Statement by Mr. James D. Wolfensohn
President of the World Bank Group
International Monetary and Financial Committee
of the IMF Board of Governors

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List of IMFC Statements

Let me first take this opportunity to express my admiration and appreciation for all that Michel Camdessus achieved over his years of leadership at the IMF, both in promoting financial stability and in leading IMF's contribution to the fight against poverty. The Fund is fortunate to have the continuing contribution and leadership of Stanley Fischer, and it has been a pleasure to work with him during this interim period. In recent years our two institutions have come to work more closely together, within our respective mandates and roles, in ways I will discuss further in this statement. I am looking forward to working in the same close collaboration with Horst Köhler as our two institutions pursue our complementary and shared goals over the years ahead.

World Economic Outlook

The world economic environment, and with it the prospects for developing countries, are much improved as compared with just a year ago. Not only have the risks of widespread financial crises receded, but developing countries are projected to grow at a faster pace because of more buoyant advanced country growth and subdued inflation. In aggregate terms, developing country growth is projected to reach 4.6 percent in 2000 and 4.8 percent in 2001 - almost the levels reached before the onset of the crisis.

Nevertheless, recovery prospects are strongly differentiated across groups of countries. A large number of developing countries will see a return to positive per capita growth in 2000. But some 41 countries with nearly 1 billion in population-more than one-half of whom are low-income-will have barely crossed the threshold to positive gains in income in 2000. This underlines the still fragile path of recovery and adjustment ahead. The recent financial crisis has also increased poverty and the effects persist in many parts of the world.

There are also major risks in the outlook. For example, higher oil prices ($7/barrel higher than the baseline projection) could reduce growth by almost a percentage point in Sub-Saharan Africa and by a percentage point and a half in South Asia, thereby disproportionately effecting the poor.
And many developing countries, especially those that are just emerging from crisis - as in East Asia - remain vulnerable to demand shocks given the weak balance sheets in the banking and corporate sectors and the after-effects of the crisis on the poor.

Against this backdrop, we should not lose sight of the long-term challenges that confront us. Of the current world population, nearly 3 billion live on less than $2 a day, and 1.2 billion on less than $1 a day. And over the next 15 years, the developing world will add more than 1 billion to its population. With current trends, we will not meet the International Development goal of halving poverty by 2015, nor the other development goals such as the goal of universal primary education by the year 2015. And we will need to confront challenges that can only be tackled through collective action at the global level: the scourge of HIV/AIDS, the deteriorating quality of the environment, the rise in conflicts and social tensions, and the growing disparity between rich and poor.

I am pleased that we will have the opportunity to take up many of these issues tomorrow at the Development Committee meeting. Let me focus here on the issues that are to be addressed today by this Committee.

**International Architecture**

There is much current discussion of the roles of the international financial institutions — the multilateral development banks as well as the IMF. This underlies the more specific issue of the review of IMF facilities, which is on the IMFC agenda. I should like to offer a few comments on the issues as seen from the World Bank, focusing on the very special ongoing relationship between the two Bretton Woods institutions, the IMF and the World Bank.

I believe this discussion should and must start from the global agenda we now face. There are many issues on this agenda. The risks and opportunities that affect the future of the planet are of concern not only here in Washington, but also to millions of people across the globe, not least the nearly 3 billion still living on under $2 a day. I see two overarching challenges of particular relevance to the work of the IMF and Bank:

- Managing the process of globalization, and in particular the power of private financial markets to support growth and development, and, on occasion, to disrupt it.
- Supporting long term development and reducing global poverty.

In this context one key set of preoccupations, of special relevance to the IMF and reflected in the IMFC agenda, is how to handle financial crises better in the future, and how to reduce the risks of crises occurring.
A second set of preoccupations, and a central challenge for the Bank, is to find ways for the global institutions to work more effectively together and with countries to reduce poverty - and to assist countries at risk of being marginalized from the global economy.

Despite these differing perspectives and respective mandates of the Fund and Bank, we find that in one area after another our two institutions need to cooperate to be effective. Why is this so? And how can we make such cooperation work?

