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Mr. Chairman, Distinguished Members, Ladies and Gentlemen,

I am delighted and honored to represent my Constituency at this important meeting and I look forward to our discussions and successful conclusion at the end of the day. I am equally pleased with the progress achieved in various areas relating to our decisions in Prague last year.

Looking ahead, the global economic prospect is expected to be less favorable due to a slowdown in the US economy and the downturn in the global electronics cycle coming on top of the decline in agricultural export commodity prices. This will be another challenging period for developing economies, in particular for the countries in my constituency which are export dependent and are still in the process of recovering from the 1997-98’s Asian financial crisis. We hope that policy adjustments instituted in response to the crisis would create greater resilience especially of the financial and corporate sectors of the economy and in the areas of social safety nets for the people to withstand the challenges posed by the current economic slowdown.

Mr. Chairman, with that backdrop, allow me to present some views on possible roles of the World Bank Group (WBG) in the future development of member countries.

World Bank Group Strategy in Middle-Income Countries

We welcome the work of the Task Force and proposals to address the issues of concern regarding the WBG’s role and instruments in support of Middle-Income Countries (MICs) which were raised in Prague last year. The WBG’s role in MICs is crucial in furthering both economic and social developments for the achievement of the global development goals. Helping the MICs meet their development challenges is central to the WBG’s role because a large proportion of the world’s poor live in MICs. As poverty eradication is the overriding objective of the WBG, the role for the WBG in MICs will remain relevant even as income levels are higher than the low-income countries. Removing poverty will also reduce a potential source of social instability in the MICs. Secondly, we feel the WBG should stay engage with the MICs even if they are inactive borrowers currently as this will enable the WBG to monitor developments and to respond quickly in the event of a crisis developing, including contagion across nations, and to institute measures to address the severe economic and social degradations that would likely emerge. In those circumstances, the inactive MICs will likely seek WBG assistance for which the WBG will be ready to respond at short notice.

We welcome the proposal to offer lending products that match the needs of MICs. The recent introduction of Local Currency Loans and now the proposal for Deferred Drawdown Option show the responsiveness of the WBG in meeting different needs of MICs. Such a facility would facilitate the availability of finance to a performing MIC as it progressed and in need of increased finance, or at times when countries faced difficulties in attracting private capital flows.

We acknowledge the important role of Country Assistance Strategy (CAS) in guiding the Bank Group lending and non-lending programs and we support the initiative to strengthen the CAS process framework. The CAS for Indonesia provides an honest evaluation of the development path and strategies of the biggest country in our Constituency. We encourage the Bank to give its full support and stay the course of its involvement and assistance to Indonesia to
assist it out of its structural predicaments. While we fully concur with the idea of inviting countries to set out their own development priorities, a Letter of Development Strategy (LDS) might not be necessary for some countries which already have their own strategic documents such as the National Development Policy. In this regard, LDS should be viewed as an option and not a rigid framework imposed on client countries. To provide value added and to truly articulate a framework for WBG’s involvement in MICs, the national development policy or LDS must focus on growth measures and poverty reduction objectives with clear linkages to the CAS.

With regard to the proposal for greater collaboration with other International Financial Institutions (IFIs) and the need to be selective and focused in work program, we welcome the move towards a clear division of labor between the Bank and the Fund whereby the Bank leads on the social, structural and sectoral development areas and the Fund leads on macroeconomic policy issues. We hope that the WBG’s efforts in building effective partnerships with other institutions and donors and concentrating on areas of comparative advantage, together with harmonization of policies and procedures will result in an arrangement that could optimize on resource use, reduce overlaps, minimize transaction costs and increase development impact of growth measures for poverty reduction.

**Selected Issues in IMF/World Bank Support for Low-Income Countries**

**PRSP/HIPC Initiative**

We are pleased with the progress and prospects of the Bank-Fund joint efforts to facilitate the Poverty Reduction and Strategy Paper (PRSP) process, particularly with regard to the transition to full PRSP. It is encouraging to note that since last year’s Annual Meeting in Prague, the Bank had considered 19 Interim-PRSPs (I-PRSPs) and two full PRSPs, bringing the total to 32 I-PRSPs and four full PRSPs. We also commend the Bank for coming out with the guidelines for Joint Staff Assessments (JSA) of full PRSP. The guidelines would facilitate the national authorities in discharging their responsibilities for setting strategic priorities and promote greater sense of ownership which is crucial for successful implementation of the PRSP.

