and its recommendation was adopted by the Board of Governors on April 8, 1999)

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[36] *See page 223.*

Table 1: Commitments to the Twelfth Replenishment

Contributing Members	Basic Commitments (%)	Basic Commitments SDR Million	Supplementary Commitments SDR Million	Total Commitments SDR Million	National Currency Million	Euro Equivalent Million*	Exchange Rates (NC/SDR)**
Argentina	0.10%	8.64		8.64	11.55		1.33666
Australia	1.46%	126.14	3.22	129.36	275.00		2.12582
Austria	0.78%	67.65		67.65	1,145.43	83.24	16.93141
Belgium	1.55%	133.92		133.92	6,646.42	164.76	49.62978
Botswana a/	0.01%	1.14		1.14	6.30		5.52439
Brazil b/ c/	0.95%	82.08		82.08			
Canada d/	3.75%	324.00		324.00	607.00		1.95467
Czech Rep. a/ c/	0.05%	4.32	0.35	4.67			
Denmark b/	1.58%	136.51		136.51	1,251.79		9.16981
Finland e/	0.60%	51.84		51.84	378.99	63.74	7.31081
France	7.30%	630.72		630.72	5,089.08	775.82	8.06868
Germany	11.00%	950.40		950.40	2,287.34	1,169.50	2.40671
Greece e/	0.12%	10.00		10.00	4,080.91		408.23489
Hungary c/	0.06%	5.13		5.13			
Iceland	0.03%	2.59	0.65	3.24	311.01		95.93105
Ireland e/	0.18%	15.55	5.28	20.83	19.94	25.32	0.95742
Israel	0.11%	9.24		9.24	45.26		4.89571
Italy	3.80%	328.32		328.32	779,079.17	402.36	2372.92632
Japan	18.70%	1,615.68		1,615.68	295,052.86		182.61838
Korea b/	0.91%	78.62		78.62	145,685.24		1852.93599
Kuwait a/	0.14%	12.10		12.10	4.95		0.40934
Luxembourg	0.10%	8.64		8.64	428.80	10.63	49.62978
Mexico a/ c/	0.05%	4.32		4.32			
Netherlands	2.60%	224.64		224.64	609.30	276.49	2.71232
New Zealand	0.12%	10.37	2.41	12.78	32.00		2.50413
Norway	1.42%	122.69		122.69	1,241.89		10.12232
Poland c/	0.03%	2.59		2.59			
Portugal	0.20%	17.28		17.28	4,258.18	21.24	246.42261
Russia a/ c/	0.20%	17.28		17.28			
Saudi Arabia a/	0.65%	56.33		56.33	282.13		5.00834
Slovak Republic a/	0.04%	3.42		3.42	159.61		46.64855
South Africa	0.08%	6.91		6.91	50.18		7.25933
Spain b/	1.39%	120.10		120.10	24,533.49	147.45	204.28230
Sweden	2.62%	226.37		226.37	2,396.23		10.58555
Switzerland	2.43%	209.95		209.95	420.00		2.00046
Turkey b/ c/	0.18%	15.55		15.55			
United Kingdom e/	7.30%	630.72		630.72	511.26		0.81059
United States	20.86%	1,802.30		1,802.30	2,410.29		1.33734
Venezuela a/ c/	0.03%	2.59		2.59			
Sub-total	93.48%	8,076.66	11.91	8,088.57			
Supplementary commitments		11.91					
Encashment schedule		561.37		561.37			
Total donor commitments		**8,649.95**		**8,649.95**			

a/ These countries are not yet in a position to commit to IDA12. The levels shown are therefore indicative.
b/ Reflects higher share levels following the "harmonization" exercise completed on June 22, 1998.
c/ Commitments of countries with inflation rates greater than 10% per annum during 1995-1997 will be denominated in SDRs.
d/ Includes a commitment of 0.2% achieved through encashments faster than the defined encashment schedule.
e/ Finland, Greece, Ireland, and the United Kingdom increased their basic shares from those in IDA11.
f/ Iceland will pay its commitments in cash in three installments.

Note: Details do not add up due to rounding.
* Euro equivalent calculated from national currencies using fixed euro conversion rates for donors that have adopted the euro.
** "Exchange rate averaging period March 1 to August 31, 1998."

IDA COUNTRY PERFORMANCE ASSESSMENTS

1. Country performance assessments have been carried out annually since 1980 and have increasingly served as the basis for IDA resource allocations—which in turn provide an anchor for CAS lending programs. The purpose of the assessment is to assess the quality of each borrower's policies and institutions in areas relevant to economic growth, poverty reduction, and effective aid use. The criteria and methodology have evolved over time to incorporate lessons from experience as well as research findings. This evolution will continue in partnership with recipient countries, bilateral and other multilateral agencies.

2. The country performance ratings used as a basis for allocating IDA resources are composed of the World Bank's Country Policy and Institutional Assessment (CPIA) rating, its portfolio implementation rating, and, where applicable, a poor governance adjustment. The CPIA constitutes the main pillar supporting IDA's country performance assessments. As a second element, project implementation experience with IDA projects in the country is included into the performance assessment. The measure is derived from the "projects at risk" in the World Bank's Annual Review of Project Performance (ARPP) and given a weight of 20 percent in the IDA performance ratings.

3. The 1998 CPIA exercise represented a major step in the evolution of the World Bank's performance assessment methodology. It has been renamed the Country Policy and Institutional Assessment and the rating criteria reflect the discussions with IDA Deputies during the first half of 1998 on key factors affecting effective resource use in the pursuit of the ultimate goal of poverty reduction. Particularly significant was the enhanced emphasis which the 1998 CPIA placed on governance-related criteria.

4. Performance measures unavoidably require making judgments. Our intention is to refine the 1998 CPIA on the basis of a wider consultation with academics, donor agencies, borrowing country officials, NGOs, and others in the development community on the indicators that best reflect prospects for sustainable growth and poverty reduction and how to apply these indicators consistently and even handedly. Discussions with IDA Deputies have already pointed to the need to place further emphasis on social development issues (as indicated in the list of planned 1999 CPIA criteria in Box A.1). This, together with the outcome

of the consultations on performance measures and indicators will provide the basis for the next assessments. Two features of the modified CPIA criteria are particularly noteworthy: cluster "C" concerning policies for reducing inequalities, and cluster "D" concerning governance and public sector performance.

5. Cluster C is aimed at capturing the role of policies and institutions in ensuring that the benefits of growth are widespread. It includes a criterion on "policies to foster gender equality and social inclusion" (aiming to capture explicitly access to resources and opportunities by the poor, particularly women and minorities), and a criterion on "policies to build human capital" (to focus particularly on the access by poor segments of the population to basic education and health services). Another criterion concerns environmental policies and regulations which include the concept of intergenerational equity.

Box A.1: Planned 1999 Country Policy and Institutional Assessment Criteria
—Key Factors for Sustainable Growth and Poverty Reduction—

A. Macroeconomic Policies
1. General Macroeconomic Performance
2. Fiscal Policy
3. Macroeconomic and External Debt Management Capacity

B. Structural Policies
4. Trade Policy and Foreign Exchange Regime
5. Financial Stability and Depth
6. Banking Sector Efficiency and Resource Mobilization
7. Competitive Environment for the Private Sector
8. Factor and Product Markets

C. Policies for Reducing Inequalities
9. Building Human Capital
10. Fostering Gender Equality and Social Inclusion
11. Pro-poor Targeting of Programs and Investments
12. Safety Nets
13. Poverty Monitoring and Analysis
14. Environmental Policies and Regulations

D. Governance and Public Sector Performance
15. Sustainability of Structural Reforms
16. Property Rights and Rule-based Governance
17. Quality of Budget and Public Investment Process
18. Efficiency and Equity of Revenue Mobilization
19. Efficiency and Equity of Public Expenditures
20. Accountability and Transparency of the Public Service

6. Cluster "D" reflects the consensus that good governance affects the growth and poverty reduction prospects of a country and is therefore central to IDA's objectives. IDA focuses on governance dimensions which it can evaluate in a systematic way, and which affect economic and social development and the effective use of IDA resources. The criteria in this cluster are designed to ensure that the definitions of governance implicit in the assessment criteria are broad enough to capture significant factors which are relevant to economic growth and poverty reduction. Accountability, transparency, the rule of law and participation represent four major pillars of governance that are critical to the development process and the effective use of IDA resources (Box A.2).

