Summary Proceedings

of the Fifty-Fourth Annual Meeting of the Board of Governors

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International Monetary Fund
Washington, D.C.

SPEAKERS BY SESSION

*Speaking on behalf of a group of countries.

INTRODUCTORY NOTE

The Fifty-Fourth Annual Meeting of the Board of Governors of the International Monetary Fund was held in Washington, D.C., from September 28 through September 30, 1999, jointly with the Annual Meetings of the Board of Governors of the World Bank Group. The Honorable Mahesh Acharya, Governor of the Bank and the Fund for Nepal, 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–iv, speakers are listed by session on pages vii–ix, and a list of abbreviations used in the statements and documents is given on pages 335–6.

SHAILENDRA J. ANJARIA
Secretary
International Monetary Fund

Washington, D.C.
November 1, 1999

ADDRESS BY THE PRESIDENT OF THE UNITED STATES[1]

William J. Clinton

Thank you very much, Secretary Summers, President Wolfensohn, Chairman Acharya, Director Camdessus, Vice President Fall, Secretary Anjaria. Let me begin by saying how very grateful I am to be here with all of you. I appreciate the generous introduction. Some of you may have heard me say this before, but the introduction that Secretary Summers just gave me is an illustration of one of my unbending laws of political life: whenever possible, be introduced by someone you have appointed to high office. It is much easier, because he has done such a superb job, and I thank him.

Let me say, all of you know that a year ago we were here in a time of crisis, perhaps the most severe financial crisis in the global economy since the end of the Second World War—a grave challenge to the Fund and the World Bank. Thanks to the hard work that you and your countries have done, economies that were sliding down are rising again.

We have also worked hard, as Secretary Summers said, in the wake of these crises to prevent future ones, to respond more quickly and effectively, to lessen the toll they take on ordinary citizens. We have intensified our efforts to construct a global financial architecture that is stable and strong in the new conditions of the new economy.

Still, those who were hit by this crisis were hit very hard. And many are still reeling. People lost jobs, businesses, and dreams. So this can only be considered a continuing challenge for us, certainly not a time for complacency. We have more to do to restore people's faith in the future and to restore their faith, frankly, in the global economy and in global markets. Therefore, we have more to do to reform the global financial foundation upon which the future will be built.

As we approach the twenty-first century, we must also ask ourselves, however: is it enough just to fix the market that is? Should we accept the fact that, at a time when the people in the United States are enjoying perhaps the strongest economy in their history, 1.3 billion of our fellow human beings survive on less than a dollar a day? Should we accept the fact that nearly 40 million people—after the Green revolution,

[1]Delivered at the opening Joint Session, September 28, 1999.

most of us discuss agriculture and food as a cause for international trade conflicts because we want to fight over who sells the most food, since there are so many places that can produce more than their own people need—are we supposed to face the fact that nearly 40 million people a year die of hunger? That is nearly equal to the number of all the people killed in World War II.

Are we supposed to accept the fact that, even though technology has changed the equation of the role of energy in the production of wealth; even though technology has changed the distances in time and space necessary for learning, and for business, as well as educational, interchanges—are we supposed to accept the fact that some people and nations are doomed to be left behind forever?

I hope that we will not accept that. I hope that we will start the new millennium with a new resolve: to give every person in the world—through trade and technology, through investments in education and health care—the chance to be part of a widely shared prosperity, in which all the peoples' potential can be developed more fully. This is the challenge of the second half-century of the life of the Fund and the World Bank. And for me it is a personal priority of the highest order.

Open trade already has improved the prospects of hundreds of millions by marketing the fruits of their labors and creativity beyond their borders. In this way, both the Fund and the World Bank have played a vital role in helping more nations to thrive. We need you to work with the World Trade Organization (WTO) to build a rules-based framework for global trade. We need you to help developing countries provide education and training to lift wages, and to establish social safety nets for tough transitions.

I applaud the strong commitment that you have made at these meetings for concrete manifestations of support. We all must work to keep the economies we have influence over open, and trade growing, for developing and industrial powers alike.

In two months, I want to launch a new type of trade round in Seattle, at the WTO ministerial meeting. I want this round to be about jobs and development. I want it to raise working conditions for all. I want it to advance our shared goal of sustainable development. By breaking down barriers to trade, leveling the playing field, we will give more workers and farmers in those countries that are struggling for tomorrow—and in leading industrial nations, as well—more opportunities to produce for the global marketplace.

In Seattle, I hope that we will pledge to keep cyberspace tariff-free, to help developing countries make better and wider use of technology—whether biotechnology or the Internet. I hope that we will pledge to open markets in agriculture, and industrial products and services, creating new activities for growth and development. I hope that we will also work to advance the admission of the 38 developing countries that have applied for WTO membership. And I hope that we will keep working to give the least developed countries greater access to global markets. Here in the United States, I am working hard to persuade our Congress to pass my trade proposals for Africa and the Caribbean Basin this year.

But the wealth of nations depends on more than trade. It also depends on the health of nations. Last week at the United Nations, I committed the United States to accelerating the development and delivery of vaccines for AIDS, tuberculosis, malaria, and other diseases that disproportionately afflict poor citizens in the developing world.