I see three reasons why we need to cooperate:

- The first is that while the priority agendas for our two institutions are different, they are also interconnected. We have seen how financial crises can set back the course of development. We have also discovered that the actions countries need to take to reduce their vulnerability to financial crises — strengthening the underpinnings of a market economy — are also the actions needed to support healthy development. So the Bank with its development mandate has a strong interest in helping to identify and support reforms that reduce vulnerability to financial crises. Equally, I believe, the Fund, with its traditional focus on temporary financing problems and handling and preventing crises, also has a strong interest in supporting actions needed for successful development and poverty reduction.

- A second strong force for cooperation is the now widespread recognition that successful long term development requires **both** the consistent pursuit of good macro economic policies — the Fund's area of expertise, and good structural and social policies — the Bank's area of comparative advantage. So the Fund and Bank need to cooperate at the country level in helping countries frame the comprehensive approach needed for successful development.

- A third force for cooperation is the need to link surveillance (a traditional role of the Fund), and other diagnostic work, to assistance with capacity building and helping countries tackle identified weaknesses. One of the most important drivers for the Bank's engagement with the IMF in carrying out financial sector assessments and in other diagnostic work is the need to link this work to the subsequent assistance that the Bank can offer with capacity building.

So for all these reasons I see cooperation between the Bank and Fund as necessary to both our mandates. We are putting this into practice in key areas. We are cooperating on diagnostics — assessing countries' strengths and weaknesses in the financial sector, and in the wide range of other areas crucial to the proper functioning of a market economy. In the low income countries we have our joint program based on country led poverty reduction strategies to support growth and poverty reduction. I will say more about both these areas. In all these areas we have to make sure that we have available between the two institutions the range of financing facilities, concessional and non-concessional, needed both to support countries through temporary problems
and to support long term reforms and development. And clearly we must ensure we are using these facilities to complement and catalyze other financial flows.

But there is one theme that I want to stress that emerges from this practical experience. Cooperation often works best where the two institutions come with well differentiated mandates and policy roles. Where the areas of overlap are intrinsically greater, such as in our work on the financial sector, we find we have to work in a particularly close partnership. But general cooperation should not be seen as leading to a blurring of the roles and mandates of the Fund and the Bank - rather, the reverse. Cooperation works best where the roles and mandates are clear and different, and indeed it often requires us to clarify our respective responsibilities better.

No doubt the debate on the roles of the Bank and Fund will continue. I hope it will be based on the reality of the global challenges we face and the agenda the two institutions are already tackling together. I also hope we will give ourselves time to consider the issues properly, and that the discussion will involve all our shareholders, borrowers as well as creditors.

**Reducing Developing Countries' Vulnerability to Financial Crises**

As I have noted, the Bank's focus as a basis for assistance with capacity building is to assist countries to strengthen the underpinnings of a market economy and to better assess and manage the structural and social sources of vulnerability as a basis for assistance with capacity building.

There are three important collaborative initiatives underway between with the IMF and the Bank that build on the complementarities of our respective mandates and comparative strengths.

- A pivotal element is the joint **Financial Sector Assessment program**. The program will help not only with the early detection of vulnerabilities, but will also identify key priorities for financial sector development and the delivery of support for strengthening financial systems. The program will optimize the use of resources and scarce expertise by drawing on the comparative strengths of the two institutions, reducing duplication of effort, and avoiding conflicting advice in financial sector work. It also provides a platform for broad based international cooperation by drawing on other international agencies and national experts. Based on the successful experience to date, we are expanding the coverage to 24 assessments in the coming year from 12 in the pilot phase.

- We have also joined with the IMF in the third phase of the preparation of the **Reports on Observance of Codes and Standards**, which links the Fund's objective of enhanced surveillance using international standards with the Bank's objective of improved diagnostic underpinnings for our policy advice and technical assistance. In this experimental phase, the Bank will collaborate with the IMF in undertaking assessments of the
observance of standards in the financial sector, typically in the context of the Financial Sector Assessment Program, as well as undertaking assessments in corporate governance, accounting and auditing and insolvency regimes.

· The Bank and the IMF are also collaborating on a series of papers on external debt management, including debt and reserve-related indicators of external vulnerability, a manual on sound practices in sovereign debt management, and a manual for the development of domestic capital markets. Based on this work, a set of core principles for sovereign debt management will be arrived at for consideration by the respective Boards this summer.

