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**INTERNATIONAL FINANCIAL ARCHITECTURE:
An Update of Bank Activities**

Attached for the September 25, 2000 Development Committee meeting is a progress report prepared by World Bank staff on International Financial Architecture: An Update on World Bank Group Activities (item 2.D of the Provisional Agenda). Ministers may wish to comment on this subject in their prepared statements.

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I. Context

1. The World Bank Group is playing an important role in strengthening the international financial architecture. A progress report on the Bank Group's role was presented to the Development Committee in March 2000. Based on the framework set out in that report, this note provides an update on selected Bank Group activities in the areas of implementation of standards, financial sector assessments, corporate governance, accounting and auditing, insolvency and creditor rights, debt management, and social protection.¹
2. In the wake of the Mexico and East Asia financial crises, the international community embarked on a range of initiatives to strengthen the international financial architecture. While there is no agreed definition of what constitutes international financial architecture, it refers broadly to the framework and set of measures that can help prevent crises and manage them better in the more integrated international financial environment. Several aspects of the agenda for crisis prevention and crisis resolution deal with weaknesses in the international financial system that potentially contribute to the propensity and magnitude of global instability, hence requiring collective action at the international level. But there is widespread recognition that global financial stability also rests on robust national systems and hence requires enhanced measures at the country level as well. Table 1 summarizes the main proposals to strengthen the international architecture in the two broad domains of crisis prevention and crisis resolution. As evident from the table, the agenda confronting the international community and individual countries is broad and interconnected, and involves a range of international institutions and partners.²
3. The World Bank's role in this agenda is determined by its *mandate* of poverty reduction, its familiarity with and involvement in developing countries given its *role as a global development institution*, and its *comparative strengths on social and structural issues*. In particular, the World Bank is being asked to step up its efforts in several areas that have come to the fore as part of this agenda:³
 - First and foremost, the World Bank is helping countries assess the social and structural sources of vulnerability and address underlying policy and institutional weaknesses. Although this has always been at the core of the World Bank's work, the recent wave of crises has highlighted the need for a more systematic focus on the

¹ While the thrust of these activities is led by the World Bank, IFC is playing a critical role in the area of corporate governance, and has also been contributing to the work on accounting and auditing and insolvency regimes.

² In view of the broad range of efforts underway, and the documentation available, this update does not review the issues under discussion or the work in progress in other fora or areas. For such an overview, see in particular the IMF umbrella paper on "Progress in Reforming the IMF and Strengthening the Architecture of the International Financial System," April 12, 2000, and the Report from the G-7 Finance Ministers to the Heads of State and Government on "Strengthening the International Financial Architecture", Fukuoka, July 8, 2000.

³ These efforts are also related to the role of the World Bank in the domain of global public goods, as described in the report entitled "Poverty Reduction and Global Public Goods: Issues for the World Bank in Supporting Global Collective Action" (DC/2000-16, September 6, 2000). They also form an integral part of the World Bank's support for country development, as described in the report entitled "Supporting Country Development: World Bank Role and Instruments in Low- and Middle-Income Countries" (DC/2000-19, September 8, 2000).

key underpinnings for successful integration with the international financial system. These same underpinnings — the basic elements of a market economy — are also critical to successful economic development and poverty reduction. Thus, bolstering national systems and institutions, which is the core of the crisis prevention agenda at the country level, is of central concern and relevance to the World Bank as a development institution. To date much of the focus has been on improved diagnostics, but the ultimate goal is to provide a better basis for World Bank assistance to strengthen capacity in the context of demand-driven country assistance strategies.

Table 1: International Financial Architecture: An Overview of the Agenda		
Objective	International Measures	National Measures
<i>Crisis Prevention</i>	<ul style="list-style-type: none"> • Improve transparency and disclosure by all market participants • Remove regulatory bias in international lending • Support better risk management by highly leveraged institutions and their counterparties • Develop, disseminate and support implementation of international standards and codes • Enhance surveillance • Increase private sector involvement in crisis prevention • Mobilize official contingent financing 	<ul style="list-style-type: none"> • Improve transparency of domestic markets • Strengthen financial systems and related underpinnings, <i>inter alia</i> through implementation of international standards • Strengthen debt management • Establish appropriate and consistent exchange rate regimes • Establish appropriate sequencing and safeguards for capital account liberalization • Strengthen social safety nets
<i>Crisis Resolution</i>	<ul style="list-style-type: none"> • Strengthen capacity and instruments for official financial support • Establish framework and modalities for private sector involvement in crisis resolution • Establish policies and safeguards for lending into arrears 	<ul style="list-style-type: none"> • Provide effective bankruptcy and workout mechanisms • Support financial and corporate restructuring • Mitigate social consequences of crises

- Second, the World Bank is contributing to efforts to strengthen economic and financial governance at the global level in its areas of comparative advantage, and to help bring developing country experience and perspectives to the discussions that are underway on reform. Specifically, the World Bank is contributing to the efforts underway to develop and disseminate international standards and codes and to assist in their assessment and implementation.
- Third, the World Bank is helping countries respond to and manage the consequences of financial crises. Although it is not the role of the World Bank to provide large scale liquidity support, it has a critical role to play in helping countries to minimize

the social consequences of crises (including through assistance to absorb the fiscal impact), in supporting the medium-term structural agenda to underpin economic recovery (notably financial and corporate restructuring), and in helping to catalyze and resuscitate private capital flows.

