BOARDS OF GOVERNORS ● 2003 ANNUAL MEETINGS ● DUBAI, UNITED ARAB EMIRATES

WORLD BANK GROUP

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INTERNATIONAL FINANCE CORPORATION
INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES
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Opening Address by the Chairman,
the Hon. **KASPAR VILLIGER**,
Governor of the Bank and the Fund for **SWITZERLAND**,
at the Joint Annual Discussion

OPENING ADDRESS BY
THE CHAIRMAN OF THE BOARDS OF GOVERNORS
THE HONORABLE KASPAR VILLIGER
GOVERNOR OF THE BANK AND THE FUND FOR
SWITZERLAND

President Wolfensohn, Managing Director Köhler, my fellow Governors, Excellencies, ladies and gentlemen,

I am honored, on behalf of Switzerland, to chair these 2003 Annual Meetings of the World Bank Group and the International Monetary Fund, which are being held for the first time in the Middle East. On behalf of the Boards of Governors, I would like to express our deep appreciation to the host government of the United Arab Emirates, and the authorities and people of the beautiful and modern city of Dubai for the excellent arrangements for our meetings and the warm hospitality extended to us all.

Our meetings here in Dubai come at an opportune time for the membership. Despite recent events and tensions in some parts of the region, many countries have undertaken difficult economic reforms to strengthen and liberalize their economies. These efforts have been successful in achieving macroeconomic stability and greater integration into the world economy for the betterment of their peoples.

Fellow Governors, as we are meeting at a time of continuing economic uncertainty, we all must continue to work together to send a strong signal to both governments, markets, and our populations of our resolve to promote peace and prosperity throughout the world. In this regard, it is crucial that we reaffirm our belief that the United Nations and the Bretton Woods Institutions continue to have a vital role to play in their respective areas of expertise in contributing to these objectives, sometimes under very difficult and dangerous circumstances, as we have seen recently.

I would like to begin these Meetings by remembering Dr. Alya Sousa, who, while working for the World Bank in Iraq, tragically lost her life along with many others as a result of the terrorist attack on UN Headquarters in Baghdad on August 19th. (pause)

There is no question that international crime and terrorism should be fought with all the means at our disposal. But it is important that we do not lose sight that we also need to make equally strong if not stronger efforts to fight poverty, enforce human rights, and resolve conflicts peacefully according to international law. Success in these areas will help to ensure that terrorism finds no breeding ground.

Fellow Governors, it is not by accident that the Bretton Woods Institutions have chosen to hold their Annual Meetings this year in the United Arab Emirates. The remarkable story of the United Arab Emirates is a shining example of how the pursuit of sound economic policies and wide-ranging structural reforms can boost economic growth and lead to higher standards of living. Our gathering in Dubai demonstrates that there is a strong dialogue between this region and the rest of the world. We are sending a clear signal that we have common values, that we respect one another, and that we desire to live together peacefully. It is in this spirit that we meet in Dubai to discuss the current economic issues of the day.

Fellow Governors, the global economy continues to face uncertainty, stemming from the after-effects of the bursting of the equity price bubble, the investment overhang, and continuing geopolitical insecurities. However, a recovery now appears to be underway, and the balance of risks has improved significantly. The U.S. economy is performing relatively well. There are encouraging signs from Japan, and several European countries have started to implement some long-delayed reforms. It is now the duty of all policymakers around the world to try to turn these early signs of an economic rebound into a truly sustainable recovery. In this regard, macroeconomic policy in the major currency areas will have to continue to be supportive, and structural reform efforts will have to be strengthened in order to reduce vulnerabilities over the medium term. Looking forward, the question is whether the U.S. economy will be able to continue as the sole engine driving global economic growth, especially as many take the view that the rising current account and fiscal deficits in the United States could threaten its medium-term outlook, as well as exacerbate global imbalances.

In light of these circumstances, I can only regret that Europe cannot fully play its role in supporting the global recovery. In my view, the weak European performance would best be addressed by pushing forward the reform agendas. Some initial progress has been made, but it needs to be followed up forcefully. One of the most important priorities is the need to address the challenges that aging populations throughout Europe will pose to longer-term fiscal positions, labor supply, and economic growth.