In addition to these collaborative initiatives, the Bank is expanding its efforts in several other areas that have come to the fore in the wake of the recent crises:

· In collaboration with the OECD and others, we have set up a Corporate Governance Forum to promote broad-based dialogue and to support developing countries in strengthening corporate governance.

· The Bank has also stepped up its efforts to strengthen accounting and auditing practices in both the public and private sectors through concerted actions at the national and international levels, for example by working with the International Forum on Accountancy Development on an agenda for international action.

· Based on work and consultations that are now underway, we expect to put forward principles and guidelines on insolvency regimes for discussion by the time of the Annual Meetings.

· Finally, we are following up on the request of the Development Committee to continue to accumulate and disseminate knowledge of good practices that will forestall and mitigate the social costs of crises.

Poverty Reduction Strategies and Progress on HIPC

Last September, at a joint meeting of the Interim and Development Committees, we launched a major new approach to the partnership between the Bank and the Fund in supporting poverty reduction in countries eligible for support by IDA and by the new IMF Poverty Reduction and Growth Facility. Following the principles embodied in the comprehensive development framework, the approach is based on the development, through participatory processes, of country-owned, comprehensive poverty reduction strategies - strategies to be set out in Poverty Reduction Strategy Papers (PRSPs) that then can provide a basis for support by IDA, the IMF, bilateral donors and other development partners cooperating with each other and drawing on their respective strengths.
As foreseen in September, launching this new approach has required very intense work and cooperation between Bank and Fund. I believe we have made a good start. But the new approach involves big changes in the way in which the Fund and Bank, and countries, operate, and it will take time and much continued effort to implement it fully.

So as not to hold back assistance, we have devised and implemented interim arrangements that permit HIPC debt relief and concessional assistance to be provided while countries are developing full poverty reduction strategies. But our objective remains to move step-by-step to implement the new approach fully, so that within the next two years we will have revolutionized our approach in working with countries eligible for IDA and PRGF support.

In developing and implementing PRSPs I believe our objectives must be:

· To move away from sets of externally imposed and negotiated conditions, and towards genuine country-owned strategies that have the elements necessary to warrant IDA and IMF financial support.
· To streamline our approach by focusing in each case on the handful of key policy issues that will make a real difference - which will differ from country-to-country. Long lists of conditions should become a procedure of the past.
· To encourage countries to take an inclusive and participatory approach in developing their national strategies, building wider support and understanding for the policies they are implementing.
· To delineate as clearly as possible the separate roles of the Bank and Fund in operating the new framework - because, as in other areas, such delineation is the key to effective cooperation.

The approach should be - and be seen to be - a sea change in our way of doing business.

In September I said this would be a challenge. And proceeding at the same time with implementing the new approach and moving as quickly as possible on HIPC debt relief presents a double challenge. Inevitably developing poverty reduction strategies takes time, as does changing our own practices and procedures. I am encouraged by the support we have had for the new approach. As I said in September, the Bank and Fund will need continued support and help in the enterprise from other partners and donors as we move forward.

I understand and share the impatience of others to get the PRSP approach fully operational. I also understand and share the concern of those who want to make rapid progress in delivering debt relief to HIPCs that adopt policies that warrant our support. In the best case scenario, I believe we could reach decisions on debt relief for 20 countries by the end of the year. But no one should regard this as a forecast. A more likely outcome would be a lower number. It is a statement of what the Bank and Fund believe can be achieved if everything goes well. Of course in reality there are always setbacks, often due to unforeseen events in countries.
Progress will also in the end depend on success in completing financing for the Initiative. I wish to thank donors who have made or announced financial contributions, including those who have come forward with major commitments in recent days and given renewed momentum to this difficult task. Multilateral development banks, who met in Washington lately to review HIPC progress, are also making some advances in their financial participation in the initiative. I express our thanks to all donors who have already made or announced financial contributions. But we all know that the initiative remains significantly under-funded and that further financial contributions are needed.

To help continue to drive the work forward, and to ensure that Bank/Fund cooperation continues to work effectively, we have recently established a joint Bank/Fund HIPC and PRSP Implementation Committee. I can give my assurance that in the Bank we remain totally committed both to make the PRSP approach work and to deliver debt relief to qualifying HIPCs as rapidly as possible.