7. While precise assessments are extremely difficult and further methodological progress will be required, the six criteria in cluster "D" provide a reasonable basis for introducing a more explicit governance focus in the performance ratings and for "spotlighting" governance problems. With the help of these governance indicators (including an ARPP indicator on procurement practices) a system has been developed to identify poor governance situations. In cases where these indicators suggest severe governance problems, a performance discount is applied, reducing very significantly the IDA lending allocation.

8. The 1999 CPIA criteria as presented in Box A.1 consist of three criteria focused on Macroeconomic Policies (cluster "A"), five criteria on Structural Policies (cluster "B"), and six criteria each on Policies for Reducing Inequalities (cluster "C"), and on Governance and Public Sector Performance (cluster "D"). Each of the 20 criteria is weighted equally, and the values assigned to each in turn reflect a variety of indicators, and observations on outcomes and judgments. Developing a robust basis for rating the more traditional economic criteria in clusters "A" and "B" has proven to be relatively straightforward to conceptualize, though further work is needed to ensure that the information on the outcomes is as up to date as possible. Rating countries on criteria in clusters "C" and "D" continues to constitute a major challenge, however, and work on appropriate equity and governance indicators and reference points will continue to be refined over the coming years.

9. Four issues concerning the CPIA criteria are of particular importance and will be the focus of further work:

- the need to take fully into account the role of participatory processes in "sustainability" assessments;
- the need to incorporate access to resources and opportunities to the poor, particularly women and minorities;

Box A.2: Governance Issues Which Affect Economic and Social Development and the Effective Use of IDA Resources

- **Accountability**: At the macro level this includes financial accountability, in terms of an effective, transparent and publicly accountable system for expenditure control and cash management, and an external audit system. It encompasses sound fiscal choices, made in a transparent manner, that give priority to productive social programs, such as basic health services and primary education vital to improving the living standards of the poor and to promoting economic development, over non-productive expenditures, such as military spending. At the micro level it requires that managers of implementing agencies and parastatals be accountable for operational efficiency. Auditing systems should meet international standards and be open to public scrutiny.
- **Transparency**: Private sector investment decisions depend on public knowledge of the government's policies and confidence in its intentions, as well as in the information provided by the government—on economic and market conditions. Transparency of decision-making, particularly in budget, regulatory and procurement processes, is also critical to effectiveness of resource use and to reduce corruption and waste.
- **The Rule of Law**: A fair, predictable and stable legal framework is essential for businesses and individuals to assess economic opportunities and act upon them without fear of arbitrary interference or expropriation. This requires that the rules be known in advance, that they be actually in force and applied consistently and fairly, that conflicts be resolvable by an independent judicial system, and that procedures for amending and repealing the rules exist and be publicly known.
- **Participation**: Good governance requires that civil society has the opportunity to participate during the formulation of development strategies and that directly affected communities and groups should be able to participate in the design and implementation of programs and projects. Even where projects have a secondary impact on particular localities or population groups, there should be a consultation process which takes their views into account. This aspect of governance is an essential element of securing commitment and support for projects and enhancing the quality of their implementation.

- the consideration of the extent and impact of non-development expenditures; and
- the increased use of independent indicator sources to strengthen the CPIA assessment mechanism.

This work will take into account lessons emerging from operational experience and advice from inside and outside the World Bank, including from IDA borrowers. Further work is also planned on the

ARPP procurement indicator to ensure that it effectively captures problems with procurement practices, including corruption.

10. The CPIA focuses on the level/quality of each country's current policies and institutions—which primarily determine present aid effectiveness prospects. This does not mean that progress in policy reforms is not important. In fact, policy momentum is a key factor influencing the level of engagement by IDA in any one country—particularly through non-lending services. However, this assessment is meant to provide a snapshot of country performance which is consistent across countries. Improvements since the previous year are reflected in the annual updated performance ratings and then in the annual IDA resource allocation process and also trigger lending program changes through CAS and CAS update scenarios.

11. IDA Country Performance Ratings (CPIA ratings together with the portfolio implementation measure and, where applicable, the poor governance adjustment) determine IDA resource allocations which constitute the basis for planning IDA's lending activities in each country. They also provide a firm anchor for the lending programs proposed in CASs, which in turn reflect, as appropriate, country circumstances which may justify exceptional deviations from the planning allocations. The objective is to maintain the robust link between country performance and IDA lending which emerges from this process and to reinforce its focus on governance factors, in view of their critical importance to effective project implementation, without imposing undue rigidities on IDA's assistance strategies.

Potential New Donors

	1997 GNP per capita (US$)	Adjusted GNP Share[a]	Indicative Contribution SDR million[a]
The Bahamas	11,835[b]	0.006%	0.50
Bahrain	7,820[b]	0.005%	0.46
Barbados	6,590[b]	0.002%	0.15
Brunei Darussalam	25,090[b]	0.027%	2.31
Chile	5,020	0.055%	4.75
Cyprus	14,920[c]	0.024%	2.08
Qatar	11,570	0.013%	1.11
Singapore	32,940	0.500%	43.23
United Arab Emirates	17,360	0.110%	9.55
Total			**64.14**

[a]Based on 1997 adjusted GNP share (except as noted below) and the IDA12 donor contribution level.
[b]1995 GNP per capita.
[c]1994 GNP per capita.

Documents Provided for the IDA12 Replenishment Papers and Technical Notes

December 22, 1997 Mailing

Background and Technical Notes

HIPC Debt Initiative: Progress Report (September 1997)
A Proposal for IDA Guarantees in IDA-Only Countries (October 1997)
Allocation of IBRD Shares—Informal Board Discussion (November 1997)
IBRD Share Allocation Review (December 1997)
A Pilot Program of IDA Guarantees for IDA-Only Countries (December 1997)
Lending to the Blend Borrowers (December 1997)
IDA Bibliography 1997 (December 1997)

January 29, 1998 Mailing

Discussion Papers

Country Performance and IDA Lending (January 1998)
IDA Portfolio Review (January 1998)

Technical Note

Effective Exchange Rates for Use in the IDA12 Replenishment (January 1998)

March 31, 1998 Mailing

Background and Technical Notes

Report to the Board on the IDA-12 Deputies Meeting, February 26–27, 1998, Paris (March 1998)
Seminar of the Executive Directors on Global Development Finance 1998:
Implications of the East Asia Crisis for the Bank's Analytical Agenda (February 1998)

April 15, 1998 Mailing

Discussion Papers

IDA's Support for Private Sector Development (April 1998)
IDA Financial Management (April 1998)
Burden Sharing in IDA Replenishments (April 1998)

Background and Technical Notes

IDA's Support for Poorly Performing Countries (April 1998)
IDA11 Matrix: Implementing the IDA11 Framework (April 1998)

May 1, 1998 Mailing

Background and Technical Notes

World Bank Grant Programs: Achievements and Strategic Direction (May 1998)
IDA12 Lending Projections (May 1998)
Capital Flows to IDA Countries (May 1998)
Supplemental Note on Country Performance and IDA Lending (May 1998)
Country Assistance Strategies: Retrospective and Outlook (Board Paper, March 1998)

June 30, 1998 Mailing

Discussion Paper

Partnership for Development: Proposed Actions for the World Bank (May 1998)

Background and Technical Notes

Summary of IDA-12 Meeting in London (May 1998)
Summary of Discussion with NGO Representatives (May 1998)

September 10, 1998 Mailing

Discussion Papers

IDA's Assistance to Sub-Saharan Africa: Trends and Opportunities (September 1998)
IDA Financial Management—Addendum: Constraints to "Smoothing" of Donor Contributions (September 1998)
Country Performance and IDA Allocations (September 1998)
The World Bank Group—Supporting Private Sector Development (September 1998)

Background and Technical Notes

IDA's Lending Commitments, Disbursements and Funding in FY98 (September 1998)
The Blend Countries and IDA (September 1998)
Assistance to Post-Conflict Countries (Board Paper, September 1998; mailed September 1, 1998)
The Use of the Euro for IDA's Operations (distributed at Washington, DC meeting, October 8–9, 1998)

October 29, 1998 Mailing

Background and Technical Notes

The IDA Guarantee Program and IDA Resource Commitment (October 1998)

REPORT OF THE BOARD OF DIRECTORS OF MIGA

March 31, 1998

1998 General Capital Increase

A. INTRODUCTION

1. During the past two years, Directors—both in formal and informal meetings—have considered two parallel constraints that prevent MIGA from continuing the expansion of its business volume and complying with its mandate: (i) the near exhaustion of the Agency's capacity to provide guarantees; and (ii) its less than satisfactory liquidity position.

