Summary Proceedings

Annual Meeting 1995

International Monetary Fund

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INTRODUCTORY NOTE

The Fiftieth Annual Meeting of the Board of Governors of the International Monetary Fund was held in Washington, D.C. from October 10 through October 12, 1995, jointly with the Annual Meetings of the Boards of Governors of the World Bank Group. The Honorable Paul Dossou, Governor of the Bank and the Fund for Benin, served as Chairman.

These Proceedings include statements presented by Governors during the meetings, resolutions adopted by the Board of Governors of the Fund over the past year, reports, recommendations, or communiqués issued by the Committees of the Board of Governors at the time of the meetings, and other documents relating to the meetings.

Statements by the Governors are listed in alphabetical order by country on pages vii and viii, and a list of abbreviations used in the statements and documents is given on page 306.

LEO VAN HOUTVEN
Secretary
International Monetary Fund

Washington, D.C.
November 1, 1995

ADDRESS BY THE PRESIDENT OF THE UNITED STATES[1]

Bill Clinton

On behalf of the United States, it's an honor to welcome you to Washington for your Fiftieth Annual Meeting. And I am especially pleased to have the opportunity to speak to this group at a moment when you can see the fruits of your labors.

Ordinarily, accomplishments of great institutions like these come slowly. Yet today, the visit of President Zedillo of Mexico reminds us that in only nine months, with the help of the international community, Mexico has pulled back from the brink of financial disaster. After one of the most severe financial emergencies in the postwar era, Mexico again is on the road to stability and growth. The Mexican stock exchange has recovered. Inflation is stable, interest rates are down, and international markets have been reassured. And most impressively, in only seven months, Mexico was able to return to private capital markets.

As you have heard, President Zedillo has announced that Mexico will begin repaying its short-term debt with a $700 million installment this month, well ahead of schedule. Mexico's success is a tribute first to President Zedillo's leadership, his courage, and his government's steadfast commitment to carry through tough economic reforms, though they have required great sacrifices from the Mexican people. They have borne these sacrifices—the austerity, the increased unemployment in the short run—with the hope that they will pay off in long-term growth and to better lives that ordinary Mexican citizens deserve.

That, of course, is the hope of people throughout the world—the hope we must address; the hope to which we must give reality as we move into the next century.

The international financial institutions—the IMF, the World Bank, the Inter-American Development Bank—all your swift and decisive support for the stabilization package played a vital role in bringing this hopeful moment to pass. I particularly want to thank Mr. Camdessus for his leadership.

The United States also acted decisively. We acted decisively for Mexico and for America. For helping Mexico helped to protect one of our biggest export markets and 700,000 jobs that depend upon our trade with Mexico. It helped to prevent an economic collapse that could have caused

[1]Delivered at the Third Joint Session, October 11, 1995.

serious dislocation along our 2,000-mile border, and had a grave impact on our common efforts to limit immigration to legal immigration. But more importantly, it was the right thing to do, because the United States and Mexico are neighbors. The truth is, in the global economy of the twenty-first century, we are all neighbors.

Helping Mexico not only prevented a national crisis, it prevented this national crisis from turning into a multinational catastrophe, by arresting the spread of uncertainty throughout the world's emerging markets. At that time, which many of you will remember well, every sign on exchanges in South America, in Asia, in Europe, registered a looming disaster for the developing countries. Those emerging markets support more than three million American jobs. They're essential to our economy and to the well-being of our people, but they're more important for our common commitment to a more peaceful, more democratic, more free world.

In many of the nations embracing free enterprise for the first time, the very ideas that underpin market economies were thrown into doubt, into severe doubt, by the Mexican crisis. Open markets, privatization, deregulation—these things came under a cloud of suspicion. The decision of the countries in the developing world—Central and Eastern Europe, the newly independent states of the former Soviet Union, and other nations—to embrace these ideas has been one of the great achievements of this century. No American leader could allow one setback in one nation to undermine this tremendous wave of history.

But I ask you to remember also that the Mexican crisis put into high relief tensions that are less evident in many, many emerging economies throughout the world in the new realities of the twenty-first century. It, therefore, provides for us a powerful reminder of why we must continue to lead in the face of these extraordinary new challenges and these new opportunities.

History will look back on us and judge how well we responded to this time of intense economic transformation. It is the most intensive period of economic change since the Industrial Revolution. The revolutions in communications and technology, the development of non-stop global markets, the vast currency flows that are now the tides of international business—all these have brought enormous advantages for those who can embrace and succeed in the new global economy.

But these forces have also made all our societies more vulnerable—to disturbances that once may have seemed distant, but which now directly affect the jobs and livelihoods in every nation in the world, from the richest to the poorest. The unbridled forces of the global market make it more difficult for every nation to sustain the social contract; to sustain individual opportunity for all citizens; to keep families strong; to keep communities thriving; to keep hope alive.

The truth is, in this new world there are powerful forces of integration and powerful forces of disintegration. And as we approach the twenty-first century, we must adapt our thoughts and our actions to this new reality. No nation can turn its back, and we will all have to work together if we want the promise of the twenty-first century to outweigh its peril in every nation in the globe.

The trend toward globalization, after all, has far surpassed anything the great figures of Bretton Woods could have imagined. Interdependence among nations has grown so deep that literally it is now meaningless to speak of a sharp dividing line between foreign and domestic policy. In the United States, when we think of economic policy, we can't divide that which is domestic from that which is global. When we think of security policy, we know that our efforts to combat terrorism, whether it's in the World Trade Center incident or in Oklahoma City, have very much in common with our efforts to help our friends around the world to deal with a bus blowing up in the Middle East or a vial of sarin gas being broken open in a Japanese subway, or in so many other instances that all of you can well relate to.

We simply must adjust the world's financial architecture to these new conditions. We must forge a system strong enough, yet flexible enough, to make the most of the historic opportunities and the historic obligations before us.

Billions of people, after all, in Asia, in Latin America, in Africa, in Europe, who are turning to democracy and free markets need to see that there can be tangible benefits from their decision, and a better life after breaking the shackles of the past.

Today, a child born in Bangkok, or Buenos Aires, or Johannesburg enjoys the possibility of a vastly better life than his or her forebears could ever have imagined. But to redeem that promise, we must work to exalt the forces of integration and to overcome the forces of disintegration that globalization brings. We must see that a future crisis like Mexico's does not rob children of better lives before those lives ever get started.

Fifty-one years ago, at another moment of historic change, President Roosevelt urged our Congress to approve the Bretton Woods agreements. He drew a dark picture of—or a clear picture of stark contrast. The choice he said then was—and I quote—"between a world caught again in a maelstrom of panic and economic warfare, or a world that will move toward unity and widely shared prosperity." "This point in history," he said, "is full of promise and of danger." Today, as we stand on the verge of a new century and confront a radically new international economy, I say to you that we are at a point of history full of promise and of danger.

To master the challenge before us, we must focus our efforts on expanding trade, improving investment and capital flows, and promoting sustainable development here. And we must do it in the context of our devotion to human freedom and democracy.

In the last two and a half years, our administration, working together with many of you in this room, has taken tremendous strides toward opening world markets and promoting global growth. First, we tried to become a better international citizen by putting our own economic house in order. When I became President, our government deficit was $290 billion a year, claiming capital from around the world that needed to be properly put to other uses, and keeping interest rates unnecessarily high. In three years, that deficit has been reduced to $160 billion a year, and we are working in good faith to bring our budget into balance across the party lines here in America.

Second, we promoted a higher rate of growth, led by investment and free of inflation, with the result that we now have the best combined rates of unemployment and inflation in the United States in 25 years.

Third, we worked with like-minded people throughout the world to advance the cause of global trade. We have worked to increase our exports, to create high-wage jobs, to improve our own standards of living and those of other nations, and to sustain growth. We brought the Uruguay Round into force. We made the North American Free Trade Agreement (NAFTA) a reality. Our trade Ambassador, Mr. Kantor, has negotiated over 80 other separate bilateral trade agreements to expand trade. We are forging agreements with the Asian Pacific region and with the Americas that mean that early in the next century trade will flow freely over most of the Earth.

The best way to grow our economies is to expand trade. Our experience shows that. In the last three years, there has been a stunning explosion in American exports, up 4 percent in 1993, 10 percent in 1994, and 16 percent in 1995. At the same time, global trade has increased over 12 percent over the last three years, and the United States, as we have sold more, has been in a position to buy even more from other countries all around the world.

This is not an abstract concept. This makes a difference in the real lives of people throughout the entire globe. Opening markets has helped to create almost two million American jobs here in our own economy. But as barriers fall elsewhere, our ability to trade, our ability to purchase others' exports, our ability to invest in other countries have created many, many more jobs in other nations around the world.

We have to do more, of course. We have to maintain our efforts to resolve trade disputes and to fight protectionism. I am pleased to say that with the establishment of the World Trade Organization we have made real progress toward removing barriers and preventing conflicts.

