DEVELOPMENT COMMITTEE
(Joint Ministerial Committee
of the
Boards of Governors of the Bank and the Fund
On the
Transfer of Real Resources to Developing Countries)

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STATEMENT BY THE MANAGING DIRECTOR OF THE IMF

Attached for information of the Members of the Development Committee is a Statement by the Managing Director of the IMF, Michel Camdessus, for the Committee's September 27, 1999 meeting.

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Development Committee: the Managing Director's Written Statement

1. Since the 1999 Spring Meetings we have continued to make progress in addressing the causes and consequences of the financial crises of recent years which have had severe economic and social costs. We are now seeing the fruits of countries' commitment to difficult adjustment policies, with economic recovery taking a firmer hold. Our work on strengthening the architecture of the international financial system to minimize the risks for the future has entered a new phase, focussing on implementation of many of the initiatives that have been put forward. Equally important, we are responding to the harsh social dimensions of the crisis and the renewed emphasis on longer-term social and human development issues in international fora. A social pillar is being added to the global economic architecture and we are setting in train a stronger offensive to eradicate poverty in poorer member countries.

2. Global economic activity has been strengthening during 1999, led by rapid recoveries in most of the Asian countries at the core of the crisis, preliminary indications of a turnaround in Japan, and more modest downturns than were expected in Brazil and Russia. Continuing growth in North America and a firming of activity in Europe have also contributed importantly. The recovery has been supported by a reduction in financial market tensions. The rebound in oil prices and halt to the decline in many other commodity prices have provided relief for commodity-exporting countries. Credible monetary and exchange rate policies, advances in structural reforms, and fiscal discipline have helped strengthen performance in many of the emerging and transition economies as well as other developing countries. In the hardest hit Asian economies, improvements in regional conditions are contributing to rising exports, with fiscal stimulus and easier monetary conditions also supporting growth. A broader-based pickup in domestic demand in the region is expected as economic confidence strengthens. In sub-Saharan Africa, growth has increased recently in many countries, in large part reflecting improvements in policy implementation. But there are downside risks, and we need to ensure that the recovery is sustained. Industrial countries need to work to ensure that growth in Europe and Japan is sufficiently robust to compensate for a possible slowdown in the U.S. economy. In turn, emerging market and developing countries need to continue with their programs of structural reforms and good governance.

3. We—the international community, individual countries and the private sector—must not allow the recent return of a degree of calm in financial markets and recovery in the crisis countries to divert us from the work required to strengthen the international financial architecture. We must carry forward the momentum of our progress and not let the gains achieved thus far obscure the challenges of the future. At the national level, there is a need to press ahead with structural reforms, including those aimed at promoting well-functioning financial and corporate systems, so as to ensure a sound foundation for future growth. At the same time, the international community must help countries strengthen their markets and institutions. In particular, we must support the efforts of countries, especially the poorer ones, to build up their capacity to implement many of the essential requirements of a strengthened international architecture and to participate more effectively in the benefits of an open global economic system. In this connection, the forthcoming round of multilateral trade negotiations

provides an important opportunity to proceed with this agenda. It will also be important, in order to help assure that these efforts lead to higher and durable growth and significant advances in human living conditions, to promote political stability and reduce the occurrence of armed conflict.

I. Strengthening the Architecture of the International Financial System

4. Together with other international organizations, national agencies and the private sector, the Fund has been working on a series of initiatives intended to contribute both to crisis prevention and resolution. Our focus is now shifting to fleshing out and implementing these initiatives.

5. Reflecting the complexity of the issues, the extent of progress to date has varied. In some areas, substantial progress has been made and work is underway to implement specific proposals[1]:

- **Transparency, standards and Fund surveillance**. The transparency of IMF practices and members' policies has been increased considerably, notably through the publication of: IMF Article IV consultation staff reports on a voluntary pilot basis; program documents; and a number of policy papers and evaluators reports. Further important progress has been made in developing and strengthening standards in the IMF's core operational areas, and countries have made advances in adhering to them. Also, given the increasing focus on assessing countries' vulnerability to crises, we are working to further develop indicators and principles for sound liquidity and debt management. Members' fiscal transparency practices are being assessed using the Code of Good Practices on Fiscal Transparency, and the new Code of Good Practices on Transparency in Monetary and Financial Policies has been submitted to the Interim Committee for endorsement. Other organizations such as the World Bank, the Basel Committee, OECD, and the IOSCO have also been working on developing and strengthening standards in their areas of responsibility. As part of strengthening surveillance, the Fund has been preparing case studies on members' progress in observing international standards of direct relevance to the IMF.