4. The breadth and complexity of the agenda has also placed renewed emphasis on partnerships, with the World Bank focusing on areas of comparative strengths and providing a support role in other areas. In this regard, enhanced collaboration with the IMF has become even more important:
 - Financial crises and instability set back the course of development and poverty reduction. The actions needed to reduce vulnerability to crises – strengthening the institutions and infrastructure needed for a market economy – are also the actions needed for healthy development.
 - Successful long term development and poverty reduction require a comprehensive policy approach at the national level - both policies that promote macroeconomic stability, and structural and social policies that create faster growth and an equitable distribution of its benefits.
 - Enhanced surveillance and capacity building are complementary. Surveillance is the responsibility of the IMF, and enhancing surveillance is a key element of the IMF's response to the challenges of the new global financial environment. As the IMF expands the thematic coverage of surveillance, it draws on Bank analysis of social and structural issues. At the same time, improved diagnostics provided by enhanced surveillance can help identify actions needed to achieve the goals of poverty reduction and development and inform Bank efforts at capacity building.
5. In response to this new imperative for enhanced collaboration, three important initiatives are underway with the IMF pertaining to international financial architecture: (a) the *Reports on the Observance of Standards and Codes*; (b) the *Financial Sector Assessment Program*; and (c) the preparation of *Public Debt Management Guidelines* and a complementary *Practitioner's Manual* on the development of domestic markets for government debt. The World Bank also has strengthened partnerships with the relevant standard setting bodies and other institutions in the areas of corporate governance, accounting and auditing and insolvency regimes to forge a consensus and catalyze concerted actions. In addition, the World Bank is especially concerned with managing the social dimension of economic crises, and supporting social protection to help poor people manage the effect of economic shocks.
6. The World Bank faces two important challenges on this agenda. First, a more systematic approach to the social and structural sources of vulnerability needs to be integrated into the World Bank's broader diagnostic work, ensuring that this work and its follow-up are properly prioritized in country programs. Second, there is a need to ensure that the diagnostic work leads to effective follow-up for capacity building and helps sharpen the focus of the World Bank's country assistance strategies. The focus on and means to ensure systematic follow-up is farthest along in the *Financial Sector Assessment Program*. The upcoming reviews of this program and the *Reports on the Observance of Standards and Codes* will provide feedback

from the pilot exercises and an opportunity to review priorities and resource requirements and set them in a broader Bank Group strategic context.

II. Implementation of Standards

7. **Rationale.** In light of the financial crises of the late 1990s, the international community has emphasized the important role of international standards in strengthening the architecture of the international financial system. In a world of integrated capital markets, financial crises in individual countries can imperil international financial stability. This provides a basic public goods rationale for minimum international standards which would benefit both international and individual national systems. At the international level, international standards enhance transparency as well as multilateral surveillance. They help to better identify weaknesses that may contribute to economic and financial vulnerability, foster market efficiency and discipline, and ultimately contribute to a global economy which is more robust and less prone to crisis. At the national level, international standards provide a benchmark that can help identify vulnerabilities as well as guide policy reform. To best serve these objectives, however, the scope and application of such standards needs to be assessed in the context of a country's overall development strategy and tailored to individual country circumstances.

Discussion of Standards and Bank Role in International Fora

Discussions on the formulation and implementation of standards are ongoing in various international fora. These include, in particular, the Financial Stability Forum (FSF), the G-7, the G-20, and the IMFC. The first "Report of the FSF Task Force on Implementation of Standards," dated May 8, 2000 identifies twelve core standards (11 of these are covered in Bank and Fund ROSC assessments, as listed in Annex 1; in addition, the FSF endorses standards pertaining to "market integrity") and proposes a comprehensive strategy for their implementation, relying both on market and on official incentives. In the view of the FSF, World Bank and IMF are to play a key role in the implementation of this strategy.

The Report from G-7 Ministers to the Heads of States and Government on "Strengthening the International Financial Architecture," dated July 8, 2000 makes prominent mention of international standards and codes, endorsing assessments for all twelve core standards proposed by FSF and stating that "the IMF and the World Bank should assist countries in the development of action plans for the implementation of codes and standards." Bank-Fund collaboration in the domain of observance of standards has also been welcomed by the G-20 and the IMFC.

8. **Bank Role.** The international discussion on standards relevant to financial stability has broadened from its initial focus on data and transparency of financial systems to a much broader agenda which encompasses (but is not limited to) financial market supervision, good corporate governance, sound accounting and auditing practices, and effective insolvency and creditor rights systems (see Annex 1). This agenda is of critical importance both for successful integration with international financial markets and for successful development, and calls for an important role for the World Bank.
9. At the international level, the World Bank is well placed to bring developing country experience and perspectives to the discussions that are underway, and to contribute to the development of standards and assessment methodologies in its areas of

comparative advantage. At the country level, international standards and appropriate assessment methodologies can help inform World Bank diagnosis of sources of vulnerabilities and direct policy reform and capacity building efforts.

