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Statement by the Hon. **KASPAR VILLIGER**,  
Alternate Governor of the Fund for **SWITZERLAND**,  
at the Joint Annual Discussion



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Alternate Governor of the Fund for Switzerland,  
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It is a great pleasure and honor for me to address the Board of Governors of the Bretton Woods Institutions in the City of Prague. There are two important reasons that make this venue most suitable for this year's Annual Meetings. The first, and foremost, is the splendor and rich cultural heritage of Prague and the hospitality of its population. I would like to take this opportunity to thank the Czech authorities for their invitation, the excellent organization of this event and the effective protection of participants.

The other reason making this venue even more extraordinary is that it underscores the universality of the membership of the International Monetary Fund and the World Bank. The accession of the Czech and Slovak Federal Republic 10 years ago and the membership of all eastern European countries, including the states of the former Soviet Union, were historic moments for these institutions. It is only since then, that the Bretton Woods Institutions have become truly universal.

Undoubtedly, the IMF and the World Bank have played an important role in assisting these countries in the difficult transition process leading to a market-oriented economy. Representing several transition countries in the Executive Boards of the IMF and the World Bank, Switzerland has had the privilege of closely following the experiences of some of these countries. It is fair to say that the transition process has proved in many ways to be more daunting than expected at the outset. Only when we look in detail at the individual cases, we notice the host of factors, like natural endowments, trade linkages, debt situation, political systems, and institutional capacities, that determine the pace of each country on the path towards a pluralistic and market-oriented system.

The scope and depth of structural reforms that are necessary on this path are impressive. They have a direct impact on the foundations of the socio-political frameworks in these countries. The break with the past has quite often caused great suffering for the most vulnerable members of the society. Many of these people may still feel that market reforms, liberalization, and the sudden integration into a globalized economy have hugely benefited only a few and caused immense hardship for many.

The demonstrators on the streets of Prague underscore that it is crucial for the IMF and the World Bank to deal openly with the mistrust about a globalizing world that civil society often voices. It is paradoxical that at a time of vibrant economic activity in most regions we are not able to convince people of the benefits of globalization.

Although globalization helps to create great opportunities, it also opens the door to new risks. These range from financial instability to disease transmission. The need for global action is compelling. Therefore, the IMF and the World Bank have a more demanding mandate. To fulfill this mandate, they have to do two things: cooperate more effectively

and focus on their core functions. I welcome that working relations have already improved significantly. I am convinced that the joint statement by the managing director of the IMF and the president of the World Bank will lead to a further strengthening of these ties.

As regards focus, an important element is that the World Bank prepares a long-term strategy. This strategy must define in operational terms how to support countries in their fight against poverty.

### **Stengthening the international financial system**

Significant efforts have been made in strengthening the international financial system. The financial crises of 1998 underscored the risks associated with globally integrated capital markets. Sudden shifts in market perception and the volatility of capital flows had serious economic and social repercussions. In some crisis-hit countries, years of improvement in the overall living standards were wiped out within months. I have always insisted that better data and policy transparency are important to smooth market expectations. I welcome the significant progress our institutions have made in this area. The IMF has also focused more strongly on external debt and international reserves management. Furthermore, its advice has increasingly taken into account the vulnerability associated with fixed exchange rate regimes. While we will hardly be able to completely avoid financial crises, these measures should at least help to reduce their frequency.

The reform of the IMF's credit instruments should also help strengthen crisis prevention and ensure that sufficient resources are available for members facing a crisis. The modifications of the Contingent Credit Lines should allow members with solid policies to strengthen their preventive framework. Given the lack of experience with this instrument, we will have to carefully assess the first cases. The refocusing of the Extended Fund Facility should help reduce the use of long-term IMF financing. These changes, together with a clear understanding regarding the necessity of private sector involvement in resolving financial crises, will improve the efficiency of the use of scarce IMF resources.

I am convinced that a member's crisis resilience depends crucially on a strong domestic financial system. The IMF and the World Bank have strengthened their focus on these issues and they have shown their capacity to cooperate effectively under the Financial Sector Assessment Program. While I consider emerging and transition countries to be the main targets for the FSAP, I also expect all major financial centres to undergo such an assessment.

### **Debt reduction and the fight against poverty**

Poverty reduction must remain on top of our agenda. I am encouraged to see how the IMF and the World Bank have stepped up their efforts to fight poverty. The new Poverty Reduction Strategy Papers are an essential element in these efforts. I find particularly

important that they are country-driven and rely on broad internal consultations. This approach puts a high demand on the institutional capacities in member countries and takes time. Both donors and international institutions should support the technical preparations of poverty strategies without undermining country ownership. While I highly value ownership, I give equal importance to a critical analysis of poverty strategies by the IMF and the World Bank. We have to make sure that the strategies are feasible and fundable.

I continue to be a strong supporter of comprehensive debt relief that will help countries reach a sustainable level of debt. I note with satisfaction that substantial progress has been made in implementing the enhanced framework. One of my main concerns is to make the HIPC's exit strategy sustainable. We need to strike the right balance between speed of delivery and quality of the process. And it is crucial that countries qualifying for the initiative adhere to sound economic policies, implement measures to fight poverty, and improve governance. To make the HIPC a full and sustainable success, we need to have the means to finance it. I urge all countries to fulfill their financial pledges. This appeal also includes Non-Paris-Club members.

### **Improve governance and accountability**

The IMF and the World Bank have also focused on improving governance and accountability. It is difficult to bring the benefits of structural reforms to the whole population in countries with governance problems. To improve governance, members should adopt the best practices developed by the Fund and the World Bank in the areas of fiscal, monetary, and social policies. Furthermore, the stronger focus on governance issues during program design and the publication of program documents has already sent clear signals to members: accountability is a condition for receiving assistance.

Of course, accountability is also crucial for the institutions. In this context, I welcome the progress made by the IMF in increasing the transparency of its operations. I am convinced that the principle of voluntary publication for all country papers and the publication of policy papers will improve the understanding of the Fund's policy advice. It should also help market participants to better assess a member's economic policies. Furthermore, the establishment of an independent Evaluation Unit is an important step to increase the accountability of the institution.

To conclude, let me underscore the importance of ensuring that the membership as a whole can benefit from market reforms and an integrated global economy. Let us use the currently favorable global economic situation to deepen the institutional reforms that we have launched. I would like to thank both, the President of the World Bank and the Managing Director of the IMF for their commitment to this cause. And I wish Mr. Köhler all the best in his new and challenging position as managing director of the IMF.