Ironically, just when the advantages of expanded trade have become so dramatic, we are again hearing the voices of retreat here in our own country. There are those who say that America should simply erect a wall and live within its own borders economically; and when it comes to foreign policy, we should just go it alone. But, my fellow citizens of our shared planet, economic interdependence is a fact of life. The goal must be to have it benefit all people, consistent with our shared vision for a world of freedom and peace and security and prosperity, consistent with shared values of responsibility and opportunity for all people, of stronger families and stronger communities, of nations with sustainable levels of economic growth that preserve our common environment.

That is what is happening all over the world today. I could just give you one example that coincides with President Zedillo's visit. We have a company called U.S. Filter in Palm Desert, California, with only 50 workers. But they have jobs because the Mexican city of Cuernavaca is buying a water treatment system from their company. We are fostering growth, trade, jobs, and sustainable development. We must do more of that, and turning away from one another is not the way to achieve that objective.

Mexico understands this. When the trouble hit earlier this year, because of NAFTA Mexico did not turn back and close its markets as it did during its 1980s crisis. Back then, it took Mexico almost a decade to recover. But because Mexico has stayed on course, it is on the way to recovery now. There will be no lost decade for Mexico because of its own policies and because of the work done in the international community to assist it to recover. This can now be a decade of opportunity springing from short-term sacrifice.

Mexico's troubles and the other recent events have shown that reforms in the international financial system have to continue: We don't have this all worked out as it needs to be. We should spread the benefits of financial integration around the world so that more and more borrowers have access to capital markets. We have to devise better ways to prevent financial crises and to cope with the crises that inevitably occur. People will turn away from free markets if they feel helpless, if they feel that they are simply pawns in a global game of winner-take-all, rather than partners in a global endeavor that seeks to make it possible for all to win.

Since the peso crisis, we have moved from crisis management to institutional reform. At the Group of Seven summit in Halifax, we put forward far-reaching proposals to help the international financial institutions meet these new needs. They aim to increase disclosure of nations' financial information and identify possible crises early, before they rock the world economy. And they include steps to mobilize the international community quickly when future crises occur. Next time there's a problem like Mexico's, the system will be better prepared.

I am pleased that over the last few days, the broader membership of the IMF has endorsed these proposals, made them more concrete, brought them closer to implementation. I thank you for that, and I congratulate you for it.

Fulfilling the hopes of this moment demands that we also renew our efforts to help those who still suffer the curse of poverty. Development that improves standards of living, strengthens democracy, conserves resources, and restrains population growth; development that lifts people up and builds societies of citizens and consumers, not victims and dependence—these objectives benefit all nations, rich and poor.

To succeed, we must change the approaches of the past to meet the demands of the future. The international financial institutions, the multilateral development banks, must continue to sharpen their focus on giving all people the chance to make the most of their own lives. That means investing in education, in health care, in other programs that attack the roots of poverty. It means responding to the problems that were highlighted in such stark and clear relief at the Beijing Conference on Women. It means encouraging private sector development. It means that our development programs must support democracy, accountability, and the rule of law. It means we must have a common global commitment to environmental protection and sustainable development.

Developing nations must shoulder their own responsibilities—sticking to sound economic policies, liberalizing trade practices, creating financial markets that work, and above all, being the primary investor in the human capacity of their citizens. Achieving these goals will require the banks to continue reforming their own operations and striving for greater efficiency.

Jim Wolfensohn is devoting all of his famous energy to that task. I thank him for it and for carrying forward the work of his fine predecessor, Lew Preston. I applaud Jim's progress and look forward to further accomplishments in the months and years ahead from the World Bank.

Before closing, I'd like to say just a few words about the United States' commitment to helping the poorest nations of the world help themselves through our partnership in the International Development Association. It is simple—the IDA is essential. Its loans provide a crucial tool for nations that seek to escape from poverty to sustain growth. It serves our fundamental values, as well as our economic interests, by lowering trade and investment barriers, supporting private sector growth, opening the markets of tomorrow, and giving people a chance to succeed.

A lot of people don't remember this, but the IDA was the brainchild of President Eisenhower. He believed deeply that when, as he put it, "people despair that their labor will ever decently shelter their families or protect them against disease, peace and freedom will be in danger—and the seeds of conflict will be sown."

For decades, Democrats and Republicans shared President Eisenhower's sentiments, and they supported IDA. Unfortunately, that is no longer always the case. Many in the Congress have forgotten that IDA recipients of yesterday—countries like South Korea, Indonesia, Turkey, China, Chile—are today among America's most important trading partners; are among America's most important strategic partners working for global security. Those who are reminded of this perhaps will be tempted to change their position. But I want to say clearly that those who are determined to make reckless cuts in the funding of the United States for IDA should look at the facts. They should remember the vision of a great Republican President, Dwight Eisenhower.

Today's despair breeds tomorrow's conflicts. Resolving the funding for dealing with today's despair will save the world and the United States a lot of money and perhaps even precious lives in the future. Restoring funding for IDA is one of our administration's top priorities because it is the right thing to do. Of course, it serves our interest, but it is the right thing to do.

And let me assure you, if you believe as I do that balancing our federal budget will permit higher levels of growth in the United States and throughout the world, then this is a good investment. And it is not necessary—not necessary—for the United States to walk away from its commitment to balance the national budget. Don't let anybody tell you that it is.

When these two institutions opened for business, the IMF and the World Bank, there were 38 nations standing behind them. Even then, John Maynard Keynes likened the affair to the Tower of Babel. Well, today, there are 180 nations represented here. But even though we are larger in number and some of us are larger and more wealthy than others, this increase in numbers does not mean that any one of us, including the United States, can afford to detach itself from the business at hand and hope that others will take up the slack. More than ever, we must all participate in the reform of the international economic system, and we must all do our part.

In a world that grows rapidly closer, every one of us is called upon to help harness the forces of integration for the benefit of our people and to make the forces work for all our communities and for the community of nations that is increasingly bound together. Only then can we fulfill the potential of the advances in technology and trade and knowledge. Only in that way will we defeat the forces of disintegration, extreme nationalism and ethnic strife, isolation and protectionism.

I believe that the twenty-first century will be the period of greatest possibility in all human history. I hope it will be a period of unparalleled growth, achievement, prosperity, and human fulfillment; it certainly has the potential to be.

What these institutions do in the next 20 years will have a large say in what the twenty-first century looks like for all the people of the world. What we do individually, as nations and leaders, will have a large say in what that world looks like.

The institutions that we honor today and that you participate in deserve and require our support. They also deserve and require our best efforts to make constructive changes to meet the new opportunities and the new challenges we face.

We must—we must—lay the foundation for prosperity, security, and freedom that will benefit all the people of the world well into the next century. These next few years are a critical point, a historic turning point. And if we do our job, the history of the next century will be less bloody than the history of the twentieth century, and even more filled with prosperity and freedom and common human decency.

OPENING ADDRESS BY THE CHAIRMAN OF THE BOARDS OF GOVERNORS AND GOVERNOR OF THE BANK AND THE FUND FOR BENIN[1]

Paul Dossou

It is indeed an honor for me to welcome you to the Fiftieth Annual Meetings of the World Bank Group and the International Monetary Fund. I would like to take this opportunity to remember fondly and with great appreciation the life and work of Lewis Preston, whose dedication to the goal of reducing poverty in the developing world guided the World Bank Group for nearly four years. Mr. Preston's vision of an open institution, flexible enough to respond to the different needs of member countries but also sufficiently accountable to its shareholders, is an ideal to which we all aspire.

It is with great pleasure that I now welcome Mr. James D. Wolfensohn, who has taken up the mantle of leadership of the Bank Group. I applaud the energy, enthusiasm, and vigor with which you have accepted the challenge of the responsibility you have assumed. This is a "chance of a lifetime"—as you have so aptly put it—to make a difference in the lives of millions of people throughout the world. I wish you success in the tasks ahead and assure you on behalf of the Board of Governors of our fullest support and cooperation during your tenure. Let me open these deliberations by extending a warm welcome to the delegation from Brunei Darussalam, who will be joining our institutions during the course of these Annual Meetings.

We have come together once again at a time when the Bretton Woods "sisters," the World Bank and the International Monetary Fund, have an increasingly important role to play in a world where economic relations have grown ever more complex, multibillion-dollar business transactions are carried out in record time, and Internet reigns supreme, and still, 1 billion people live in abject poverty, 140 million people are unemployed, and 1 billion are underemployed. In these circumstances, what does this globalization of the world economy mean for our institutions and for the developing countries and countries in transition? It surely brings new challenges and opportunities for all countries, regardless of their stage of development. It also underscores the need for a global partnership among the players so that we all might benefit.

We have some weighty matters to discuss in the next three days. The statements we make and the decisions we take will be scrutinized and

[1]Delivered at the Opening Joint Session, October 10, 1995.

analyzed by the media, by our critics, and by our supporters. What will be important is how we translate our words into concrete measures that have measurable and sustainable results. To set the stage for our discussions, please allow me, as Chairman of these Meetings, to take a few minutes to highlight some of the opportunities and challenges our countries are facing, the progress made to date, and the role the Bank Group and the Fund should play in meeting those challenges and sustaining the achievements.