10. **Progress to Date.** The IMF and the World Bank have prepared a large number of summary assessments of the observance of standards directly relevant to financial stability, which are being collected as “modules” in country binders constituting the “*Reports of the Observance of Standards and Codes*” (ROSCs). Under this modular approach, the Fund takes the lead in preparing modules in the area of data dissemination and fiscal transparency. Modules for the financial sector are derived as by-products from the joint Bank-Fund *Financial Sector Assessment Program* (FSAP). The World Bank has been asked to take the lead in three areas covered by ROSCs: corporate governance, accounting and auditing, and insolvency and creditor rights.
11. As of end-July 2000, almost 100 modules have been completed. These modules cover some 30 industrial and developing countries. Almost half of these modules have been prepared as a result of the joint Bank-Fund FSAP. The first six draft modules derived from World Bank *Corporate Governance Assessments* are also close to completion .
12. **Next Steps.** Over the coming twelve months, the IMF is planning to prepare around 40 modules in the areas of data and fiscal transparency. A further 24 FSAP exercises will be conducted, giving rise to at least 48 additional ROSC modules.⁴ The World Bank is also planning to undertake up to eighteen additional assessments in the areas of corporate governance, accounting and auditing, and insolvency and creditor rights. The resulting ROSC binders will support World Bank and IMF country work (see Annex 2). In the IMF, the modules are intended as part of the accompanying documentation of the Article IV consultation discussions. In the World Bank, the ROSC binders are to be used as inputs to overall policy and diagnostic work, including to *Social and Structural Reviews*, and as an underpinning for *Country Assistance Strategies*. The Executive Boards of the two institutions will consider the experience with the pilot assessments late in calendar year 2000.

III. Financial Sector

13. **Rationale.** Recent episodes of financial crisis and cross-border contagion have underscored the need to better identify risks and vulnerabilities in the financial sector, and to implement corrective actions at an early stage both to enhance the resilience to crises and to promote sound financial sector development.
14. **Bank Role.** The World Bank and the IMF play differentiated but complementary roles in financial sector reform. The Fund has a particular focus and responsibility with regard to events in the financial sector that have a bearing on macroeconomic and financial stability. The World Bank’s focus derives from its development mandate, which includes strengthening the financial sector to support economic

⁴ Every FSAP assesses at least two modules: Basle Core Principles and transparency of monetary and financial policies; but it can also include separate modules for securities market regulation, insurance regulation, and payment and settlement systems.

growth and reduce the likelihood of instability, as well as providing access to financial services for the poor.

15. **Progress to Date.** A *Financial Sector Liaison Committee* (FSLC) was established in September 1998. Its aim is to enhance operational coordination between the World Bank and the IMF, in order to ensure that sound, timely and consistent advice and support is delivered to member countries, and that expert staff from both institutions are utilized in the most effective manner. The FSLC has undertaken a series of initiatives to enhance the flow of information and coordination of work in the financial sector, including meetings with the regional departments of the two institutions and the preparation of “*Guidelines on the Collaboration between the Bank and the Fund in Financial Sector Work*,” which was distributed in June 1999.
16. Under the aegis of the FSLC, the FSAP was launched jointly with the IMF on a one-year pilot basis in May 1999. The assessments conducted under this program identify strengths, vulnerabilities and risks of the financial system; ascertain the sector’s development and technical assistance needs; assess observance and implementation of relevant international standards and good practices; determine whether key sources of risks and vulnerabilities are being adequately managed; and help design appropriate policy responses. Assessments for 12 countries were conducted during the pilot period.
17. FSAP reports highlight important policy recommendations and priority areas for follow-up work. The underlying assessments that are embodied in the FSAP reports serve as an input into the Fund’s *Financial System Stability Assessments* (FSSAs), which stress issues of relevance to Fund surveillance and which are provided to the Fund’s Board as part of the Article IV consultation documentation. For the World Bank, *Financial Sector Assessments* (FSAs) are prepared for presentation to the World Bank’s Executive Board based on the FSAP focusing on development priorities. Nine such assessments are being prepared by the Bank from the initial set of 12 FSAP reports, and have been or are to be circulated shortly to the Board. These assessments inform the *Country Assistance Strategies* (CASs), and translate into lending and non-lending services.⁵ In addition to improved dialogue with clients, and greater rigor in determining policy advice, the program has already resulted in a tangible improvement in Bank-Fund coordination.⁶
18. **Next Steps.** Following the Spring 2000 review of experience with the FSAP pilot, IMF and World Bank Executive Boards agreed to extend the FSAP and expand the coverage to another 24 countries in FY01. This expansion reflects a strong demand response from clients. While participation in the program is voluntary, an effort is being made to cover a set of countries that is varied in terms of region, size and complexity of their financial systems.
19. The program’s results have already led to a better informed dialogue with members as to the prioritization of policy actions based on the integrated assessment of the financial sector which the FSAP provides. Particularly important will be the follow-

⁵ See, for example, the upcoming CAS for Kazakhstan, the recent CAS Progress Report for Colombia, and follow-up economic and sector work on pension reform and debt management in Lebanon.

⁶ IMF and World Bank Executive Boards have discussed the FSAP at two occasions and another discussion is planned for the end of this year.

up to the assessments, when findings will inform the preparation of Country Assistance Strategies and provide the basis for the World Bank's operational work.