2. The Development Committee discussed these issues during its 56th Meeting on September 22, 1997 in Hong Kong, China, and issued the following statement on page 2 of its Communiqué:

> Ministers reiterated their support for MIGA's continued growth in response to the expanding demand for its services. They welcomed the consensus on addressing MIGA's resource constraints by means of a three-part funding package comprising an IBRD grant of US$150 million, paid-in capital of US$150 million, plus US$700 million of callable capital. Ministers urged the IBRD management and Board of Executive Directors to move swiftly to implement the US$150 million grant. Ministers urged MIGA's Board to reach agreement on implementation of the remainder of the package. They also urged the MIGA Board to reach clear understandings on core policy issues as soon as possible. These measures would relieve MIGA's short term financial constraints and provide it with a sustainable capital structure for the medium to long term. Ministers urged the MIGA Board and other relevant parties to come to closure on the capital increase by the time of the Committee's next meeting in April 1998.

3. This report recommends that the Council of Governors approve, by special majority, an increase in MIGA's capital stock in accordance with the above-cited recommendation of the Development Committee and Article 5(c) of the Convention.

4. Article 5(c) of the "Convention Establishing the Multilateral Investment Guarantee Agency" ("Convention") states: "The Council, by special majority, may at any time increase the capital stock of the Agency." "Special majority" is defined in Article 3 of the Convention as "an affirmative vote of not less than two-thirds of the total voting power representing not less than 55 percent of the subscribed shares of the capital stock of the Agency."

5. A draft Resolution of the Council of Governors is attached as Attachment II.

B. AUTHORIZED CAPITAL, NUMBER OF SHARES AND SUBSCRIPTION

6. The present authorized capital of MIGA is SDR 1 billion divided into 100,000 shares, each having a par value of SDR 10,000. Article 5(a) of the Convention sets forth the value of the SDR in terms of United States dollars as US$1.082 per each SDR.

7. As of February 28, 1998, membership requirements in the Agency have been completed by 144 countries ("full members"), including signature and ratification of the Convention and, with the exception of one member country,[1] payment of their subscriptions to MIGA's capital. Six countries have signed and ratified the Convention but not yet paid their capital subscriptions; and eleven countries have merely signed the Convention.

8. The current amount of the capital subscribed by full members is SDR 996,080,000 (US$1,077,758,560 equivalent), and when all the countries that have signed but not yet paid their subscriptions complete their membership requirements, the subscribed capital of the Agency will be SDR 1,030,620,000 (US$1,115,130,840 equivalent).[2] A chart summarizing the information contained in paragraphs 6 through 8 is attached as an *Annex* ("Status of Membership in MIGA") to this Report.

C. SIZE OF THE INCREASE

9. It is proposed that the authorized capital stock of the Agency be increased, in accordance with the Communiqué of the Development Committee, by SDR 785,590,000[3] (US$850,008,380 equivalent) at the rate of exchange of SDR 1 = US$1.082 as set forth in Article 5(a) of the Convention. The additional capital will be divided into 78,559 shares, each having a par value of SDR 10,000.

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[1] *According to Resolution No. 2 of the Council of Governors adopted June 8, 1988 entitled "Acceptance of Membership of Non-Original Members", a country could become a member of MIGA if it had ratified the Convention prior to June 9, 1991, even if it had not paid its capital subscription.*

[2] *Article 5(b) of the Convention states: "The capital stock shall increase on the admission of a new member to the extent that the then authorized shares are [illegible] provide the shares to be subscribed by such member pursuant to Article 6."*

[3] *In order to make the capital increase homogenous, the denomination and par value of each additional share will be the same as that of the original shares. The total amount of the general capital increase has been rounded up to obtain a whole number of shares for subscription.*

D. OBJECTIVES OF THE INCREASE

10. During the second half of FY97, MIGA Management completed a major analysis of potential underwriting strategies and associated capital requirements. Ministers also discussed MIGA's capital needs at the spring 1997 meeting of the Development Committee.

11. As a result of these discussions, a consensus has been formed around an underwriting strategy which envisages between US$15 and US$24 billion of new guarantees being issued during the 10 years ending FY2006. The gross amount underwritten would depend significantly upon the availability of reinsurance. After allowing for existing guarantees, cancellations, reductions, expiries and losses, MIGA's outstanding contingent liabilities would be about US$15.7 billion gross and US$9.4 billion net of reinsurance by the end of the period.

12. MIGA's selection criteria and underwriting structure would focus on achieving maximum development effectiveness consistent with prudential risk management. In this respect, the distribution of MIGA's portfolio at the end of FY2006 would be spread widely in terms of country, sector and coverage. Particular attention would be given to supporting sound projects in the regions of greatest need and to the encouragement of investments made by Category Two countries. Based on historic ratios, new guarantees of between US$15 and US$24 billion could facilitate an estimated US$105–168 billion of new foreign direct investment.

E. RATIONALE FOR THE SIZE OF THE INCREASE

13 .MIGA's liquidity requirement is primarily determined by reference to the estimated amount and frequency of major claims. As such, it is significantly influenced by the maximum probable loss and the spread of risk associated with MIGA's portfolio.[4] MIGA Management has modeled these relationships and applied a series of probability tests[5] in order to determine the range of operating capital which is required to pay expected losses and sustain operations without recourse to callable capital.[6] This analysis has demonstrated that MIGA needs incremental cash of approximately US$300 million in order to pursue the preferred underwriting strategy.

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[4] *MIGA's liquidity requirement does not bear a linear relationship with outstanding contingent liabilities.*

[5] *Using a Monte Carlo simulation methodology among other sensitivity tests.*

[6] *At a 99% confidence level during the period ending FY06.*

14. The funding package endorsed by the Development Committee envisages a US$150 million grant from IBRD, US$150 million of paid-in capital and US$700 million of callable capital. The grant plus the paid-in capital should provide MIGA with its required US$300 million of operating capital. Also, the sum of MIGA's existing unimpaired capital and reserves of US$1,143.2 million[7] plus the funding package of US$1 billion plus expected net incremental reserves arising during the period ending in FY2006 would amount to approximately US$2.7 billion. When that figure is multiplied by the current risk-to-asset ratio of 3.5:1, the total underwriting capacity during the period, before adjustment for reinsurance, would be US$9.3 billion; this would be consistent with the analysis cited in paragraph 11.

15. The recommended funding package would provide MIGA with a sustainable base for the medium-to-long term. This should give confidence to MIGA's clients and mitigate expectations of future recourse to shareholders.

F. SUBSCRIPTIONS TO THE ADDITIONAL AUTHORIZED CAPITAL

16. In accordance with Article 39(e) of the Convention, each member has a right to subscribe a proportionate share of the increase in capital stock equal to the proportion of its subscribed shares in the capital of the Agency. The *Annex* ("Allocation, Subscription and Payment of the 1998 General Capital Increase") to the attached Resolution (*Attachment II*) lists all full members plus those countries that have signed and ratified, or merely signed, the Convention, showing the number of additional shares to be subscribed, their total subscription in SDRs and United States dollars, and the breakdown of the payments to be made by each of them. It also provides instructions for the payment of the subscriptions.

17. It is proposed that of the SDR 785,590,000 (US$850,008,380 equivalent) in additional capital, 17.65 percent or SDR 138,656,635 (US$150,026,481 equivalent) is to be paid in, in the manner described below, and 82.35 percent or SDR 646,933,365 (US$699,981,899 equivalent) would constitute callable capital. It is also proposed that the 17.65 percent

[7] *As of September 30, 1997.*

paid-in portion should be in a "freely usable currency."[8] The payment of the subscriptions would be made by member countries as follows:

- 17.65 percent cash in a "freely usable currency," as defined in Article 3(e) of the Convention; and
- 82.35 percent subject to call by the Agency and payable in a "freely usable currency" when required to meet its obligations.