World Economic Outlook

Following a brief pause this year, the economic expansion in the industrial countries now seems likely to continue. However, it is important to note the differences among countries. For example, while continental Europe, North America, the United Kingdom, and Australia are expected to enjoy moderate growth with continued low inflation in the months ahead, Japan continues to grapple with its most serious slowdown in half a century. Over the past year, exchange rates among the currencies of the major powers have shown marked changes. Given the keen interest of all our countries in exchange rate stability, we welcome the orderly correction of imbalances that has taken place recently, bringing the exchange rates of the dollar, the deutsche mark, and the yen closer to levels that are consistent with economic fundamentals. In order to make wise use of the present expansion and avoid repeating the mistakes of the 1980s, it is imperative for the industrial countries to reduce budgetary deficits and tackle structural weaknesses, particularly in their labor markets, health care systems, and public pension programs. Such actions on their part would clearly represent an important contribution to the world economy as a whole.

The current projections for continued buoyant growth in the developing countries are encouraging, but there is no room for complacency. Again, it is important to distinguish among the various groups of developing country members and the particular issues they face. Following the rapid expansion in Asia over recent years, some of these countries face the danger of overheating. Although the recent crisis in Mexico will undoubtedly weigh heavily on the short-term growth prospects of some Latin American countries, they stand to gain over the longer term if they heed the lessons learned—namely, by putting in place macroeconomic and structural policies geared toward promoting domestic savings and non-debt-creating capital flows, and by adopting appropriate prudential banking and financial regulations.

Indeed, we—as the international financial community—should carefully examine the events surrounding the Mexican crisis in order to glean important guidelines for the future. In welcoming the rescue package put forward by the international community—including the Fund, the Bank, and the United States—which seems to have successfully contained the contagion effects of the crisis and improved the prospects for an early recovery—we must heed the warning signals emanating from this earth-shaking event. It is, indeed, imperative for us, individually, to address domestic imbalances, correct financial sector weaknesses, and pursue prudent debt-management strategies; collectively, we must carefully study the parameters of our fully integrated world economy and quickly put in place the early warning devices and procedures needed to prevent such crises from occurring in the future.

While the outlook for transition economies is encouraging on the whole, it is striking to note the extent to which performance has varied across countries according to the progress they have made in macroeconomic stabilization and reform. Those who have lingered behind in the effort to address domestic imbalances and structural weaknesses can take clear encouragement from the early reformers. At the same time, however, we must recognize that considerable challenges remain for all the economies in transition. I call on the international community to help those countries attain the foreign investment and market access needed to propel the transition process forward and further strengthen their prospects for sustained growth.

Africa in a Global Economy

Let me turn for a moment to my own region. Unquestionably, the scale and intensity of human tragedy that has engulfed sub-Saharan Africa is tremendous. However, Africans do not accept this situation as irreversible. While the challenges facing African nations remain Herculean, progress has been made and continues to be made. Countries of sub-Saharan Africa are beginning to reap the fruits of their long-term efforts to put in place appropriate adjustment policies, often in the context of programs supported by the Fund and the World Bank. Macroeconomic reforms such as exchange rate realignments and price controls have proven effective. Thus, the historic devaluation of the CFA franc on January 11, 1994 has provided a platform for resumed growth in the CFA franc zone. Per capita income is rising, especially in those countries implementing economic reform programs. But, this is not the time for self-congratulatory pats on the back. The road before us is long and hard. We must not lose sight of the fact that African countries continue to struggle under the burden of a heavy debt overhang. External debt has actually increased over the past decade, despite the debt relief efforts of the Paris Club and other creditors. The debt burden of sub-Saharan Africa totals $145 billion and annual debt service, $10 billion. This represents 255 percent of the value of Africa's exports and 83 percent of its gross national product.

We know that we cannot sit back and wait for the rest of the world to rescue us. We also know that we must resist the temptation to rely excessively on external sources of financing. Finally, we also know that a number of changes must occur if Africa is not to be totally marginalized in the global economy. Let me highlight three critical areas where greater effort on the part of Africans and their governments is absolutely necessary.

First, while maintaining economic stability, African governments must improve the efficiency with which public funds are allocated and utilized for human capital development. Our most valuable resource is our people. Internal capacity-building is a critical ingredient for development. Access to quality education and health facilities must be available to all of our citizens so that they are intellectually and physically prepared to participate fully in the local as well as the global economy. Second, public sector and civil service reform and institutional development efforts are key to the successful implementation of development programs and must be accelerated. The management of basic public services must henceforth draw upon African capacity. Last, development strategies developed by African countries must be environmentally sustainable. Every effort must be made to protect our fragile ecosystems, our forests, and our waterways.

These three key areas will require significant attention and greater effort in coming decades. I also could mention the need to promote private sector development more vigorously, the importance of ensuring that agricultural production is more efficient, and the need to pursue greater regional integration, among others. The African continent is rich in human and natural resources. With concerted effort, we can one day become economically viable. However, for the time being, African nations remain dependent on external finance—aid as well as loans and investment. A dynamic partnership among the African people, African governments, donors, and international business is needed to realize the potential of Africa in the coming years.

Benin

I should now like to say a few words regarding the experience of my own country, Benin. Benin forms part of the West African Economic and Monetary Union, together with Burkina Faso, Côte d’Ivoire, Mali, Senegal, and Togo. With a total surface area of some 2.6 billion square kilometers, the Union has a population of 60 million inhabitants and per capita income of approximately $360.

In 1962, these same countries joined together in a monetary union, known as the West African Monetary Union (UMOA), so as to be able to exercise their monetary sovereignty within a broader framework. To this end, they adopted a common currency, the African Financial Community or CFA franc, the issue of which was made the responsibility of a single institution, the Central Bank of West African States. Other functions of the UMOA are to centralize exchange reserves, ensure the unrestricted circulation of currency and transfers, and harmonize monetary, banking, and financial regulations. Since 1989, this body of regulations has been liberalized, and monetary policy is now based on market mechanisms:

- Interest rate policy, in conjunction with a system of reserve requirements, and central bank auctions on the money market are now the instruments of monetary policy.
- Credit controls have been abolished, and the terms applicable to bank deposits and lending have been liberalized. Banking and prudential regulations have been modernized in accordance with the principles and recommendations of the Basle Committee, a standardized chart of accounts reflecting international practices will come into effect on January 1, 1996, and establishment of a regional financial market is under consideration. In 1990, a regional supervisory organization, the UMOA Banking Commission, was set up to oversee banking activity. Finally, where financial relations with other countries are concerned, our exchange regulations impose no restriction on current payments or on capital inflows that are in compliance with national regulations relating to investment. In particular, repatriation of employment and capital income is totally unrestricted.

In the 1980s, Benin faced the most difficult economic and financial crisis of its history. The economy slumped, per capita income plummeted, and economic and social infrastructure deteriorated rapidly. Internal and external imbalances worsened. These difficulties, caused by ill-suited policies over a prolonged period of time, were exacerbated by a steep fall in the terms of trade after 1985 and erosion of Benin's external competitiveness.

Despite the seriousness of the crisis in this political context marked by a militaristic, Marxist, interventionist single-party system, the first structural adjustment program was concluded in 1989, at a juncture in which the outlook for the Beninese economy was dismal indeed. The main objective of the program—to create the conditions for a sustainable recovery of economic activity—could not be achieved owing to the severity of the crisis and impediments to the implementation of the necessary measures. The Government, headed at that time by Prime Minister Nicéphore Dieudonné Soglo, undertook the dual challenge of political democratization and economic reform. In July 1991, the second structural adjustment program was launched with the firm support of the International Monetary Fund and the World Bank. Benin successfully implemented its economic reforms, and growth has not flagged since then. In point of fact, from a rate of –2.9 percent in 1990, we confidently expect growth between 6 percent and 7 percent by the end of 1995.

The Government of Benin continues to face the same problems common to all of Africa: the need to increase investment, control inflation, resolve unemployment—particularly among the young and especially the recent graduates of our universities and vocational schools—and the persistent problem of indebtedness. It is to be hoped that the negotiations with the Paris Club will lead to an agreement that will make it possible to accord preferential treatment to the outstanding debt of a country such as Benin, which has courageously and willingly embarked on a path of economic reform. But we are aware that much remains to be done, and we hope to accomplish this with the support of the international financial community and our development partners.

Role of the Bank

The case for development remains compelling, as demonstrated by the success stories in all regions and by the overwhelming poverty that still persists in many parts of the world. The multilateral development banks and other development agencies must coordinate their operations to maximize the benefits to the world's poor. Despite the increase in private flows to some parts of the world, multilateral development institutions have a major role to play in countries that do not attract such flows. The World Bank continues to spearhead development aid efforts. The role of the Bank Group has changed and must continue to adjust to the increased scale and complexity of the development agenda. Indeed, a message that has emerged loud and clear over the past year is that the need for a flexible and efficient Bank Group is greater today than ever before.