IV. Corporate Governance

20. **Rationale.** Increasingly, countries are coming to realize that good corporate governance is key for sound financial and corporate sector development, including better overall governance and risk management. It is important not only for attracting long-term foreign capital, but also for broadening and deepening local capital markets – by giving investors the protection required to encourage them to provide capital. Ultimately, it promotes not only increased financial stability but also into increased access to and reduced cost of capital for business. However, in a large number of countries, corporate governance continues to be hampered by significant weaknesses in many aspects of the internal and external incentive frameworks.
21. Although systems of corporate governance in different countries vary widely, there is a broad consensus as to the objectives and key principles that good systems of corporate governance should embody. Broadly defined, good corporate governance entails those aspects of the economic environment, laws, regulations and common practices which together provide an incentive framework for companies to maximize long-term value for shareholders, while respecting the interests of stakeholders and society at large.⁷
22. **Bank Role.** The Bank Group's agenda is related to its broader efforts at promoting financial and private sector development. The specific goal of the Bank Group's effort is to help developing countries strengthen their corporate governance systems so as to improve the risk profile of corporations and to deepen of capital markets, thereby contributing to the stability of financial flows. The focus at this stage is primarily on shareholders' rights and the role of boards in publicly traded corporations.
23. **Progress to Date.** In consultation with the OECD, the Commonwealth Secretariat, and others, the Bank Group has developed a diagnostic template for the assessment of corporate governance regimes in developing countries. This template is designed to identify shortcomings in the framework for corporate governance, and to provide a basis for policy dialogue on the scope and sequencing of reforms. Based on the initial draft of this template, the Bank Group has undertaken six *Corporate Governance Assessments* (in Brazil, India, Malaysia, Poland, Turkey and Zimbabwe), which are close to completion. These assessments take stock of the country economic and legal environment, and provide a concise analysis of the capital market structure and of the legal and regulatory framework for corporate governance.
24. The Bank Group is also promoting dialogue on corporate governance reform in cooperation with OECD through *Regional Corporate Governance Roundtables*, which provide a structured policy debate between the public and private sector. An intended outcome to this process is the development of a "white paper" which highlights strategies for reform based upon the roundtable debate and analysis, using

⁷ Basic tenets of good corporate governance have been laid down in the OECD "Principles of Corporate Governance."

the OECD Principles as the conceptual framework. An Asian roundtable had its second meeting to discuss disclosure issues. A roundtable has also been established in Latin America, and a country roundtable meets in Russia on a regular basis (twice a year).

25. **Next Steps.** Six additional assessments are planned for FY2001, based on a refined template, which are expected to feed into the World Bank's operational work. A number of additional roundtables are also planned. The Asian roundtable will re-convene in Singapore next spring to discuss the role of directors and stakeholders in corporate governance for the third round. The Latin American roundtable will meet again in Argentina next year. Other roundtables are planned for Eurasia, meeting in October in Ukraine, and for Africa, with support of the Commonwealth Association of Corporate Governance, meeting in early-2001. Also, the Middle East and North Africa Region of the World Bank is organizing a regional conference on corporate governance in Cairo in January 2001.
26. To complement this promotion of dialogue on reform, the Bank Group and OECD, with contributions from other multilateral and bilateral agencies, will also launch a *Global Corporate Governance Forum* by end-2000. The forum aims to support corporate governance reform by funding technical assistance and capacity building, leveraging private sector input, promoting research relevant to the needs of emerging markets, and by disseminating best practices.

V. Accounting and Auditing

27. **Rationale.** The East Asian financial crisis has highlighted that sound accounting and auditing practices are essential underpinnings for good governance and well functioning national and international markets by improving the availability, comparability and disclosure of information. In this connection, the implementation of internationally recognized accounting and auditing standards can help achieve global comparability of financial information, and ensure minimum quality levels for financial reporting.
28. **Bank Role.** The World Bank recognizes the need for improving accounting and auditing practices in its client countries. The objective of the World Bank's work in this area is to help strengthen countries' underlying systems for financial transparency and accountability in both private and public sectors. This should contribute both to financial stability and to efficient resource allocation by allowing market participants to better identify risks and derive a better understanding of the circumstances of firms and countries. In addition, improved financial reporting and transparency are also important in managing fiduciary risks associated with the World Bank's own lending.
29. **Progress to Date.** The World Bank continues to provide technical and financial support to many countries for developing their accounting profession, as part of its country assistance programs. It also supports the international standard setting bodies in accounting and auditing. In addition to financial support, this entails identifying key issues encountered by member countries, serving as observer on standard-setting committees and providing inputs for the development of new norms. So far, some 40 International Accounting Standards (IASs) have been issued by the International

Accounting Standards Committee (IASC), including a core set of standards for cross-border listings developed at the request of IOSCO. In addition, the public sector committee of the International Federation of Accountants (IFAC) has already issued eight standards to enhance accountability and financial management of governments worldwide, and expects to prepare a complete set of international accounting standards for the public sector by 2001.

30. The World Bank also has played a catalytic role in promoting concerted action to improve the accounting and auditing profession and practice. It has helped the International Forum on Accountancy Development (IFAD) move forward with an agenda of international actions, and it is working with national Supreme Audit Institutions and the International Organization of Supreme Audit Institutions (INTOSAI) to implement sound practices in the public sector worldwide.
31. As part of its contribution to the ROSC exercise and ongoing international efforts to strengthen implementation, the World Bank has taken the lead in the preparation of diagnostic tools to assess national accounting and auditing practices using international standards as a reference point. The assessment framework follows a two-step approach: first, national standards are compared with international benchmarks; and second, the degree of compliance with national standards is being evaluated. The diagnosis will draw on self-assessments by practitioners, which will be validated by independent experts.
32. **Next Steps.** The World Bank aims to reach agreement with IFAD and other partners on the final design of the templates for accounting and auditing assessments by end-October 2000. In parallel, discussions are underway with national authorities, other stakeholders and country teams to identify six pilots for the accounting and auditing modules which will cover the private sector and will be linked to broader and refined *Country Financial Accountability Assessments (CFAAs)*, to be conducted in FY2001. It is anticipated that this work will also be utilized by APEC, which has established a Taskforce to promote high quality accounting and auditing practices in the region.

