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Statement by the Hon. **KASPAR VILLIGER**,
Alternate Governor of the Fund for **SWITZERLAND**,
at the Joint Annual Discussion

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A remarkable change has taken place in the global economic situation since our meeting last year. The risk of serious slowdown has receded and financial markets have calmed down significantly. In my statement last year, I cautioned that we should not overdramatize existing problems, but tackle them. Positive developments over the last year underscore that we have been quite successful. Overall, skillful economic management, implementation of ambitious structural reforms in many crisis-hit countries, as well as some progress in strengthening the international financial system are the main reasons for the improvement of the global situation.

This being said, we have no reason to be complacent. It would be a fundamental mistake to relent on our efforts to tackle the still remaining challenges based on improved circumstances. Developments in recent months have shown that financial markets can become volatile very quickly, given the remaining uncertainties. Abrupt corrections in exchange rates of major currencies cannot be excluded, given existing imbalances between major economies. Furthermore, the uncompleted agendas of structural reform in the banking and corporate sectors in many countries could become a serious source of concern in the event of a deterioration of the global economic picture.

To reduce further the risks of future financial crisis, we must continue with our endeavour to strengthen the international financial system. I am convinced that our efforts to date are beginning to bear fruit.

Significant progress has been achieved in the area of promoting greater transparency of members' policies and IMF advice. Article IV reports are being published by a large number of countries, and most members with IMF-supported programs are publishing their policy documents. Better-informed populations and market participants translate into less uncertainty and strengthened ownership of economic policies. I also commend the IMF for its efforts in establishing international standards and best practices in the areas of its core activities. The next step is to ensure the implementation of these standards and practices and monitor the progress. The IMF plays a key role in this area, given its universal membership and its surveillance mandate. In

the context of standards, I also welcome progress made by the World Bank in the areas of corporate governance and social policies. Our experiences in recent crises have demonstrated how macroeconomic difficulties can be exacerbated by weaknesses in corporate governance. Furthermore, we have all witnessed the social hardships associated with economic crises. Therefore, defining and implementing standards and good practices also in these areas is important. A strong cooperation between the IMF and the World Bank will be crucial in this respect. We should continue our endeavour to make full use of the complementary nature of the two institutions and reduce work duplication.

We must continue our efforts to involve the private sector in forestalling and resolving financial crises. Progress has been relatively slow in this area because of the complexity of the issues involved. However, in my view, market participants have received the most important message, namely that private creditors should no longer be bailed out by official resources. Future policies will have to be based on the ongoing experience with specific cases of private sector involvement. This will allow to develop consistent approaches over time. The private sector is only able to assess the risks of its lending correctly if the rules of the game are clear.

Let me now turn to the HIPC Initiative. Switzerland has strongly supported this joint IMF-World Bank Initiative and has contributed generously to its financing. I welcome the proposals to enhance the current HIPC framework. Providing deeper and faster debt relief and strengthening the link to poverty reduction should help ensure that the stated goals of the Initiative can effectively be reached. However, increasing the amount of debt relief and providing it faster will not be sufficient to do the job. Debt relief has to be accompanied by sound economic policies and a solid institutional framework that will allow the financial resources to be used effectively. This means an efficient tax system, a transparent budgetary process, and good debt management capacities.

The enhancement of the HIPC Initiative has entailed a significant rise in financing costs. I am pleased that after a long period of uncertainty a satisfactory solution could be found to secure the necessary financing. However, I would have preferred to see a greater share of the costs financed through bilateral contributions. This particularly given the forcefulness with which several major donors have pushed for enhancing the HIPC framework. I urge all members to ensure that their current pledges will result in effective payments.

The HIPC Initiative is only one element in our endeavour to reduce poverty. I note with satisfaction welcome that poverty reduction has moved to the top of our agenda more generally. I fully support the view that poverty reduction has to be the objective for all of our assistance and of our policy dialogue. I welcome the strengthened cooperation between the IMF and the World Bank to ensure that poverty alleviation is a priority for all the activities of both institutions with regard to developing countries. The proposed new Poverty Reduction Strategy Papers will be a useful instrument to concentrate the minds of the governments, the IMF, and the World Bank on this central challenge and to outline concrete action plans.

It will be impossible to reduce poverty in a sustainable way without improving the quality of public governance. Strengthening public institutions and their partnership with civil society has to become an integral part of all World Bank projects and programs. All lending instruments should be analyzed as to their impact on strengthening institutions and as to their contribution to strengthening governance.

We must also continue with our efforts to reduce the scope of corruption. Such behaviour has a negative impact on poor people's access to public services and results in an inequitable redistribution of resources. Specific anti-corruption programs designed by governments should be fully supported by the Bretton Woods Institutions in addition to improving the functioning of the public administration, increasing fiscal transparency, and improving the regulatory framework in general.

Another key element to fight poverty is the strengthening of the private sector in developing countries. It is urgent for the World Bank Group to create synergies in private sector development. A close look must be taken at the respective functions of the Bank, the IFC, and MIGA. The World Bank Group has to become more effective in supporting privatizations, small, medium and micro-enterprises, private investment in utilities, and linking the productive and the financial sectors. These are all essential elements for the future World Bank Group. They should be implemented urgently.

Let me conclude by thanking the staff and management of both the IMF and the World Bank for their commitment to the work of our institutions. I remain fully convinced that the Bretton Woods Institutions with their well-established structures provide the best framework for finding solutions for the multiple challenges we are

facing. Therefore, we must be careful not to undermine it by creating parallel structures. Mr. Chairman, I can assure you that the IMF and the World Bank will continue to have Switzerland's full support.