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# **Summary Proceedings**

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*of the Fifty-First Annual Meeting  
of the Board of Governors*

*October 1–3, 1996*

International Monetary Fund  
Washington, D.C



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## INTRODUCTORY NOTE

The Fifty-First Annual Meeting of the Board of Governors of the International Monetary Fund was held in Washington, D.C. from October 1 through October 3, 1996, jointly with the Annual Meetings of the Board of Governors of the World Bank Group. The Honorable Eduardo Aninat, Governor of the Fund and the Bank for Chile, 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 iii–v, and a list of abbreviations used in the statements and documents is given on page 321.

LEO VAN HOUTVEN

*Secretary*

*International Monetary Fund*

Washington, D.C.

November 1, 1996





## ADDRESS BY THE VICE PRESIDENT OF THE UNITED STATES<sup>1</sup>

*Al Gore*

I am honored to be here. I wish to thank Chairman Aninat, Chairman of the Board of Governors; Managing Director Camdessus; and President James Wolfensohn, a longtime friend, for doing an outstanding job with the World Bank.

I note that some Members of Congress from my own country may be here. I know that Senator Paul Sarbanes is here, and I want to acknowledge him. But if, in doing so, I have overlooked others, I want to assure you that it is not intentional.

If I might, I would like to begin with a brief word of hope for the cause of peace in the Middle East. I know we were all saddened to see violence return to the ancient streets of Israel, Gaza, and the West Bank. It was a great blow not only for the Israeli and Palestinian peoples, but for all who support the peace process.

I have just come from a series of meetings at the White House, convened by President Clinton, wherein the regions' leaders have gathered to rejoin the path to peace upon which so much progress has been made in recent years. President Clinton and I are committed to do all we can to work with them to help end the cycle of violence, to restore calm, and to resume in earnest the task of building peace through negotiations.

I know I speak on behalf of all of us here when I say that our prayers and our hopes are with these leaders. May they take inspiration from their own recent successes in the name of peace, and may they be guided by other men and women who have, over past decades, also traveled the path to peace in the face of great adversity.

A little over a half century ago, in a small town called Bretton Woods, amid the granite hills of New Hampshire, one such group of leaders gathered to give form to an idea as simple as it was powerful. That even the rubble of world war can be used to build a firm foundation for peace and prosperity, when nations summon the will to join in a common cause to solve common challenges.

This idea and the institutions born of it endure as monuments of our century, as signposts on our journey toward a world where peace and freedom and the promise of prosperity are the birthright of all people. We join today as friends and partners with renewed conviction and sharper focus

<sup>1</sup>Delivered at the Second Joint Session, October 1, 1996.

to advance the task of strengthening and broadening prosperity, maintaining the stability of the international financial system, and investing in the dignity and promise of people throughout our world.

It has perhaps become commonplace to speak of pivotal times and great challenges. Yet I firmly believe that today, on the heels of the fiftieth anniversary of the World Bank and the IMF, and as we prepare to cross the bridge to the twenty-first century, that today is such a time.

A quick canvass of the revolutionary changes under way more than proves the point. Today, an increasingly integrated global economy, extraordinary technological advances, and, most important, the deepening global commitment to democracy and personal liberty offer us unparalleled opportunities. For many of our nations, these changes have brought impressive growth, high-quality new jobs, and a different—but no less important—role in the world.

We appreciate now, more than ever before, that we today are not only living with the challenges, but also reaping the rewards of our ever more open and dynamic international system. Yes, there are those who see only problems. These are the heirs to the same doubting Thomases who questioned President Roosevelt's vision to create an open international financial system some 50 years ago. They were wrong then, and they are wrong now.

The Clinton administration stands with those who see promise. We see both promise and achievement in the fact that strong, steady economic growth here in the United States has helped to create 10.5 million new jobs over the last three and a half years. This growth has reduced poverty, slashed our deficit, and produced a combined unemployment and inflation rate that is at a nearly 30-year low.

It is a plain fact: growth and openness here at home, coupled with growth and openness abroad, have been good for America and good for the world.

Two of the keys to our recent economic success are ones that the Bretton Woods institutions have emphasized throughout the world. The first is a commitment to low inflation—and inflation has come down in the United States, as growth has continued on a sustainable basis. The second is open markets—and we have fought very hard to open markets around the world, including our own.

A shared determination to grasp the opportunities of this new era is ultimately why we are here today. It is why we have placed such great trust in the Bretton Woods institutions and why we have such high expectations of them. It is fundamentally why these institutions continue to deserve our strong support and why we in the United States will do all in our power to meet our financial commitments to them, including to the International Development Association (IDA), which is so important to developing countries all around the world.

The World Bank Group and the International Monetary Fund have been major features of the international landscape for many years. So too, tragically, have been deep poverty and human suffering, political and financial crisis, and environmental degradation. This in turn has led some to underestimate what the international financial institutions can do to ameliorate these terrible problems. For too many, there is a sense of resignation about the human condition and skepticism about the possibility of working cooperatively for real progress.

I am here today, as President Clinton was a year ago, to say simply that I reject the complacency and I abhor the indifference. If we have learned anything from the second half of the twentieth century, we have learned this: that we cannot achieve peace and prosperity in isolation or in the absence of a healthy international economic system; that free markets consistently outperform shackled ones; that poverty can be reduced dramatically; and that good government is the key to equitable and sustainable growth.

Neither President Clinton nor I underestimate what the Bank and the Fund can do. They can make a difference, and they must. These are the basic truths that will guide America into the next century. They are the basic truths whose influence has spread so dramatically around the globe in recent years. And they are the basic truths that must unite us as we, the shareholders and Governors of the World Bank and IMF, chart their course for the years immediately ahead. In particular, it is essential for the institutions to focus selectively on areas where they can make a real difference and to ensure that as they evolve they are as modern as the evolving markets they must serve.

Let me be crystal clear: if our international financial institutions are to succeed in the new millennium, they must adapt the practices of the past to the demands and realities of the future. This means focusing more attention on giving all people the chance to make the most of their lives. It means investing in education and health care and in programs that attack the precursors of poverty. It means helping to build the private sector and investing in the promise of free markets and free minds, in democracy and in the rule of law.

But it also means giving greater attention to two broad issues that I firmly believe must shape and inform everything we do in our quest for equitable and sustainable global prosperity. The first of these is a commitment to sustainable development and our environment. We now know with perfect clarity that economic development and growth cannot ignore ecological realities. We know that investments that genuinely reduce poverty in an equitable and enduring way are investments that take their environmental implications fully into account. Not only is such an approach consistent with our development objectives, but it will also be much more cost effective. Win-win situations are not always available, but this is one of them, and it is available.

Given their unique capacity to both influence and help finance the development choices being made by the poorer countries, the multilateral

development banks have particularly serious responsibilities in this area. I have spoken forcefully about these responsibilities in the past and, speaking frankly, I have been critical of the institutions in the past. So, it is with great personal satisfaction that I view the progress that has been made by the banks in recent years and laud the tremendous hard work that has gone into producing that progress. The banks have committed to taking the environmental and social implications of their project work fully into account, examining all of the alternatives, ensuring that the whole range of costs and benefits is considered, and listening carefully to the views of affected people. This is an ambitious commitment, surely; it is a necessary commitment, absolutely.

I therefore welcome—and we all should welcome—the great distance that has been traveled on this front. Jim Wolfensohn and, before him, his late predecessor, Lew Preston, deserve our gratitude for their vision and their commitment. I wish particularly to thank Jim Wolfensohn for his persistence.

But the really hard work remains: the challenge now for both the institutions and the borrowers is to translate commitments into action. Today, therefore, I call on the banks and borrowers to meet this challenge head on. I call on you to make sustainable economic development and growth top priorities in planning Bank assistance in coming years.

We all share a huge stake in the success of this effort. The banks cannot do it without the borrowers. The borrowers cannot do it without the banks. And neither can do it without the continued strong support and encouragement of the developed countries. Let me assure you that the Clinton administration will be there, and the United States of America will be there.

The second key issue I would like to discuss is also an outgrowth of my own personal experience, as well as the lessons all of us have witnessed over the past 50 years. Surely, one of the most pressing development imperatives of all, and the one offering the greatest promise for human dignity, is the challenge of good government.

The bottom line is that good government—that is, government that is fully representative, transparent, accountable, and restrained—provides the indispensable foundation for virtually everything that we hope to achieve in meeting the challenge of equitable and sustainable economic development.

From my perspective, it has been a great personal honor and privilege to have worked over the last four years with some success toward President Clinton's goal of what we call "reinventing government" here in the United States of America. We have studied carefully the management techniques of the best-run corporations in the world and sought to apply those insights to the public sector.

This set of new insights and initiatives is based simply on a new understanding of human potential and on a new determination to take full ad-

vantage of the great intellect and creativity that exist in the minds and hearts of all individuals who work within these institutions in our government. I am convinced the same principle applies universally.