VI. Insolvency And Creditor Rights

33. **Rationale.** As business failures are a universal feature of competitive markets, effective insolvency and creditor rights systems are a fundamental building block of sustainable development. While there are a wide variety of national insolvency regimes, all effective systems provide clear procedures to manage financial distress, facilitate predictable risk sharing and establish a binding, collective proceeding to maximize the value of the firm's assets, whether as a going concern or in liquidation. Their existence facilitates access to credit and underpins contract enforcement. Hence, effective insolvency and creditor rights systems are of importance to both domestic and international investors and creditors, and are important both in reducing risks of financial instability and in handling financial crises when they occur.
34. **Bank Role.** In recognition of the critical role of effective systems for insolvency and creditor rights for well- functioning markets, and the magnitude of costs, often borne by governments, resulting from non-performing insolvency regimes, the World Bank has stepped up its efforts in this important area. In particular, the World Bank has

taken the lead in the development of principles and best practices which can serve as a benchmark and guide for insolvency reform in developing countries.

35. **Progress to Date.** The World Bank has convened a coalition of international organizations and insolvency experts to develop a set of *Principles and Guidelines for Effective Insolvency Systems*. The preparation of the *Principles and Guidelines* is well advanced. They have been presented at a series of regional workshops, to obtain feedback as to their potential applicability and to provide a forum for identifying specific regional issues or country issues of wider relevance. To date, the draft *Principles and Guidelines* have been discussed with delegations from 31 countries at workshops held in Asia and Central Europe and the Baltics. Each workshop has been organized jointly with other bilateral and multilateral partners.
36. A revised consultation draft of the *Principles and Guidelines* is being posted this August for international comments on the World Bank's *Global Insolvency Law Database* (GILD) web-site, which has been developed as a companion piece to the initiative. The *Principles and Guidelines* are expected to be completed by end-December 2000, and thereafter presented to the World Bank's Executive Board and the Development Committee. Future work by UNCITRAL will draw upon this work.

Principles and Guidelines for Effective Insolvency Systems

A consultation draft of the *Principles and Guidelines on Effective Insolvency Systems* is being released this August on the World Bank's *Global Insolvency Law Database* web-site. The Principles cover the following areas:

- **Legal Framework.** An insolvency system must address a series of interrelated problems ultimately attributable to insolvency itself, and the processes by which it is to be confronted and dealt with. It should interface with a broader legal and cultural framework.
- **Institutional Framework.** Crucial to an effective insolvency system is the institutional framework, which encompasses two primary components: first, the governing institutions with responsibility for and jurisdiction over insolvency proceedings; and second, the operational system by which cases and decisions are processed.
- **Regulatory Framework.** The regulation of an insolvency system is essential to assure the competence of office holders and other participants, to ensure the efficiency and effectiveness of the system, and to maintain the integrity of and public confidence in the system.
- **Continuity in Commercial and Credit Relationships.** Commercial confidence in credit relationships depends on transparency, certainty and enforceability, with reliable enforcement mechanisms that provide continuity in the treatment of such rights. Main items of this agenda are security devices and non-bankruptcy enforcement; development of secondary markets; and the treatment of cross-border activities.
- **Creating a Corporate Rescue Culture.** The process for corporate rehabilitation can build on a spectrum of options, ranging from informal workouts and restructurings to formal insolvency rehabilitation procedures. Progress in establishing corporate rescue mechanisms and creating a corporate rescue culture is deemed critical for developing countries.

The Principles also provide an analysis of four important specific dimensions of insolvency: (i) systemic effects in emerging markets; (ii) state-owned enterprise insolvency; (iii) banking insolvency; and (iv) the interface between domestic systems and global markets.

37. In parallel, an assessment matrix is under development for country assessments based on the principles and guidelines. Assessments would comprise an evaluation of the levels of usage and efficiency of the insolvency system, and factors constraining demand; a comparison of the legal, regulatory and institutional elements of the system with best practice; review of credit culture and applicable linkages to insolvency that affect incentives and disincentives; and recommended reforms.
38. **Next Steps.** Priority is being given to finalizing the *Principles and Guidelines*. In this connection, further workshops to receive global feedback are envisioned for Latin America and the Caribbean, Central Asia, Africa, and the Middle East. Work on experimental ROSC modules will commence only after the *Principles and Guidelines* have been presented to the World Bank's Executive Board and to the Development Committee.
39. Nonetheless, the aim is to launch an initial batch of up to six pilot country assessments in FY2001. Countries would be selected with a view to achieving diversity across regions and across transition and non-transition economies. The assessments would be carried out by World Bank staff supported by experts from other institutions. The assessments are expected to provide valuable inputs to future *Financial Sector Assessments* and other World Bank economic and sector work, and to eventually help governments prioritize reform needs and build capacity.

VII. Debt Management

40. **Rationale.** Lessons from the financial crises of the late 1990s also have highlighted the importance of a sound debt management framework and the need for efficiently organized capital markets. Although poor debt management policies have not been the only or main cause of these crises, they often contributed to their severity. Sound debt management can reduce susceptibility to contagion and financial risk by playing a catalytic role for broader financial market development and financial deepening. While this applies to public and private sector alike, it should be recognized that in many developing countries the government debt portfolio remains the largest financial portfolio in the country. Hence the importance of sound public debt management guidelines, which can reduce the risk that the government's own portfolio management becomes a source of instability for the market as a whole.
41. A prerequisite for sound debt management is the existence of a well-functioning domestic market for government debt. Such a market also contributes to the development of private capital markets, through development of the financial infrastructure, enhanced liquidity, and benchmark interest rates. Hence, support for the development of a domestic market for government debt constitutes an integral part of the agenda for enhancing financial sector development.
42. **Bank Role.** As part of the broader effort to strengthen risk management and governance in the public sector and help governments reduce their external vulnerability, the IMFC requested that the World Bank and the IMF prepare *Guidelines for Public Debt Management* in cooperation with national debt management experts. The work on the *Guidelines* is being complemented by a jointly

prepared comprehensive *Practitioner's Manual* on domestic debt market development and management.