At the same time, we must help these nations avert the health cost and pollution of the Industrial Age—using clean technologies that not only improve the environment, but grow the economy. Institutions like the World Bank play a special role here. Your energy strategy is a very good start and I thank you for it. I urge the Bank to continue setting aggressive targets for lending that promotes clean energy. It is no longer necessary to have Industrial Age energy use patterns to grow a modern, powerful economy. In fact, those economies will emerge more quickly with more sustainable development strategies.

Some of you in this room—a minority still—are nodding your heads "yes" as I say this. If you believe it, we must work together to achieve it. These efforts must be part of a broader approach that ensures the integrity and openness of emerging economies. Last Saturday, the Group of Seven (G-7) finance ministers outlined specific safeguards for Russia and called for comprehensive review by the World Bank and the Fund, to make sure that funds are used appropriately in high-risk environments. The United States will continue to insist on such accountability.

For many developing countries, however, there is a greater obstacle in the path to progress. For many of them, excessive and completely unsustainable debt can halt progress, drag down growth, drain resources that are needed to meet the most basic human conditions, like clean water, shelter, health care, and education. Debt and debt relief are normally subjects for economists. But there is nothing academic about them. Simply put, unsustainable debt is helping to keep too many poor countries and poor people in poverty. That is clearly why the Pope and so many other world leaders from all walks of life have asked us all to do more to reduce the debt of the poorest nations as a gift to the new millennium—not just to them, but to all the rest of us, as well.

Personally, I do not believe that we can possibly agree to the idea that these nations that are so terribly poor should always be that way. I do not think we can, in good conscience, say we support the idea that they should choose between making interest payments on their debt and investing in their children's education. It is an economic and moral imperative that we use this moment of global consensus to do better. I will do everything I can to aid this trend. Any country committed to reforming its economy, to vaccinating and educating its children, should be able to make those kinds of commitments and keep them.

In June, at the Group of Seven summit in Cologne, the world's wealthiest nations made a historic pledge to help developing nations. The debt relief program we agreed upon is a big step in the right direction, dedicating faster and deeper debt relief to countries that dedicate themselves to fundamental reform. This initiative seeks to tie debt relief to poverty reduction and to make sure that savings are spent where they should be—on education, on fighting AIDS and preventing it, and on other critical needs. It will help heavily indebted poor countries to help themselves and help to build a framework to support similar and important efforts by the Fund, the World Bank, and international financial institutions.

More than 430 million people could benefit from this effort. In Bolivia, for example, debt relief could help the government nearly double the people's access to clean water by 2004. In Uganda, it could allow health and education spending to increase by 50 percent between 1998 and 2001. Rural development expenditures there would more than double. That is why we all must provide our fair share of financing to global debt relief.

Last week, to make good on America's commitment, I amended my budget request to Congress and asked for nearly $1 billion over four years for this purpose. We must keep adequate assistance flowing to the developing countries, especially through the International Development Association. I am encouraged by the financial commitments made by some of the other donor countries this past week. And I call on our Congress to respond to the moral and economic urgency of this issue, and see to it that America does its part. I have asked for the money and shown how it would be paid for, and I ask the Congress to keep our country shouldering its fair share of the responsibility.

Now, let me make one final commitment. Today, I am directing my administration to make it possible to forgive 100 percent of the debt these countries owe to the United States when—and this is quite important—when needed to help them finance basic human needs, and when the money will be used to do so. In this context, we will work closely with other countries to maximize the benefits of the debt reduction initiative.

We believe that the agreements reached this weekend will make it possible for three-fourths of the highly indebted poorest countries, committed to implementing poverty and growth strategies, to start receiving benefits sometime next year—actually receiving the benefits sometime next year.

If we do these things as nations, as international institutions, as a global community, then we can build a trading system that strengthens our economy and supports our values. We can build a global economy and a global society that leaves no one behind, that carries all countries into a new century that we hope will be marked by greater peace and greater prosperity for all people. We have before us perhaps as great an opportunity as the people of the world have ever seen. We will be judged—by our children and grandchildren—by whether we seize that opportunity. I hope, and believe, that we all will do so.

OPENING ADDRESS BY THE CHAIRMAN OF THE BOARDS OF GOVERNORS AND GOVERNOR OF THE BANK AND THE FUND FOR NEPAL[1]

Mahesh Acharya

I feel greatly honored to chair these important Annual Meetings of the World Bank Group and the Fund. At the outset, I, on behalf of people of the Kingdom of Nepal, wish to express our sincere gratitude to distinguished Governors for providing Nepal the opportunity to serve as Chair of the Boards of Governors of the World Bank Group and the Fund.

We are delighted to meet once again in this beautiful city of Washington, D.C. And, at this auspicious occasion, I would like to invite you all to join me in expressing our sincere appreciation to the President and the people of the United States of America for their warm hospitality.

Fellow Governors, as we are at the dawn of the next millennium with great hopes for humanity, we have a great responsibility to carry forward our institutions to fulfill our international obligations to help member countries attain prosperity and advancement. We cannot and must not forget that many millions of people in the world look to us for both finance and development wisdom. In that context, I will concentrate on two major challenges facing us in the period ahead.

One major challenge that will confront us is to distill lessons from the recent crises. It is imperative that the reform of the international financial system leads to early and sustained results to help us deal more effectively with future challenges and to raise living standards. Another major challenge is to address the pressing needs of our most disadvantaged members. Primary among these are substantial debt relief, a sustained poverty reduction effort, and other important social needs.