Here in the United States over the past three and a half years, we have eliminated both excessive management layers and misguided regulatory obstacles to private initiative and efficiency. We have cut over 16,000 pages of regulations. We are in the midst of that task now. We have pared down the federal workforce by a quarter of a million employees. The United States federal government is now smaller than it has been since John Kennedy was President of the United States almost 35 years ago. We have made government here more accessible and more accountable to the people whose lives it most directly affects. The result is stronger growth; more dynamic, innovative, and efficient markets; and a civil society that takes the fullest possible advantage of the opportunities provided by democracy.

I believe there are important lessons here: for us, as we continue to reinvent our government in the years ahead; for the poorer countries aspiring to greater prosperity; and for the institutions we gather today to support.

In far too many cases, the real obstacles to development and prosperity are pervasive legal and regulatory barriers that distort the decisions of small enterprises; poor choices by governments that are not sufficiently accountable for those choices; and a lack of mechanisms to ensure that decisions are fully informed by the views of the people whose lives they affect. Nothing—no specific investment or trade agreement or financing package—would make a greater or more enduring contribution to development than clearing away these obstacles.

Ultimate responsibility for taking these bold and difficult steps resides, of course, with you, the senior officials in whose hands the hard choices lie. But this assembly is, quite simply, our expression of commitment to help.

The international financial institutions are vitally important partners in this effort. We are fully supportive of the concrete steps they have taken to fulfill the challenge of reform posed by the Group of Seven at Halifax. We are very pleased by the important steps Jim Wolfensohn is taking to cut overhead, to streamline management, and to promote efficiency. We also are pleased that Michel Camdessus and the IMF, through their new data disclosure standards, are helping governments around the world to become more transparent and accountable to their citizens and world markets.

I believe that these priorities—taking a comprehensive approach to the challenge of sustainable development and good governance—deserve the closest possible attention by the institutions in the years immediately ahead.

Though we have much work before us, I am deeply confident that our cause is just, our path is clear, and our resolve is unwavering. Just as Lord Keynes reminded us at the conclusion of the Bretton Woods conference

more than two generations ago: "If we continue in a larger task, as we have begun on this limited task, there is hope for the world."

I believe in this hope. I believe that the next century will bring a new era of achievement and growth and human fulfillment. I pledge to you here today, on behalf of President Clinton, that the United States of America will do its part, as you do yours, until our job is done.

# **OPENING ADDRESS BY THE CHAIRMAN OF THE BOARDS OF GOVERNORS AND GOVERNOR OF THE FUND AND THE BANK FOR CHILE<sup>1</sup>**

*Eduardo Aninat*

## *Introduction*

It is with a sense of honor and responsibility that I welcome you to the Fifty-First Annual Meetings of the International Monetary Fund and the World Bank Group.

As we set our sights on the world economy, and take stock of emerging challenges and opportunities that lie ahead of us, I would like to take this opportunity to congratulate Mr. Michel Camdessus on his election for an unprecedented third term as Managing Director of the IMF. Under his leadership the Fund has not only held steadfast to its founding charter, but also managed to adapt rapidly to the realities of a fast-changing world.

I would also like to welcome Mr. James Wolfensohn, now entering his second year as President of the World Bank Group. His “hands on” approach has been warmly received among the Bank’s membership, and has gone a long way in strengthening external partnerships, increasing Bank-wide professional excellence, and achieving better results on the ground.

It is a pleasure for me to extend a special welcome to the delegation from Bosnia and Herzegovina, attending these Annual Meetings in the capacity as member for the first time and to the delegation from Brunei Darussalam who joined the Fund and the Bank during the Annual Meetings last year.

## *World Economic Outlook and Agenda for the Next Year*

To set the stage for our discussions, let me offer my perceptions of the current global economic environment and world economic prospects before highlighting what I regard as the major policy and institutional challenges we will face as we prepare for the new millennium.

The global economic environment today is characterized by an important degree of consensus. The combination of democracy and market economy is now widely seen in a virtuous relationship as a necessary basis for economic and human development. There is also a growing awareness of

<sup>1</sup>Delivered at the Opening Joint Session, October 1, 1996.

the strong interrelation between political liberty and economic freedom. This interrelation implies that imperfections in either the political or the economic sphere lessen the impact that the other sphere exerts on the process of economic and social development. As a result, efforts are now increasingly centered on the deepening and reinforcement of market mechanisms and democracy in order to boost the economic system's growth potential and the political system's effectiveness to respond to the needs of people.

If we look at the figures, world economic and financial conditions appear quite satisfactory. Global economic growth is expected to continue at a good pace throughout 1997, and over the medium term. The strength of economic activity has been especially impressive in the emerging market economies, particularly those of the Asian region. In the industrial countries, inflation should remain subdued, with further progress needed toward reducing fiscal imbalances and addressing structural rigidities, particularly in labor markets. As a group, the developing countries are expected to sustain their positive growth performance, reflecting their increased resilience to external disturbances and their success in reducing fiscal imbalances substantially over the past decade. In the Latin American region, the countries most affected by the Mexican financial crisis are showing encouraging signs of recovery. The adjustment undertaken has proved the irreversibility of market-oriented policies and has strengthened confidence further. Therefore, a solid basis may be set for growth becoming firmly established in the period ahead.

In Africa, the perspective has improved in an increasing number of countries after implementation of stronger macroeconomic and structural policies. However, economic conditions remain difficult in some countries where policy improvement is urgently needed. In the Middle East, economic performance has strengthened as a result of further adjustment. The transition countries have achieved remarkable progress toward macroeconomic stabilization and reform with promising growth prospects for 1997. However, remaining fiscal deficits, continuing government intervention on behalf of ailing sectors, and the absence of well-targeted social programs are still a constraint on the sustainability of recent hard-earned reductions in inflation and structural adjustment.

The encouraging picture drawn from this brief appraisal of global economic prospects makes clear that progress in implementing the policy strategy outlined in the Madrid Declaration of the Interim Committee two years ago has brought significant results in many areas. We may therefore remain cautiously optimistic about the prospects for growth and continued stability.

We have also witnessed an unprecedented expansion of investment and trade, and increasingly rapid dissemination of information and technological innovation in a world where economic progress is bound up with the process of globalization. Our overriding task will be to consolidate the gains achieved so far.



*Policy and Institutional Agenda*

From the promising outlook for the world economy and the accelerating pace of globalization, a number of issues emerge as natural topics on which I would like to focus our policy and institutional agenda for the coming year.

First and foremost in this agenda is macroeconomic stability. Inflation in Latin America has fallen to a level not seen in 25 years, and price stability in the transition countries has markedly increased. Fiscal deficits have also been reduced in many developing countries. The lessons learned from Asia's high-performing economies and the experiences of my own country highlight the importance of macroeconomic stability and public savings as a necessary condition for sustainable growth. A reasonable level of public savings is beneficial not only because of its impact on price stability but also because it supports a high level of domestic investment with sustainable external accounts.

This is borne out by the Chilean experience of the past seven years, where average annual fiscal saving—in the order of 4 percent of GDP—went hand in hand with strong growth at an annual average rate of over 7 percent and moderate current account deficits in the order of 3 percent of GDP. However, macroeconomic stability and fiscal health is never a once and for all achievement but a task that requires perseverance with coherent and prudent policies. Therefore, the challenge ahead will be the consolidation of the progress already made and the further deepening of fiscal adjustment. This is a task for both the developing and the industrialized world. The Fund and the Bank are uniquely placed to support domestic policy efforts in this direction. They can provide additional monitoring of macroeconomic performance and sound policy guidelines based on best practices learned from the most successful economic performers.

In the context of fiscal adjustment and consolidation, concerns arise about the social impact that reduced spending might have. This brings me to the second point on my list, the urgent need for increased efficiency and better targeting of social spending as an effective means to improve social equity and to reduce poverty. The widely observed elimination of poorly targeted subsidies over the last few years indicates progress in the right direction. However, there is still room to enhance the quality and effectiveness of social investment. The private provision of publicly financed social services is only one example of alternative ways to foster efficiency. For example, Chile is successfully using a voucher system in housing and education to subsidize demand rather than supply. Progress in areas such as optimal targeting, decentralization of social policy, and the innovation of instruments and administration are also needed to boost the impact of social investment in development.

Special emphasis should be given to human capital development. Education has proved to be the single most important factor explaining dif-

ferences in long-term growth performance, in poverty reduction, and in social equity across countries and regions. There is also much evidence on the positive externalities of better primary and secondary schooling. These convincing findings clearly justify putting education at the center of modern social policy.

The need for reengineering public social security and health care is another task that seems to be urgent in both the developed and the developing world. Too generous benefits, early retirement provisions, demographic aging, and lower productivity growth have driven many public pay-as-you-go pension systems into difficulties, drawing much-needed public resources away from alternative, more efficient uses. In Chile 15 years ago, the near bankruptcy of the public pay-as-you-go scheme was replaced with a fully funded, privately administered mandatory system. Today, after transition, the private system has already accumulated pension savings worth over 40 percent of GDP. Pension reform has clearly contributed to the development and broadening of financial markets at home. The experience depicted serves to underline the importance of finding acceptable transition paths to new sustainable and growth-enhancing social security systems. A similar task of reform applies to public health care where reengineering includes the search for more appropriate incentive structures and the development of proper regulation schemes for the private provision of publicly funded health services.

