BOARDS OF GOVERNORS ● 2000 ANNUAL MEETINGS ● PRAGUE, CZECH REPUBLIC

INTERNATIONAL MONETARY FUND
WORLD BANK GROUP
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL FINANCE CORPORATION
INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES
MULTILATERAL INVESTMENT GUARANTEE AGENCY

J

Press Release No. 2

September 26–28, 2000

Opening Address by the Chairman,
the Hon. **TREVOR ANDREW MANUEL**,
Governor of the Fund and the Bank for **SOUTH AFRICA**

Opening Address by the Chairman,
the Hon. Trevor Andrew Manuel,
Governor of the Fund and the Bank for South Africa

i. INTRODUCTION

President Václav Havel, my fellow governors, your Excellencies, ladies and gentlemen.

It is a great privilege to welcome you to the 2000 Annual Meetings of the International Monetary Fund and the World Bank Group. On behalf of the Boards of Governors, I would like to thank the government and people of the Czech Republic and in particular the people of Prague for their generous hospitality in this beautiful and historic city.

I am particularly honored to chair this year's meetings as a Governor from Africa—a continent that recognizes and appreciates the valuable support and assistance of these core institutions of the international economic system. In this context, we are determined to help strengthen the work of the Fund and the Bank.

Let me warmly welcome Mr. Horst Köhler, the new managing director of the IMF and wish him well in guiding the institution during this particularly challenging time. I would also like to express my deep appreciation to Mr. James Wolfensohn for his acceptance of a second term as president of the World Bank Group. I am certain that, together, Mr. Köhler and Mr. Wolfensohn will work hard to implement our wishes to continue to strengthen the Fund and the Bank so as to ensure that the benefits of globalization can be enjoyed by all. I would also like to express my appreciation to Mr. Michel Camdessus for his dedicated and inspired leadership of the IMF during his 13-year term.

Today we extend a special welcome to the delegation of San Marino on their accession to membership into the World Bank Group.

There is a story that Václac Havel tells of this beautiful city, long before he was president. A stone window ledge had fallen from a building and killed a woman. A local writer commented that the public outrage that ensued was too parochial and failed to recognize humanity's enormous progress. The next week, when another window ledge fell, the public wisely ignored the writer. To quote Vaclav Havel, the people "had understood that the so-called prospects of mankind are nothing but an empty platitude if they distract us from our particular worry about who might be killed by a third window ledge…"

Window ledges in Prague in the 1960s may be in another space and time from, say, a health clinic in Mozambique that is washed away by the floods, but the lessons are the same. The lesson then, as now, is that unless we take account of our reality and are prepared to do something about it, nothing changes.

When we think about globalization, about progress on the one hand, and increasing poverty on the other, we must not forget the specifics that add up to a new generation of human suffering that afflicts nearly half the world. We need to understand the dimensions of poverty, but more importantly, we need strategies to combat it and the faith that we can change things. We must take responsibility for our destiny and ownership of our future.

The latest *World Development Report* highlights some of these specifics whilst recognizing some of the successes in attacking poverty. Importantly it accepts that those of us who bear the burden of poverty and inequality are best placed to shape the strategies to overcome it.

There is a Nguni word in our country that captures the cusp of history we occupy: Umsobomvu. It means the dawn. A time of awakening. Of struggle. Of hope.

As the mist lifts on the early morning of the new millennium, the challenges of the day become apparent. Looking back, the progress of the past fifty years is astounding. We live in a world where technology has enabled us to transcend geographic boundaries. Where news is instant and information is abundant. A world where telemedicine allows a surgeon in New York to assist in an operation in rural Brazil. A world dominated by real time, where the decisions of a trader in London can alter the future of a child in South Africa. A world where the fee on one financial transaction can pay for the education of all the children of a village in India. A world of unprecedented prosperity. But it is also a world of unprecedented inequality and poverty.

In his opening address to the July 1944 conference that would establish the Bretton Woods Institutions, US Treasury Secretary Morganthau referred to the 'great economic tragedy of our time' – the pre-war depression, that would (among other factors) eventually lead to the outbreak of the World War II. It was to *prevent* the repeat of depression and war that the Bretton Woods Institutions were formed.