My fellow Governors, it has been two years since the financial crisis of the late 1990s started in East Asia. We applaud the effective response of the Bank and the Fund to support reform efforts in the crisis-affected countries. Although a number of countries have begun to recover, the aftershocks of the crisis continue to affect several countries. We also note that the crisis exposed serious weaknesses in the public, financial, and corporate sectors and—most notably—the critical need to protect the poor and the vulnerable.

[1]Delivered at the opening Joint Session, September 28, 1999.

Let me stress that the transfer of resources to developing countries should continue to be a major concern of the international community. The current trend of net long-term flows to developing countries, including from both private and official sources, is particularly worrisome. I am sure you all will agree that resource transfer is among the most important ingredients for the growth and prosperity of developing countries. Because private flows are falling, there is a greater responsibility on the part of industrial countries to enhance official flows to ensure the development of poor countries and support global peace. We also take note of the emergency and restructuring needs that have arisen from natural disasters, and humanitarian and reconstruction efforts in many regions. However, this must not divert money away from the poor in other parts of the developing world.

Global Issues

My fellow Governors, the world economy has undergone vast changes in the 1990s. We have witnessed a surge of democracy, and growth pyramids peaking and falling in a short span of time. We have observed the power of high economic growth to reduce poverty in many developing countries. But not all of us were fortunate enough to attain sufficient economic growth to address the issues of poverty, and many of us have been unable to improve income distribution, neither among the continents nor among nations nor within nations. We must ensure that all countries can benefit from globalization through an orderly and well-sequenced integration into the world economy. In this context, it is essential that any new round of multilateral trade negotiations be a "development round," with developing countries participating fully in the negotiations.

Since we met last year, the outlook for the world economy has improved. We are happy to witness these improvements, although we need to remain vigilant. One important lesson from the recent turmoil is the need to maintain policy flexibility when responding to crises. The growth of world output is expected to increase moderately next year, as the recovery in Asia's crisis-afflicted emerging market economies gains momentum, strong growth continues in the United States, and better performance in Europe and Japan takes hold. However, the continued uneven pattern of growth among the major industrial countries poses a worrisome risk to the outlook. Ensuring the continuation of the global expansion will require a significant rebalancing of growth and addressing the existing large external imbalances.

Sustaining the recovery in the crisis-hit economies and reducing the vulnerability of all developing countries to external shocks will require the continued vigorous pursuit of structural reform programs, focusing in particular on the banking and corporate sectors. There is no room for complacency. Indeed, this highlights another lesson from the recent experience, namely, the need to focus on high-quality broad-based growth to ensure that all levels of society benefit from reform programs.

Among other emerging market economies, the improved outlook for Brazil and Mexico is encouraging, but the economic challenges facing other countries in Latin America is a matter of concern. While the economic downturn in Russia was less severe than previously expected, the need for far-reaching structural reforms remains essential to support a sustained recovery. For China, India, and other South Asian economies, growth prospects appear favorable. However, broad structural reform and poverty reduction agendas need to be addressed. For the Middle East and Africa, the recent oil price increases will help improve the fiscal positions and external balances of several countries, although other primary producing countries continue to be negatively affected by persistent weaknesses in many other commodity prices. Continued adjustment efforts—particularly at diversifying production toward manufacturing and services—need to be encouraged. The challenges facing our African members are particularly difficult, and the Bank and the Fund need to build on our support for their adjustment and capacity building efforts.

Strengthening the Architecture of the International Financial System

My fellow Governors, we note the substantial progress achieved in strengthening the architecture of the international financial system. The ultimate aim of these efforts must be to protect living standards worldwide by preventing future crises.

One major development has been the recent creation of Contingent Credit Lines (CCL) by the Fund as a new crisis-prevention mechanism. And the Fund has just created a special temporary facility to help member countries that encounter temporary balance of payments difficulties as a result of the Year 2000 (Y2K) computer problem.

Another central focus has been on improving transparency, both at the national and international levels. We must recognize that, in order to work smoothly, markets require timely and comprehensive economic information. To that end, a number of initiatives have moved forward on improving the communication of Bank and Fund policies and programs to the public.

We note that progress has been made on the development, dissemination, and adoption of internationally accepted standards—or codes of good practice—for economic, financial, and business activities. The Fund has made considerable progress in developing and refining voluntary standards in its core areas of expertise, such as through the strengthening of the Special Data Dissemination Standard, notably with respect to international reserves and external debt. It has also developed codes of good practice in the fiscal, and monetary and financial areas. Collaboration between the staffs of the Bank and the Fund in working on financial sector issues has been substantially improved by the establishment of the Bank-Fund Financial Sector Liaison Committee.

A further focus has been on financial sector strengthening, where the Bank and the Fund are working together under the recently concluded Financial Sector Assessment Program. It is expected that this will strengthen their dialogue with member countries and help to highlight emerging areas of stress in national financial systems. The program will provide clients with diagnosis, advice, and assistance in developing strategies to improve financial sector stability, build institutional capacity, and assure broader access to financial services. Work has also progressed on improving the involvement of the private sector in forestalling and resolving crises. The aim is to help bring about a more orderly adjustment process, limit moral hazard, strengthen market discipline, and help emerging market borrowers protect themselves against volatility and contagion. We have also worked hard to continue to strengthen our institutions, and we welcome in particular the proposed transformation of the Interim Committee of the Fund into the International Monetary and Financial Committee.