The fourth important item on our agenda for the coming years is the deepening of global economic integration. World trade has grown spectacularly over the last few decades, and significant progress has been made in trade liberalization. Multilateral mechanisms to reduce barriers to trade have increasingly been complemented with regional and bilateral agreements in order to accelerate the opening of markets. This process has been particularly impressive in Latin America where protectionist regimes have been significantly liberalized in only a few years. The recognition of the mutual benefits that trade provides to trading partners is the basic rationale behind this liberalization process. But reaping further gains from globalization requires a firm commitment to an even further opening of our economies. In this context, stronger cooperation of our two institutions with the newly created World Trade Organization (WTO) and regional trade entities will be beneficial. Attention should be paid not only to further reduction of tariffs on merchandise goods but also to the liberalization of trade in services and capital flows.

Fifth, in the area of international financial integration, sequencing the degree of opening of the capital account will depend on a country's economic structure, existing regulations, and the monitoring capacity of the authorities. This is evidenced by the Chilean experience at the beginning of the 1990s when renewed access to voluntary capital led to an important abrupt surge of short-term inflows, which created heavy local currency ap-

preciation and some overheating pressures. In response, a combination of permissive policies for long-term capital inflows and simultaneous deterrents to disruptive short-term inflows were set in practice. The above phenomenon, combined with a high level of national savings, has encouraged the authorities more recently to further intensify the promotion of Chilean investment abroad.

Finally, in the global economy, good governance is paramount to economic success and development. Under conditions of rapid integration, we have to find ways to promote responsible and representative political structures, thereby lending legitimacy to the formulation of global economic strategies. In addition to the possibility of citizen participation, good governance also implies the development of effective administrative structures and transparency in the use of fiscal resources. In the past, state organizations have often failed to focus on the needs of the people. Part of this failure is explained by the lack of adequate standards of accountability at different levels of government. Thus, despite progress in recent years, the modernization of public institutions remains a pending issue in most countries represented in this meeting.

### *Role of the Fund*

After having depicted a general agenda of issues for the near future, I would like to focus on the specific role that our two institutions might take in our ongoing efforts to improve global economic conditions.

The Fund's central mandate of exercising surveillance over the international monetary system and members' policies is more relevant than ever. The need for heightened surveillance, in a world of potentially destabilizing capital flows could not have received more vindication than in the aftermath of the Mexican financial crisis in 1995. I fully support recent efforts by the Fund to undertake continuous, intensive, and probing surveillance of its members' policies.

The effectiveness of Fund surveillance depends critically on the capability of its members to provide timely and high-quality economic data. To that end, I applaud the recent launching of the Special Data Dissemination Standard initiative. This new service created by the Fund will better equip market participants to evaluate the sustainability of financial flows as well as macroeconomic developments in capital market countries.

The 36 countries that have subscribed so far include industrial, emerging market, and transition countries, and represent a broad range of membership. I urge other members to consider subscription to this standard as soon as possible. I also urge the Fund staff and management to finalize work on the general data dissemination standard.

The Fund's role in providing technical assistance to its members has become increasingly important across a broad range of areas. I view the

continuation of that role as critical to the development of sound policy frameworks and to the process of institutional reform.

A further core activity of the Fund is to make its resources temporarily available to members facing financial problems so that these might be resolved without inflicting undue harm on the country concerned or its trading partners. The Extended Fund Facility has become increasingly important for assisting some of our larger members. In addition, the Enhanced Structural Adjustment Facility (ESAF) has proved to be an invaluable vehicle for lending to the low-income countries. I warmly welcome the understanding reached to ensure a continuation of the ESAF and the Fund's participation in the heavily indebted poor countries (HIPC) initiative. It is worth noting the large number of developing countries that have pledged their financial support to achieve this goal. I am proud to announce today that Chile has the honor of belonging to this group.

The basic source of IMF financing is its quota base. The Eleventh General Review of Quotas should be completed as soon as possible. It has become urgent to secure the financial resources the Fund will need to continue supporting members' adjustment efforts. In addition, I welcome the progress made by the Group of Ten and several other countries in establishing the New Arrangements to Borrow that will effectively double the resources available to the Fund under the General Arrangements to Borrow (GAB). I also applaud the consensus reached to reduce disparity among members through a one-time special allocation of SDRs through an amendment of the Fund's Articles of Agreement.

The Interim Committee has adopted a new declaration on Partnership for Global Sustainable Growth. I wish to take this opportunity to urge member countries to follow through with the implementation of this strategy.

Before turning to issues concerning the Bank, let me take this opportunity to convey to Mr. Van Houtven our appreciation for his service as Secretary of the Board of Governors for the past 20 years.

### *Role of the Bank*

For the World Bank Group, this has been a year of challenge. Mr. Wolfensohn has begun a number of very important initiatives. Let me take a few moments to highlight several of the advances made by the World Bank and its affiliates in the last year.

Poverty reduction and sustainable development remain central objectives of the Bank Group, and greater emphasis is now being placed on strengthening the effectiveness of the Bank's activities. More attention is being given to the needs of its clients and the results achieved on the ground, as reflected in recent activities such as the creation and replenishment of trust funds for Bosnia Herzegovina and for Gaza and the West Bank and the recent establishment of a joint Africa/World Bank "partner-

ship” for capacity building. The Bank has also taken important actions to give a broader choice of products and services to its clients. For example, in response to client demand for broader currency choice, the Bank has undertaken initiatives to provide borrowers with the flexibility to determine the currency composition of their IBRD loans. I applaud the increasing ability of the Bank to respond quickly to the needs of its clients, and I urge further progress in this direction.

Within the Bank Group institutions, the International Finance Corporation (IFC) has continued to expand and diversify its investment, mobilization, and advisory activities in response to its clients’ needs. I commend the Corporation’s new initiative, “Extending IFC’s Reach,” which will promote private sector investment in countries where IFC’s activity has been limited as a result of difficult country conditions. As the Corporation gains experience with this and other innovative programs, we expect its outreach in favor of small- and medium-sized enterprises to be strengthened.

The membership of the Multilateral Investment Guarantee Agency (MIGA) has grown to 137 members, and an additional 19 countries, including several in transition, are in the process of fulfilling membership requirements. However, in several countries the operational capacity of MIGA is constrained by its capital base and reserves adequacy. Therefore, MIGA should explore alternatives for solving this problem. I also look forward to seeing new developments around the idea to create a guarantee facility that would issue guarantees against noncommercial risks without requiring counter-guarantees from governments of member countries.

Regarding the International Development Association (IDA), I urge the richer countries to consider the plight of the poorest countries. Your increased contributions are absolutely necessary so that essential support for economic development programs in those countries can continue. This year the IBRD will be making an unusually large contribution to IDA through a transfer from its net income. Nevertheless, in the long run a well-funded IDA should not be crucially dependent on IBRD resources.

In addition, I would also like to strongly commend the substantial efforts and the progress made by the Bank and the Fund to develop a significant debt-reduction scheme for the heavily indebted poor countries. As final details of the initiative are still open I would like to recall the importance of establishing burden-sharing criteria that are commensurate with the preferred creditor status of the institutions.

For some years now, the IBRD has been generating significant net income and this trend is expected to continue. In allocating this income, the main goal should be the preservation of the financial position of the Bank through adequate reserve building. The allocation of the significant residual income should be guided by the multilateral spirit of the Bank and therefore take into account the interests of all members. I therefore urge the

Bank to develop a set of guiding principles for the future that ensures an appropriate balance in the distribution of net income.

*Conclusions: Human Dimension of Economic Development*

Before concluding, I would like to share with my fellow Governors some further ideas concerning the social sphere of the development process. In particular, we need to ask ourselves about the profound meaning of development as it relates to the needs and aspirations of all of our citizens. How is the agenda we have laid out related to human development?

We all share the view that rapid economic growth, macroeconomic stability, and the resurgence of free trade and cross-border investments in the context of globalization are key ingredients of the development path in the present scenario.

My claim today is that we must never forget that all of the above represent means to an end. The profound agenda of our citizens has to do with human progress, with the pursuit of individual and social happiness. That is the core matter at stake as we approach the change of the century.

Among the most precious values cherished by people during this key epoch of mankind is the achievement of social equity. The poor, the worse-off, the vulnerable groups in our societies are in need of key resources for their development. But these groups also have a deeply rooted hunger for voice and for finding an effective way of participating fully in the economic and civic lives of the community.

The context of stability and economic progress we are experiencing is a promising sign. But it shall not take profound roots in the history of mankind unless it serves to open up clear opportunities to all of our citizens. Yes, in my view this is at the core of the challenges ahead, as we come to the twenty-first century: will the engine of progress become an instrument of vast integration and social enhancement or merely a vehicle to benefit the few?

My fellow Governors, let us not miss the great opportunity we are facing. We have a profound obligation to work decisively and with no hesitation towards the betterment of the quality of lives for all. The characteristics of exclusion, of marginalization, of deprivation, should be left behind as shortcomings of the past.

Let us not confuse ourselves. There is one key enhancing task for development: providing clear-cut and down-to-earth opportunities for raising the dignity of each and every one of our fellow countrymen. It is the crucial link between economic and social development and the efforts to dignify mankind that makes our work a truly meaningful task. Thank you.