The great economic tragedy of *our* time is poverty. We have yet to overcome this tragedy. The spirit of that July 1944 meeting is worth evoking. Two axioms were proposed by Morgenthau, first 'prosperity has no fixed limits… the more of it other nations enjoy, the more each nation will have for itself'; and second, 'prosperity, like peace, is indivisible…poverty, wherever it exists, is menacing to all and undermines the well-being of each of us.' It was in this spirit that the World Bank and the IMF were born. It is to this spirit and this vision that we have to recommit ourselves today.

Despite all the progress we have made since 1944, we still live in a world where billions of people wake up every morning to hunger, disease, poverty, and despair. A world where, despite the advances in wealth and technology, we have not been able to breach the poverty gap.

It is particularly disconcerting that globalization has had little impact on the tragedy of poverty. The latest *World Development Report* reminds us that some 2.8 billion people, almost half of the world's population, live on less than $2 a day and that 1.2 billion people live on less than $1 a day. Most of these people are located in South Asia and Africa. What is even more disquieting is that this tragedy is experienced at the same time that unimaginable riches are enjoyed by a small number of the world's economies and individuals. The income gap has doubled in the past 40 years. And while life expectancy in parts of Africa and Eastern Europe is actually declining, life expectancy for the world as a whole, as President Wolfensohn reminded us last year, increased more in the past 40 years than in the previous 4,000 years.

The stark statistics, which we are all familiar with, not only highlight the inequality and the slow pace of development, but perhaps more importantly point to the unequal distribution of opportunities and resources.

All of us today face the urgent task of making sure that the benefits of globalization are equally spread. We welcome the rededication of the Bretton Woods Institutions to the cause of reducing poverty. In so doing we must recognize that the raison d'être – the overarching purpose of the Bank and the Fund – has remained essentially the same: To oversee the process of globalization, and facilitate the integration of the nations of the world into the global economy in a mutually beneficial way.

The Fund and the Bank have a vital role to play in ensuring that we arrive at more equitable outcomes and improve the quality of life for all. Yet to do this we must give a stronger voice to the shareholders of our institutions. We must ensure that the mechanisms exist for meaningful participation and greater transparency in decision-making.

Growing inequality poses the greatest risk to the future of the global economy. If the majority of the world's population is increasingly marginalised and economically disenfranchised, then globalization will fail. As custodians of the institutions that provide the anchor to the global economic system, we have a responsibility to ensure that globalization translates into a better life for all the peoples of the world.

The global economy has never been more prosperous. The opportunities for growth and sustainable development have never been greater. The challenge we face is to harness this potential. We must not be blinded by the prerogatives of wealth and influence so that we ignore or avoid dealing with poverty and inequality.

ii. WORLD ECONOMIC OUTLOOK

The robust state of the global economy is due in no small measure to the success of the fundamental reforms undertaken by developing countries. Their boldness needs to be matched by the richer countries. The consolidation of the recovery in Asia, and the strong growth expected in

China and India, the improved activity in Africa, and the rebounds from last year's slowdowns in Latin America and the Middle East have contributed significantly to the improved outlook. Growth in Eastern Europe is expected to be strengthened by continued macroeconomic reforms, as well as the better than expected recovery in Russia.

Despite the positive outlook for the global economy, there remain significant risks to sustainable growth. In particular, large economic and financial imbalances and persistent volatility characterizes the three main currency areas. The possibility that these imbalances might unwind in a disorderly fashion remains a risk to global growth. The recent increase in oil prices, if sustained, will also hamper global growth and increase inflationary pressures, and will adversely affect oil-importing countries, particularly the poorest.

Structural reforms aimed at improving competitiveness, reducing external vulnerability and supporting broad-based development need to continue in all countries in order to strengthen prospects for sustained economic growth.

The positive outlook for the global economy masks the problem of continued widespread poverty and inequality.

Let me focus on Africa. Our continent has the most catching up to do with projected growth for 2000 at 3.5 percent. This in itself is a significant achievement, given huge terms-of-trade losses and natural disasters, and is the product of concerted macroeconomic reform across most of the continent. But it is still far below the 5 percent annual growth that is needed simply to keep the number of poor in Africa from rising. The goal of halving severe poverty by 2015 will require annual growth of more than 7 percent.