In order to reinforce the activities of the Bank in the financial sector, it has created a “New Spending Authority” program to assist countries in crisis or vulnerable to crisis. Resources were allocated for social sector programs to reduce the impact of the crisis on the poor and vulnerable groups, and to facilitate corporate restructuring and improve corporate governance. My fellow Governors, closely related to such developments is the issue of the liberalization of capital movements, and the integration of global capital markets. The recent emerging market crisis underlined the need to ensure that countries wishing to gain and maintain access to capital markets could do so in a way that recognizes the importance of their stability and economic security. This means an orderly and well-sequenced approach on the part of both creditor and debtor nations. Appropriate lessons must be drawn from countries’ recent experience with the liberalization of capital movements and the use of capital controls—particularly with respect to potentially volatile short-term flows.

Poverty Reduction and Challenges

My fellow Governors, we are all aware that global progress toward the critical goal of poverty reduction has not been satisfactory. Worldwide poverty trends are worsening, particularly as a result of the recent financial turmoil. We note some achievements in the fight against poverty, such as an increase in life expectancy, a drop in infant mortality, and a rise in school attendance of girls. However, progress on poverty reduction and sustainable development is lagging in many developing countries. In fact, the number of poor people in South Asia, sub-Saharan Africa, Europe, and Central Asia is on the rise, particularly in the regions most affected by crisis and conflict. Half of the world's 6 billion people are trapped in poverty and subsist on less than $2 a day.

My fellow Governors, we all are aware that the financial crisis threatened our endeavors to reduce poverty. We, the policymakers, must shape our strategies so that they do not inadvertently inflict long-term hardships on the poor by triggering lower investment in education and health. While cuts in government spending might be unavoidable in a crisis, we must ensure that the services that protect the poor and keep children in school are maintained.

Moreover, we are faced with enormous challenges in the areas of literacy and basic health, especially for women and girls. The HIV/AIDS epidemic has compounded these challenges and is reversing decades of progress in improving the quality of life in developing countries, especially in Africa and South Asia. Developing countries in particular urgently need an AIDS prevention vaccine to contribute to their prevention efforts. This will require a combined effort of all partners. We are pleased to note that the Bank will continue to invest in preventing HIV and in strengthening health systems in developing countries.

My fellow Governors, we will all have to redouble our efforts to achieve our agreed goal to cut in half the incidence of poverty by the year 2015 and to attain a better life for our children. I call on the World Bank and the Fund, as well as other agencies to continue to improve the quality and delivery of their assistance in order to address the challenges of poverty reduction and global development.

Over the past year, the Bank and the Fund have continued to support the adjustment and development efforts of our members. The Bank began piloting the Comprehensive Development Framework (CDF), which seeks a better balance in policymaking by highlighting the interdependence of many elements. It also emphasizes strong partnerships among donors, civil society, the private sector, and other development actors. We need to underline the importance of technical assistance to strengthen the capacities of our members to implement these programs. We look forward to drawing lessons from the pilot projects currently under way. We stress again that the needs, interests, concerns, and aspirations of the developing countries must be reflected in the CDF.

We note that the strong adjustment lending in 1999 reflects the continuing focus of the Bank on responding to the financial crisis, emphasizing the protection of social spending and the strengthening of the social safety nets to protect the poor and the vulnerable.

We also welcome the closer linking of the operations of the Bank, IFC, and MIGA in the country assistance strategies. These have been increasingly formulated in consultation with civil society and other stakeholders, and focused on poverty outcomes and social issues. The Bank has also continued to enhance its system for evaluating the development impact of its efforts on the ground. We are pleased to note the agreement on the twelfth replenishment of the International Development Association (IDA), which includes new donor funding. We are confident that this will strengthen the efforts of the Bank Group to reduce poverty.

The proposal to introduce Poverty Reduction Strategy Papers (PRSP) is a concrete example of a combined Bank/Fund initiative to improve the effectiveness of the efforts to reduce poverty. This new approach will focus on helping countries to develop their own strategies for reducing poverty. These tripartite documents of the authorities, the Bank, and the Fund should become an effective vehicle to enhance the poverty reduction impact of IDA and Enhanced Structural Adjustment Facility (ESAF) lending programs. They will also link heavily indebted poor country (HIPC) debt relief more closely to poverty reduction, and ensure ownership, transparency, and broad-based participation. This fits well with the aim of making poverty reduction a central focus of the ESAF. I stress here the importance of strengthening the institutional capacities of developing countries to implement this initiative.

My fellow Governors, the Fund has also been very active in support of the adjustment and reform efforts of the membership. Its surveillance work has continued at a rapid pace. I am also pleased to note that, in addition to its traditional attention to macroeconomic issues, the Fund has continued to focus increasingly on a broader range of structural, institutional, and social issues in its consultations with national authorities. In addition to the establishment of Contingent Credit Lines, the Fund also agreed on modifications to the policy on post-conflict emergency resources to provide more financial assistance for a longer period of time. In response to the financial crises, the demand for Fund resources remained extremely heavy over the past year. We are pleased that the successful implementation of the Eleventh Quota Review provided the necessary financial resources to support adjustment efforts of member countries.

Financial Assistance to Developing Countries

My fellow Governors, hundreds of millions of the world's poor live in countries where crushing debt stands in the way of lasting poverty reduction. The HIPC Initiative has already yielded some positive results.