Although the subscription period shall be three years, the Board recommends that the Council of Governors encourage members to make the subscription increase payments in two installments, the first during the first year of the subscription period for 50 percent of the paid-in portion, and the balance during the second year of the subscription period.

G. SUBSCRIPTION BY COUNTRIES NOT YET FULL MEMBERS

18. It is proposed that countries that have signed and ratified, or merely signed, the Convention but have not yet completed their membership requirements be authorized to subscribe the additional authorized capital and therefore be included in the Annex to the attached Resolution (*Attachment II*). However, they will only be allowed to subscribe the additional capital if they complete their membership requirements before the end of the subscription period. Any country not listed in that *Annex* that joins MIGA after the Resolution on the General Capital Increase is adopted will not be eligible to subscribe the additional authorized capital.

H. SUBSCRIPTION PERIOD AND FORMAL OFFER OF SHARES

19. Article 39(f) of the Convention directs the Council of Governors to "prescribe reasonable time limits for the submission by members of requests to make such [additional] subscriptions." Directors believe that a subscription period of three years would comply with this recommendation. It is therefore proposed that the subscription period will commence on the date the Council of Governors adopts by the required "special majority"[9] the attached Resolution to increase the authorized capital and will be closed three years after that date. The date of adoption of the Resolution refers to the date the required majority of

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[8] *Defined in Article 3(e) of the Convention as "(i) any currency designated as such by the International Monetary Fund from time to time and (ii) any other freely available and [illegible] usable currency which the Board of Directors...may designate for the purposes of this Convention after consultation with the International Monetary Fund and with the approval of the country of such currency."*

[9] *"Special majority" is defined in Article 3 of the Convention as "an affirmative vote of not less than two-thirds of the total voting power representing not less than 55 percent of the subscribed shares of the capital stock of the Agency."*

votes has been received by the Secretariat. On that date, the *Annex* to the attached Resolution (*Attachment II*) would constitute the formal offer to members to exercise their preemptive rights to subscribe the additional authorized capital. No other conditions, such as the formal submission by members of requests to subscribe, shall apply to the subscription of shares for this general capital increase. It is understood that by making their payment each member has taken all necessary internal legislative steps to authorize its subscription of MIGA's 1998 General Capital Increase.

I. VOTING PERIOD

20. It is proposed that the voting period for the Council of Governors to approve the Resolution on the 1998 General Capital Increase (*Attachment II*) be set for one year so that members may have sufficient time to obtain all necessary internal approvals. The one-year voting period would terminate on any prior date that approval by "special majority"of this Resolution is received by the Secretariat. This proposal is reflected in paragraphs 4 and 5 of the Letter of Transmittal from the Corporate Secretary.

J. VOTING RIGHTS

21. It is recommended that:

(i) each member that subscribes the additional shares shall have one additional subscription vote for each share of the additional capital subscribed; and

(ii) no additional membership votes (apart from the 177 membership votes that each member already has in accordance with Article 39(a) of the Convention) shall be allocated to subscribers of the additional capital.

K. UNSUBSCRIBED CAPITAL

22. Shares that remain unsubscribed at the end of the subscription period thereof, may be reallocated towards achieving parity of voting power between Category One and Category Two members in accordance with Article 39(c) of the Convention.[10]

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[10] *According to Resolution No. 43 of the Council of Governors adopted June 8, 1993, as contemplated in Article 39 of the Convention, a review of the allocation of shares of the capital stock of the Agency shall be carried out during 1998—the tenth year after the entry into force of the Convention—to obtain parity of voting power between Category One and Category Two members. In a separate report the Board recommends that the Council postpone once again the decision on the review of the allocation until the end of the subscription period for the general capital increase, or the extension thereof.*

L. RECOMMENDATION

23. The Board of Directors therefore recommends that the Council of Governors adopt the draft Resolution...[11] on the 1998 General Capital Increase.

(This report was approved and its recommendation was adopted by the Board of Governors on March 29, 1999)

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[11] *See page 241.*

Status of Membership in MIGA
as of February 28, 1998

FULL MEMBERS

Countries	Number of Shares Subscribed	Amount of Subscription (in US$)
CATEGORY ONE:		
Austria	775	8,385,500
Belgium	2,030	21,964,600
Canada	2,965	32,081,300
Denmark	718	7,768,760
Finland	600	6,492,000
France	4,860	52,585,200
Germany	5,071	54,868,220
Greece	280	3,029,600
Ireland	369	3,992,580
Italy	2,820	30,512,400
Japan	5,095	55,127,900
Luxembourg	116	1,255,120
Netherlands	2,169	23,468,580
Norway	699	7,563,180
Portugal	382	4,133,240
Spain	1,285	13,903,700
Sweden	1,049	11,350,180
Switzerland	1,500	16,230,000
United Kingdom	4,860	52,585,200
United States	20,519	222,015,580
Sub-total	**58,162**	**629,312,840**
CATEGORY TWO:		
Albania	58	627,560
Algeria	649	7,022,180
Angola	187	2,023,340
Argentina	1,254	13,568,280
Armenia	80	865,600
Azerbaijan	115	1,244,300
Bahamas, The	100	1,082,000
Bahrain	77	833,140
Bangladesh	340	3,678,800
Barbados	68	735,760
Belarus	233	2,521,060
Belize	50	541,000
Benin	61	660,020
Bolivia	125	1,352,500
Bosnia-Herzegovina	80	865,600

Status of Membership in MIGA
as of February 28, 1998 *(contd.)*

FULL MEMBERS

Countries	Number of Shares Subscribed	Amount of Subscription (in US$)
CATEGORY TWO:		
Botswana	50	541,000
Brazil	1,479	16,002,780
Bulgaria	365	3,949,300
Burkina Faso	61	660,020
Cameroon	107	1,157,740
Cape Verde	50	541,000
Chile	485	5,247,700
China	3,138	33,953,160
Colombia	437	4,728,340
Congo, Democratic Rep. of	338	3,657,160
Congo, Republic of	65	703,300
Costa Rica	117	1,265,940
Cote d'Ivoire	176	1,904,320
Croatia	187	2,023,340
Cyprus	104	1,125,280
Czech Republic	445	4,814,900
Dominica	50	541,000
Dominican Republic	147	1,590,540
Ecuador	182	1,969,240
Egypt, Arab Republic of	459	4,966,380
El Salvador	122	1,320,040
Equatorial Guinea	50	541,000
Eritrea	50	541,000
Estonia	65	703,300
Ethiopia	70	757,400
Fiji	71	768,220
Gambia, The	50	541,000
Georgia	111	1,201,020
Ghana	245	2,650,900
Grenada	50	541,000
Guatemala	140	1,514,800
Guinea	91	984,620
Guyana	84	908,880
Haiti	75	811,500
Honduras	101	1,092,820
Hungary	564	6,102,480
India	3,048	32,979,360
Indonesia	1,049	11,350,180

Status of Membership in MIGA
as of February 28, 1998 *(contd.)*

FULL MEMBERS

Countries	Number of Shares Subscribed	Amount of Subscription (in US$)
CATEGORY TWO:		
Israel	474	5,128,680
Jamaica	181	1,958,420
Jordan	97	1,049,540
Kazakhstan	209	2,261,380
Kenya	172	1,861,040
Korea, Republic of	449	4,858,180
Kuwait	930	10,062,600
Kyrgyz Republic	77	833,140
Lebanon	142	1,536,440
Lesotho	50	541,000
Libya	549	5,940,180
Lithuania	106	1,146,920
Macedonia, FYR of	50	541,000
Madagascar	100	1,082,000
Malawi	77	833,140
Malaysia	579	6,264,780
Mali	81	876,420
Malta	75	811,500
Mauritania	63	681,660
Mauritius	87	941,340
Micronesia, Fed. States of	50	541,000
Moldova	96	1,038,720
Morocco	348	3,765,360
Mozambique	97	1,049,540
Namibia	107	1,157,740
Nepal	69	746,580
Nicaragua	102	1,103,640
Nigeria	844	9,132,080
Oman	94	1,017,080
Pakistan	660	7,141,200
Palau	50	541,000
Panama	131	1,417,420
Papua New Guinea	96	1,038,720
Paraguay	80	865,600
Peru	373	4,035,860
Philippines	484	5,236,880
Poland	764	8,266,480
Qatar	137	1,482,340