As Africans we face a number of critical challenges. While Africa contributes an important part of the resources critical to world growth, its capacity to process these and its share of world trade are insignificant and our share of global foreign direct investment remains miniscule.

Addressing these challenges means that we must remain focused on a number of important priorities:

- First, sound and sustainable macroeconomic and development policies are essential. Fiscal deficits are on average far lower than they were a decade ago, falling from almost 7 percent of GDP in 1992 to an estimated of 2.6 percent in 2000. Inflation has been significantly subdued, with the average inflation rate for sub-Saharan Africa at around 6 percent. We must continue to build on the gains that we have achieved. Achieving macroeconomic stability and sustainability is hard, but it brings with it choice and control over our own destiny. But stabilization is not enough. It needs to be followed by sound growth strategies designed to create jobs and overcome poverty.
- Second, increasing the level of savings and investment in our economies is critical. Although capital flows to developing countries increased about seven fold in this decade to 270 billion

dollars, sub-Saharan Africa's share of this total was barely one percent. Foreign investment is essential, since all of Africa, with the exception of Botswana, faces a balance of payments constraint. But more important is creating the environment for domestic investment.

- Third, bridging the digital divide is a new challenge. There are 19 times more Internet hosts in the United States than in the whole of the developing world. It is this gap that we must overcome. Evidence suggests that it is possible to leapfrog stages of technological development to spur economic and social advancement. Investment in both infrastructure and human resources in this area is therefore critical.
- Fourth, HIV/AIDS is our living nightmare. This pandemic is one of the biggest challenges we face. We welcome the $500 million facility approved by the World Bank Board for programmes dealing with HIV/AIDS. It is estimated that some 33 million people worldwide are living with HIV/AIDS. About 70 per cent of these are in sub-Saharan Africa. The rapid rise in adult deaths is leaving an unprecedented number of orphans – some 11 million worldwide, over 90 per cent of them in Africa.
- Fifth, too many countries on our continent continue to be mired in conflicts that seem inexplicable and intractable. These conflicts destroy life. They destroy the future of millions of ordinary people. And they destroy our humanity.

In summary we need to remain focused on economic reforms and building the institutional capacity that will ensure that the gains we have already made are enhanced. Our fiscal policies must remain focused on social development and infrastructure. We need to invest in education and training to overcome the significant skills gap that characterises most, if not all, our economies. We must continue to strengthen our democracies by strengthening the institutions that underpin them – parliaments, the legal system and civil society.

However, while there are many measures that African countries can take, it is important not to lose sight of the fact that sustained growth in emerging markets and other developing countries must be seen as a global project. Whether or not developing countries are able to benefit from the fruits of global growth, depends not only on their own efforts, but also the efforts of those developed countries with which they share the global arena.

As long as developing countries remain debilitated by unsustainable debt burdens, required growth rates will not be achieved. Debt remains one of the major obstacles to sustainable growth and development. The enhanced HIPC Initiative agreed to at the G7 meeting in Cologne last year has yet to be fully implemented. Full funding has yet to be realized. The cumbersome process means that only half of the countries expected to reach their decision points by the end of this year, are likely to do so. The challenge is three-fold: First, the G7 must honor commitments they made in Cologne. Second, the process must be streamlined. Third, we must uphold the principle that the clear separation between the financing of the HIPC Initiative and donor commitments to finance IDA's new lending is observed.

I'd like to, on this note, extend the sincere appreciation of many in the developing world to the Honorable Paul Martin, Finance Minister of Canada, for the brave stand that he took in both the IMFC and the Development Committee meetings on this issue.

Another issue that we must give attention to is the burden being placed on bilateral debtors who are not Paris Club members to provide debt relief on comparable Paris Club terms. Unless wealthy countries take responsibility for a larger share of debt reduction, a disproportionate burden will fall on poor and middle-income countries that have often been creditors in the spirit of good neighborliness.