In this regard, I welcome the initiatives that have been undertaken by the Bank to cooperate with other agencies and organizations to address some of the new challenges created by changing global circumstances. For instance, the Bank will contribute up to $30 million of program financing for the establishment of a Consultative Group to Assist the Poorest (CGAP)—a microfinance program that will provide grants to qualified institutions that provide microcredit and savings services to the world's poorest people. The participation of the poor in credit and savings systems has proved to be an effective means of job creation and income generation. In addition, the Bank has established a fund, the Initiative for Information and Development (InfoDEV), which will supply independent advice to governments and others trying to join the information revolution. Given the growing importance of information infrastructure to economic development, InfoDEV will help enable the developing countries to gain access to relevant and timely advice about telecommunications reform and the potential of new information technologies. In another critical area, I welcome Mr. Wolfensohn's commitment to strengthening the Bank Group's partnership with the UN agencies, local communities, women's groups, and nongovernmental organizations (NGOs) that focus their efforts on the education of young women. He has said recently that contingent on an adequate IDA replenishment, the Bank Group will commit about $900 million per year for the education of young women.

I welcome the attention being given to the issue of the multilateral debt of the poorest countries. I strongly urge that the discussions about a solution to this critical problem, which were begun recently, be continued.

All of the foregoing points to the same conclusion: our efforts to reduce poverty and improve the living standards of the world's poorest must be strengthened. I, therefore, urge the donors to conclude swiftly the negotiations for the IDA replenishment and to agree on a satisfactory, that is, sufficient, level in relation to ever-increasing needs. Private capital flows are welcome, but they are not a replacement for IDA funding in many regions of the world. The growth of IFC activities is a sign that more and more member countries are taking steps to promote and strengthen their private sectors. The Multilateral Investment Guarantee Agency continues to promote the flow of foreign direct investment to developing member countries to finance and support their economic growth.

Role of the Fund

It is clear that surveillance over the international monetary system and members' policies will remain the core of the Fund's work for the immediate future. In addition, the Fund's financial base must be carefully monitored to ensure that it is well equipped to fulfill its functions in an increasingly uncertain world economic environment.

In encouraging the Fund management and staff to strengthen this surveillance, we must bear in mind that the effectiveness of Fund surveillance ultimately depends on the willingness of members to cooperate fully with the Fund, both in making timely economic data available and in formulating domestic policies that are well designed in terms of their substance and consistency.

As the production and timely publication of accurate economic data is essential not only for effective surveillance by the Fund, but also for efficient policymaking in individual countries, I encourage all members to make every effort to improve their infrastructure for data management. The Fund will also have to stand ready to provide technical assistance to help members produce the key data required for economic and financial analyses so that appropriate decisions can be made.

I encourage the Fund management and staff to improve continuity in the surveillance process. Regular analyses of policy interactions and the systemic implications of domestic policies in the major industrial countries are critical to effective Fund surveillance, given the impact of their policies on the global economic environment.

I applaud the recent efforts of the IMF—under the guidance of its Managing Director, Michel Camdessus—to adapt its policies and facilities to meet the growing demands of our globalized world economy. In the wake of the Mexican crisis and recent events in other countries, the Executive

Board of the Fund has begun to pave the way for the creation of an emergency financing mechanism, which—combined with strengthened surveillance—could enhance the Fund's ability to forestall crisis situations and to respond rapidly with appropriate support for members facing external shocks. It has also begun to study appropriate operational guidelines under which the Fund could provide temporary support for currency stabilization funds, when needed to underpin members' stabilization efforts, by helping to inspire necessary market confidence.

Over many years now, the enhanced structural adjustment facility (ESAF) has proved to be invaluable in providing vital assistance to many of the poorest developing countries. Given the plight faced by these countries and the regrettable continuing decline in official development assistance, the continuation of the ESAF—and, indeed, the establishment of a self-contained ESAF—will be essential as the centerpiece of any strategy to address the problems of those poor members who are heavily indebted, particularly to multilateral institutions. I would also like to encourage the Fund to pursue its efforts to improve the mechanisms for coordination among international agencies, bilateral donors, and creditors involved in assisting countries in post-conflict situations; I endorse the recent proposals to expand the guidelines on emergency assistance to include such situations.

Over the months ahead, we must bear in mind that the need to strengthen the role of the Fund in the world economy is closely linked to the need to strengthen its financial base. Recent developments in global financial and exchange markets and the uncertainties concerning the Fund's current liquidity projections underscore the need to strengthen the Fund's resources. In this context, the work on the Eleventh General Review of Quotas should be accelerated to the extent feasible, while paying due regard to the balanced distribution of quotas among different country groupings and regions. The Fund should also proceed with further consideration of a new allocation of SDRs, which could preserve the SDR as the main reserve asset while addressing equity issues for those members who have not participated in previous allocations. Finally, I encourage the Fund to pursue an enlargement and extension of the General Arrangements to Borrow as another means of safeguarding its liquidity position as it faces the challenges ahead.

Conclusion

We have a heavy agenda before us. Our deliberations over the next three days could and should have important consequences for the future of the global economy. I hope each of us will rededicate ourselves to the pursuit of a global partnership in which we all can benefit from the opportunities that are presented by the new world order. On this hopeful note, I hereby open the Fiftieth Annual Meetings of the World Bank Group and the International Monetary Fund.

OPENING ADDRESS BY THE PRESIDENT OF THE WORLD BANK GROUP[1]

James D. Wolfensohn

In this, my first Annual Meeting, it gives me great pleasure to welcome you to Washington—and a very special welcome to the delegation from Brunei Darussalam, which today will become the Bank's 179th member country.

I am greatly honored by my appointment as president of the World Bank Group, and I wish to thank you for the confidence you have shown in electing me to this position. Elaine and I pledge to work hard and, with your help, to make a contribution to the dream that we all share: a better world for our children.

Let me say at the outset that I feel greatly privileged to be working with my friend, Michel Camdessus, who is giving me so willingly the benefit of his immense experience.

* * *

The Bank Group has a distinguished record of achievement. Since my arrival four months ago, I have visited many countries and projects, and have been gratified and encouraged by the strong partnership that exists between us, our clients, and our member governments.

I have learned that development is a tough and complicated business. After fifty years of operation, and with new leadership, it is a good time for the Bank Group to take stock. The world around us has changed, and its expectations from, and demands on, our institution have become ever more complex. I regard this as a difficult period, but one of enormous opportunity.

One thing is clear: we must continue to act—so that poverty will be alleviated, our environment protected, social justice extended, human rights strengthened, and women's rights advanced—all in the cause of a more just and peaceful world. We must ensure that our organization functions at the highest level to achieve these goals.

In embarking on this task, I am very conscious of the sadness we all feel at the tragic loss of my predecessor, Lew Preston. Lew was a great banker and humanitarian. He loved the Bank, and he and Patsy worked hard

[1]October 10, 1995.

to improve its effectiveness and enhance its reputation. We are grateful for all that Lew gave to the institution, and we would like Patsy and the family to know that he will always be remembered with affection. In particular, Lew's belief that educating girls is the best investment that a country can make is recognized in the special program for Girls' Education recently established in his honor.

* * *

What then will you expect of me after my first few months with the Bank? Weighty pronouncements? Massive reorganization plans? Headline news? I hope not.

What I am about to give is a progress report, an indication of my approach to my new responsibilities, and some insight into the direction in which I would like to lead the Bank.

A Sense of Direction

To gain a sense of that direction, I have spent about a third of my time in these past four months travelling to our borrower and donor countries—talking and listening to government leaders, business people, nongovernmental organizations (NGOs), farmers, trade unionists, students, mothers, and children. My wife and I have visited dozens of the projects that the Bank is supporting, and a number of images have stayed with me:

- the woman entrepreneur that I met in the small town of Katwe, Uganda, converting banana peels into charcoal briquettes for sale—and using the proceeds to improve her community; she had all the pride of the chairwoman of a multinational company, as she shared with me her pencil-written records;
- villagers in the arid province of Gansu, China, to whom a Bank-financed project delivers water through a 50-kilometer system that traverses mountains and valleys; those villagers are using their own resources—in partnership with government experts—to invest in agriculture, roads, and education for their children;
- I met slum dwellers in Port-au-Prince, Haiti, and in Salvador, Brazil, working—with our help—to install clean water and sanitation and thus contribute to their own health and productivity, while protecting their environment.

I saw enormous challenges: the monumental power and fragility of the Amazon and the damage done by people in need of land—and in need of hope. Schools in Africa, with 90 children in a class working ten-to-a-book and two-to-a-pencil. The appalling conditions facing the people of Gaza, where incomes have been stagnant for a decade, and yet, where investment and job creation must be part of any lasting peace. The islands of the South Pacific, where our environment is under attack as foreign entities seek to destroy natural forests for profit—without any long-term concern for the future of the islanders.