There has been extensive international cooperation among all partners in implementing the initiative. Nevertheless, recent developments and experiences have highlighted the vulnerability of many HIPCs to exogenous shocks. It is our duty to reinforce and to enhance this program so as to provide faster, deeper, and broader debt relief. We appeal to contributors to make additional financial commitments to ensure success of the initiative.

We must ensure that debt relief under this initiative should not come at the expense of other aid and other deserving recipients. It must complement, not replace development assistance. We must ensure that debt relief becomes an integral part of efforts to help countries grow and reduce poverty. This must make a difference in the lives of the people in the debt-burdened poor countries. Also, the resources freed from debt service must be better directed for the development of the social sector.

Consideration must also be given to alleviating the debt burdens of a number of poor countries excluded from the HIPC Initiative. In this context, I would like to bring to your attention the case of Nepal. Despite our efforts, the incidence of poverty in Nepal is pervasive, the level of social services is very low, and the human development needs are enormous. Substantial revenues are allocated by Nepal for debt servicing. Indeed, Nepal is regarded as one of the poorest countries in the world, yet it is not eligible for this initiative.

My fellow Governors, we have witnessed an accelerating pace of globalization recently. However, not all countries have benefited from this process. As we enter the new millennium, we must ensure better cooperation between all development partners, including bilateral donors, multilateral agencies, and national authorities. Our aim must be to facilitate the integration of poor countries into the global economy and to realize the potential to improve living standards in all countries. When future generations look back at our deliberations at these meetings, let us hope they say that their better future began today.

Fellow Governors, we have every reason to be proud of our two institutions. No doubt, we have a mammoth agenda before us, but our common resolve will take us to the height of success. I am confident that our two institutions will be able to meet the formidable challenges of the next century. I hereby declare open the fifty-fourth Annual Meetings of the World Bank Group and the International Monetary Fund.

OPENING ADDRESS BY THE PRESIDENT OF THE WORLD BANK GROUP[1]

James D. Wolfensohn

I am very pleased to welcome you to these Annual Meetings of the World Bank Group and the International Monetary Fund. I would like to express my appreciation to Chairman Mahesh Acharya, whose work in Nepal shows a deep understanding of many of the issues I wish to address today—and to my colleague and friend Michel Camdessus. We work ever more closely together, and I salute the remarkable team he leads.

Mr. Chairman, I have had the privilege of addressing you on four previous occasions. In 1995, I spoke of the challenge of development, of the need to educate girls and address the burden of debt. I saw the need for the Bank to reorganize within and to embrace partnerships outside with a wholly new vigor; to form partnerships with other official aid and development institutions, with civil society, and the private sector; to listen to and work more closely with the governments and people of the countries we serve.

In 1996, I emphasized our role as a Knowledge Bank. I spoke, too, of the "cancer of corruption." The Bank committed itself to join concerned governments to fight corruption wherever we found it. And since that time, we have been pushing ahead vigorously with that agenda. Later in the year, with our partners in the Fund, we articulated our approach to debt forgiveness for the poorest countries. The HIPC Initiative has made a real difference, and, at these meetings following the changes suggested at the Cologne Summit, further progress has been made.

In 1997, I spoke of "The Challenge of Inclusion," of the need to think of development in human terms and to bring the weakest and the most vulnerable from the margins of society to the center stage. A year ago, with the Asian financial crisis dominating our concerns, I spoke of "The Other Crisis," the human crisis of those condemned to poverty as well as those who had found hope and seen it roughly snatched away. I spoke of the special role of our institution in dealing with the impact of the crisis on people and of the urgent need to look beyond financial solutions, to take the social and the structural together with the macroeconomic.

[1]Delivered at the opening Joint Session, September 28, 1999.

Today as we meet one year later, it is tempting to take comfort in thoughts of a financial crisis passed—though for millions that other crisis still lives. It is tempting to put off the needed reforms—though for millions those reforms still matter. It is tempting to talk of safe passage—though for millions of poor and unemployed there is still no sight of harbor.

We meet today on the threshold of a new millennium. We must take stock and ask ourselves some fundamental questions. Will we seize the moment to raise our sights for a better world? Will we begin to judge our efforts not by the prosperity of the few but by the needs of the many? Will we be prepared to hold ourselves accountable, to make the effort necessary to bring about change?

For what is the millennial world that we see? A world where over the last 40 years life expectancy has risen more than in the past 4,000 years. A world where the communications revolution holds out the promise of universal access to knowledge. A world where democratic culture has opened up opportunities for many. A world where 5.7 billion people live in a market economy compared with 2.9 billion only 20 years ago.

But look more closely and we see something else. Per capita incomes that will stagnate or decline this year in all regions except east and south Asia. In the developing world, with the exception of China, 100 million more people are living in poverty today than a decade ago. In at least 10 countries in Africa, the scourge of AIDS has reduced life expectancy by 17 years. We have more than 33 million cases of AIDS in the world, of which 22 million are in Africa; 1.5 billion people still lacking access to safe water; 2.4 million children who die each year of waterborne diseases; 125 million children still not in primary school; and 1.8 million people who die annually of indoor air pollution. It is a world where the information gap is widening and the forests are being destroyed at the rate of an acre a second.

The picture is mixed and the challenges are great. But this is a moment in history when we can set a new course to a world of greater peace, equity, and security. It is a time not just for review, but for action. Last year my colleagues and I decided that in order to map our own course for the future, we needed to know more about our clients as individuals. We launched a study entitled "Voices of the Poor" and spoke to them about their hopes, their aspirations, their realities. Teams from the Bank and from nongovernmental organizations have gathered the voices of 60,000 men and women in 60 countries. Let me share with you our findings.