43. This undertaking complements the wide range of technical assistance in sovereign debt management which the World Bank and the IMF traditionally have provided to their client countries. This assistance includes conferences and workshops on all components of sovereign debt management, training in risk analysis, advice on sound governance, and support in developing domestic bond markets, managing contingent liabilities and sub-national debt. It also includes work on debt sustainability and vulnerability, sovereign funding strategies, debt management systems, and the collection of debt statistics. There is strong demand among IBRD borrowers for World Bank support, and this demand is expected to increase further as a result of the outreach on the *Guidelines* and the *Practitioner's Manual*.
44. **Progress to Date.** A draft of the *Guidelines*, reflecting comments from debt management experts in over 30 countries, was discussed at informal Executive Board meetings in the World Bank and the IMF in mid-July. The *Guidelines* cover both domestic and external public debt. They endeavor to focus on principles applicable to a wide range of countries at different states of development and with various institutional structures of debt management.

Guidelines for Public Debt Management

The *Draft Guidelines for Public Debt Management*, which have been discussed at informal Board meetings in the World Bank and the IMF in mid-July, address both domestic and external public debt issues.

The *Guidelines* cover the following topics: (i) debt management objectives and coordination; (ii) transparency and accountability; (iii) institutional framework; (iv) debt management strategy; (v) risk management framework; and (vi) development of an efficient market for securities.

The *Guidelines* emphasize the importance of having clear objectives for debt management, the separation and coordination of debt and monetary management, and the need to manage refinancing risks and exchange rate and interest rate risk. They also emphasize the importance of a sound governance structure, including clear legal frameworks, well-designed delegation of responsibilities and associated accountabilities among government agencies involved in debt management, and the need for public disclosure of materially important aspects of debt management operations.

45. In parallel, a draft of the *Practitioner's Manual* has been circulated to a number of debt managers and private sector experts, and a revised version is being prepared for a wider distribution in September 2000. The *Practitioner's Manual* provides practical advice for policymakers, especially in emerging markets, to develop sound domestic debt markets. It addresses key issues such as: enhancing market liquidity; developing financial infrastructure; promoting investor demand; defining the government's role as an issuer; and enhancing securities market regulation and supervision.
46. **Next Steps.** A series of conferences on public debt management will be held in Africa, the Middle East, Europe, Asia and the Western Hemisphere by December 2000. The final set of *Guidelines*, which will include feedback obtained at the

conferences and from consultations with relevant agencies, will then be submitted to the Executive Boards of the World Bank and the IMF in early 2001, and presented for endorsement by the IMFC at the Spring 2001 Meeting.

47. Following their finalization, the *Guidelines* and the *Practitioner's Manual* will be used as a central reference for World Bank technical assistance in the area of sovereign debt management. However, given that our client countries are at very different stages of development in their debt management capacity and their institutional practices, the *Guidelines* and the *Practitioner's Manual* will need to be applied flexibly in the design of such technical assistance.

VIII. Social Protection

48. **Rationale.** As evidenced during the recent wave of crises, weaknesses in social policies and institutions can exacerbate the suffering of vulnerable groups and delay economies' rebound from shocks to which developing countries are especially vulnerable. The establishment of an effective social protection system, and the flexibility to expand programs in times of extreme social need, therefore, should go together with financial and private sector development. Yet, the ability of governments to provide social protection to the most vulnerable is frequently constrained by limited resources and technical capacity, particularly in crisis and post-crisis periods.

Social Protection

Social protection describes public interventions designed to (i) assist individuals, households, and communities to manage risk more effectively, and (ii) provide support to the very poor. This definition broadens the more traditional view of social protection beyond reactive public measures to provide income security for individuals (such as labor market interventions, social insurance and social safety nets). In doing so, it treats social protection as both a safety net and a spring-board to provide the poor with the capacity to bounce out of poverty, or at least resume gainful work.

The new definition encourages a more integrative approach in broadening the types of interventions previously considered the boundaries of social protection. It puts more explicit emphasis on the interactions between informal, market-based, and public arrangements, as well as on the interactions among stakeholders.

49. **Bank Role.** As part of its broader efforts toward poverty reduction and promoting economic and social development, the World Bank seeks to help governments develop and maintain effective social protection programs. This agenda is supported through a combination of continued lending operations, technical assistance and dissemination and promotion of knowledge sharing and learning. In view of the central importance of this agenda to the World Bank mandate, the Development Committee also asked the World Bank to report on policies and practices to help countries face and cope with crises, and to ensure that the most vulnerable groups are protected and the process of long term development is sustained.
50. **Progress to Date.** In response to this request, the Bank prepared a paper entitled "*Managing Social Dimension of Economic Crises: Good Practices in Social Policy,*" which was presented to the Development Committee in September 1999. The paper

focused on key dimensions of economic and social crises, and on good practices in responding to them. The Development Committee welcomed the report and asked that the World Bank continue to accumulate and disseminate knowledge of good practices to help forestall and mitigate the social cost of economic crises.