We welcome the introduction of Poverty Reduction Support Credit (PRSC) as an International Development Association (IDA) lending instrument for which a country in our Constituency, Vietnam, will be the second country to be considered. We are encouraged to hear that PRSC is sufficiently flexible and broadly based to ensure suitable coverage of social and structural policy areas. We share the view that the speed of approving the assistance should not be at the expense of the quality of the interim or full PRSP. It is important for the Bank and the countries concerned to ensure that the policy reforms and commitments under the I-PRSP are realistic and implementable. Completion point triggers are very crucial for HIPCs to meet. Failure to attain the triggers may set countries back in its reform process and into an unsustainable debt situation.

The HIPC initiative provides relief to poor countries of its debt stock position. More importantly, it is good policy performance to develop the economy progressively and sustainably that will ensure the country does not revert back into unsustainable debt. The ultimate goal is comprehensive development and economic growth that will reduce poverty. Therefore, it is
highly important that donors’ aid and financial assistance are effectively used for productive purpose for which it is crucial to institute expenditure tracking and to ensure that saving from debt relief is appropriately channeled towards programs that facilitate economic and social progress for poverty reduction.

Debt sustainability therefore depends not only on the level of debt relief offered to HIPCs but more importantly on subsequent measures, particularly macroeconomic policies, sectoral reforms, financial and prudential debt management, capacity building, private sector development and market oriented trade policies. We support that the PRSP and the enhanced HIPC be premised on the two pillars of ‘country ownership’ and ‘partnership’. There is no substitute for the poor countries’ own policies and efforts. At the same time, WBG’s role in providing financial and technical assistance for capacity building in related areas and in understanding the implications of trade liberalization and greater market access for products from developing countries are crucial for growth of exports and the economy thereby contributing to debt sustainability.

**Assistance to Post-Conflict Countries and the HIPC Framework**

While significant progress has been made with respect to the enhanced HIPC initiative, the real challenge is to help the HIPC-eligible countries which have been affected by conflicts move sooner towards decision point and begin receiving debt relief. We welcome the proposal to accelerate the delivery of HIPC assistance to post-conflict countries based on a shorter track record for decision point, but compensating with a longer period for completion point. We, however, share similar concern with regard to the practicality of front-loading assistance where there is limited absorption capacity of post-conflict countries because we feel that the amount of debt relief should be commensurate with the capacity to implement reforms and the progress made by the government before subsequent approvals of assistance.

There is a need to monitor not only expenditure spending but the stability of the operating environment itself. The greatest risk is post-conflict countries reverting into conflict. Financial assistance for demilitarization and programs for integrating ex-military personnel into the economic and social strata must integrate with efforts to rebuild the economy.

**Leveraging Trade for Development – World Bank Role**

We welcome the new emphasis on Bank’s initiative in leveraging trade for development. Trade remains a crucial vehicle for developing member countries to benefit from globalization. Market access or the opening of markets by the developed world for products from developing countries will have direct impact on growth and poverty reduction outcomes and will leverage Bank’s role in developing supply and export capacities of low-income countries. The developing countries would definitely welcome analytics and technical assistance in understanding trade liberalization implications and the necessary skills, knowledge and tools to ensure adequate negotiating capacity in WTO negotiations in Geneva. While trade liberalization is important for economic development, our view is that it should only be done progressively, taking into account the respective level of development of a country. In this context, the Bank’s analytical work can offer avenues on how to mitigate possible negative short-term effects of trade liberalization on previously protected sectors of the economy and on fiscal revenues as a result of tariff reduction.
The long-term positive impact will be the ultimate goal. The Bank Group, however, in our view should not seek to be an involved participant in the process of trade negotiations directly which should be the responsibility of the WTO.

**Global Public Goods**

We welcome the inclusion of Global Public Goods on the agenda for this meeting and we are especially pleased with the World Bank’s involvement in support of the five broad areas of public goods, namely communicable disease; environment; financial stability; trade integration and market access; and research and development and the knowledge revolution.