Poverty is much more than a matter of income alone. The poor seek a sense of well-being that is peace of mind; it is good health, community, and safety. It is choice and freedom as well as a steady source of income.

Well-being is having the chance to grasp new economic opportunities; something the poor feel much less able to do than a decade ago. Well-being is personal security. More women are working outside the household now, trying to make ends meet. But gender inequity at home persists, and domestic violence is on the rise. And corruption is a daily fact of life as the poor try to access public services and make a living.

What is it that the poor reply when asked what might make the greatest difference to their lives? They say, organizations of their own so that they may negotiate with government, with traders and with nongovernmental organizations. Direct assistance through community driven programs so they may shape their own destinies. Local ownership of funds, so that they may put a stop to corruption. They want nongovernmental organizations and governments to be accountable to them.

Let me share with you their world in their own words. An old woman in Africa: "A better life for me is to be healthy, peaceful, and to live in love without hunger." A middle-aged man in Eastern Europe: "To be well is to know what will happen to me tomorrow." A young man in the Middle East: "Nobody is able to communicate our problems. Who represents us? Nobody." A woman in Latin America: I do not know whom to trust: the police or the criminals. Our public safety is ourselves. We work and hide indoors."

These are strong voices, voices of dignity. Many represent a new generation seeking control of their lives. These people are assets, not objects of charity. They can build their future if given opportunity and hope. They are talking about security, a better life for their children, peace, family, and freedom from anxiety and fear. As we sit comfortably here in Washington, we must hear their aspirations. For they are no different from our own.

No, the crisis is not over. The challenge has barely begun. Next month our global population will reach 6 billion. Based on current trends, we will not meet the International Development Goal of halving poverty by 2015, nor the goal of providing universal primary education by 2015, nor that of reversing the current loss of environmental resources both nationally and globally by that date. In 25 years, those 6 billion people on our planet will grow to 8 billion. Of the 6 billion today, 3 billion live under $2 a day and 1.3 billion live under $1 a day. I am concerned that these extraordinary statistics may rise to 4 billion and 1.8 billion, respectively. This is not a legacy to leave our children.

The number of conflicts seems likely to be higher, the quality of our environment will be worse, the disparities between rich and poor will be wider. The voices of the poor will be louder; but will they be heard? What have we learned about development? We have learned that development is possible but not inevitable. That growth is necessary but not sufficient to ensure poverty reduction. We have learned that we must put poverty front and center. We have learned that we must take the social and the structural hand in hand with the macroeconomic and the financial. We have learned that for development to be real and effective, we need local ownership and local participation. Gone are the days when development can be accomplished behind closed doors in Washington, or Western capitals, or any capital for that matter.

At a recent meeting in Stockholm to assess progress on the Comprehensive Development Framework, President Mkapa of Tanzania said: "Ownership of development policies and programs is not only an understandably nationalist yearning, an inherent and sovereign right, but it also creates the most fervent disposition and conditions for hard work and for self-development, both at the national and the local level. Our people must be encouraged and facilitated," he said, "to be owners of their development: not just beneficiaries, but doers of development."

We must heed this call as we plan our development agendas in the years ahead. But we must go further. We must recognize our own role in helping, not hindering, those *doers* of development by better coordinating our own activities. It is shameful that Tanzania must produce 2,400 reports each quarter for its donors. It is shameful that Tanzania must suffer 1,000 missions from donors a year. And Tanzania is by no means alone.

So how do we proceed? It was in recognition of the need to better coordinate our efforts, to recognize the holistic nature of development, and to put the country firmly in the driver's seat that we launched the Comprehensive Development Framework this year.

Our aim was simple: to bring the social and the structural aspects of development together with the macroeconomic and the financial so as to establish a much more balanced and effective approach; to bring the players together so as to leverage all our activities; and to work with the broad development community—the United Nations, the European Union, bilaterals, regional development banks, civil society, and the private sector to build a new generation of genuine partnerships.

What are the results so far? Together with our partners, the CDF is now being piloted in 13 countries. We are learning to cooperate and coordinate our work better at the local level. After discussions with many ministers, I believe that the approach of the CDF is now widely supported. Not as a blueprint but as a process through which we pursue long-term, results-driven development with the country in the driver's seat and in partnership with the broad development community. Very shortly, the Development Assistance Committee will report on its review of bilateral and multilateral initiatives along lines similar to those of the CDF. It will conclude that the need for partnership and more coordinated efforts is widely recognized and accepted.

I am delighted, too, that we have reached a historic agreement with the Fund to have a common Poverty Reduction Strategy developed with our client governments. We will take a balanced approach linking macroeconomic and financial parameters with the human, structural, and social aspects, in one document that will guide the programs of each institution.

However, in the course of the past 12 months, I believe that we have also learned something else. We have learned that the causes of financial crises and poverty are one and the same. Countries may come up with sound fiscal and monetary policy, but their development is fundamentally flawed and will not last if they do not have good governance, if they do not confront the issue of corruption, if they do not have a complete legal system that protects human rights, property rights, and contracts, that gives a framework for bankruptcy laws and a predictable tax system—and if they do not have an open and regulated financial system and appropriate regulation and behavior that is transparent.