I hereby open the Fifty-First Annual Meetings of the International Monetary Fund and the World Bank Group.

# **PRESENTATION OF THE FIFTY-FIRST ANNUAL REPORT**

BY THE CHAIRMAN OF THE EXECUTIVE BOARD AND  
MANAGING DIRECTOR OF THE  
INTERNATIONAL MONETARY FUND<sup>1</sup>

*Michel Camdessus*

I am very pleased to welcome you to the 1996 Annual Meetings. I would especially like to welcome the representatives of Bosnia and Herzegovina, the newest member of our institutions. I would also like to congratulate them on the first steps they have taken in their efforts to rebuild a peaceful country. Indeed, we want to support these efforts as much as we can. One last word of preamble—a bit personal. Early next year, I will begin another term at the Fund. Let me take this opportunity to thank you and your governments for your continuing confidence and support.

When I see the 181 members of the Fund gathered here in this hall, I am reminded of what has brought us all together: the very purposes of the Fund—the desire for greater economic stability in the world, and the desire for stronger, more sustained, and more broadly shared growth. But we do not have to think back very far to recall major challenges to these goals. Remember! Three years ago, Africa was in the midst of a protracted decline in per capita income, as it had been for more than a decade. Two years ago, we were deeply concerned about hyperinflation in Russia and its risks for Russia and the world. Last year, it was Mexico, its spillover effects, and the unprecedented level of Fund support for that country's adjustment efforts. These were tremendous challenges indeed, but they were met. Who would have dared hope that as early as this year Russia would have strengthened its macroeconomic policy stance to such an extent that it would even achieve one month of zero inflation; or that economic recovery would be sufficiently under way in Mexico that it would begin early repayments to the Fund; or indeed, that Africa would be in its third year of per capita growth, thanks to the rigor of the programs that many countries follow!

Well, these are not minor accomplishments. And they do demonstrate that things can change for the better. But we all know that lying just below the surface in all our economies are the powerful trends toward globalization. And we know that the relatively satisfactory results of the last few

<sup>1</sup>October 1, 1996.

months would be fleeting if at the same time we were not striving to meet these fundamental challenges decisively.

As a matter of fact, when I addressed you last year, we were already confronted with them. After commenting on our steps to help stem the Mexican crisis, I concluded my remarks by trying to outline what this major crisis suggested for your countries' strategies, and for the Fund as well. I think it is proper today to review, first, how successful your strategies have been; and second, how the Fund itself has adjusted to the opportunities and challenges of this new world. Let me take these two issues in turn.

### *Economic Strategies and Performance*

First, about your strategies and how far we have come in enhancing global stability and growth. Well, there are encouraging signs of progress: world economic and financial conditions are generally satisfactory, and the outlook is favorable.

Among the more positive developments, I would cite the reduction in world inflation. In particular, many industrial countries have come close to achieving effective price stability.

I would also point to the continuation of solid 6 percent economic growth in developing countries, and the fact that this growth is now becoming more widespread. The pace of economic activity in Asia continues to moderate to a more sustainable but still remarkable rate of about 7½ percent. Let us pause here for a moment and take a slightly longer-term view of what has been happening. In two huge countries—China and India—which together account for more than one-third of the world's population, there have been striking improvements in average per capita incomes, even though poverty is far from being conquered. Meanwhile the recovery in Latin America is gaining momentum, thanks to stronger policies in many countries. And here, I cannot but emphasize the continued outstanding performance of your own country.

Africa's growth performance also deserves special mention. Last year, there were 25 countries with annual growth of 4 percent or more—nearly twice the average number in 1990–93. Although performance across countries is still mixed, we expect Africa as a whole to grow by 5 percent this year and next, the highest rates of growth in two decades. Africa, for which so many seemed to have lost hope, appears now to be stirring and on the move.

In the countries in transition, economic activity is projected to stabilize this year, after five years of decline. Among those more advanced in the transition, eight are expected to record growth of 5 percent or more, and four to achieve single-digit inflation. So the countries in transition that were thrust into a brave new world are no longer dazed and have begun their upward climb of growth and development.



For the world as a whole, I must also mention the continued growth in the volume of world trade, progress toward trade liberalization and current account convertibility, the trend toward increased freedom of capital movements, the rebound in private capital flows to developing countries, and developments in exchange markets, which have brought the relationships among major currencies more closely in line with economic fundamentals. These are major developments indeed from the point of view of the IMF's purposes, and they have all contributed to today's broadly favorable economic situation. But we must build upon them further, as globalization requires that we continue progressing toward freedom of capital movements, but that we do so safely.

Of course, these developments are not just happenstance. They are, first of all, a reflection of the growing consensus among Fund members on the need for adjustment and reform. And they are the result of the fact that many countries have had the courage—often in very difficult circumstances—to strengthen their economic and financial policies, and that the Fund has been in the position to provide an appropriate level of support for their efforts. Today, about 60 countries have programs with the Fund, amounting to commitments of roughly SDR 30 billion. In addition, there are some 25 new arrangements under consideration.

Yes, there have been many positive developments in the global economy. Yet, we also know that macroeconomic and structural weaknesses persist in all of our countries. Moreover, we know that the forces of globalization can magnify the adverse effects of policy weaknesses, pose new risks for all of our countries, and raise difficult policy dilemmas even when policies are sound. All of these considerations impel us to greater vigilance and renewed partnership in facing this new world. This is why I particularly welcome the broadening and strengthening of the Madrid Declaration, which was endorsed by the Interim Committee last Sunday.

Let me emphasize to you that this declaration you have on your tables is not just another text, another call to action. No, it is something quite special: it is the distillation of Fund surveillance lessons by the world's most representative body of finance policymakers.

You have eleven commandments there; let me emphasize four of them.

First point: it is clear that we must adopt a more ambitious approach to fiscal consolidation. The agreed common objective is to achieve budget balance and strengthened fiscal discipline in a multiyear framework. We know that many countries could achieve faster, more sustained growth if they could substantially reduce their large budget deficits and the sizable claims that these deficits place on private savings. But reducing budget deficits cannot be the only concern; the composition of fiscal adjustment also has profound effects on economic welfare, capital accumulation, and growth.

To put it another way, we know that the quality of adjustment also has a large bearing on its sustainability. Thus, fiscal adjustment must not only

reduce budget deficits, but also improve the quality of expenditure by reducing unproductive outlays to make more room for spending on such critical areas as health and education. It must also improve the incentives for private sector activity; and in some countries, it must deal with medium-term problems associated with aging populations. Finally, fiscal adjustment must create enough room to put human development at the center of our fiscal strategy, as we know that the sustainability of economic growth hinges on that.

Second point: if countries are to benefit fully from globalization, they must take a bolder approach—not just to fiscal reform—but to structural reform in general. In every country, we can point to ways in which comprehensive structural reform—not just tinkering at the margin with this measure or that—would improve the effectiveness of macroeconomic policies, help create jobs, and protect against the risks I mentioned earlier.

Third point: in a number of our member countries, reform of the state. There can be no sustainable development without the responsible management of public affairs. This means, first, that governments must demonstrate that they have no tolerance for corruption in any form; and second, that they must dedicate themselves to fulfilling those tasks that are so essential to the confidence of private savers and investors and the smooth functioning of their economies. Tasks such as maintaining public safety, protecting property and contractual rights, providing reliable public services, establishing a simple and transparent regulatory framework that is enforced fairly, and guaranteeing the professionalism and independence of the judiciary. These are not easy tasks, but they are essential for sustained economic growth.

And fourth: to take urgent care of the Achilles' heel of the global economy today—the fragility of national banking systems. In many countries, a banking crisis is an accident waiting to happen. And we know all too well why. Why? Weak macroeconomic policies and poor economic performance undermine banking sector health and, conversely, weak banking sectors stand in the way of effective macroeconomic policymaking. As a result, countries with banking problems may shy away from tightening policies when needed for provoking a domestic banking crisis. The failure to take early action can be costly. For the country concerned, the fiscal costs of resolving banking sector problems can be truly exorbitant and involve a tremendous drain on countries' resources. On the basis of recent experience, let me tell you that this is something that we truly don't want to see repeated. At the same time, we must also avoid the systemic consequences such crises can entail.

Needless to say, in working closely with all other interested institutions, we will not fail to respond to the call for particular vigilance that this implies for the Fund. In this connection, I am happy to report that Jim Wolfensohn and I have decided to join our financing and surveillance

forces to address these risks in a strongly coordinated way. The IMF and the World Bank's cooperation is already producing positive results—to cite the most significant examples—in Latin America, where we work hand in hand with the Inter-American Development Bank (IDB), and in the Baltic countries, Russia, and other countries of the former Soviet Union, and the East European countries, where we work actively with the European Bank for Reconstruction and Development (EBRD) and continue to cooperate closely with the Bank for International Settlements (BIS) in providing technical assistance on central banking issues.

No more on these key elements of our common strategy. Let me turn now to my second point.

### *The Fund's Agenda*

You remember certainly the agenda that we established last year. The purpose was to adjust so that the Fund could help ensure that globalization truly becomes an opportunity for the world. Let's see where we are.