While my odyssey is not complete, I have learned of the tremendous diversity among the Bank's clientele: dynamic growth in East Asia and parts of Latin America, but not enough growth in much of Africa; the unique challenges of transition in Eastern Europe and the former Soviet Union; and the special needs of states that are either failing or struggling to be born—from Burundi to Bosnia.

I have learned that the real test of development can be measured not by the bureaucratic approval process, but by the smile on a child's face when a project is successful. I have learned of the power of development when people are given the chance to participate in it. Most of all, I have learned that there is nobility and capacity in the people we are trying to assist—and that there is a vital need for the World Bank Group to help with the huge, unfinished development agenda.

The developing countries deserve our support for moral and social reasons. But they also need our support because they represent future growth for us all. And equitable growth means stability for our planet.

If the Bank Group is to be as effective as it can be in contributing to this goal, it must adjust to new conditions. And the key question guiding change is this: what are those client needs where we can make the critical difference? What do you, our members, need from us today, next year, and five years and more from now?

As I attempt to give a sense of my current thinking, let me organize my remarks along the following lines:

1) What is the context in which the Bank operates today?
2) What is the role of the Bank in development now, and in the coming years?
3) What can the Bank do to achieve its objectives in an effective and accountable manner? and
4) What immediate and early initiatives are we taking?

* * *

A. The Environment in Which the Bank Operates

We are, of course, operating in a context that is vastly different from ten or even five years ago. The post-Cold War era has witnessed perhaps the most momentous changes in economic history:

- country after country has moved away from commands and controls to the greater use of markets;

- the rapid expansion of trade and technology has accelerated global integration, with the developing countries contributing 75 percent of the growth in world exports in recent years;
- there has been a transformation in private capital flows, now three times official development assistance;
- and as democracy has swept the world, a host of new players have added their different strengths to the cause of development: in the private sector, among NGOs, in local communities, and in civil society.

All of this has raised expectations of development, and made the potential for development greater than ever before. And yet, the challenges, too, are growing.

We have made good progress on poverty reduction in several areas—in East Asia and some parts of Latin America. But there are still 1.3 billion people living on a dollar a day or less. Adequate sanitation and electricity are still beyond the reach of two-fifths of the world's people.

This shocking poverty is fueled by continuing rapid population growth—increasing by more than 80 million people a year, 95 percent of them in the developing countries. And it is compounded by the threat to biodiversity and the environment—with continued profligate waste in the developed world and new challenges in the developing world.

Given current population and urban growth rates over the next generation, industrial output and energy use in the developing countries will increase fivefold—with the risk of irreversible environmental damage. Scientists agree that the hole in the ozone layer presents a threat to global warming, and they tell us that 1994 was the hottest year in 20,000 years. We must heed the warnings of the Rio Summit—and act to protect the world for our children.

I have been encouraged by the high priority now being given to the environment by more and more developing countries, and by their increasing requests for the Bank's assistance in this area. The richer nations—since they are the greatest polluters—must share this burden. Progress is being made—through collaboration on the Global Environment Facility, for instance. But much more remains to be done. Without environmental protection, development can be neither lasting nor equitable. My commitment to the task is unequivocal.

The fundamental problems of equity between rich and poor nations also exist in regions that are growing dynamically. In Latin America, the poorest 20 percent of the population receives less than 4 percent of the income, and has even less of the assets. In other regions too, the gap between rich and poor is getting worse. The distribution of the benefits of growth presents one of the major challenges to stability in the world today. Social injustice can destroy economic and political advances. This is a challenge that must be addressed by the governments and leaders of the countries with whom we work.

We must learn more about the "why" and the "how" of income distribution. We must measure progress not only in GDP per capita, but in social and environmental benefit per capita—as we are seeking to do in some of our most recent work. And we must be aware of the close relation between peace and development—and war. We cannot ignore crises such as Bosnia, Gaza, and Rwanda and the challenges they present to the world development community.

The Challenge to IDA: The Need for a New Compact

It strikes me as bitterly ironic that just as we are reaching a consensus on how to address these challenges in our changing world, the threat to development assistance has never been greater. I refer here specifically to the funding crisis facing our concessional affiliate, the International Development Association—IDA.

As you know, IDA's basic constituency is the world's 3 billion poorest people. Ninety percent of its lending goes to countries with per capita incomes below $600. Using its global experience, IDA is the advisor to the poorest countries on their economic reforms; the largest investor in their education and environmental programs—and in other vital areas, such as helping to combat AIDS.

With the help of IDA-supported projects, in the last several years alone, malnutrition among infants was cut by half in 6,000 villages in India. Over 6 million textbooks were distributed to primary schools in Africa. And millions of women and children in Central America received basic nutrition.

In these ways and more, IDA is the backbone of the international effort to help the world's poorest nations help themselves. And yet, despite the record, there is a serious question about the fulfillment of some donor commitments under IDA-10. Budget cutting by the U.S. Congress has led to delays, and probable large reductions in the size of the contribution by IDA's leading donor. And for every dollar cut by the United States, IDA could lose a total of five dollars—as other nations reduce their contributions proportionately.

This means that if Congressional estimates of a U.S. cut of approximately 50 percent materialize, overall donor contributions to IDA this coming twelve months could be reduced from $6 billion to under $3 billion. Achieving an adequate IDA-11 for the next three years will be extraordinarily difficult if IDA-10 is reduced so drastically. This is not only a threat to IDA, it is a threat to the long-term viability of multilateral financing for development.

As Michel Camdessus has pointed out, if there is a seriously underfunded IDA, we will be faced with a world of increasingly unstable nations. Some of the Ministers here today will have to abandon plans for building human resources, expanding education for girls, increasing clean water supply, investing in infrastructure, or for moving soldiers out of the barracks and into small farms. There are so many urgent tasks.

The donor community needs to understand the costs of an underfunded IDA. We must explain that world citizenship has a price, and that IDA is central to the whole development process. National budget cutting exercises in the developed countries must give due weight to international considerations. Money saved now for domestic purposes will lead to huge costs later. It is in the donors' own self-interest to maintain an adequate level of support.

Obviously, IDA and its partners in government and civil society must be accountable—and must be seen to spend scarce resources wisely and well. There must be a "compact": that in return for the donor community ensuring that IDA has adequate resources, recipient countries and the Bank must ensure that those resources are used even more effectively. Projects must be well managed and corruption eliminated. In addition, we need to provide better information about the benefits of this important work to donor governments—and to their voters.

The Problem of Debt

As well as resource constraints, some of the poorer countries face serious problems of overhanging debt. Yes, private capital flows have exploded, but more than 80 percent of them have gone to only 12 countries. Private investment is not yet the answer for these poorer countries.

We know that there are no universal solutions to the problem of overhanging debt. There must be a case-by-case approach. With current instruments, we are already providing resources to help the majority of indebted countries meet their needs for both debt service and repayment. But for a small number of countries, the debt overhang remains just too great. And as it grows, new lending becomes less effective.

Roughly a quarter of the poorest countries' debt is owed to multilateral institutions. We must, therefore, review the options to address the problem of the countries that cannot escape from their debt overhang. You all know that the Bank and the IMF are studying the issue. Together, we expect to make some recommendations to our Boards—and bring our conclusions to the Development Committee at the spring meetings. The issue is difficult and the options are many. But we believe that it merits serious attention and deserves a clear indication of what the Bank and the Fund can recommend.

But let me repeat: the crucial need to free up more resources—whether in reducing multilateral debt or replenishing IDA—must be matched by the track record and commitment of the recipients to sound policies and effective, transparent implementation. This must be our compact.

* * *

B. The Role of the Bank in Development

What is the Bank's role in this compact—now and in the future? As you know, the Bank has evolved throughout its history, from an agency for postwar reconstruction fifty years ago, to our role today as a global development institution. Recently, I visited Japan, where evidence of the Bank's assistance is manifest—as it is in over two dozen other countries that have "graduated" from requiring our help.

As the needs of our members have changed, the Bank has changed to meet them. The Bank group of institutions is one result of that. I have already talked about the crucial importance of IDA. But there is more to the Bank Group than IDA. And there is more to it than just lending.

There is the International Bank for Reconstruction and Development (IBRD), whose original genius remains as valid, if not more valid, today than it was five decades ago: to borrow on the financial markets in order to fund long-term development through loans to governments; to use its guarantee power to mobilize additional private capital; and to transfer the lessons of development experience across countries. Like my predecessors, I am committed to sustaining the IBRD's triple-A status as a borrower—because that is the bedrock of our effectiveness, which allows us to play our triple role: as lender, adviser, and partner to our clients whose projects we assist.