Status of Membership in MIGA
as of February 28, 1998 *(contd.)*

FULL MEMBERS

Countries	Number of Shares Subscribed	Amount of Subscription (in US$)
CATEGORY TWO:		
Romania	555	6,005,100
Russian Federation	3,137	33,942,340
St. Lucia	50	541,000
St. Vincent and the Grenadines	50	541,000
Samoa	50	541,000
Saudi Arabia	3,137	33,942,340
Senegal	145	1,568,900
Seychelles	50	541,000
Sierra Leone	75	811,500
Singapore	154	1,666,280
Slovak Republic	222	2,402,040
Slovenia	102	1,103,640
South Africa	943	10,203,260
Sri Lanka	271	2,932,220
Sudan	206	2,228,920
Swaziland	58	627,560
Tanzania	141	1,525,620
Togo	77	833,140
Trinidad and Tobago	203	2,196,460
Tunisia	156	1,687,920
Turkey	462	4,998,840
Turkmenistan	66	714,120
Uganda	132	1,428,240
Ukraine	764	8,266,480
United Arab Emirates	372	4,025,040
Uruguay	202	2,185,640
Uzbekistan	175	1,893,500
Vanuatu	50	541,000
Venezuela	1,427	15,440,140
Vietnam	220	2,380,400
Yemen, Republic of	155	1,677,100
Zambia	318	3,440,760
Zimbabwe	236	2,553,520
Sub-total	**41,446**	**448,445,720**
TOTAL	**99,608**	**1,077,758,560**

Status of Membership in MIGA
as of February 28, 1998 *(contd.)*

SIGNATORIES

Countries	Number of Shares Subscribed	Amount of Subscription (in US$)
CATEGORY ONE:		
Australia	1,713	18,534,660
Sub-total	**1,713**	**18,534,660**
CATEGORY TWO:		
Burundi	74	800,680
Cambodia	93	1,006,260
Chad	60	649,200
Gabon	96	1,038,720
Guinea-Bissau	50	541,000
Latvia	97	1,049,540
Mongolia	58	627,560
Niger	62	670,840
Rwanda	75	811,500
St. Kitts & Nevis	50	541,000
Solomon Islands	50	541,000
Suriname	82	887,240
Syrian Arab Republic	168	1,817,760
Tajikistan	74	800,680
Thailand	421	4,555,220
Yugoslavia, Fed. Rep. of	231	2,499,420
Sub-total	**1,741**	**18,837,620**
TOTAL	**3,454**	**37,372,280**
GRAND TOTAL	**103,062**	**1,115,130,840**

ACCREDITED MEMBERS OF DELEGATIONS AT 1999 ANNUAL MEETINGS

Albania

Governor
Pandeli Majko

Alternate Governor
Fatos Ibrahimi

Adviser
Milva Dodbiba
Kristaq S. Luniku
Elida Reci
Leon Shestani
Ermira Skenderi
Gjergji Teneqexhiu

Algeria

Governor
Abdelkrim Harchaoui

Alternate Governor
Omar Bougara

Adviser
Amrane Hadia
Babaammi Hadji
Mourad Belmokhtar
Abdelatif Benachenhou
Layachi Chenafi
Mohamed Dhif
Karim Djoudi
Ramtane Lamamra
Oum-El-Kheir Ouaoua
Oulebsir Smail
Abdelhamid Temmar

Angola

Governor
Ana Dias Lourenco

Alternate Governor
Job Graca

Adviser
Maria Luisa Abrantes
Pedro Afonso Cabral
Francisco da Cruz
Joaquim F. Guedes de Melo de Sousa Couto
Agostinho Fernandes
Joao M. Fortes
Antonio Franca
Camilo Manuel
Andre Mingiedi Mpasi
Laura M.P. de Alcantara Monteiro
Marilia de Fatima T.V. Pocas
Pedro Maiangala Puna
Antonio Rafael
Irene Beatriz F. Sobrinho
Cristina Van Dunem

Antigua and Barbuda #

Alternate Governor
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Adviser
Lionel Hurst
Leroy King

Argentina

Governor
Pedro Pou

Alternate Governor
Rogelio Frigerio

Adviser
Carlos V. Corach
Eduardo J. Escasany
Edgard Jose Gagliardi
Valeriano F. Garcia
Diego Ramiro Guelar
Oscar Lamberto
Ana Maria Mosso de Mortarotti
Gilberto Oviedo
Horacio Pernasetti
A. Humberto Petrei
Carlos A. Reutemann
Juan Carlos Romero
Osvaldo Sala
Rodolfo Eduardo Vacchiano
Pablo Verani
Carlos Verna

Armenia

Governor
Vazgen Sargsyan

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* Temporary
<> Not a member of IFC
\# Not a member of IDA

Alternate Governor
Armen R. Darbinian

Adviser
Gagik Arzumanyan
Stepan Gishyan
Ashot Kirakosyan
Vahram Nersissiantz
Armen Sarkissian
Gagik Shahbazian
Arman Vardanyan
Bagrat Yengibaryan

Australia

Governor
Peter Costello

Alternate Governor
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Adviser
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Michael Dillon
Gary Hobourn
Neil F. Hyden
Michael Mugliston
Nigel Ray
Nikki Savva
Peter Versegi

Austria

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Thomas Wieser *

Adviser
Peter Achleitner
Ruth Bachmayer
Kurt Bayer
Michael Kochwalter
Isabella Lindner
Brigitta Mlinek
Robert Reinwald

Azerbaijan

Governor
Elman Siradjogly Rustamov

Alternate Governor
Fuad N. Akhundov

Adviser
Heidar Babayev
Hafiz Mir Jalal Pashayev
Samir R. Sharifov

Bahamas, The #

Governor
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Alternate Governor
Ruth R. Millar

Adviser
Deborah Bastian
Arlington Butler
Jaunianne Dorsett
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Bahrain #

Governor
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Alternate Governor
Zakaria Ahmed Hejres

Adviser
Ahmad Al-Khalifa
Abdullah Mansour

Bangladesh

Governor
Shah A.M.S. Kibria

Alternate Governor
A.K.M. Masihur Rahman
Syed Ahmed *
K.M. Shehabuddin *

Adviser
Quazi Mesbahuddin Ahmed
A.M. Yakub Ali
Saquib Ali
Muhammad Musharraf Hossain Bhuiyan
A.H.M. Sadiqul Hoque
Fazlul Karim
Shahjahan Mian
Mushfiq Us Swaleheen

Barbados

Governor
Owen S. Arthur

Alternate Governor
Erskine R. Griffith

Adviser
Myrtle D. Bishop
Courtney N. Blackman

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Kelvin Arthur Dalrymple
Denise Hinds
Grantley Worrell Smith
Philip St.Hill

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Gennady V. Novitsky

Alternate Governor
Vladimir N. Shimov

Adviser
Georgy Egorov
Mikhail V. Nikitsenka

Belgium

Governor
Didier Reynders

Alternate Governor
Guy Quaden

Adviser
Gino Pierre Alzetta
Jean-Pierre Arnoldi
Hiliana Coessens
Kurt Delodder
Louis de Montpellier
Marcia de Wachter
Luc Hubloue
Pierre-Yves Jeholet
Marc Marechal
Philippe Peeters
Bernard Snoy

Belize

Governor
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Alternate Governor
Yvonne S. Hyde

Adviser
Eamon H. Courtenay
Hugh J.E. McSweaney
Nestor Mendez
James Murphy
Alan David Slusher

Benin

Governor
Bruno Amoussou

Alternate Governor
Pierre John Igue

Adviser
Thoeodore-Honore Ahimakin
Emmanuel Assilamehoo
Romain Degla
Paul Derreumaux
Raoul Donge
Jean-Marie Ehouzou
Ng`andu Peter Magande
Ibrahim Pedro Boni
Libasse Samb
Souleymane Tamboura
Lucien Tonoukouin