In view of the World Bank’s comparative advantage in these areas and its active involvement, the international community will increasingly look to the Bank to play a lead role. We, however, concur with the view that due to resource constraints, the Bank must be selective in its priorities, collaborative in its approach and prudent in its deployment of resources for global public goods resolutions. It is imperative for the Bank to act on the basis of its mandate as well as its existing comparative advantages and experiences.

At the Prague meeting last year, we raised our concern about the adequacy of the Development Grant Facility (DGF) as the main financing vehicle for the Bank, given its small size. We, therefore, support the proposal to restructure the DGF to enhance its capacity in support of global public goods. We also welcome recent indication that the IDA Deputies would be supportive of a limited expansion of IDA’s grant facility to finance public goods with especially strong impact on poverty reduction.

**HIV/AIDS Action Program**

HIV/AIDS is altering the global social and economic scenario. Already we have lost millions of citizens to an otherwise preventable disease and more than 90 percent of the people infected with HIV/AIDS are in the developing world. Whether measured against the yardstick of deteriorating child survival, reducing life expectancy, overburdened healthcare systems or increasing orphanhood, HIV/AIDS has never posed a bigger threat than it does now.

HIV/AIDS makes the countries poorer as human resources are lost and they have the least capability to address it. The high cost of HIV/AIDS drugs means that most people in developing countries just cannot afford them. We support the Bank’s initiative towards expanded access for appropriate drugs and to explore financing strategies that lower the risk and increase the incentives for private investment in providing vaccines for the developing world.

HIV recognizes no border and requires a comprehensive response. It is imperative for the global community to work together so that we may better coordinate our efforts in recognition of the transborder nature of the epidemic. We welcome the Bank’s expanded commitment to HIV/AIDS in the fiscal year 2001 and the application of streamlined procedures with regard to approval of projects under the Multi-Country AIDS Program (MAP) thereby ensuring resources to flow faster to recipient countries.
Harmonization of Operational Policies and Procedures

We share the view that this is an area that greater collaboration, streamlining and partnership among IFIs, MDBs and donors are required to make progress in order to reduce aid recipients’ administrative and processing costs and the cost of doing business, thereby improve the effectiveness of development assistance. Given the complexity of issues involved, it is imperative that efforts to promote convergence of donors’ operational policies and procedures should involve as many stakeholders as possible with support and commitment to facilitate this process.

While the overall progress in eliminating this significant administrative burden has been relatively limited, we commend the work of Multilateral Development Bank (MDB) Procurement Working Group in coming out with a master document for the prequalification of contractors as well as the establishment of the Task Force on Donor Practice by the Development Assistance Committee (DAC) and Organization for Economic Cooperation and Development (OECD) in January 2001. We also note that similar initiatives are undertaken at country level and we hope that institutional- and country-level initiatives will eventually converge over time towards agreed good practice standards in operational policies, procedures and practices.

IMF/World Bank Roles in Promoting Integrity of the International Financial System: Enhancing Contributions to Combating Money Laundering

Money laundering remains a priority concern because of the threat it can pose to the integrity of legitimate financial institutions. With globalization and the information-communication-technology (ICT) revolution, money laundering is increasingly global in nature and requires global efforts to effectively address it. We note, however that money laundering has not reached a level to have a systemic impact. The importance of money laundering issues in the Asia Pacific region, and the need for integrated international response were endorsed by the APEC Finance Ministers in 1997. In addition, a group called the Asia/Pacific Group on Money Laundering (APG) was also established in the same year to provide focus for cooperative anti-money laundering efforts in the region.

We support the proposal to enhance the Bank/Fund’s contribution to international efforts in countering money laundering. We are of the view that the Bank/Fund works remain focussed in the areas of financial sector and corporate sector reforms to assist countries put in place strong economic, financial and legal foundations to combat financial abuse, including money laundering through various forms of outreach and technical assistance. In this regard, we have no difficulty for the Bank/Fund to propose, as a recognized international standard in the Report on Observance of Standards and Codes (ROSC), those of the Financial Action Task Force 40 Recommendations (FATF 40) that are relevant to their mandate. The Bank/Fund should not engage in other anti-money laundering issues associated with criminal law enforcement.

