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INTERNATIONAL FINANCE CORPORATION  
INTERNATIONAL DEVELOPMENT ASSOCIATION  
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Opening Address by the Chairman, the Hon. **MAHESH ACHARYA**,  
Governor of the Bank and the Fund for **NEPAL**,  
at the Joint Annual Discussion

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Mr. President, Mr. Managing Director, fellow Governors, excellencies, ladies and gentlemen,

I feel greatly honored to chair these important Annual Meetings of the World Bank Group and the International Monetary 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 International Monetary 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 millenium 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 which 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 or 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, focussing 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 efforts—particularly at diversifying production toward manufacturing and services—need 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 IMF 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 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 standards—or codes of good practice—for 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 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. World-wide 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 six 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 policy makers, must shape our strategies so that they do not inadvertently inflict long-term hardships 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 IMF, 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, 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 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 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 millenium, 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 International Monetary Fund.