Bhutan <>

Governor
Yeshey Zimba

Alternate Governor
Neten Zangmo *

Bolivia

Governor
Herbert Muller Costas

Alternate Governor
Alberto Valdes Andreatta

Adviser
Raul Boada Rodriguez
Armando Pinell Siles

Bosnia and Herzegovina

Governor
Mirsad Kurtovic

Alternate Governor
Sven Alkalaj *
Ranko Travar *

Adviser
Smajo Abaza
Branko Bokan
Alby Cator
Amir Hadziomeragic
Zlatko Hurtic
Adnan Mujagic
Muamera Numic
Asim Omanic
Alida Sofic
Sead Tikvina

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Botswana

Governor
Ponatshego H.K. Kedikilwe

Alternate Governor
Wilfred Jiwa Mandlebe *

Adviser
Ontefetse Kenneth Matambo

Brazil

Governor
Pedro Sampaio Malan

Alternate Governor
Marcos Caramuru de Paiva
Fabio de Oliveira Barbosa *
Rubens Antonio Barbosa *
Amaury Guilherme Bier *
Murilo Portugal *
Mario Vilalva *
Sergio Ribeiro da Costa Werlang *

Adviser
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Jose Luiz Osorio de Almeida Filho
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Paulo Donizeti de Araujo
Patricia Goes Bakaj
Sergio Bath
Carlos Eduardo Dutra
Aurora Maria Paiva de Faria
Marcio Joao de Andrade Fortes
Betty Grosskopf
Joao Batista do Nacimento Magalhaes
Helio Mori
Daniel Andrade Ribeiro de Oliveira
Jose Marcelo Lima Pontes
Byron Costa de Queiroz
Claudia Netto Safatle
Elcior Ferreira de Santana Filho
Rodrigo de Azeredo Santos
Isac Roffe Zagury

Brunei Darussalam <>#

Alternate Governor
Haji Selamat Haji Munap
Mohd Rozan Yunos *

Adviser
Hj Jefri bin Hj Mohd. Salleh

Bulgaria #

Governor
Muraney Radev

Alternate Governor
Martin Mihaylov Zaimov

Adviser
Ventsislav Georgiev Antonov
Alexander Bozhkov
Lubomir Christov
Nikolay K. Gueorguiev
Petar S. Jotev
Bojidar Lubenov Kabaktchiev
Tchavdar Kostov Kantchev
Plamen Vassilev Orecharski
Olga Raeva
Nikola Tcholakov
Ilian Draganov Vassilev
Petia Pavlova Vassileva
Stilian Petkov Vatev

Burkina Faso

Governor
Bissiri Joseph Sirima

Alternate Governor
Patrice Nikiema

Burundi

Governor
Astere Girukwigomba

Alternate Governor
Immaculee Niyongere

Adviser
Thomas Ndikumana
Henri Simbakwira

Cambodia

Governor
Keat Chhon

Alternate Governor
Aun Porn Moniroth *
Vongsey Vissoth *

Adviser
Sum Sannisith
Tal Nay Im
Vong Bunintreavuth

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\# Not a member of IDA

Cameroon

Governor
Justin Ndioroh a Yombo

Alternate Governor
Daniel Njankouo Lamere
Jean-Marie Gankou *

Adviser
Polycarpe Abah Abah
Aminou Bassoro
Hirceinte Bengono Belinga
Boulleys Boudua Bello Robert
Bruno Iboklene
Pierre Kamdem
Rameline Kamga
Andre Blaise Kesseng Mbassa
Rene T. Mbappou Edjenguele
Roger Mbassa Ndine
Jerome Mendouga
Bienvenu Ndzana
Francois Ngoubene
Jean Philippe Njeck
Justin Njomatchoua
Anatole Nkodo Ze
Ibrahim Taiba Malla Oumate
Jean Tchoffo
Joseph Tedou
Pierre Titti

Canada

Governor
Paul Martin

Alternate Governor
Huguette Labelle
Ian Bennett *
Thomas A. Bernes *
Joy Kane *
Terrie O'Leary *
James Peterson *

Adviser
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Howard Brown
Tom Bui
Dale Eisler
Kathryn Hollifield
Paul Jenkins
Jill E. Johnson
Karl Littler
Stephen Millar
Maria Minna
Bruce Montador
Jeff Nankivell
Francois Page
Scott Reid
Gilles Rene
Eric Siegel
John Sinclair
Bill Singleton
Suzanne Szukits

Cape Verde

Governor
Antonio Gualberto do Rosario

Alternate Governor
Luis Pedro Rodrigues Maximiano

Adviser
Ana Paula Almeida
David Monteiro Freire de Carvalho
Amilcar S. Lopes
Gregorio Semedo

Central African Republic

Governor
Jacob Mbaitadjim

Alternate Governor
Leon-Gabriel Bango

Adviser
Henry Koba

Chad

Governor
Mahamat Ali Hassan

Alternate Governor
Abderahman Dadi

Adviser
Abakar A. Haggar
Hassaballah Ahmat Soubiane
Aboulaye Beri
Tom Erdimi
Ali Naffa Fadlassid

Chile

Governor
Eduardo Aninat

Alternate Governor
Joaquin Vial

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\# Not a member of IDA

Adviser
Mario Artaza
W. Andreas Bauer
Francisca Castro F.
Jaime Ravinet
Heinz P. Rudolph
Andres Sanfuentes Vergara
Marta Tonda Mitri

China

Governor
Xiang Huaicheng

Alternate Governor
Jin Liqun
Donald Y.K. Tsang *
Wang Baoan *
Zhu Guangyao *
Zhu Xian *
Zou Jiayi *

Adviser
Chen Huan
Hong Houqi
Huang Yun
Ji Guoqiang
Jiao Xiaoping
Jonathan Laurier Lange
Li Guanghui
Li Yushi
Ziqian Liang
Liu Jingtao
Linda Ka-Pik So
Tan Jian
Wang Qi
Wu Jianjun
Wu Jinkang
Yung Wai Hung
Zhang Yuebin

Colombia

Governor
Juan Camilo Restrepo Salazar

Alternate Governor
Mauricio Cardenas Santamaria
Alberto Calderon Zuleta *
Sergio Clavijo Vergara *

Adviser
Martha Isabel Bonilla
Jorge Castellanos Rueda
Gustavo Gaviria Angel
Sara Ordonez-Noriega
Carolina Renteria

Comoros

Governor
Mihidhoir Sagaf

Alternate Governor
Maoulana Charif

Adviser
Said Abdillahi
Hamada Attoumani

Congo, Democratic Republic of

Governor
Mawampanga Mwana Nanga

Alternate Governor
Jean-Claude Masangu Mulongo

Adviser
Fikiri Alimasi
Lioko Mabunda
Lukusa dia Bondo
Isidore Muhima Masumbuko
Tambo A. Kabila Mukendi
Munkeni Lakup-Tier

Congo, Republic of

Governor
Mathias Dzon

Alternate Governor
Clement Mierassa

Adviser
Pascal Bobassa-Ebale
Roger Gossaki
Mbouala Kaba
Delphine Birangui Mbouyou
Leon Raphael Mokoko
Serge Mombouli
Albert Ngambou
Daniel N'Guie
Jean Baptiste Ondaye

Costa Rica

Governor
Leonel Baruch G.