What use is the law book if the judges are corrupt, if the poorest and most vulnerable expect only brutality from police? What use is constitutional protection if women face discrimination in the marketplace and violence at home? What use is the foreign investor, if there are no accounting standards and requirements for transparency, no contract laws, and no predictable and fair tax system? What use is privatization if there are neither social safety nets to deal with unemployment nor rules to protect the public from private monopolies? Holes in institutional development and governance and lack of adequate and fairly paid staff gnaw destructively at policymaking, service delivery, and accountability.

We have learned both from our general experience and from our pilot CDF programs that strengthening the organization, human capacity, and structure of the state—both at central and local levels—is the first priority in our challenge to reduce poverty. We have learned that when we sequence the steps of the CDF, we must give the greatest emphasis first to strengthening governance and to capacity building in government and civil society.

That decision is confirmed by a recent United Nations Development Program (UNDP) survey of 150 resident coordinators: over half gave top priority to the need to strengthen governance and build capacity. It is supported by a recent survey of over 3,600 private firms in 69 countries that identified the need for strong institutions and rule making. It is supported by our own consultations with the poor who repeated the same cries over and over: too much corruption, too much violence, and too much powerlessness and weakness. They long for a system that gives them equity and voice, and if they cannot have this through the ballot box or through government, they want it through informal organization outside government.

What would it really take to move from powerlessness to a democratic culture? What would it take to move from weakness to a capacity for action? What would it take to move from violence to peace and equity? First and foremost, it will take real commitment from the leadership of each country—both elected leaders and those with financial power and influence. It will take willingness to reform systems of government, regulations, and institutions. It will take strong support for building capacity. It will take having police forces that are no longer seen as agents of oppression rather than protection and security. It will take strong local institutions to bring government closer to the poor. It will take empowering local people to design and implement their own programs because far less is lost in corruption when a community manages its own resources.

Whether you look at the government or the community level; whether you look through the prism of financial crisis or human need; whether you speak to investors, bankers, or the dispossessed; governance and capacity are key. With poverty reduction front and center on our agenda, our work at the rock face must be governance, institutions, and capacity building.

Studies are already showing what we surely knew intuitively. That good governance is associated with higher GNP per capita, higher adult literacy, and lower infant mortality. That bad governance—lack of accountability and transparency, together with corruption and crime—is the number one impediment to development and poverty reduction. Weak governance threatens to undermine HIPC—which will only work if the resources that are freed are purposefully used for poverty reduction. With weak governance, there will be no progress in education, health, water, energy, or rural and urban development. Weak governance threatens to marginalize countries and whole peoples from the economic mainstream, and it will keep them on the margins—for if lending is only effective in countries with sound policies and sound institutions, who will lend to the poor performers?

At the Bank, we propose to give great emphasis in the years ahead to the question of working with governments to strengthen structure and governance. Do we have all the answers? No. Do we have all the expertise? Certainly not. We can only have success in partnership with others in the development community, including civil society and the private sector. Within the next few months we will join with UNDP, which has special skills and experience in this area, and with others to look at what each of us is doing on governance and capacity building. We will assess the strengths and experience that each of us brings and determine how we might all go forward together.

Such an agenda requires that we focus on the interrelatedness of the systems that work and that make societies function effectively. It requires that we focus on sound public governance systems with checks and balances, and that governments take up the fight against corruption. It requires building legal and judicial systems that protect the rights of citizens and their endeavors, going beyond big-ticket governments and business deals. Corruption is a core poverty issue, robbing from the poor the little they have. We must focus on financial and banking systems that inspire equal confidence in the global investor and the peasant farmer with small savings, especially women. We must have modern corporate procedures, including accounting, audit, and disclosure policies at the highest level. We must focus on micro-credit schemes and finance for small and medium enterprises that work in both times of crisis and ordinary times.

We must train well-organized and motivated civil servants and civic leaders who see the purpose of their jobs in delivery to the communities they serve—and we must remember that this training rests in turn on effective teaching and learning. We must concentrate on building strong local official and civil society institutions that inspire trust. For there can be no doubt that the local level is the real key to effective poverty reduction. It takes more than changing formal rules to build these institutions. It means changing the informal rules and norms, it means building people, building values, and building skills and incentives that can support people committed to change.

There is a new model emerging in Africa, the Partnership for Capacity Building. It has taken two years to move from concept to action. It is African-led and will be implemented by Africans. It involves the direct support and collaboration of the Bank, the Fund, the UNDP, and the African Development Bank and it is rooted in partnership with the private sector and civil society. We have pledged $150 million to a supporting fund. We will all join with our African colleagues to support them in a coordinated and urgent effort to achieve their objectives. However, we must remember President Mkapa's enjoinder. We must create doers of development. Too many capacity-building efforts have floundered in the past because they have not been rooted in local ownership.

I have spoken at length about the complexity of reaching our goals at the country level. But we know that nations are dependent on one another. We know that nations are no longer the sole masters of their destinies. We need global rules and global behavior. We need a new international development architecture to parallel the new global financial architecture.