51. Among the main follow-up activities is the first *Sector Strategy Paper on Social Protection*, which is scheduled for presentation to the World Bank's Executive Board on September 7, 2000. The paper develops a coherent strategy for Bank interventions in the area, embedding program analysis, design, and implementation into an integrated approach based on the concept of social risk management.
52. This view of social protection is imbedded in a *Sourcebook* available to facilitate the *Poverty Reduction Strategy Paper* (PRSP) process. The *Sourcebook* aims to help policymakers design social protection programs and policies to meet poverty objectives set forth by the PRSP. It provides a guide on how to assess major sources of risk and vulnerability, to determine which groups are most affected, to assess efficacy of different programs and how to select indicators that would be most useful for monitoring progress. The *Sourcebook* also provides a summary of program characteristics and good practices for a range of social protection interventions.
53. Other activities to advance social protection included the organization of the *Second International Conference on Social Funds* examining the role of social funds in the risk management framework; the launching of the *Pensions Reform Primer* addressing the issue of income security for the old within the risk management framework; and a *Child Labor Conference* focusing on the lessons learned and next steps in combating child labor.
54. In addition, the World Bank is actively supporting the *APEC Finance Social Safety Net Initiative*. The objective of this initiative is to establish a set of guidelines to be endorsed by APEC Finance Ministers regarding the appropriate use of social safety net policies and programs, taking into account recent experience. In this connection, a study is underway to examine selected country experience (including Indonesia, Republic of Korea, Thailand, Chile, Mexico, and Peru).
55. **Next Steps.** The World Bank will continue to establish and disseminate good practices and advance the social protection agenda working in close collaboration with the relevant UN agencies. Its medium-term strategy concentrates on the incorporation of social protection and social risk management into the country policy dialogue, through the PRSP and country assistance processes in close collaboration with partners. In addition, the Bank will support the United Nations Commission of Social Development as it makes social protection the central theme of its 2001 session, continuing our close collaboration with the United Nations as suggested in the earlier Development Committee statements on social protection. More immediately, an ASEM-funded technical assistance project will be launched shortly to help governments develop effective national social protection policies for risk management, with special focus on the countries affected by the financial crisis in East Asia. The results of the APEC review will be presented to the meeting of the APEC finance ministers in November, 2000.

Annex: Status of Implementation of Standards and Codes

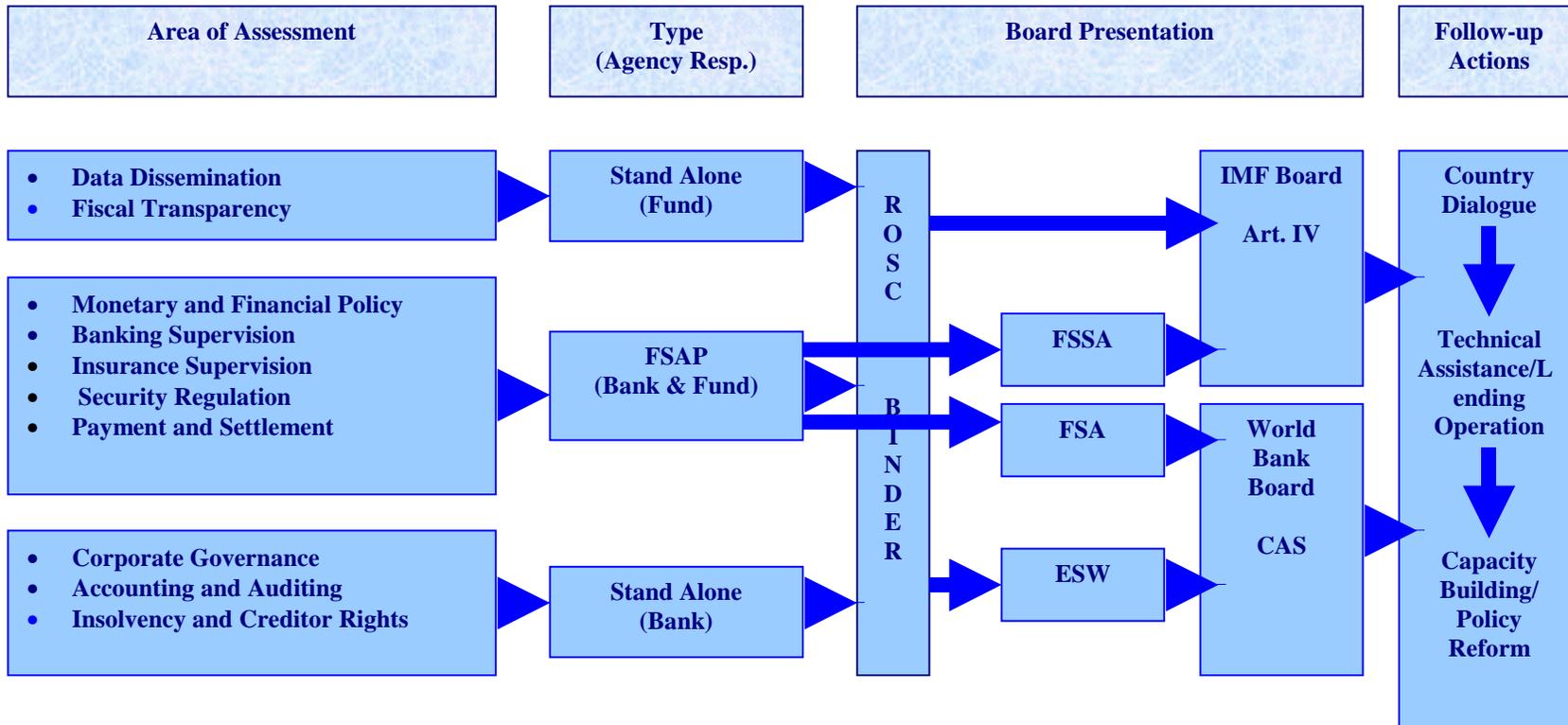
Area	Standards/Principles	Methodology/Templates	Assessments Undertaken
Data Dissemination	<i>1. Special Data Dissemination Standard (SDDS)</i>		<i>ROSC</i>
Agency	IMF		IMF
Status	Approved by the IMF Executive Board in March 1996. There have been two significant reviews since then.		47 countries have subscribed to the SDDS 11 ROSC modules completed; 5 in progress
	—————		—————
	<i>2. General Data Dissemination System (GDDS)</i>		<i>ROSC</i>
Agency	IMF		IMF
Status	Approved by the IMF Executive Board in December 1997.		
Fiscal Policy	<i>Code of Good Practices on Fiscal Transparency</i>	<i>Manual on Fiscal Transparency</i>	<i>ROSC</i>
Agency	IMF	IMF	IMF
Status	Adopted by the IMF Interim Committee in April 1998.	Approved by the IMF Executive Board. The Fund has also produced a questionnaire and a self-assessment	13 ROSC modules completed; 11 in progress
Monetary & Financial Policy	<i>Code of Good Practices on Transparency in Monetary and Financial Policies</i>	<i>Supporting Document to the Code</i>	<i>FSAP/ROSC</i>
Agency	IMF	IMF	IMF
Status	Endorsed by the IMF Interim Committee in September 1999.	A supporting document to guide members seeking to implement the Code is being developed.	10 FSAP completed; 2 in progress 11 ROSC modules completed; 2 in progress