Alternate Governor
Edna Camacho Mejia

Adviser
Zulema Barboza Jimenez
Jose Carlos Quirce

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* Temporary
<> Not a member of IFC
\# Not a member of IDA

Cote d'Ivoire

Governor
Daniel Kablan Duncan

Alternate Governor
N'Goran Niamien
Tidjane Thiam *

Adviser
Assie Amani
Beatrice Amoakon
Ano Amoa Antoine
Koikou Felix Assamoi
Alexandre Assemien
Adon Amedee Assi
Noel Assohoun
Jean Roger Boua
Adamoh Djelhi Yahot Moliere
Kouao Ephrem Enoh
Thomas Eponou
Namory Karamoko
Koffi Paul Koffi
Yves-Marie T. Koissy
Konan Victor Kouame
Paul Kouame
Catherine Kouassi
Kouame Kouassi
Honorine Yaoua Kouman
Koffi Moise Koumoue
John William Morrisson
Leon Naka
Kouadio N'Da
Sylvain Oka Yao
Tamimou Ousmane
Kouame Espouse Yao Madeleine

Croatia

Governor
Hrvoje Radovanic

Alternate Governor
Josip Kulisic

Adviser
Aleksander Heina
Ana Hrastovic
Ana Ivancic
Anton Kovacev
Eugen Leko
Ivana Matkovic
Michael Ante Misetic
Ruzica Vuger

Cyprus

Governor
Takis Klerides

Alternate Governor
Panikos Pouros *

Czech Republic

Governor
Pavel Mertlik

Alternate Governor
Oldrich Dedek

Adviser
Zdenek Hruby
Dimitrij Loula
Jana Matesova
Ludek Niedermeyer
Pavol Parizek
Petr Prochazka
Vaclav Rombald
Petr Sedlacek
Frantisek Skoda
Jiri Vetrovsky
Veronika Znamenackova

Denmark

Governor
Jan Troejborg

Alternate Governor
Torben Brylle *
Finn Joenck *

Adviser
Mads P. Gede
Lars Moller
Frode Neergaard
Thomas Bo Pedersen
Niels Richter
Knud-Erik Tygesen

Djibouti

Governor
Yacin Elmi Bouh

Alternate Governor
Mohamed Goumaneh Guirreh

Adviser
Mohamed Ahmed Awaleh
Mohamed Sikieh Kayad
Roble Olhaye
Said Absieh Warsama

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Alternate Governor
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Dominican Republic

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Jaime Alvarez
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Ecuador

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Eduardo Brito
Ramiro Esteban Crespo Fabara
Rafael Cuesta Alvarez
Francisco Javier Game
Roberto Goldbaum
Patricio Rubianes
Walter Spurrier
Ramiro Viteri
Manuel Vivanco
Oswaldo Zavala

Egypt

Alternate Governor
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Abderahman S. Abderahman
Mohamed A. Abulkheir
Atef M. Hassaan
Hazem H.K. Hassanein
Wael S. Shoaeb

El Salvador

Governor
Juan Jose Daboub Abdala

Alternate Governor
Jose Luis Trigueros Gomez-Degano

Adviser
Nicola Ernesto Angelucci Silva
Maurico Choussy Rusconi
Yolanda de Gavidia
Claudio Manuel de Rosa Ferreira
Roberto Jimenez Ortiz
Nelly Lacayo Anderson
Craig Leon
Roberto Rivera Campos
Roberto Siman Siri
Benjamin Vides Deneke

Equatorial Guinea

Governor
Fortunato Ofa Mbo

Alternate Governor
Rosendo Otogo Meneng

Adviser
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Baltasar Esono Eworo
Francisca Eyang Ondo
Matias Mba Medja

Eritrea

Governor
Goitom Weldemariam Gebremichael

Alternate Governor
Gabriel Fassil Ogbazghy

Adviser
Tsehai Habtemariam

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Seife Desta Haile
Tadelle Teferra
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Fiji

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Adviser
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Jaakko T. Laajava
Ilkka Niemi
Velipekka Nummikoski
Markku Pulli
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Kaija-Leena Rikkonen
Rauli Suikkanen
Anne af Ursin

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Francis Mayer *
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Genevieve Chedeville-Murray
Eric Danon
Philippe de Fontaine Vive
Thierry Dissaux
Jean-Christophe Donnellier
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Pierre Jacquemot
Herve Joly
Eric Jourcin
Stephane Keita
Gerard Kremer
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Gambia, The

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Christian Kampen
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Martina Metz
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Gregor Alexander Pieske
Dirk Reinermann
Ursula Schaefer-Preuss
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Mitsuhiro Furusawa
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Yasuhisa Hashimoto
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Eiji Hirano
Toshiaki Hiromitsu
Akinari Horii
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Takehiko Nakao
Hideki Nonoguchi
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Toshio Oya
Nobuhisa Sagawa
Tomoyuki Saisu
Tomohiko Sakamoto
Takeo Shikado
Chikahisa Sumi
Masahiko Takeda
Hideki Takezawa
Rintaro Tamaki
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Hiroshi Watanabe
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Majed Al-Qatarneh
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Roman Solodchenko

Kenya

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John Henry Juma
Charles M. Kang'e
Felistas V. Khayumbi
Michael K. Kiboino
Sally J. Kosgei
Richard Leaky
Paul G. Ngatia
Peter Claver Joseph Otieno Nyakiamo
Anne C.A. Olubendi

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Bureti Williams

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Timi Kaiekieki

Adviser
Haruko Fukuda
Rimeta Tinga

Korea

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Kwi-Sup Yoon *

Adviser
Soo-Man Chang
Dong-Soo Chin
Sung Whan Choi
Nam-Duk Heo
Hyunghwan Joo
Kwang-Woo Jun
Hak-Ryul Kim
Sung-Bae Kim
Yoon-Kyung Kim
Eun Mo Lee
Sangkyu Lee
Jung-Kyu Oh
Chan-Seung Park
Yeung Kyun Rhee
Dong-Kyu Shin
Hyun-Chul Shin
Hyung-Goo Shin
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Kuwait

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Ahmed Abdullah Al-Ahmed Al-Sabah

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Hesham Ebraheem Al-Waqayan *

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Abdul Rahman H.S. Al-Hashem
Yousef B.Y.H. Al-Roumi
Khalid Sulaiman Al-Ruwaih
Salem Abdullah Al-Ahmed Al-Sabah
Ahmad Mohammed Abdulrehman Bastaki

Kyrgyz Republic

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Sultan Mederov

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Aidar Abdychev
Shamshibek Moldokanov
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Lao People's Democratic Republic

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Boungnang Vorachith

Alternate Governor
Sila Viengkeo *

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Vang Rattanavong

Latvia

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Juris Cebulis
Maris Elerts
Ojars Kalnins
Vija Kasakovska
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Inese Purgaile
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Georges Corm

Alternate Governor
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Anwar Ali Jammal
Nada Souheil Mufarrij
Sami Sfeir
Ezzedin M. Shamsedin

Lesotho

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Adviser
Mothusi T. Mashologu
Mookho Moeketsi
Peete Molapo
Lebohang Kenneth Moleko
Mantiti Molelle
Ben T. Nteso
Refiloe Tlali

Liberia

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Gabriel Fernandez
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Elfrieda Stewart Tamba
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Libya

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Saleh Ahmed Keshlaf
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Lithuania #

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Alternate Governor
Arvydas Kregzde

Adviser
Asta Bielskiene
Natalija Guseva
Ramunas Lygis

Luxembourg

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Arlette Conzemius
Michele Eisenbarth
Jerome Hamilius
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Alternate Governor
Ljupka Mindosheva

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M. Ramahay-Mandimby
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Raymond Rasamoelina
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Malawi

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Mary Mpanje
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Malaysia

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Othman Mohd. Rijal

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Aman Ahmad
John Patrick Antonysamy
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Halipah Binti Esa
Madeline Loh Kooi Choo
Baharudin Abdul Majid
Othman Jusoh
Ruji bin Ubi
Ismail Shahudin
Tan Teong Hean
Wan Abdul Aziz Wan Abdullah

Maldives

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Alternate Governor
Adam Maniku

Mali

Governor
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Alternate Governor
Soumaila Cisse

Adviser
Chieck Oumar Diarrah

Malta <>#

Governor
John Dalli

Alternate Governor
Joseph P. Portelli

Adviser
Michael Debono

Marshall Islands

Governor
Tony de Brum

Alternate Governor
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Adviser
Banny de Brum

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Mauritania

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N'Guissaly Fall
Haidara Mohamed Cherif
Mohamed Salem Ould Abdessalam
Abdallah Ould Cheikh-Sidia
Mohamed Mahmoud Ould Hamadi
Ahmed Ould Khalifa Ould Jiddou
Mohamed Lemine Ould Khlil
Abdallahi Ould Sidaty
Kelly Oumar Sada

Mauritius

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Rundheersing Bheenick

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Sen Narrainen
K. Saccaram
Somduth Soborun
Ranapartab Tacouri
S. Neysen Udaiyan
Maurice Vigier de La Tour
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Andres Conesa
Mario Alberto Garcia Barajas
Javier Gavito
Oscar Ignorosa
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Marco Provencio

Micronesia, Federated States of

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James Naich
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Moldova

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Bavuusuren Bayasgalan
D. Bayasgalan
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G. Gankhuyag
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Morocco