There is the International Finance Corporation (IFC), which last year made loan and equity commitments of close to $3 billion to help develop the private sector in 67 countries. For every dollar IFC invested, six additional dollars were leveraged from other sources. But this is far from being the only measure of IFC's effectiveness. The range of its services is growing dramatically: from advice on capital market development in Vietnam, to assistance with the privatization of agriculture in Russia. And it continues to push ahead on "frontier" issues of private finance: support for small businesses in Africa, or establishing a biodiversity fund for Latin America. Looking to the future, I believe IFC can extend its reach—and expand its development impact.

There is also the Multilateral Investment Guarantee Agency (MIGA), founded in 1988, whose goal is to stimulate private investment by insuring against noncommercial risk. In six short years of operation, MIGA has leveraged total investment of close to $9 billion in 36 countries. The only constraint on it doing more is its very conservative capital and gearing ratio—which I would hope to take up with our shareholders at a future point.

The IBRD, IDA, IFC, and MIGA are seeking to develop new products and instruments so that we can maximize the benefits for our clients. We have demonstrated our flexibility in a number of dramatic ways during this past year: from helping to strengthen Mexico's financial sector during the peso crisis, to helping establish a new micro-finance program for the world's poorest. To be even more responsive to our clients' diverse needs, however, we need to strengthen our organization along “group” lines—to take advantage of our collective services and experience. And that is one of my priorities.

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From our past experience, we have found in country after country that sound economic policies are essential for stimulating growth, creating jobs, and helping the poor. We have learned that investing in people, particularly through education programs, is the principal engine of social and economic progress. We have seen how powerful the contribution of women is—as the main agents for change in their families and communities. We know that infrastructure—power, transport, and telecommunications—is essential, and we will continue to support it as appropriate. At the same time, we have realized how critical the need is to protect the earth’s fragile environment—our land, our forests, our water. And we recognize the great present dangers of drugs and organized crime.

For me, the big lesson from a review of our history and from my travels is that there is no single solution. I have seen how interlinked the pieces of the development puzzle are. Our programs need to be part of a comprehensive development strategy, and rooted in a country’s individual needs. It is in this context that our experience can be of critical importance to our clients.

Let me take one example which I saw in a village in Mali, where an IDA-supported agricultural project has helped farmers to increase their yields. Still, they need storage capacity, and transportation to market. They need a marketplace which is fair, and a distribution system which is not monopolistic. They need access to credit, and training in how to run their own small businesses. Beyond this, they need a legal system to protect their rights, help in setting up facilities for education and health, and a stable economic and political climate.

The Government of Mali understands all this. But each part of the puzzle poses different problems, and imposes different demands on capacities—both financial and managerial. What I have seen has brought home to me the complexity of development, and the benefits that can be realized when all the pieces fall into place.

Solutions must be systemic.

Learning from others’ experience is one of the keys. The Bank Group—because it is global—is uniquely placed to assist with the networking of development experience: agricultural extension from India to Uganda; private pension funds from Chile to the Czech Republic; macroeconomic lessons from Malaysia to Ghana.

The ideas are legion. The lesson is straightforward: advice is as important as money. And one of the Bank’s greatest strengths is that our advice is independent. Governments trust us.

Looking to the future, I see the Bank Group's central role as helping to bring all this together in a systemic approach to development: the ideas, the financing, the people—and a knowledge of all these components and of a successful development program. There is an extraordinary opportunity for this institution to leverage its unique capacity: to integrate development and make it truly sustainable.

* * *

C. Greater Effectiveness and Accountability at the Bank: A Results Culture

While we have had notable success in the past, the Bank's senior management and I agree that we can be even more effective in the future: by sharpening our focus on the issues we are tackling—and judging our performance by impact in the field. Of course, orderly process in the consideration of projects is critical. But results are what matter. I believe we can strengthen the rigor of both our analysis and our implementation. We must be prepared to be held accountable—and to reward our colleagues by the tests of the marketplace.

This will help us, in turn, to be more effective in achieving our basic mission: to reduce poverty and improve the quality of peoples' lives. You have heard me say that we can judge development impact by the smile on a child's face. We must organize ourselves—whether it be our private sector work, including IFC and MIGA, or our activities on environment and human development—to deliver on that smile.

We must also acknowledge that we operate in the new world I have tried to describe—with new clients and new demands. Some of them have access to new alternatives in terms of money and advice. We think this is terrific. Our job is to make sure that we complement these alternatives—and stay relevant.

To do that, we have to change the way we do business. We must focus on our clients and results, and break the armlock that, I sense, bureaucracy has placed on this institution. If we do that, then we will create a more profound change than any structural reorganization. I am talking here of liberating the talent and commitment of our wonderful staff—and harnessing that directly to development. In short, creating a results culture.

* * *

Let me outline some of my early thinking on how to get there:

- Externally, we can and must build stronger partnerships.
- Internally, we can and must be a center of excellence.

The Power of Partnerships

From my experience in the private sector, I know the power of partnership. This was reaffirmed during my recent travels:

- In the Loess Plateau of China, I saw peasants working with government specialists, as well as with the Bank, to protect this immense part of the global commons.
- I saw partnerships too, in Chiapas, Mexico, where history has cruelly denied many people the chance of an adequate life. Working with the federal and provincial authorities, the Inter-American Development Bank (IDB), the private sector, research institutes, and NGOs, we are making a new effort to alleviate poverty and relieve social tension.
- In the West Bank and Gaza, I saw our expanding involvement with the United Nations and the European Union—to help build the bridge between peace and development.

I know that the Bank is already an experienced partner. But I believe we can go much further. And we can start by working more closely with our shareholders and donors. Here, our Executive Directors play an indispensable role.

We must also deepen our collaboration—as we have begun to do with the UN system, the IMF, and the World Trade Organization (WTO). We can expand our cooperation with the private sector—which plays such an increasingly important role in development. And we can do much more to reach out to NGOs and civil society. Let me also pay tribute to the regional development banks with whom we work, and to their leaders who have given me so much advice and help.

To be a good partner, we must be ready to listen to criticism and respond to constructive comment. There is no place for arrogance in the development business. As I said before, it is just too tough. I want to have a Bank which is open and ready to learn from others—and which holds itself accountable. In that context, I regard our independent Inspection Panel as a valuable asset.

We must listen as we formulate our plans of action. Our friends are a great help. We cannot be fully effective, however, if our critics will not listen to us before they assess our positions and actions. Unconstructive and vitriolic criticism from outside does not help the people we are trying so hard to assist—and it creates a climate of resistance inside the Bank.

Everywhere I have traveled, I have met with representatives of the NGO community and civil society. We are really interdependent. But we must build our mutual trust. I am committed to this endeavor.

Of all our partnerships, we must remember that the most important is that with the governments to which we lend—and the people that they serve. It is a point worth repeating: we must get closer to our clients. This will mean continuing to strengthen our field presence, while maintaining a very strong base at the center. At the same time, we must be mindful that the projects we finance are not World Bank projects—they are Chinese, or Haitian, or Malawian projects. It is for the Bank to support and advise on them. But it is for the countries to own them and be responsible for them.

Our commitment can only work with your commitment. Partnership is the key.

* * *

Excellence

Let me turn from the Bank's search for new partnership, to the search for excellence.

As I see it, there has been too much emphasis on lending volume, and not enough on results on the ground; too much focus on economic reports, and not enough on the effectiveness of the policy dialogue; sometimes we have thought that solutions to our clients' problems lie in Washington, rather than in the field. Making development impact the measure against which we want to be judged—and judge ourselves—is my most important task.

As a step toward this, we must review our personnel and reward policies, and invest more time and money in education and training for management and staff. I know that we have a long history in facilitating learning for our clients. Last year alone, our Economic Development Institute reached 7,000 people from 137 countries through its seminars and programs—and a multiple of that number through its training of trainers.

But much, much more can and will be done to create an internal learning culture—through exchange of best practices and expanded training in educational institutions and businesses throughout the world. It is also my intention to increase opportunities to enrich our culture inside the Bank through more appointments to management and staff from outside the Bank—both on a permanent and medium-term basis.

We will accept nothing less than absolute standards of excellence. We wish to be the best in our business. Continual renewal of skills and constant focus on the needs of our clients will enable us to meet those standards.

* * *

D. Our Immediate Initiatives

I have spoken of four main themes:

- the need for a new compact: to ensure that resources are sufficient to meet the needs of the world's poorest people—and to ensure that those resources are used with maximum efficiency;

- the need to take an integrated approach to development, bringing together its different strands to ensure sustainability;
- the need for the Bank Group to strengthen and expand its partnerships—global and local;
- and the need for us to develop further our institutional culture—to focus on excellence and results.

If this is the general direction, my immediate priorities in the coming months will include:

- First, doing everything in my power to ensure that IDA's funding is sufficient to meet the essential needs of its recipients—and to prevent the global effort to reduce poverty from suffering an irretrievable setback. I ask for your exceptional help in that effort—in both IDA-10 and in the planning for IDA-11.
- Second, we will work with the IMF and others to help resolve the issue of multilateral debt for the most highly indebted, poorest countries.
- Third, we will accelerate and deepen the effort to work with existing and new partners—with specific measures to reach out to the private sector, NGOs, and civil society.
- Fourth, we will launch the process of institutional change.
- Fifth, we will enhance our work with clients to attract private and public investment in high-quality projects. This will include initiatives in capacity building in governments, strengthening legal and accounting systems and property rights, the marketing of opportunities, and the assurance to investors that they will have no nasty surprises in carrying out their plans.
- Sixth, we must anticipate and be organized for post-conflict economic development programs, when war is replaced by peace.