In the emerging markets, the recovery has largely remained solid, despite a variety of shocks. To some extent, this can be attributed to the higher risk-taking by international investors, given the low-yield environment in developed countries. Efforts by many of these countries to improve their domestic fundamentals have certainly also played an important role. Many challenges remain in the areas of fiscal consolidation, public debt sustainability, and banking sector reform. Now, in an improved economic environment, is the time to implement these reforms.

Growth in low-income countries has remained relatively robust, but there are wide differences among countries. The weak economic performance in Sub-Saharan Africa remains particularly worrisome, as it stands in stark contrast to what would be needed to reach the targets set under the Millennium Development Goals (MDGs), in particular the halving of poverty by 2015.

There are positive developments as well, including NEPAD and the joint initiative for seven low-income countries in the Commonwealth of Independent States, called the CIS-7 Initiative. Important first steps have been taken, but it is clear that the ultimate success of these initiatives lies with the countries themselves.

Fellow Governors, over the last several years the IMF's lending has become increasingly concentrated on a few emerging market members that received exceptional access to Fund resources. It now unfortunately appears that these Fund-supported programs will most likely be prolonged and extend over a number of years. This could reduce the availability of Fund financial assistance to other countries.

This development has raised two important issues for us to consider. First, to ensure that the Fund is able to respond quickly in crisis situations, it should adhere strictly and consistently to its policy rules on exceptional access. Second, to improve the Fund's crisis prevention and resolution frameworks further, it should continue to strengthen surveillance, improve debt sustainability analysis, and increase transparency. We also need a better framework to deal with financial crises, especially when they involve unsustainable sovereign debt. In this regard, I welcome the IMF's efforts to strengthen surveillance by taking a fresh perspective on the policy frameworks of program countries, incorporating international standards and codes into surveillance, and undertaking analysis based on the balance sheet approach.

Fellow Governors, strong global economic growth is an important condition for making progress toward meeting the commitments that we made under the Millennium Declaration. But growth is not enough. I would like to share with you some thoughts on the formidable challenges ahead of us. The Millennium Development Goals describe a vision of a better world for all. They also provide quantifiable targets for the global community to measure progress toward the important fight against poverty.

Last year in Monterrey, we launched a partnership to achieve these targets. We agreed that successful poverty reduction depends on the active collaboration of three main partners: the governments and civil societies in low-income countries, public and private actors in donor nations, and the multilateral institutions. It requires sound national policies and good governance in developing countries, increased and more effective assistance from donors, as well as the support of the international financial institutions in putting in place strong policies, and building capacity through policy surveillance and technical assistance.

I am pleased to see that a number of low-income countries have already started to reap the first fruits from implementing good policies in a sustained manner. The strongest performers in Africa have seen real growth rates of above 5 percent over the past five years, although growth in Sub-Saharan Africa as a whole remains at about one percent. Important progress has also been achieved under the HIPC Initiative, where 27 countries have reached the decision point and 8 of them have succeeded in reaching the completion point. Their adherence to strong policies has allowed these countries to receive considerable debt relief. This has freed critical resources for social spending.

Fellow Governors, the sad fact remains that this substantial progress by the best-performing countries is not sufficient even for them to halve poverty by 2015. What else is necessary? It is my firm belief that growth can be increased by enhancing the role of the private sector through encouraging local and foreign private investment in these countries. Attracting such investment will not only require macroeconomic stability, but also the carrying out of critical structural reforms. This must be complemented by policies to improve governance, build and strengthen institutions, as well as create a legal and regulatory environment conducive to private sector activity. All of these steps can help create what I would call a culture of credibility. While encouraging progress in this regard is evident in some countries, many other countries have experienced difficulties in fostering private sector activity. The Bank and the Fund can contribute in this area, in collaboration with other development partners, by providing low-income countries with advice and technical assistance to help them develop a vibrant and flourishing private sector.

Fellow Governors, the Millennium Development Goals are the framework for the World Bank's activities, in partnership with other international institutions. The Bank, together with other donors, has also recognized the need to engage much more actively in low-income countries through improved analytical work, capacity-building, and the identification of innovative project mechanisms to improve governance and deliver basic social services.