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Fathallah Oualalou

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Jamal Chouaibi
Mohammed Dairi
Lahbib El-Idrissi Lalami
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Mohamed El Merghadi
Abdellah El-Ouadrhiri
Mustapha Faris
Youssef Fehry Fassy
Rachid Filali
Mohamed Ghozlani
Mustapha Lahboubi
Monkid Mestassi
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Mozambique

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Myanmar

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Alternate Governor
Soe Lin

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Khin Maung Aye
Kyaw Hlaing
Aung Ko
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Namibia #

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Alternate Governor
Usutuaije Maamberua

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Kassim M. Bichi
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George Edokpo
Solomon Ewuga
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Mallam Umaru Hadejia
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Hamilton Isu
Hajia N.A. Jimoh
Saidu Yaya Kasimu
Haruna Mohammed
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Udoma Udo Udoma
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Leiv Lunde
Kristian Odegaard
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Oman

Governor
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A. Saud Nassir Al-Shukaily

Adviser
Salim Offait Abdulla Al-Shanfari
Hamdan Mohammed Al-Whaibi

Pakistan

Governor
M. Ishaq Dar

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Adviser
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Tariq Hassan
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Palau

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Adviser
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Panama

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Alternate Governor
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Ezekiel Bangin
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Paraguay

Governor
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Orlando Ferreira Caballero
Raul Alberto Florentin Antola
Armando Hermosilla Martinez
Hernan Mejia J.
Ovidio C. Otazu
Monica Perez dos Santos
Enrique Ramirez
Walter Anibal Villalba Zaldivar

Peru

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Victor Joy Way

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Jorge Francisco Baca Campodonico
Gustavo Caillaux
Luis J. Carranza
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Martin A. Naranjo Landerer
Juan Jose Neyra
Miguel Risco
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Roberto Rodriguez
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Luis Alberto Sanchez
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Philippines

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Edgardo O. Castro
Florido P. Casuela
Maria Lourdes Samia Coronado
Felicitas G. Del Rosario
Ramon R. Del Rosario, Jr.
Joseph H. Durano
Nestor A. Espenilla, Jr.
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Rolleo Ignacio
Eirvin B. Knox
Jose Macario L. Laurel, IV
Remedios Macalincag
Ernesto M. Maceda
Placido L. Mapa, Jr.
Federico C. Pascual
Raul S. Roco
Gabriel C. Singson
Cesar E.A. Virata

Poland

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Hanna Gronkiewicz-Waltz

Alternate Governor
Ryszard Kokoszczynski

Adviser
Monika Borowska-Massalska
Pawel Durjasz
Jerzy Hylewski
Mieczyslaw Kaminski
Alicia Kornasiewicz
Jerzy Kozminski
Michal Krakowiak
Krzysztof Majczuk
Romuald Szymczak
Krzysztof Wybieralski

Portugal

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Antonio de Sousa Franco

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Fernando Teixeira dos Santos
Maria Helena Cordeiro *
Joao Mauricio Fernandes Salgueiro *

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Isabel Correia Barata
Vitor Augusto Brinquete Bento
Jose Agostinho Martins de Matos
Ana da Conceicao Pinto Gaivotas
Rodolfo Vasco Lavrador
Maria Lucia A. Almeida Leitao
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Anselmo Teng

Qatar <>#

Governor
Abdullah Khalid Al-Attiyah

Alternate Governor
Fahad Bin Faisal Al-Thani

Adviser
Salah Mohamed Ibrahim Al-Jaidah
Khalaf Ahmed Al-Mannai
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Abdulla Mulla Al-Mulla
Izzat Mohammed Al-Rasheed
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Bashir Issa Al-Shirawi
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Maqbool Habib Khalfan
Ahmed Muftah

Romania #

Governor
Decebal Traian Remes

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Cristian Popa *

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Russian Federation

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Abdul Monam Rashed Al-Rashed
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Mamadou Faye
Moussa Faye
Amadou Kane
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Winston Lomahoza
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Pascal Strupler
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Mohammed Khaled Al-Mahayni

Alternate Governor
Mohamad Bittar

Adviser
Ali Muhra

Tajikistan

Governor
Murotali M. Alimardonov

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Sharif Makhumovich Rakhimov

Adviser
Sadriddin Akramov

Tanzania

Governor
Nassoro Wamchilowa Malocho

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Adviser
Amina S. Ali
Enos S. Bukuku
Jerome J. Buretta
Hussein S. Khatib
N.N. Kitomari
W.A. Mlaki
Charles Mutalemwa
Omar Yussuf Mzee
Alan B. Mzengi
Peter Efraim Mayunga Noni
Anastase R. Rwegayura
C. Samanyi
Ali Juna Shamuhuna

Thailand

Governor
Tarrin Nimmanahaeminda

Alternate Governor
Suphachai Phisitvanich
Abhisit Vejjajiva *
Nitya Pibulsonggram *
Sansern Wongcha-um *
Suparut Kawatkul *

Adviser
Ace Viboolcharern
Acksiri Buranasiri
Amaret Sila-On
Anchana Wongsawang
Anothai Techamontrikul
Aran Thammano
Montri Chenvidyakarn
Pannee Sathavarodom
Priyanut Piboolsravut
Rinjai Chaiyasut
Sun Vithespongse
Tanavich Chindapradist
Thanisorn Dejthamrong

Togo

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Simfeitcheou Pre

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Kossi Assimaidou

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Amenyah K. Jiffa
Kuaku Richard Attipoe
Essivi Yona Djokpe
Ayewanou Agetoho Gbeasor
Frederic Hegbe
Lorempo Tchabre Landjergue
Mensavi Lulu Mensah
Kossi Nambea
Nonon Saa

Tonga

Governor
Kinikinilau Tutoatasi Fakafanua

Alternate Governor
'Aisake V. Eke

Trinidad and Tobago

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Selcuk Demiralp

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Omer Altay
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Ali Umit Gonulal
Akif Hamzacebi
Aydin Karaoz
Kursat Kunter
Vural Kural
Durmus Oztek
Sureyya Serdengecti
Cihan Terzi
Okan Ucanok
Zafer Yukseler

Turkmenistan #

Governor
Seitbay Kandymov

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Keith Muhakanizi
Edith Ssempala
Longino Kigambo Tisasirana

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Volodymyr Grygorovych Khrebet
Tymur Khromayev
Vyacheslav Kozak
Olena Kucherenko
Valeriy Oleksiyovych Lytvytskiy
Petro Mikheyev
Mykola Pasko
Oleh Polishchuk
Vasyl Rohovyi
Olexandr Shapovalov
Borys Sobolyev
Tamara Solyanyk
Olexandr Mykolayovych Sorokin
Ihor Umanskyi
Yaroslav Voitko
Vadym V'Yun
Yuriy I. Yekhanurov
Sergiy Yermilov

United Arab Emirates

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Alternate Governor
Hamid Naser Mohamed

Adviser
Fadhel Saeed Al Darmaki
Humaid Darwish Al-Katbi
Saleh Al-Khatib
R. Douglas Dowie
Elfatih Eldkihairiyi
Khalifa Mohammed Hassan
Joyshil Mitter
Charles Neil
Abdulla Mohamed Saleh

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Nigel Wicks *
Myles Wickstead *

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Dino Merotto
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Linda Tsao Yang
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Maxine Waters
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Miguel Vieytes
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Carlos Steneri *

Adviser
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Walter Calcagno
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Carlos Mora

Uzbekistan

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Bakhtiar Sultanovich Khamidov

Alternate Governor
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Murod Askarov

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Vanuatu

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Nakat Willie Iapsin

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Oscar Rodriguez
Jose Sifontes
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Vietnam

Governor
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Alternate Governor
Truong Thai Phuong

Adviser
Do Tat Ngoc
Le Van So
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Nguyen Ngoc Anh
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Yemen, Republic of

Governor
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Anwar Rizq Al-Harazi

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Adviser
Sign Chabvonga
Fortune Chidavaenzi
Fredrick Ephraim Moffat Chihwai
Mutasa Dzinotizei
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Fatos Ibrahimi

Algeria

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Alternate Governor
Omar Bougara

Angola

Governor
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Argentina

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Australia

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Peter Costello

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