* * *

Conclusion: Call to Partnership

A last word: I see the Bank itself, fundamentally, as a partnership—because it belongs to the world, to all of us. We who work here offer you our hard work and commitment. In return, we need your support.

Once again, let me say how proud I am to head the Bank Group, and how much I appreciate the opportunity to contribute to the dream that we all share—of a better, more peaceful, and more just world.

Together, we can make it a reality.

PRESENTATION OF THE FIFTIETH ANNUAL REPORT

BY THE CHAIRMAN OF THE EXECUTIVE BOARD AND MANAGING DIRECTOR OF THE INTERNATIONAL MONETARY FUND[1]

Michel Camdessus

I join Jim Wolfensohn in welcoming you all, and especially the representatives of Brunei Darussalam, our 180th member country. Apart from being the Fiftieth Annual Meetings of Governors, these are Jim Wolfensohn's first meetings as President of the World Bank. It is a great pleasure for me to be working with him to maintain, and strengthen yet further, the vital partnership between our two institutions. We all have much to gain as he applies his unique skills with his—literally—Olympic energy to his new responsibilities. May I also join in paying tribute to Lew Preston: the world has lost, with him, a wise, a committed, a great man, and the Fund and I have lost a friend, a generous, a faithful, a caring friend.

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Our Fiftieth Annual Meetings! Last year in Madrid we started celebrating the Fiftieth Anniversary and reflected on the evolution of our institutions. Everyone agreed that they have central roles in addressing the challenges that the world faces. And a lot of attention was given to the question of how the Fund needs to continue evolving in our increasingly globalized world economy. But not many of us then perceived the urgency of that question. Little did we know how soon and how rigorously we would be tested, by the Mexican crisis that erupted last December—a crisis truly of a new kind! Yes, a crisis without precedent; so, let me begin with a few words on it. Then I will turn to the strategy we need in order to address the challenges it reflected—the risks and opportunities of globalization.

* * *

The crisis showed how sudden and strong the pressures can be in today's globalized markets. It also showed what the Fund, with the support of its membership, can do to give confidence to a country tackling a crisis with strong policies. The Fund responded quickly: our Board approved

[1]October 10, 1995.

the arrangement six days after the completion of negotiations. And it responded strongly, with financial assistance that was unprecedented by any measure.

Understandably enough, a number of you were surprised by our response and raised questions. For the record today, let me state the following: (1) the Fund acted not in response to any kind of pressure but—as it always does—in the interests of the membership as a whole; (2) even though the financing provided was exceptional in its size and in the procedures by which it was arranged, the package was entirely consistent, in all its elements, with the rules of the Fund; and (3) even though the decision was taken rapidly, it was considered carefully and deeply. The alternative was clear: in Mexico, immediate exchange controls, or a debt moratorium, or both; and outside Mexico, the risk that the crisis would spread in a few days—or even hours—to many other countries, with potentially devastating effects on capital flows and confidence.

Now, in October, we see the adjustment that Mexico has accomplished; we see that the spillover effects were promptly contained; and we see that capital flows to developing countries have resumed. These were our objectives. We all hope that the Fund will not have to undertake another operation like it for a long time. But the handling of crises is, after all, an important part of what the Fund was created to do. And, needless to say, we were most gratified when the Halifax summit, drawing lessons from Mexico, urged the Fund to establish a new "emergency financing mechanism," to streamline further the procedures we followed in the case of Mexico. This is now in place.

But the Mexican crisis demonstrated a need for more than just emergency procedures. It signaled that the IMF and its membership need *a comprehensive strategy to meet the challenges presented by our increasingly globalized world economy*. What should this strategy entail—in your countries, and for the Fund? These are the two questions on which I now want to focus.

How Should Your Countries Face Globalization?

Globalization gives rise to fears in many quarters. And we all know how such fears can lead to suspicion, protectionism, and to policies that are ultimately self-destructive. Such fears cannot be allowed to frustrate the great potential of a world in which countries are drawing closer together. We at the IMF believe that countries can face the challenges of globalization positively, demanding as those challenges may be. Your countries should not shrink from globalization. Rather, all countries should embrace its opportunities and rise to its challenges.

All countries can benefit from full participation in the world's markets, including its financial markets. Protectionist pressures in markets for goods and services must be resisted and reversed, and the principles of openness and multilateralism promoted by the World Trade Organization (WTO), the Fund, and the Bank must be honored. And financial market integration should be seen as a positive force: it offers access to global financial intermediation and a stimulus for more competitive and efficient domestic financial sectors, and it promotes efficiency and growth worldwide.

How encouraging it is, therefore, to see that so many developing countries and countries in transition have been freeing up their trade and exchange systems within the framework of our structural adjustment programs! One hundred and seven countries have now made the commitment to current account convertibility under the Fund's Article VIII, compared with 80 when I suggested here two years ago that we should put more effort into speeding up this liberalization. Particularly welcome in their ranks are nine countries in transition in Europe and the former Soviet Union. What a change from only five years ago! And, globally, more than 60 countries have gone beyond the Articles to open fully their capital accounts.

These countries are embracing globalization. In fact, no country can afford to forgo the benefits of integration into global markets: the alternative is marginalization and stagnation. But this means that all countries must take the steps needed to minimize the associated risks, so vividly illustrated by the case of Mexico. More than ever before, countries need tightly disciplined macroeconomic policies to maintain a stable environment for investors, whether domestic or foreign. And let us not forget that, while foreign capital can be a useful—and sometimes vital—complement to domestic saving, it is not a substitute for it: domestic saving remains the key to investment and sustainable growth. It is also clear that strong financial institutions are essential to avoid market disturbances at home and to secure an effective defense against external pressures. Competitive banking and financial systems that are sound, well regulated, and properly supervised are indispensable for countries to be able to expose their economies safely to the pressures that can arise in global markets.

The challenges of globalization, therefore, add to the need for the developing and transition countries to press ahead with their adjustment and reform efforts. For many, this means creating conditions to attract foreign financing and use it effectively. But a growing number of countries in Central and Eastern Europe as well as in Asia and Latin America have been facing a different problem: how to cope with large-scale capital inflows. Such inflows, especially when they are easily reversible, provide no grounds for relaxation of adjustment and reform. They should not be used to finance domestic consumption. In many cases, they call for stronger fiscal discipline; and in some cases, exchange rates should be allowed to take part of the strain. Many developing countries and countries in transition also, of course, need to do more to deepen and widen the role of market forces, and to foster more competitive market environments in order to promote transparent and efficient mechanisms for resource allocation.

Is globalization any less demanding for the industrial countries? Not at all! It adds to the urgency of their taking full advantage of the current expansion to tackle the deep-rooted problems that are limiting the pace, the quality, and, perhaps, the sustainability of their growth. World economic growth in 1995 will be at least as strong as in 1994, and 1996 could see the strongest growth in eight years. Let us make wise use of this recovery: this was a central message of the Madrid Declaration, and it must still be heeded. Public debt burdens are excessive in most industrial countries, and in many they are still rising despite the current expansion. I applaud the fact that many industrial countries have increased their efforts and commitments to reduce fiscal deficits; but in most cases, underlying imbalances remain large, and the pace of consolidation is too slow. More must be done, not only to redress present imbalances, but also to meet the growing demands of the future. With populations growing older, it has become imperative to reform health care and public pension systems if they are to be effective and affordable.

Another deep-rooted problem—structural unemployment—must also be tackled sooner rather than later. Budget laxity and high unemployment tend to feed on each other. It is essential that now, while cyclical conditions provide the opportunity, governments do not flinch from the task of improving the functioning of labor markets. How? By reforming regulations and policies that impede employment creation and job search, and by improving the provision of education, training, and retraining. And all that, yes, within a framework of budgetary consolidation!

Let me also say that the industrial countries should be encouraged by their recent success in guiding key exchange rates back toward levels more consistent with economic fundamentals against a background of appropriate interest rate adjustments. This is surely a reminder, ten years after the Plaza Accord, of the potential effectiveness of coordinated policies when the circumstances are right, and of the opportunities that exist to create a more stable exchange rate system less prone to misalignments. These lessons are indeed of the highest importance for our world of globalized markets, where instability reverberates so widely and where all countries have such a vital interest in international monetary stability. This was the sense of the message the IMF received, for example, from the last Association of Southeast Asian Nations (ASEAN) foreign ministers' meeting, and we cannot but be receptive to it.