Guidelines for Public Debt Management

The WBG and IMF joint efforts to publish the Guidelines for Public Debt Management is timely to assist governments in managing their fiscal and debt operations in a prudent manner and at minimum sustainable cost. It also guides countries in controlling their debt exposure.
levels both from within and from external sources and consequently reducing their vulnerability to financial shocks. The guidelines, by focussing on a broadly-applicable principles of good debt management and avoiding large risks and poor practices will be of relevance to all member countries irrespective of their stages of economic development.

The Guidelines identify various contingent liabilities arising from government guarantees of debts of subnational or government agencies, and of subsidies, price supports, deposit insurance, unhedged forex exposure and put options in government debt issuance. We would like to address three areas of concern. Since the World Bank has been promoting privatization of government and state-owned enterprises as part of its public sector policy reforms, we would like to caution on possible contingent liabilities that might result from hastily taken privatization of government assets and state owned enterprises without deep due diligence and proper viability analysis of the entities to be privatized. The experience of some countries revealed cases of privatized companies reverting back to the Government to make up for the shortfall when revenue projections at the time of privatization failed to be realized and they could not sustain operation under a recessionary environment.

Prudent debt management in the context of sound macro-economic, monetary, fiscal and exchange rate policies will create an enabling environment for investment. We, however, view this only as a necessary condition but it is insufficient to ensure stability where financial markets are open to the free flow of short-term capital. Our view is that reform of the domestic financial architecture must be supplemented even more by reform of the international financial architecture in addressing short-term capital flows and their destabilizing impact on small open economies even when economic policies and the structure of the real sectors remain sound.

The role of credit rating agencies in the issuance of government debt instruments should also be highlighted in the Public Debt Management Guidelines. Given their importance, we seek greater transparency of the bases of assessment in coming to their ratings. Our experience revealed the opaque nature of assessments made particularly when countries are downgraded several notches in sovereign ratings after only a few months into the Asian Crisis. Independent evaluations of the credit ratings have shown them to be scantily staffed and their ratings tended to trail the market whether during an upturn or downturn of an economy. Not only were the ratings out of synch with economic fundamentals, they affected the ability and terms of debt issue a country could secure in the global market thereby effectively raising the cost of debt service.

We welcome the position that the Guidelines is not mandatory and only seek to advice government in their debt management. The Guidelines should not add to other conditionalities of the Bank and IMF because the path to follow must be determined by country itself and must allow for country flexibility in the choice of policies, institutions and instruments to adopt. With regard to accountability, we have no difficulty with the recommendation that the debt management office be subject to external audit. This will strengthen financial accountability of debt managers in addition to government’s own audit and accounting process.
Effective Insolvency System: Principles and Guidelines

We are pleased with the involvement of so many stakeholders in developing this important document. Given the diversity of our economies, cultural and legal systems, we are equally pleased that the final document draws experiences from several countries and does not envision the one-size-fits-all model. While the adoption of these principles and guidelines is on a voluntary basis, they are useful as self-diagnostic tools for designing an appropriate insolvency system and for strengthening of the framework for resolution of related debtor-creditor rights.

The 35 principles being proposed appears to be on the high side especially for emerging markets. The most important, however, is for countries to focus on major principles for key institutions and framework and the capacity to operationalize these principles. Here, the World Bank can assist through its Economic and Sector Work and technical assistance to countries requesting for such assistance. It is essential for countries seeking to attract foreign capital flows to put in place a system which provides a pre-determined set of rules and institutions for the recognition and upholding of creditor rights, insolvency, informal debt resolution and mechanism for rehabilitation or liquidation of insolvent firms, and the allocation of the financial workouts between the stakeholders.

With regard to the informal corporate workouts and restructuring, we suggest that not only these are agreeable between debtors and creditors, as embodied in principles 25 and 26, it is equally important to ensure that equity investors and the interests of minority shareholders are also considered by the system to ensure subsequent public offerings are acceptable by the market. In this regard, I am pleased to report that some of the countries in my Constituency have already formalized the role of protecting minority shareholder interest, by assigning it to a watchdog committee coordinated between relevant investment bodies and interested parties.

Again, we welcome this effort to draw-up principles and guidelines for effective creditor rights and insolvency system. It will ensure mechanisms for debt resolution to recover maximum values for financial investments, either informally or through insolvency.