The first item of business was to strengthen surveillance. To this end, we have continued to sharpen the focus of Article IV consultations, giving greater attention to capital account developments, to countries where developments could have spillover effects, and to regional surveillance. We have also encouraged all countries to improve the quality, comprehensiveness, and timeliness of the basic statistical data they provide to the Fund and to the public.

As regards the latter, the Fund has helped develop and disseminate a set of standards regarding the coverage, frequency, and timeliness of data; their quality and integrity; and their availability to the public. Countries subscribing to this Special Data Dissemination Standard agree to adhere to these sound practices and to provide information to the public on their own specific practices via an electronic bulletin board on the Internet, maintained by the Fund. This transparency promises to give market participants the information needed to form judgments on the policies and performance of subscribing countries, thereby contributing to more informed investment decisions and fewer market surprises. I am very pleased to report that 37 industrial and emerging market countries have subscribed to the new Special Data Dissemination Standard. I encourage many more to join, and I can tell you that many are preparing to do so.

But there is another essential part of our agenda: strengthening the Fund's resources so that the IMF can continue—as it is said in our Articles—to “give confidence” to all members to undertake bold programs of adjustment and reform. Moreover, since it is unlikely that we will be able to avert every crisis, we must equip ourselves to face unexpected, and potentially disruptive, developments. Decisive progress has been achieved on three fronts:

First, in securing additional resources for the Fund to use in emergency situations. In particular, Group of Ten countries and a number of other Fund members in a sufficiently strong balance of payments position to support the international monetary system are about to finalize arrangements to double the lines of credit previously available to the Fund and thereby bring the total amount of these credit lines to SDR 34 billion. Let me record here my appreciation for all those who worked hard in preparing these agreements.

These arrangements could become a key supplement to the Fund's own resources in a time of systemic crisis. But they cannot support the Fund's normal operations—nor should they. The Fund is a cooperative institution based on quotas, and its strength and credibility depend on its maintaining its quota strength. The current quota review, the eleventh, is an opportunity to reflect in members' quotas the changes in the world economy that have taken place since the last increase in quotas was agreed. With relatively strong demand for Fund resources, the Fund's liquidity ratio is currently on a relatively sharp downward trend, and by the end of 1997, it is projected to decline to below the traditionally critical threshold of 70 percent. This would be the Fund's lowest liquidity ratio since late 1983, just before the Eighth General Review of Quotas came into effect. This makes it a matter of urgency, particularly at a time of increased uncertainty in the global economy, to finalize the negotiation on a substantial quota increase with no further delay. The Interim Committee has called upon our Executive Board to resume discussions on the Eleventh General Review of Quotas, with a view to coming to a positive conclusion in the near term. This truly will be a critical priority in the coming months.

The second front on which I can record major progress goes to the heart of the IMF's character as a cooperative monetary institution, and that is the issue of Special Drawing Rights (SDRs). We all have been concerned about the fact that many members have not been able to participate fully in the SDR system. I am very pleased that the Executive Board has reached agreement on a way for all members to receive an equitable share of cumulative SDR allocations and thereby put all participants on the same footing in the SDR system. This has required a very high cooperative spirit from our members, with the flexibility of some on the vehicle for the solution (now as an amendment of the Articles) being matched by the flexibility of the others on an amount broadly reflecting my own suggestion of SDR 26 billion.

And now the third breakthrough: a similar—and I must say truly remarkable—spirit of compromise by members of the Executive Board has allowed us to find a constructive solution to the complex issue of financing the continuation of Enhanced Structural Adjustment Facility (ESAF) and the Fund's contribution to our joint World Bank and IMF

initiative in favor of the heavily indebted poor countries. We are all too close to the intricacies of this negotiation to realize fully what was finally achieved. But let me tell you that I am very proud of what has been done.

All of us have given in somewhat on our favorite option in order to contribute to an effective and efficient consensus.

All of you have pledged to secure the needed financing, through bilateral contributions, and, if needed, as we say in our jargon—through the “optimization of our reserve management.”

Even the poorer countries have accepted a part of this burden to help those suffering from the most adverse conditions of poverty and indebtedness. Indeed, when you hear the representatives not only of Chile, but also of Armenia and Azerbaijan, Tunisia and Bangladesh, Paraguay, Peru, and Russia—to mention just a few of those contributing to this effort jointly with the industrial countries—then you realize that, yes, the world can change for the better and that a new partnership is emerging. And I repeat, I have only mentioned a few. Many others join in accepting this individual and common responsibility for mutual support.

In doing this, you have endowed the Fund with a self-sustained—and de facto, permanent—instrument that will allow it to continue to play its role in addressing decisively—whenever it may be necessary in the future—the problems of the countries in the most distressed situations, provided they show their readiness to make all their own efforts to stand again on their own feet.

I have talked about the New Arrangements to Borrow-General Arrangements to Borrow, equity in the SDR system, the new quota increase, and the permanent ESAF. Each of these issues or initiatives has illustrated a decisive new dimension of our partnership—namely, the greater share of responsibilities in the global economy that many countries, including emerging market economies, are now willing and able to accept. This, no doubt, has the full potential, provided we continue to adapt our institutions and procedures to reflect it, to forge greater international cohesiveness in meeting the common goals of a stable world monetary system and a growing global economy.

We have a very challenging agenda. But these are challenging times. In looking to the future, we must bear in mind that many of the challenges in today’s global economy are much greater than any single country or group of countries can cope with alone. But when we, the international community, work together, our tasks become more manageable and our objectives, within closer reach. So let us keep our sights on our common goals: greater stability in the world and stronger, more sustained, more broadly shared and higher-quality growth. Let us redouble our collective efforts to achieve these goals. This is what our partnership is now all about.

## OPENING ADDRESS BY THE PRESIDENT OF THE WORLD BANK GROUP<sup>1</sup>

*James D. Wolfensohn*

### *Introduction*

I am delighted to welcome you to these Annual Meetings. I would like to thank the Chairman for his support for our efforts, and I would also like to express my deep appreciation to Michel Camdessus, who has helped me so much this year with his experience, advice and, above all, his friendship.

Like Michel, I extend an especially warm welcome to Bosnia and Herzegovina, our one hundred and eightieth member country. During my visit to Sarajevo last April, I saw the magnitude of the challenge facing the country, and I was profoundly moved by the courage and hope of its people. Working with them, and with all our partners, the Bank has already begun to help with the massive task of reconstruction. Elaine and I join with everyone here in offering our heartfelt best wishes to the citizens of Bosnia and Herzegovina for peace and happiness in the years to come.

I have visited over 40 countries in these past 16 months. I have met with governments and business and nongovernmental groups. But it is the people—the poor and disadvantaged—who have made the biggest impression on me. I have learned that they do not want charity; they want opportunity. They do not want to be lectured to; they want to be listened to. They want partnership. Like all of us, they want a better life for themselves and for their children. What I have seen in country after country is that when they are given a chance, the results are truly remarkable.

I have also been struck by the critical importance of history and culture. We must build upon local tradition, not disrupt it. We must encourage the young to respect their heritage. And we must accord dignity to the individual. Without respect for cultural continuity and for social institutions, I believe there can be no true development.

Let me express my gratitude to the groups represented here in this room—whether donor or recipient, private business, foundation, or nongovernmental organization. I feel privileged to have become a member of this great community. And I believe that by strengthening our partnership even more, we can offer the people we serve better opportunities and more hope for the future.

<sup>1</sup>October 1, 1996.

Working together is in everyone's interest. There are not two worlds—rich and poor—there is one. We are linked in so many ways. Simple economics gives the industrialized countries reason enough to assist the developing countries. With their 4.5 billion people, these are the markets of tomorrow. But rich and poor countries are also linked by a host of challenges that have no respect for national borders: migration, disease, environmental degradation, famine, terrorism, and war.

More positively, we are linked by a common humanity, and are united in a historic undertaking to improve the human condition. We must get this message across to our leaders *and* to voters—so that we can maintain and strengthen our common effort.

### *The Past Year: A Progress Report*

When we met last year, I set out six immediate priorities:

- Bringing IDA-11 to a successful conclusion
- Addressing the debt problems of the poorest countries
- Building and expanding partnerships
- Accelerating private sector development
- Doing more to help in postconflict situations and
- Creating a “results culture” within the Bank Group.

Thanks to your support, tremendous help from our Executive Directors, and a great deal of effort from our management and staff, I have significant progress to report.

First, I pledged that we would do all in our power to ensure sufficient funding for IDA-11. The agreement reached last spring should enable the International Development Association (IDA) to lend close to \$22 billion over the next three years—a remarkable achievement under the circumstances. At the same time, the agreement is fragile. It depends crucially on donors' understanding of each other's individual positions on the replenishment and, of course, on commitments being honored as speedily as possible. Beyond this, we must all intensify our efforts to ensure IDA's long-term future—remembering always that it is the lifeline for three billion people living in the world's poorest countries.

Second, I committed last year that we would work closely with our other partners to address the problem of unsustainable debt in the poorest countries. As Michel Camdessus has noted, after a year of hard work and much debate, the Bank and the IMF together have developed a proposal that is flexible, comprehensive, and responsive to debtors and creditors alike. At the Development Committee meeting yesterday, Ministers gave their strong endorsement to this proposal. Now, presuming fair burden sharing with other donors, we are ready to move ahead with debt-relief operations in select countries. I extend my thanks to everyone who has

helped in this effort, which I believe will prove to be a major breakthrough in the fight against poverty.