- **Strengthening financial systems**. The analysis of financial sector vulnerability is receiving greater attention and national authorities are intensifying their assessments of financial systems, helped by the IMF and others, and aligning national practices with international principles. World Bank-IMF collaboration on financial sector work has intensified, including under the joint Financial Sector Assessment Program which has moved to the operational phase. The Financial Stability Forum has begun its work, and recommendations concerning possible sources of vulnerabilities from the activities of off-shore centers, highly leveraged institutions, and capital flows are expected early next year.

[1] Developments in these areas and the IMF's work on strengthening the architecture of the international financial system are described in more detail in my report to the Interim Committee on Progress in Strengthening the Architecture of the International Financial System.

- **Contingent Credit Line (CCL)**. The IMF has agreed to provide CCL's for member countries with strong economic policies as a precautionary line of defense against future balance of payments problems that might arise from international financial contagion.

6. In some other areas, more discussion is needed before comprehensive approaches can be developed. Key issues remain in areas such as appropriate exchange rate regimes, the role of capital controls, and particularly in the most complex of all—how to involve the private sector in crisis prevention and resolution in a manner that would not disrupt or disproportionately raise the cost of capital to developing countries. These issues will continue to be an important part of the IMF's work in the period ahead.

II. The Social Dimension and Poverty Reduction

7. An essential complement to our work on financial issues is the intensification of work on social sector issues—a social pillar of the international architecture. All too many in the world today suffer the misery of poverty, and I welcome the increasing priority that the international community, governments, donors and civil society are placing on the all-important goal of poverty eradication. The IMF will continue to promote sound economic policies that foster rapid, durable and high-quality growth, which are essential to achieve sustained poverty reduction and a lasting improvement in social conditions. At the same time, growth is by itself not necessarily sufficient to improve living conditions equitably. Complementary reforms that promote the participation of the poor in the process and benefits of economic growth are needed. The potential short-term adverse impact of adjustment and reform efforts, and of exogenous shocks, on vulnerable groups, especially the poor, must be addressed.

8. The Fund —in close collaboration with the World Bank— has recently developed proposals aimed at strengthening the link between debt relief under the HIPC Initiative and poverty reduction, and transforming the ESAF to give greater prominence to poverty reduction. On specific issues in the area of social policies, the effectiveness, targeting and implementation of social safety nets needs to be improved through comprehensive ex-ante analyses and monitoring, relying on the expertise of the Bank and other relevant organizations. Although social spending has increased in most countries with IMF-supported programs, this has not always been accompanied by commensurate improvements in social indicators. Greater attention needs to be given to strengthening the efficiency and targeting of social spending, including by strengthening countries' budget formulation and implementation capacities. In establishing goals for social spending it will be important to take into account spending needs in other priority areas for poverty reduction, such as basic sanitation and rural roads, and access to clean water.

10. To achieve our objectives in all these areas we will need to enhance our close collaboration with the World Bank. More generally, the Bank and certain other international organizations have the primary mandate and expertise for dealing with social sector issues, and we will continue to draw upon the work of these organizations to the fullest extent possible. In this context, I welcome the continuing progress the Bank is making to strengthen its work in these areas. The Bank's report to this Committee on Managing Social Dimensions of Economic Crises: Good Practices in Social Policy will make a valuable contribution by encouraging the adoption of social policies that will promote sustainable development and greater resilience to exogenous shocks. Broad-based participation of the poor and civil groups in this process will

also be essential to provide much needed input on the magnitude and causes of poverty, as well as the design and implementation of solutions. It will also help assure the strong national ownership needed for the sustained implementation of social programs.

11. The poor quality of data on social spending and social indicators, and capacity constraints, reduce the effectiveness of social policies. I encourage country authorities to work to tackle these weaknesses and to make improvements in data in collaboration with the Bank, other international agencies, and civil society.