Let me now turn to a more universal problem, that of governance. Improving governance is essential. It is the responsibility of governments across the world to ensure that limited resources are effectively channeled to areas of need. Over the last decade, good governance has sadly become a standard conditionality in contracts between borrowers and lenders. I want to suggest that this is not where these conditionatilities belong. Rather, they belong in the contract between a government and its people. Good governance has to be more than a euphemism for corrupt-free governments. It is about ensuring that elected office is the channel for the delivery of goods and services to citizens and not for the enrichment of those in office. Poor governance compromises the integrity and legitimacy of the state and sacrifices the future of the poor. The strong stand taken by many of our governments against corruption must be further strengthened and supported.

Despite substantial progress made in liberalizing trade regimes in developing countries, these countries still have difficulty in benefiting from an improved global trade regime. The rest of the world is open only on a selective basis. The integration of world trade requires equal access for all countries and for all products and services. Advanced country trade policies require urgent reform. Fair access to the markets of the developed countries is critical to sustainable growth and development. OECD subsidies continue to reach record levels, and barriers to trade remain a fundamental obstacle to overcoming poverty. The benefits of trade liberalization far outweigh the costs. It is imperative that we urgently refocus our efforts on a comprehensive and equitable conclusion of a new round of multilateral trade negotiations.

Lastly, the continued decline in official development assistance is of great concern. Given the substantial savings gap in the poorest countries, debt relief is unlikely to be effective in helping our countries fight poverty without well-targeted aid. The added cost of dealing with HIV/AIDS and other communicable diseases only underscores the importance of additional financial assistance. The rich countries have never been richer, and the poor countries have never been more capable of managing aid; the decline in development assistance is inexcusable and should not be tolerated by civilized and compassionate societies.

iii. THE WORLD BANK AND IMF

Global institutions continue to have a critical role to play in addressing the fundamental structural weaknesses and imbalances that confront us. Growing inequality and persistent poverty, on the one hand, and the heightened fragility of the global economy on the other, mean that the World Bank and the IMF continue to have a vital role to play. In order to respond to this role, these institutions have to reflect the needs of those that they are designed to serve. This means not only a reconsideration of the governance structures, to give a greater voice to developing countries, but also a greater appreciation of what developing countries expect from the Bretton Woods Institutions, in terms of programmes and products. Poor countries, and even the majority of middle-income countries, remain excluded from capital markets. Those that believe that private markets can substitute for the Bank and Fund and other development finance are fundamentally naïve and simply reflect their own distance from our complex reality.

It is important that the voice of developing countries be heard more strongly in the Bank and the Fund. We must ensure that we can exercise ownership in a manner far beyond the outdated formulae, which currently govern quota distribution. Ownership of programmes means countries take responsibility upfront, which in turn requires a shift to enabling conditionality and away from micro-management. Let me be clear: developing countries need a greater voice in providing strategic direction to the Bretton Woods Institutions to ensure greater effectiveness and credibility. For this reason, it is imperative that the forthcoming discussions on quotas are viewed from the perspective of the needs of global development, rather than merely from the perspective that economic might is right.

iv. CONCLUSION

Mr. President, fellow governors, ladies and gentlemen,

We share in common a vision of the world, free from poverty. A world where our unique collective intelligence and creativity can be used to enhance the well being of all people. In parts of the world, including in this wonderful city, the promise and potential of this economic liberation is becoming evident. But for most people there has been no escape from grinding poverty. And because the hints of wealth from elsewhere have brought no escape, hope hangs on a thin thread. The challenge is to turn despair into hope. Hope, which is based on the knowledge that the world cares. Hope rooted in our common humanity and our determination to ensure that our children and their children will enjoy a life rich in opportunity and free of poverty.

In declaring these meetings open, I can think of no better words than those spoken by John Maynard Keynes, in his closing address to the original Bretton Woods conference. They have no less resonance with reference to our contemporary tragedy, than they did in reference to the tragedy out of which the Bank and Fund were founded.

‘We have been learning to work together, if we can so continue, this nightmare, in which most of us here present have spent too much of our lives, will be over. The brotherhood of man will have become more than a phrase.’

Our task is to turn words into deeds. In this we cannot, dare not fail.

I thank you.