Monetary stability, macroeconomic discipline, sound financial systems, and efficiently working market mechanisms—these are essential for all countries that embrace globalization. But they are not sufficient for any. I referred earlier to the fears that globalization inspires in some quarters. To fight those fears, countries need policies that promote not just economic efficiency, financial stability, and growth, but also equity and, yes, high-quality growth. In too many countries, the quality of growth suffers from widening distributional inequalities related partly to high unemployment but also to stagnating wages of unskilled workers. And too many countries continue to suffer from poor governance, corruption, and increasing crime.

Of course, economic policy can provide only part of what is needed to rid the world of these blights. But it is a vital part. Let me make just one point in this connection. To promote equity, efficiency, and sustainable growth, governments carry an inescapable responsibility for investment in human capital—through education, health care, and well-targeted social safety nets—and also for establishing and maintaining honest and effective systems of public administration, law, order, and justice. If these essential services are to be affordable, there is certainly no room for unproductive expenditures—military or otherwise—and wasteful subsidies: they must bear the brunt of fiscal consolidation.

So globalization demands a lot from governments if it is to deliver its promise of stronger and higher-quality growth. But what does it demand from the IMF?

What Must Be the Response of the IMF to the Challenges of Globalization?

In full cooperation with you, the Fund has been working intensively to forge a comprehensive strategy to address the challenges of globalization through three interrelated efforts: to strengthen surveillance, to equip the Fund with appropriate resources, and to enable it to provide effective assistance to the poorest countries. I wish to report on our progress in these three areas; it has now been given added impetus by the Interim Committee's meeting last Sunday.

Strengthening Surveillance

The importance of effective Fund surveillance—a constant theme of my addresses at our Annual Meetings—has increased with globalization. The world really does need effective Fund surveillance to help prevent crises by pinpointing policy weaknesses and emerging tensions at an early stage. Surveillance needs to be strengthened, particularly in terms of its continuity, its monitoring of data, and its attention to capital account developments and financial flows. This has had absolute priority for us over the past six months.

Concretely, and as many of you know from personal experience, we have adapted our procedures to foster a more continuous, intensive, and demanding dialogue with our members, including closer monitoring of developments between consultations. More than 30 countries have this year received special communications—messages or visits—from myself or my deputies to press points of concern raised in our surveillance. (And among those 30 are 6 of the Group of Seven; I'll keep you guessing on the exception!) Greater attention is being paid to financial flows and their sustainability, to countries at risk, and to countries where financial tensions are most likely to have spillover effects. Increased efforts are being made to improve the provision to the Fund of data needed for continuous surveillance. And the role of the Interim Committee, as a forum for peer pressure at the ministerial level, is being strengthened.

But of equal relevance to our objective of addressing fully the challenges of globalized markets are our actions to help countries improve the transparency of their economies and economic policies—in other words, the comprehensiveness, timeliness, and quality of the information they provide to the markets. This is a key tenet of the code of good citizenship in our globalized marketplace. This is why I welcome the Interim Committee's endorsement of our intention to finalize soon a set of standards that will guide countries on the publication of statistics, so that markets are kept better informed. But despite all these efforts, crises will occur from time to time, and we must be prepared for them. This means:

Strengthening the Fund's Financial Resources

The Mexican crisis made it clear that fully adequate financial resources must be available to the Fund to help countries resolve their balance of payments difficulties. We were able to provide effective help in the case of Mexico because we had sufficient liquidity. But besides Mexico, there have been a number of other large arrangements this year, most notably in support of major programs of stabilization and reform in Argentina, Russia, and Ukraine—programs which, I must say, are being implemented with remarkable commitment and perseverance by the respective governments. The demands on the Fund's resources are, and seem likely to remain, large: nearly 60 countries now have arrangements, and more than 20 others are in active negotiation with us. As a result, the Fund's liquidity position is projected to weaken considerably over the next two years.

I, therefore, welcome the progress that is being made by the Fund and the Group of Ten in pursuing the objective of doubling the resources currently available to the Fund under the General Arrangements to Borrow (GAB). I look forward to early agreement also on the establishment of borrowing arrangements with a broader group of member countries, which could enable the Fund to tap global reserves more effectively to the benefit of the entire membership.

But everyone agrees that a doubling of the GAB cannot be a substitute for an increase in quotas. The review of quotas must be given priority. But what would be an appropriate increase in quotas? Well, let me follow a line of reasoning that is familiar to those—and I am among them—who have proposed or supported a doubling of the GAB from its 1982–83 level. Just to restore the relative size of the Fund in the world economy, measured in terms of GDP and trade, to its level in 1983 would call for an increase in quotas now of close to 70 percent. This is simple arithmetic. But how could we be confident, after the Mexico experience, that merely restoring the Fund's relative size to its 1983 level would be sufficient or prudent? Taking into account the massively increased scale of international financial flows,[2] taking into account the need for the Fund to be credibly equipped to help the countries likely to need our financial support while dismantling their remaining exchange controls, and taking into account the fact that this quota review will determine the Fund's resource base into the early years of the next century—taking into account all of that—my judgment is that a doubling of quotas is needed. You will surely consider that, Governors, bearing in mind that no decision could show more clearly than this one the responsiveness of the membership to the challenges of this new world. Let me now turn to the third—and at least equally pressing—element of the Fund's strategy:

Helping to Integrate the Poorest Countries into the Globalized Economy

In our increasingly unified world, the persistence of zones of extreme poverty is a scandal—a scandal that is potentially more disruptive to the world than ever before. Yet extreme poverty is what too many countries, especially in Africa and Asia, still suffer from. In some cases, conditions for a pickup in economic growth have improved, and the improvement in the average growth performance of Africa, as well as South Asia, is encouraging. It is my great pleasure to observe that we can count Benin among the countries whose performance demonstrates that structural adjustment works in paving the way decisively toward improvements in living standards. But the need to tackle the international unevenness of global prosperity is still pressing. And globalization increases the danger that poor performers will be further marginalized from the mainstream of global growth. If this danger is to be averted, as it must, we need to give decisive support to the poorest countries.

The Fund's key instrument for this purpose is, of course, the enhanced structural adjustment facility (ESAF). It has enabled us to provide concessional assistance for growth-oriented adjustment programs in 38 low-income countries over the past eight years. Last year, ESAF was extended and enlarged, and now it has been agreed not only that ESAF will continue, but that a self-sustaining ESAF will be established. This is excellent news for low-income countries and for the world. It ensures that the Fund will remain a committed and effective partner in the policy efforts of its poorest members. We will now make every effort to find solutions for the financing of the ESAF until the self-sustaining ESAF becomes available. This will have a

[2]For example, as pointed out by Chairman Greenspan, whereas world trade in nominal dollars increased by about 125 percent between 1983 and 1993, the stock of cross-border assets held by banks grew by 250 percent over the same period, and annual issuance of international securities increased by 300 percent between 1984 and 1994. (Alan Greenspan, "Challenges for Central Banks: Global Finance and Changing Technology," Remarks at Annual Monetary Policy Forum, Stockholm, April 11, 1995.)

cost for the membership. But I believe that my proposal, including, if necessary, the mobilization and investment of a modest proportion of the Fund's gold, would limit the cost to a minimum—a modest cost indeed for the continuing promotion and support of strong policies of adjustment and reform among our neediest members. After all, such policies are the primary condition for any decisive improvement in the plight of poor countries.

But ESAF alone cannot suffice. The replenishment of the International Development Association (IDA) is essential, as is an adequate level of concessional support from bilateral donors and other multilateral development banks. The declining aid budgets of many industrial countries are a major problem. How can we justify, in a world with such pressing human needs—in a world where, because of debt burdens, grants are often the only reasonable vehicle for the support of human development—how can we justify the fact that official development assistance is now even less than 0.3 percent of donor countries' GNP—its lowest level since 1973? Surely this trend must be reversed!

The implementation by the Paris Club of the Naples terms for debt reduction is an important contribution to easing the burden of bilateral official debt. We also need to consider very seriously the treatment of the multilateral debt of a small number of highly indebted poor countries. In this regard, you can count on our joint commitment to implement vigorously the important work program that Jim Wolfensohn and I have submitted to the Development Committee.

I am sure you would be surprised if I concluded without saying a word about the SDR. I will not disappoint you. With the help of our seminar of experts next March, we shall be examining all the questions concerning this instrument, including its potential role as an anchor for a globalized international monetary system. But we do have a more immediate agenda—in particular, the problem of equity, highlighted at the Halifax summit for the second time by the Group of Seven countries. We must continue working on that to satisfy the almost universal wish of the international community.

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What I have been speaking about with you today is not business as usual. These are not issues that committees can solve simply by their choice of words in their communiqués.

Today I have had to speak about a new world, a world that is at a risky but promising stage in its historic long march toward unity; about averting the worst financial turmoil; and about maximizing and achieving a new potential for stronger, higher-quality growth and human development.

These are truly issues for you, Ministers and Governors—issues for you, the leaders of the world's financial community—to consider. I am confident that your wisdom and vision will guide your deliberations.