III. The HIPC Initiative—Strengthening the Link Between Debt Relief and Poverty Reduction

12. Together with the World Bank, we have continued to make progress in implementing the HIPC Initiative and in the comprehensive review of the Initiative. We have undertaken a broad external consultative process in designing the proposed enhancements to the framework. Our Executive Boards have recently endorsed far-reaching proposals to enhance the Initiative by providing faster, deeper and broader debt relief, and by strengthening the links between debt relief and poverty reduction. The resulting strengthened framework will continue to rest on the key principles of the HIPC Initiative, including participation by all creditors, maintaining the financial integrity of multilateral institutions, and support for strong policies of adjustment and reform. Also, it is critical that the financing for the enhanced framework be secured before proceeding with its implementation. These proposals are detailed in the joint Bank-Fund progress report on the HIPC Initiative on your agenda, and I would only highlight some key points:

- **Deeper, faster and broader debt relief** will be delivered through, inter alia, a lowering of the targeted debt ratios, the provision of interim relief between the decision and completion points, and the possibility of reaching the completion point earlier by accelerating the implementation of key reforms and maintaining macroeconomic stability. The proposals will increase a country's safety cushion and the prospects of a permanent exit from unsustainable debt, while expanding likely eligibility from 29 to 36 HIPCs and possibly others.

- **Linking debt relief to poverty reduction**. The proposed enhanced framework for poverty reduction seeks to ensure a robust link between debt relief and poverty reduction by integrating debt relief into a comprehensive outcome-oriented strategy for poverty reduction using all available resources. Poverty eradication is a long-term task, and within the time horizon of the HIPC Initiative the emphasis will be on establishing the foundations to carry forward this effort. To this end, broad-based participation of civil society and strengthened governance are essential. Transparent outcome-oriented objectives, established in the context of the international development goals for 2015, and mechanisms for broad-based monitoring of related indicators, will be critical for effective design and implementation of the poverty reduction strategy. The framework for poverty reduction and eradication is to be implemented through the development of a nationally-led Poverty Reduction Strategy Paper (PRSP). The PRSP would be elaborated by the authorities in close consultation with the IMF and the Bank and would set out the choice of goals, the formulation of policies and monitoring of implementation. It would embody the important principles of ownership, transparency and broad-based participation. It would also become the vehicle for closer

Bank-IMF collaboration in IDA and ESAF countries and, after endorsement by the Boards of the IMF and the World Bank, would provide the framework for IMF and Bank lending operations in these countries. I would also urge the donor agencies to make use of the framework of the PRSP to guide their support for low-income countries.

13. Before we can begin to implement these proposals, we must secure the full financing of the Fund's participation in the enhanced HIPC Initiative and the continuation of ESAF operations. To this end, the Fund's Executive Board has made substantial progress on the elements of a financing package, and I am confident that I will soon be able to report the completion of these discussions, so that we can proceed with the implementation of these initiatives.

IV. Transforming the ESAF

14. The proposals to enhance social policies and strengthen the link between poverty reduction and debt relief under the HIPC Initiative have implications that extend beyond the HIPCs to the programs that the Fund supports in all ESAF countries. I am therefore glad to report that the IMF's Executive Board has recently endorsed a new and ambitious approach that gives greater prominence to poverty reduction and eradication, and calls for the Bank and IMF to integrate their operations in these countries more closely than ever before. We stand ready to take up this challenge.

15. The new approach, which will base future lending on the comprehensive PSRP, will have important implications for ESAF-supported programs:

- The costs of social and sectoral programs aimed at poverty reduction will have a more direct influence on the design of economic policies that foster faster sustainable growth.

- A greater emphasis will be needed on good governance, in particular in government budgets, together with full transparency, effective monitoring procedures, accountability and involvement of civil society.

- Programs will highlight key reforms that are critical to achieving the government's social goals.

This new approach will not be in place overnight, and we will need to develop the modalities working closely with national authorities, the World Bank, and others.

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16. The strengthening of the international financial architecture and its social pillar are key elements of a comprehensive strategy to ensure that all countries share in the benefits of globalization and that the human toll of poverty is decisively addressed. At the same time, industrial countries can make an important contribution: by implementing sound macroeconomic and structural policies that would bring their growth to full potential and generate the external demand vital for developing countries; by further improving the access of developing countries

to their markets—and here I welcome the calls for the Millennium round of trade negotiations to create greater opportunities for developing countries, including giving HIPCs across-the-board duty-free access to industrial country markets as part of initiatives to enhance market access for least developed countries, and for the adoption of new transparent WTO rules; by halting the excessive flow of weapons to developing countries to help assure the peace that is critical for development; by supporting developing countries' capacity building efforts; and by reversing the declining trend in official development assistance and ensuring that debt relief under the HIPC Initiative is genuinely additional.

17. As we move ahead, let us make the first decade of the new Millennium one of implementing a more secure global economic system for eradicating poverty in all its dimensions. It is a busy and challenging agenda for us all. We at the Fund stand ready to play our important role in this task.