Sound domestic policies in low-income countries are an important precondition to meet the goals of the Millennium Declaration. But they are not enough. They need to be matched by greater financial assistance from the international community. We reached a consensus at Monterrey on the need to increase substantially the quantity and effectiveness of official development assistance (ODA) if developing countries are to be able to achieve the Millennium Development Goals. However, the donor countries might not be able to generate sufficient additional ODA. We might therefore have to look for other, more innovative ways to provide the resources that are needed, as envisaged in the Monterrey Consensus.

Fellow Governors, sustainable poverty reduction requires more than development assistance. Further trade liberalization can make an important contribution in this regard. It can not only raise growth in both developed and developing countries, but also offer developing countries a real chance to trade their way out of poverty. A successful conclusion of the Doha Trade Round is, therefore, of utmost importance if developing countries are to be integrated better into the multilateral trading system and the global economy.

The inability to reach agreement last week in Cancún is a setback for all, developed and developing countries alike. It is even more disappointing, as success at Cancún could have helped to strengthen the global economic recovery. Nevertheless, I am very hopeful that this is only a temporary stumbling block, and will not prevent World Trade Organization (WTO) members from eventually reaching a timely conclusion to the Doha round. Greater trade liberalization through a multilateral process will increase prosperity in all nations, and help to achieve the Millennium Development Goals. If the Doha Round is to succeed, all countries must be prepared to be flexible and realistic if they wish to put the Round back on track. However, even a successful conclusion of the Doha "development round" will not allow low-income countries to benefit immediately from these new trading opportunities. Their ability to engage more actively in the global trading system can be enhanced through support for reform and technical assistance. I am happy to see that the Bretton Woods Institutions are active in this area.

Fellow Governors, let me return to the Monterrey Consensus document and its call for enhancing the voice and participation of all developing and transition countries in decision-making in the Bretton Woods Institutions. We all have a role to play in this endeavor: the shareholders, the Bretton Woods Institutions, and the developing and transition countries themselves. Let me first call your attention to the progress made in stimulating participation at the country level. Many programs in developing and transition countries are now based on Poverty Reduction Strategies. They are drawn up by country authorities, who rely on input from civil society. These Poverty Reduction Strategies have developed into a powerful instrument to ensure ownership of a country's reform program. The Bank and the Fund play a valuable role in supporting countries' capacity to address poverty with technical assistance and financial support.

Nonetheless, while it is important for developing countries to participate in shaping their own economic programs, it is equally important for them to feel well represented in the Bretton Woods Institutions, and to participate in their decision-making. We have already made some progress in strengthening the capacity of the offices of those Executive Directors that represent a large number of developing and transition countries. As for measures to directly affect representation, I believe that an increase in the number of basic votes should be considered, as it would strengthen the relative voting power of countries with smaller quotas.

Fellow Governors, in the World Bank and the IMF, Switzerland chairs a so-called mixed constituency of countries from Eastern Europe, the Balkan Region, and some countries of the former Soviet Union. Some of these countries are quite advanced in the process of transition. Indeed, one of them, Poland, will be joining the European Union very soon. However, many other countries, for instance in Central Asia, face more formidable challenges.

I believe that mixed constituencies representing both debtor and creditor countries have a great potential to help raise the voice of debtor countries. The intense debates between partners within the same voting group allow all of us to better understand the various sides of an issue. Mixed constituency chairs are also able to act as effective bridge builders when the entire membership is wrestling with a delicate issue.

Fellow Governors, the prospects of the world economy have clearly improved since we last met in Washington. But we still face serious economic issues that require tough decisions and forceful action. Nonetheless, I am confident, that by vigorously implementing our respective commitments to one another, we will succeed in meeting the enormous challenges that are before us, and thereby provide a better world for future generations. The multilateral problems of today require multilateral solutions. No nation should feel excluded from the discussion. Given their universal membership and cooperative nature, our two institutions remain the relevant organizations for us to tackle these challenges together.

Fellow Governors, I hereby declare open the 2003 Annual Meetings of the World Bank Group and the International Monetary Fund.