Third, I said we would build stronger partnerships. This past year, I met with the leaders of the other multilateral banks to explore better coordination of our programs. We have expanded our links with the United Nations and its agencies, the World Trade Organization, and the European Union. We have forged new relationships with the major foundations and with non-governmental organizations, both international and local. We are building partnerships on gender issues, the environment, the social impact of economic reforms, the private sector, and other priority areas. We are also deepening partnerships with our shareholders, including trying to benefit more from the successful development experience of our “graduates,” such as Singapore. Above all, we are strengthening partnerships with our clients: for example, through the innovative program for Capacity Building in Africa, prepared and recommended by the African Governors at these Meetings.

Fourth, we have stepped up our efforts to promote private sector development, and to rationalize the Bank Group’s activities with the private sector.

- The Bank is working with governments to help them improve the policies, and legal, tax, and judicial systems that are crucial for encouraging investment. We have strengthened our outreach to corporations, helping them to assess and implement projects in our client countries. We have also heard one of the messages coming through loud and clear at these Meetings: to strengthen our guarantee program. I am pleased to report that there are 43 confirmed and probable projects in our IBRD guarantee pipeline—most awaiting government action or investor decisions for the next step. And we are actively looking at how we can expand this program even further.
- The International Finance Corporation (IFC), celebrating its fortieth anniversary, has had a record year, leveraging more than \$19 billion in support of projects worldwide. Since its founding in 1956, it has provided financing to nearly 2,000 companies in 125 countries. As you know, IFC often works in countries where few other financial institutions are willing to go and, in the next year, it will extend its reach to 16 nations where it has never worked before—and where the investment climate is the toughest.
- The Multilateral Investment Guarantee Agency (MIGA) also continues to exceed our original expectations. Its guarantees have catalyzed foreign direct investments now totaling an estimated \$15 billion, and its on-line marketing and information service, the IPAnet, offers data and analysis on the business climate in more than 90 countries. Given the rapid growth in demand for its services, our Board will soon be discussing my recommendation for a capital increase for MIGA.



We have established a Private Sector Development Group to pull together the catalytic strengths of our three institutions, and to make them more easily accessible to our private sector partners. In addition, the Bank and IFC have initiated joint country strategies to help ensure that our activities reinforce each other and stay clearly focused on development impact.

Fifth, we have organized ourselves for postconflict work, and have made great strides in improving our programs. In Bosnia and Herzegovina, 14 projects are being implemented, with Bank Group financing of over \$325 million. In Gaza and the West Bank, our joint efforts are yielding results and have contributed to the creation of 22,000 new jobs. In Haiti, we are working with a coalition of donors to help sustain peace and build economic opportunity for the poor. We are also working in Angola and Lebanon to assist with employment and reconstruction. More broadly, we will soon be presenting to our Board a policy paper aimed at strengthening our support for postconflict recovery.

Sixth, I pledged last year to build a “results culture” at the Bank, and this effort is showing tangible progress. I am extraordinarily grateful to my colleagues in the management team for their advice and support, without which none of our achievements would have been possible. We have stressed that we will not measure our performance by dollars lent or projects approved, but by our development impact—results on the ground. I cannot overstate the importance of this change. By putting quality ahead of quantity, we have fundamentally changed the incentives that guide our staff. Backed by tougher quality assurance for our work and enhanced accountability, this will result in major improvements in project design. We also have raised country portfolio issues to a higher level of attention with our clients. I myself have discussed these issues with the authorities in Russia, Brazil, and other countries. And we have launched a major review of country portfolios with the highest concentrations of risky projects.

We are increasing our country focus through much stronger client involvement in our assistance strategies and by locating some of our country directors in our borrowing countries. We are paying greater attention to our clients’ needs, with customized advisory services and important new products such as the single-currency loan, which allows our clients to borrow at an effective 50 basis points above the AAA rate. And we are speeding up our procedures.

We are also improving our professional expertise through the creation of sectoral “networks” among our staff, with the first of these established in the area of human development. We are strengthening our management capacity with a substantial executive education program, as well as an exchange program with a broad range of private and public institutions. And we are investing more in our staff, including a doubling of skills training this year. In all these areas, we are choosing our best women and men, who

reflect our rich geographic diversity, to build a Bank that can work most effectively with women and men all over the world.

While we still have a long way to go, I believe we have made real progress toward changing the course of the institution. We now have a committed and talented team—staff and management—working to improve the Bank Group and to prepare it for the next century. There is excitement and empowerment; there is challenge and innovation. We will succeed with some initiatives, and we will fail with others. But our institution is on the move.

### *The Strategic Agenda*

Together, we have accomplished a great deal over the past 12 months. But it is just the beginning—the downpayment on the bigger task that lies ahead. Together, we need to look towards the challenges facing us in the new millennium.

Last year, I suggested four major themes, which have evolved but which remain valid for the coming year and beyond:

- First, a new compact between donors, investors, and recipients to ensure that resources are sufficient to meet the needs of the world's poorest people and also to ensure that those resources are used efficiently and transparently.
- Second, a broader, more integrated approach to development to ensure sustainability.
- Third, strengthening and expanding partnerships, both global and local.
- And, fourth, continuing to pursue change in the Bank's culture to focus on excellence and results.

### *The New Compact*

First, the new compact. I have already mentioned IDA and the debt initiative and their critical role in catalyzing resources for development. We also need to attract more private flows to the poor countries. And then we need to work on the second part of the compact: to ensure that all resources are used efficiently.

In 1995, private flows to developing countries exceeded \$170 billion, three times official flows, and four times what they were just five years ago. However, 75 percent of these flows went to just 12 countries. About 50 countries, most of them very poor, received virtually no private inflows.

Our new world of open markets raises the stakes for developing countries. Investment is linked to good policies and good governance, liberal trade regimes and high savings rates, combined with sound legal and judicial systems. Simply put, capital goes to those countries that get the fundamentals right. And we are working with our clients on those fundamentals.

Strong financial systems are key. But there are pervasive problems with prudential regulations and their enforcement. About one in five developing countries faces a banking crisis. Unproductive public expenditures and uncollected taxes are a further huge drag on these economies. That is why the Bank Group, working with the IMF, is strengthening our capacity to help our clients strengthen their financial sectors and reform their expenditure programs.

If the new compact is to succeed, we must tackle the issue of economic and financial efficiency. But we also need to address transparency, accountability, and institutional capacity. And let's not mince words: we need to deal with the cancer of corruption.

In country after country, it is the people who are demanding action on this issue. They know that corruption diverts resources from the poor to the rich, increases the cost of running businesses, distorts public expenditures, and deters foreign investors. They also know that it erodes the constituency for aid programs and humanitarian relief. And we all know that it is a major barrier to sound and equitable development.

Corruption is a problem that all countries have to confront. Solutions, however, can only be home grown. National leaders need to take a stand. Civil society plays a key role as well. Working with our partners, the Bank Group will help any of our member countries to implement national programs that discourage corrupt practices. And we will support international efforts to fight corruption and to establish voluntary standards of behavior for corporations and investors in the industrialized world.

The Bank Group cannot intervene in the political affairs of our member countries. But we *can* give advice, encouragement and support to governments that wish to fight corruption; and it is these governments that will, over time, attract the larger volume of investment. Let me emphasize that the Bank Group will not tolerate corruption in the programs that we support; and we are taking steps to ensure that our own activities continue to meet the highest standards of probity.

### *The New Paradigm*

The second element of our strategy is the need for a broader, more integrated approach to development—a new paradigm, if you will.

Poverty reduction remains at the heart of everything we do. But the magnitude and complexity of the task is daunting. This was brought home to me time and time again in my travels as I met and talked with people, whether it be the coal miners of Ukraine, the Moslem women's groups of North Africa, the unemployed of Tucuman in Argentina, or the fishermen of the Aral Sea.

Reducing poverty clearly involves the interplay of a number of issues: macroeconomic policy, private sector development, environmental sus-

tainability, and investments in human capital, especially girls' education and early childhood development. All the elements are important.

But let's face it, at the end of the day, people make policies and projects work. Social, cultural, and institutional factors are key to success and sustainability. In the Balochistan province of Pakistan, for example, where female school enrollment rates have traditionally been among the lowest in the world, local communities and parents worked together through a Bank-supported project to design culturally sensitive schools and curricula. The result is that Balochistani parents are now sending their little girls to school.

This is even more true at the policy level. We are all familiar with the record of the East Asian countries. But it was those countries' strong institutions and social cohesion that enabled them to consistently choose sound macroeconomic policies, promote rural development, and make large investments in basic education and health. And the result was rapid growth and poverty reduction.

Without the social underpinnings, it is difficult for economic development to succeed, and virtually impossible for it to be sustained. We see this in countries that are mired in poverty, where economic growth is fragile, population is rising rapidly, children are not going to school, and even more tragically, where they are dying from diseases we know how to prevent or cure. On a more extreme scale, we see it where the social fabric is torn and conflict has broken out. I referred to the horror in Bosnia. But just last year, there were some 50 major in-country conflicts worldwide. Over the past decade, more than half of the world's poorest countries have experienced conflict.