What might such an international development architecture look like? First it would be a coalition built on the cooperation of all the players—the United Nations, governments, multilateral agencies, the private sector, and civil society. It would be a coalition between recipients, donors, and the citizens of donor countries—a coalition based on results. There must be effective performance in utilizing development assistance—corruption-free and reaching the poor. Voters want to see that their assistance makes a difference. The goodwill exists—performance is what is needed. Second, it would be a coalition in which we recognize that, yes, we must break the chains of debt, but we must also have the resources to go much further and break the chains of poverty. The HIPC debt forgiveness that we have announced is the beginning of our challenge, not the end. Third, it would be a coalition that recognizes that we must have a trade system that works, with rules and norms that are fair, comprehensive, and inclusive—a Development Round for the twenty-first century. Fourth, it would be a coalition that recognizes that environment knows no borders. We need to implement international agreements on climate change, desertification, and biological diversity, just as we did with ozone depletion. We must move to action on these global conventions. We must ensure that the Global Environment Facility is fully funded to do its work. Fifth, it would be a coalition that recognizes the power of modern research to democratize health—to harness new vaccines to eradicate AIDS, malaria, tuberculosis, and polio. Sixth, it would be a coalition to make the information revolution truly universal—to bridge the growing knowledge gap, to connect all developing and transitional economies to the world and to each other, and to be a real vehicle for sharing and learning via satellite, email, and the Internet. For there is no doubt that the technological revolution will have an enormous impact on the substance of development.

Globalization can be more than the unleashed forces of the global market. It can also be the unleashing of our combined effort and expertise to reach global solutions. We need to build coalitions for change: coalitions with the private sector that will bring investment, create jobs, promote the transfer of technology and skills, and foster social responsibility; coalitions with civil society and communities to mobilize the kind of grassroots support we have seen behind the debt campaign—and to extend it to health, education for all, participation, and poverty reduction; coalitions with governments to assist them in taking charge of their own development agendas with the participation of their citizens; coalitions with each other to put an end to the turf battles, the wastage, and the duplication; coalitions with religions, with trade unions, and with foundations to benefit our common work; and coalitions of commitment to the seven United Nations pledges on sustainable development, gender, education, infant, child and maternal mortality, and reproductive health. I pledge to you our intention to work with all our partners to help build those coalitions for change, so that when we meet next year in Prague, we will have begun to put in place that new development architecture.

I have outlined a complex agenda. Is the Bank gearing up to meet this challenge? I believe unequivocally, yes. On governance, we are already spending over $5 billion a year—working on civil service reform, budget management, tax administration, decentralization, legal reform, judicial reform, and institution building. We are working with over two dozen countries on anticorruption programs. We help to train judges, and we run public national workshops that bring corruption into the bright glare of sunlight. We even train investigative journalists—conscious that a free and professional press is a society's voice.

On knowledge, we have made dramatic progress over the past four years. Our Knowledge Bank brings us closer together, through distance learning, using satellite connectivity. It also takes knowledge to far-away places by closing the information infrastructure gap—reaching students through the African Virtual University and through our WorldLinks program, which connects school children in the industrialized world with their brothers and sisters in the developing world.

We have a major project to clear slums with programs built on the efforts of the inhabitants with whom we work by introducing land titles and self-sustaining projects for infrastructure. With the World Wildlife Fund, we have built a powerful alliance to save our forests; with the private sector, the United Nations, and foundations, we are building a Global Alliance for Vaccines and Immunization, an AIDS Vaccine Task Force, and a malaria initiative. With over 140 different partners, we have already wrestled river blindness into submission. This stands as a marvelous example of what we can do together, and we are working with local communities building partnerships from the bottom up—through local democratic institutions, as in India. We have learned that the best and most effective projects we have are those that are locally based and close to our real clients, people in poverty in rural and urban communities. We have learned that local ownership and involvement must be central to our architecture.

Is the Bank up to the challenge? I believe that we have 10,000 extraordinarily gifted and committed staff in the Bank, IFC, and MIGA. It has been a tough year, and I want to thank them and their families for the contributions that they have made. We stand on the threshold of a new millennium. So much that is possible is within our grasp. Will we have the courage and the leadership to reach out and grasp it? Will we finally recognize that we live in one world? Look around. We are linked by financial systems, we are linked by communications, we are linked by environment, and we are linked by trade. Migration knows no borders;

crime knows no borders; and drugs, war, and peace know no borders. Only national budgets stop short at frontiers. Only national elections pay little heed to that larger world. We need leadership to explain to our peoples that our national interests are international. We cannot avoid the growth of our global population to 8 billion people in the next 30 years, nor the growth in trade, nor the growth in poverty.

From this understanding, we must reaffirm our commitment to development—a real commitment to each other—a real commitment to act on the generous statements made by so many of the leaders of industrialized countries toward the developing countries. We must find the commitment to meet the recommended level of 0.7 percent of GNP in official development assistance. And leaders of developing and transition economies must reaffirm their commitments to carry out their promises for good governance, equality, and growth.

These commitments need a human and moral aspect as well. There needs to be a passionate rededication to each other as we enter the next century. All of us have to assume a responsibility for global equity, which is the only assurance of peace. How can one not be moved by the comments of the poor to which I referred earlier?

A father from Eastern Europe said, "Poverty is humiliation, the sense of being dependent on them, and of being forced to accept rudeness, insults, and indifference when we seek help." And the voice of Bashiranbibi from South Asia said, "At first I was afraid of everyone and everything: my husband, the village, the police. Today I fear no one. I have my own bank account. I am the leader of my village's savings group. I tell my sisters about our movement."

We must look forward, we must commit ourselves to bring about the day when the poor of the world, the aged, the street children, the disabled, the rural workers, the slum dwellers, will all be able to cry out "Today I fear no one. Today I fear no one."