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WORLD BANK GROUP
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL FINANCE CORPORATION
INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES
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Statement by the Hon. **LAWRENCE H. SUMMERS**,
Governor of the Bank for the **UNITED STATES**,
at the Joint Annual Discussion

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Chairmen, Governors, Ladies and Gentlemen, Mr Wolfensohn, Mr Kohler, President Havel, people of the Czech Republic, as we gather for these meetings we can take some satisfaction that the global economic environment is in many ways more favorable than it has been for some time. Growth in most of the industrial and emerging market economies has strengthened and become more broad-based, and there is the prospect that the imbalance in global demand that has prevailed in recent years will recede. This stronger external environment, in turn, must greatly enhance the outlook for the developing economies in the coming year.

But, we must not let these improvements lull us into complacency. In the near term, the sharp rise in the price of oil is an important concern for consumers and businesses around the world, and has the potential to hit developing countries particularly hard. Stability in oil markets, around reasonable long-term prices, is strongly in the mutual interest of both oil producing countries and oil consuming countries. In that context, we are pleased that these meetings have afforded an opportunity for countries representing both groups to unite behind this objective.

More broadly, we continue to face the overarching economic and humanitarian challenge of our time: building a successful, truly global economy that works well for all of our peoples. The World Bank and the IMF are at the forefront of global efforts to make globalization work and ensure that it reaches the very poorest. Over the years they have made vital contributions to that goal. But all now recognize that they need to reform and strengthen themselves as institutions to rise to the new challenges that a 21st century global economy presents.

Important reform efforts have already begun. This a reflection of the efforts of the directors, shareholders and staff of these institutions, and the strong leadership of President James Wolfensohn and former-Managing Director Michel Camdessus. But we all know that there is a great deal more to be done. And we especially welcome Managing Director Horst Kohler's commitment at these meetings to continuing the work of reform.

Let me briefly address our two central preoccupations as we meet here this week: the creation of a strong and more stable system for capital to flow between nations and into sustainable investment and growth; and the development imperative for the world's poorest countries.

I. Reform of the International Financial Architecture

In Prague we have taken important further steps toward building an IMF that is more attuned to the dynamics of modern capital markets and able to play a more effective role in the prevention and resolution of financial crises. We especially welcome:

- Confirmation at of the IMF Board agreement to reform the pricing and structure of IMF facilities to enhance the focus on very short-term emergency finance, priced to enhance the incentive to repay.

- The commitment to strengthening further the IMF's surveillance apparatus, with concrete efforts to re-orient surveillance toward issues of leverage and financial soundness that that have been sources of vulnerability in recent crises.

- Agreement on the need for a review of the scope and nature of conditions in IMF programs, a goal that Managing Director Kohler's has strongly endorsed.

We have also begun an important discussion on the continued development of the World Bank's role in the emerging market economies with agreement on an internal review of the Bank's role in these countries. We believe that this should afford an important opportunity to evaluate the pricing of the Bank's products, and to focus the Bank's activities more squarely on activities where it can add value that the private markets cannot.

II. The Development Imperative in the Poorest Countries

The debt relief issue has given unprecedented global prominence to the plight of the world's poorest countries. This moment of heightened moral energy in support of raising the living standards of the poorest is as welcome as it is rare, and it is incumbent upon all of us who are committed to the global development effort that we use this moment to maximum effect.

That is why it is so vitally important that the HIPC initiative work, and that it make a real difference to people's lives. To be sure, in order to make a real difference, debt relief has to be provided. To that end we welcome the commitments the institutions have made here in Prague to doing everything possible to ensure that 20 countries qualify by the end of the year, and to minimize the risk of needless bureaucratic delay.

At the same time, in order to make a real difference, debt relief has to result in a change of policies and resource flows in these countries that will actually work to reduce poverty and lay the basis for more enduring and inclusive economic growth. We would do a grave disservice to all those who believe in this effort and ultimately to these countries' own people, if debt relief were to be provided without a credible basis for assuring that the savings will be effectively re-channeled into health care, education and other central priorities.

For HIPC to succeed over the longer term it must also represent a change in a country's position in the international financial system. We must ensure that the debt is reduced enough to assure sustainability going forward. That is why President Clinton, at these meetings in Washington last year, led the call for providing 100 percent relief of bilateral debt to countries that qualify for HIPC. It is also essential that we assure that countries that have received debt relief are not burdened with new debts that recreate old problems of sustainability.

To that end, as we consider how concessional assistance to the poorest countries can best be provided in the future, the United States is today calling for serious consideration to the creation of a 100 percent concessional window for the provision of pure grant finance within IDA. Grant finance would have three crucial advantages:

- It would obviate concerns about future repayment.

- I would allow for a broader range of channels through which support can be provided in contexts where existing government institutions are poorly placed to deliver results.

- And it would provide an especially effective way of channeling support to crucial human development projects – such as the fight against HIV/AIDS – whose benefits will not be measured in dollars and cents.

More broadly, if we are truly to realize the special significance of this millennial moment, we must re-double our efforts to ensure that its spirit lives on, not just in the official support that is provide the HIPC countries, but in all our efforts to support development in the poorest countries going forward.

In that context, we believe that the Bank's shareholders need to reaffirm and act on their commitment at the Dakar education summit last April to a global initiative in support of primary education, especially for girls. The Bank can and must play a central role in making this initiative a reality. We also welcome the agreement here in Prague to expand the Bank's support for global public goods such as the development of effective treatments and vaccines for infectious diseases such as HIV/AIDS and malaria, protecting the environment, and support for promising agricultural research. In that context we call on Ministers to support an early increase in Development Grant Facility (DGF) funding, targeted to these three areas, and to work to identify internal funds for this vital objective.

III. Concluding Remarks

In these and other ways, we can work to ensure that this renewed global focus on the world's poor has an impact well beyond the accident of the calendar that has helped give it such force. But at a time when the broader challenge of globalization is also much in everyone's minds, let me end by re-emphasizing one crucial development lesson of the century just completed.

That lesson is that there can be no single development today with greater potential to set back the prospects of the world's poorest than a rejection of the goal of successful global economic integration. The world set itself on that course in the late 1920s and 1930s and countries have spent more than fifty years undoing the effects. The great and troubling divergence in national incomes that we see today is not because so many countries are effectively integrating themselves with the global economy – it is because so many countries are not. That is not an argument for integration without rules or an argument for allowing people to be left behind: as President Clinton has said many times, we must build a globalization that works for all of its people. It is the strongest possible argument for our task of making global economic integration succeed. Thank you.