The lesson is clear: for economic advance, you need social advance, and without social development, economic development cannot take root. For the Bank, this means that we need to make sure that the programs and projects we support have adequate social foundations,

- by designing more participatory country strategies and programs, reflecting discussions not only with governments, but also with community groups, nongovernmental organizations (NGOs), and private businesses,
- by putting more emphasis on social, cultural, and institutional issues—and their interplay with economic issues—in our project and analytical work, and
- by learning more about how the changing dynamics between public institutions, markets, and civil society affect social and economic development.

I see this as a critical challenge, in fact, the critical challenge before us. But if we can succeed in broadening our approach in this way, I believe it will have a tremendous payoff in helping our clients to achieve truly sustainable development.

*The New Knowledge Partnership*

The third item on the strategic agenda is partnership. We have made good headway over the past year. But today, I want to focus on a specific form of partnership that will take on special importance as we enter the new millennium—a partnership for creating and sharing knowledge and making it a major driver of development.

Development knowledge is part of the “global commons”: it belongs to everyone, and everyone should benefit from it. But a global partnership is required to cultivate and disseminate it. The Bank Group’s relationships with governments and institutions all over the world and our unique reservoir of development experience across sectors and countries position us to play a leading role in this new global knowledge partnership.

We have been in the business of researching and disseminating the lessons of development for a long time. But the revolution in information technology increases the potential value of these efforts by vastly extending their reach. To capture this potential, we need to invest in the necessary systems, in Washington and worldwide, that will enhance our ability to gather development information and experience, and share it with our clients. We need to become, in effect, the Knowledge Bank,

- by networking and pooling our wealth of cross-country experience, capturing the best global thinking and expertise on a given issue, and making it easily accessible to our clients and partners,
- by expanding the role of our Economic Development Institute, which already reaches thousands through its learning programs, and is well on its way to reaching millions by harnessing teleconferencing, television, and the Internet, and
- by pioneering new partnerships that connect our clients with global centers of knowledge and investment: one example is our World Wide Web site, which is accessed 1.5 million times a month; another is the Information and Development Fund, through which the Bank and our partners help the poorest countries to realize the potential of information technology.

Let me stress one other point: the global knowledge partnership is not about machines. It is about people. The challenge is to harness the technology to link people together and to leverage its impact for development. That means both accumulating the right kind of knowledge, and helping our clients build the capacity to use it.

*The New Bank*

Let me turn briefly to the fourth and final item on our strategic agenda: the Bank itself, and building a culture based on results, accountability, and excellence.

To get the biggest bang from our scarce resources, we must be absolutely tough minded. Sometimes in the past, we set overly ambitious targets and committed ourselves to objectives that were simply not realistic. That must change. We have to promise only what we can deliver, and then, deliver what we promise. This new culture of realism and results is fundamental to the changes at the Bank to which I referred earlier:

- getting closer to our clients;
- developing new products, customized to our clients' needs; and
- ensuring that our products are of top quality.

To be successful, we will need new skills and new ways of working together. We need to continue the effort to invest more in our staff, to keep them at the cutting edge in their field. And we need also to become much better at working with others, tapping knowledge sources around the world to bring the very best expertise to our clients.

We have started down the road to revitalizing our institution. It will not be done overnight; and it will require some special investment up front. As part of the effort, we are taking a fresh look at our finances and at our fee and cost structure. We must be able to make more flexible and better decisions on how we use our resources.

We have before us a real opportunity to invest in the future. With your support, I am confident we can build a new Bank: a more responsive, focused institution, dedicated to learning and excellence, serving the needs of our entire membership, and reinvented to face the challenges of the twenty-first century.

### *Conclusion*

I have spoken of a strategic agenda that will carry us forward to the next millennium. But we can only meet it through partnership.

And that leads me back to where I began today, with my visit to Sarajevo. I met there with religious leaders: Catholic, Moslem, Orthodox, and Jewish. And I was struck by the fact that each of them spoke, not of hatred, but of the need to work together and to look to the future.

One of them, a Moslem leader, told me how he had lost his wife and two daughters to a single shell, on a single day of fighting, as they went to the market to buy some water. And yet, as I sat with him on a carpet in his mosque, he spoke of the meaning of the Koran, and of forgiveness. "We have to work together," he told me, "It's our only hope."

Working together is a challenge for us all and a responsibility for our world: for social justice, for economic opportunity, for human well-being, and for history. We are all here because we share the dream of a better world.

To achieve it, we have to work together.

REPORT TO THE BOARD OF GOVERNORS OF THE  
INTERNATIONAL MONETARY FUND BY THE CHAIRMAN  
OF THE INTERIM COMMITTEE OF THE BOARD OF GOVERNORS  
OF THE INTERNATIONAL MONETARY SYSTEM

*Philippe Maystadt*

It is a great pleasure to have this opportunity to report to the Governors, in my capacity as Chairman of the Interim Committee, on the work of the Committee over the past 12 months. The issues before the Committee have been well covered in its communiqués and I shall therefore limit myself to commenting briefly on the main items.

*The World Economic Outlook*

At its spring meeting on April 22, and again on Sunday, the Committee expressed optimism at prospects for the world economy and noted that many of the favorable developments reflected the implementation of key aspects of the cooperative strategy set out in the Madrid Declaration of October 1994. Several key factors support this positive outlook: the progress toward price stability and fiscal consolidation in many countries, the improvement in exchange market conditions among the major currencies, the strong growth of trade and financial flows, and the increasing reliance worldwide on market forces.

Against this background, the Committee concluded that the broad thrust of the medium-term strategy set out in the Madrid Declaration remains valid. At the same time, the Committee saw a need to broaden it to take into account the new challenges of the changing global economy, as well as the lessons from the reviews by the Executive Board and by the Committee of members' economic policies. Accordingly, the Interim Committee has adopted this new Declaration on Partnership for Sustainable Global Growth, which Michel Camdessus presented to you a few minutes ago.

- This declaration stresses the interdependence between macroeconomic policies and structural reforms. These policies and these reforms are mutually reinforcing.
- It reiterates the need for fiscal discipline, but it also draws attention to the quality and the composition of the fiscal adjustment, and also to the need for greater transparency in government finances—in particular, the reduction of off-budget transactions.
- It also emphasizes the importance of promoting good governance in all its aspects, which includes ensuring the rule of law, improving

the efficiency and accountability of the public sector, and tackling corruption.

- It also pays attention to the soundness of banking systems through strong prudential regulation and supervision and to the need for more action to prevent money laundering.
- Finally, the Committee agreed that the realization of this common strategy will help to avoid significant exchange rate misalignments and to provide a foundation for reasonable exchange rate stability.

The Committee has endorsed these principles of sound policies in a spirit of renewed partnership, confident that firm commitment by all members—industrial, developing, and transition economies alike—to respect them will help all countries to achieve sustainable high-quality growth.

### *Strengthened Fund Surveillance*

Governors will recall that last year the Committee carried forward its work on its far-reaching proposals to strengthen Fund surveillance that had been formulated in the wake of the crisis in Mexico. On Sunday, the Committee welcomed the substantial progress that has already been made in adapting Fund surveillance to the new global environment. It noted in particular that the six-monthly reviews of member countries' policies have yielded important lessons for both the membership and the Fund on the conduct of surveillance in the new global environment. It also welcomed the Special Data Dissemination Standard and was pleased to note that 37 countries representing a broad range of the Fund's membership have already subscribed. In view of the importance all of us attach to improving the quality, timely provision, and dissemination of economic statistics, the Committee encouraged other members in a position to do so to subscribe to the "best practices" embodied in the Special Standard. It also requested the Executive Board to complete its work on the general standards for data dissemination, that will apply to all countries, so that they are in place before the spring 1997 meeting of the Committee.

### *Fund Financial Resources and Assistance*

The Fund's financial resources and assistance have been a central concern of the Committee over the past year, and very good progress has been made in three areas.

First, on the New Arrangements to Borrow, which will effectively double the resources currently available under the General Arrangements to Borrow, an agreement in principle was reached in May. The Committee requested the participants in these arrangements and the Executive Board to complete their work promptly.



Second, the Executive Board reached a consensus on a one-time allocation of SDRs to resolve the so-called equity issue. This will require an amendment of the Fund's Articles of Agreement. On Sunday, the Committee endorsed this approach while emphasizing at the same time that such an amendment would not in any way affect the Fund's existing power to allocate SDRs on the basis of long-term global need as and when that need arises. The Fund's Executive Board has been asked to finalize the work on the amendment by the time of the Committee's next meeting.

Finally, the Committee reached an agreement on the initiative to assist the heavily indebted poor countries (HIPC's). I am very much encouraged by the full support expressed by all Committee members for the implementation of this initiative. When in October 1995—less than a year ago—the Interim Committee encouraged the Fund and the World Bank to continue their work on ways to address the problem of the burden of multilateral debt, few observers would have thought that a credible strategy could have been devised and endorsed by the international financial community as early as today. Even fewer observers would have found it likely that the Fund could be a key partner in this strategy. Today, I am pleased that we have reached an agreement on a set of proposals to help the poorest countries to achieve an exit from unsustainable debt. I am also pleased that the Committee endorsed the Fund's participation in this initiative through the Enhanced Structural Adjustment Facility (ESAF) with grants or loans on longer maturities.

I would like to end my report by noting that the Committee has requested the Executive Board to complete the Eleventh General Review of Quotas as soon as possible. My hope is that I will be able to report to you next year that the Board has indeed come to a positive conclusion on this very important issue.

REPORT TO THE BOARDS OF GOVERNORS OF THE  
BANK AND THE FUND BY THE CHAIRMAN OF THE JOINT  
MINISTERIAL COMMITTEE OF THE BOARDS OF GOVERNORS ON THE  
TRANSFER OF REAL RESOURCES TO DEVELOPING COUNTRIES  
(DEVELOPMENT COMMITTEE)

*Mohamed Kabbaj*

I am pleased to report to you, as Chairman of the Development Committee, on the Committee's work over the past 12 months. These have been, in my view, very productive months for the Committee. I should like to emphasize three points today in this brief report.

First, the successful launching yesterday of the debt initiative for the heavily indebted poor countries (HIPC) is an excellent example of how the Committee and the Bretton Woods institutions, working closely together, can produce significant results.

Second, with an improved format and operational procedures, along with active support from Bank and Fund managements, the Committee's effectiveness has been markedly enhanced.

Third, that the Committee has been able to focus on several other topics of great importance in the past year, including IDA, poverty reduction, and a major assessment of multilateral development banks; it also benefited from presentations by the United Nation's Secretary-General and the Director-General of the World Trade Organization (WTO).

### *The Debt Initiative*

Yesterday the Committee launched the initiative for the heavily indebted poor countries. The real test will come during its implementation, but in my view this already represents a significant accomplishment of international cooperation. This event results from extensive consultation and coordination between this Committee, the Bank and Fund, and their partners in the international community.

This effort began at the Madrid Annual Meetings when U.K. Chancellor Clarke urged the Interim and Development Committees to consider the subject of multilateral debt; they then asked Bank and Fund Executive Directors to examine proposals to address the problems of the most indebted poor countries.

In the spring of 1995, based on a short paper prepared by the Bank and Fund following several discussions in their Boards, the Development Committee had an excellent preliminary conversation on the issue in a closed luncheon session. Members noted that some of the poorest and most heavily indebted countries had a large debt burden to multilateral institutions and asked the Bank and Fund to develop further ideas for the October 1995 meeting.

At that time, the Committee concluded that for a small group of HIPC, use of current instruments is insufficient to bring debt down to sustainable levels; they asked the Bank and Fund to come up with concrete proposals based on detailed country studies. With strong leadership from Mr. Wolfensohn and Mr. Camdessus, a joint Bank/Fund team proceeded to develop a framework for action based on six principles, including a comprehensive approach to a country's debt leading to a real exit from further reschedulings, with which the Committee concurred in April 1996. The Bank and Fund were asked to work closely with other multilateral institutions and bilateral creditors and donors, and produce an action program for consideration at these Annual Meetings.

Yesterday the Committee warmly endorsed the Initiative and the Action Program, and asked the Bank and Fund, working closely with their partners, to move swiftly to implement the initiative. Thus, in a very short period of time, the Bank and Fund pushed ahead with this path-breaking initiative. They were encouraged by their Boards, public opinion, and the Development and Interim Committees. Other creditors have been extensively consulted, many multilateral institutions have indicated their intention to support the initiative, and bilateral creditors in the Paris Club and elsewhere will play a significant part in this common effort.

The Committee and its debates have served as an important stimulus to the institutions. Our regular meetings and communiqués have served as valuable action-forcing events, and ministers have expressed their strong interest in resolving this difficult problem. This is, I believe, an excellent example of how the Committee, working closely with the managements and boards of the Bank and Fund, can have a significant impact. I wish to use this occasion to thank the Bank and the Fund as well as the bilateral creditors and other international financial organizations that have cooperated to make this initiative possible.

There are previous examples in the Committee's history, as with the establishment of the Global Environment Facility, or the creation of the Special Facility for Sub-Saharan Africa. We look forward to more frequent opportunities to play a similar role in the future on behalf of all members of the Bank and Fund.

### *Strengthening the Committee*

My second point is that for issues of significance, such as the HIPC initiative, to be properly addressed by the Committee, radical changes in our operating procedures were needed. In the past year, we have made such changes. Most important to strengthening the Committee is the careful selection of major policy issues that deserve ministerial consideration. These are drawn particularly, but not exclusively, from those issues high on the World Bank's agenda. This approach was agreed upon by ministers last October, along with ten other points designed to enhance the effectiveness of the Committee.

One bold step was to eliminate the lengthy plenary session during which all ministers and a number of other speakers read prepared statements, thereby taking an entire morning without opportunity for discussion. By eliminating most of the plenary, we now concentrate on debate in a more restricted session. This has worked well, and ministers exchange views and interact with their colleagues on matters of substance. One result is a rather short communiqué, focusing on the key issues.

We also have an additional luncheon session that is not reflected in the communiqué—an opportunity for ministers to discuss with Mr. Wolfensohn

major issues he faces in managing the Bank, in a setting limited to only Committee members and Mr. Camdessus. The progress made so far is considerable and widely recognized. I was pleased, for example, that the Group of Seven Summit in Lyons concluded that "the reform of the Development Committee has made it possible for ministers from developed and developing countries to consider issues together and provide guidance for the institutions." We shall, of course, keep our procedures under continuous review in order to make the Committee an even more valuable forum.

#### *Other Issues Considered by the Committee*

The Committee remains, as its formal title suggests, very concerned about the transfer of resources to developing countries. At each of its recent meetings, for example, it has addressed the importance of achieving a significant level of funding for the International Development Association (IDA); it has urged IDA donors to continue the strong multilateral support that has always been a key feature of IDA. While welcoming the IDA-11 \$22 billion agreement as a significant achievement under difficult circumstances, the Committee recognized that the reduced share of donor contributions in this total was a matter of concern. As a result, they have agreed to focus attention in April 1997 on establishing a stronger foundation for IDA in the future.

Another important feature of the Committee's work was its Task Force on Multilateral Development Banks, chaired by Arab Fund Chairman Mr. Abdlatif Al-Hamad of Kuwait. This group of distinguished officials, appointed by the Committee in 1994, reported to the Committee in April, 1996; it provided, for the first time, an overall assessment of the five multilateral development banks (MDBs). Ministers considered the report an excellent analysis of the importance of multilateralism and the role MDBs play in a rapidly changing world. Ministers urged the MDBs to act upon the relevant recommendations, as a matter of priority, to further strengthen their policies and practices. Ministers looked forward to hearing from the MDB Presidents in April 1998 on progress achieved in implementing the Task Force's major recommendations.

Two additional highlights of this past year illustrate the Committee's interest in other parts of the UN family. The Secretary General addressed the Committee in October 1995 to mark the fiftieth anniversary of the United Nations; at this same session, the Committee reviewed the implications of the UN Social Summit in Copenhagen. Yesterday, we heard from Mr. Renato Ruggiero, Secretary General of the World Trade Department; the Committee recognizes the important links between trade, investment, and development, and will undoubtedly return to consideration of related issues in the future.

*Conclusion*

As we look ahead, we anticipate continuing to address issues of central importance to the Bank and Fund, and the broader development community. We believe the Committee now has a strengthened structure and format that encourage ministerial consideration of, and guidance on, important issues. There is a growing interest by members in the Committee's work. We seek to further strengthen the Committee and its effectiveness in the future by building on the experience gained from each meeting.

STATEMENT BY THE GOVERNOR OF THE BANK FOR THE  
REPUBLIC OF ARMENIA

*Hrant A. Bagratian*

Since independence, the Republic of Armenia has been at the forefront of reforms among the republics of the former Soviet Union. In 1991, Armenia was the first republic to privatize land. This was followed by liberalization of the prices of most goods and services, and privatization of small enterprises. However, these early successes could not be consolidated until the spring of 1994, owing to the siege conditions imposed by war and blockade. The cease-fire agreement over the Nagorno Karabagh conflict gave us the opportunity to reenergize the reform program. Since then, negotiations over a long-lasting peace have progressed steadily. Let me reiterate here Armenia's commitment to a peaceful settlement of the conflict over Nagorno Karabagh. Progress in negotiations has been complemented by other positive political developments in the Caucasus region, which speaks well for Armenia's future economic growth. For instance, there are good prospects that key trading routes will reopen in the near future and that greater stability in Georgia will continue to ease Armenia's isolation. In addition to the improved external environment, the acceleration of economic reforms was supported by political continuity. Since independence, the country led by President Ter-Petrossian has pursued a policy of building and strengthening national institutions. In July 1995, the first post-Soviet constitution was approved by plebiscite, and parliamentary elections were held. On September 22, 1996, President Ter-Petrossian was reelected for another five-year term.

*The Main Achievements*

The government's economic reform program has been highly successful on both the stabilization and structural reform fronts. Inflation has