Area	Standards/Principles	Methodology/Templates	Assessments Undertaken
Banking Supervision Agency Status	<i>Core Principles for Effective Banking Supervision</i> Basel Committee on Banking Supervision (BCBS) Issued by the BCBS in September 1997 and endorsed by the international financial community in October 1997.	<i>Core Principles Methodology</i> Basel Committee on Banking Supervision (BCBS) A <i>Core Principles Methodology</i> that provides detailed criteria for assessing observance of the Core Principles was released in October 1999.	<i>FSAP/ROSC</i> IMF and World Bank 10 FSAP completed; 2 in progress 8 ROSC modules completed; 1 in progress
Securities Regulation Agency Status	<i>Objectives and Principles of Securities Regulation</i> International Organization of Securities Commissions (IOSCO) Issued by IOSCO in September 1998.	<i>Implementation of the Objectives and Principles for Securities Regulation</i> IOSCO Self-assessment methodology has been developed in May 2000.	<i>FSAP/ROSC</i> IMF and World Bank The IOSCO Secretariat is collaborating with the World Bank, IMF and MDBs. 6 FSAP completed; 1 in progress 8 ROSC modules completed
Insurance Supervision Agency Status	<i>Insurance Supervisory Principles</i> International Association of Insurance Supervisors (IAIS) Issued by IAIS in September 1997.	<i>Core Principles Methodology</i> IAIS Developed by IAIS in April 2000. IAIS requested the Fund and the Bank staff to prepare chapter on the structure and assessment methodology report.	<i>FSAP/ROSC</i> IMF and World Bank 6 FSAP completed; 1 in progress 5 ROSC modules completed

Area	Standards/Principles	Methodology/Templates	Assessments Undertaken
<p>Payments and Settlements</p> <p>Agency</p> <p>Status</p>	<p><i>Core Principles for Systemically Important Payment Systems (CPSIPS)</i></p> <p>Committee on Payment and Settlement Systems (CPSS)</p> <p>A consultative document was issued by the CPSS in December 1999.</p>	<p>CPSS</p> <p>The CPSS Task Force is working on how the principles can be interpreted and applied in different contexts.</p>	<p><i>FSAP/ROSC</i></p> <p>IMF and World Bank</p> <p>7 FSAP completed; 1 in progress</p>
<p>Corporate Governance</p> <p>Agency</p> <p>Status</p>	<p><i>Principles of Corporate Governance</i></p> <p>OECD and World Bank</p> <p>Endorsed by the OECD Ministerial Meeting in May 1999.</p>	<p><i>Corporate Governance Assessment Template</i></p> <p>OECD and World Bank</p> <p>Validation stage: a Global Corporate Governance Forum and several regional Round Tables will also produce white papers on corporate governance reforms using the OECD Principles as a point of reference.</p>	<p><i>ROSC (Corporate Governance Assessment)</i></p> <p>World Bank</p> <p>6 CGA near completion; 6 considered for FY01</p>
<p>Accounting</p> <p>Agency</p> <p>Status</p>	<p><i>International Accounting Standards (IAS)</i></p> <p>International Accounting Standards Committee (IASC)</p> <p>IASC have promulgated 39 IAS so far. The BCBS has identified the standards for bank supervisors. IOSCO is evaluating a set of core for cross-border securities offerings and listings. The IAIS is assessing the suitability of IAS for insurance. IFAC has issued 8 accounting standards for the public sector based on the IAS.</p>	<p><i>Country Assessment of Accounting Practices</i></p> <p>World Bank</p> <p>In cooperation with IFAD, the World Bank is refining a diagnostic tool for country assessment of accounting standards and actual practices.</p>	<p><i>ROSC (Accounting and Auditing Assessment)</i></p> <p>World Bank</p> <p>6 assessments considered for FY01</p>

Area	Standards/Principles	Methodology/Templates	Assessments Undertaken
<p>Auditing</p> <p>Agency</p> <p>Status</p>	<p><i>International Standards on Auditing (ISA)</i></p> <p>International Federation of Accountants (IFAC)</p> <p>ISA and Audit Practice Statements have been formulated by IFAC through its International Auditing Practices Committee (IAPC).</p>	<p><i>Country Assessment of Auditing Practices</i></p> <p>World Bank</p> <p>In cooperation with IFAD, the World Bank is refining a diagnostic tool for country assessment of auditing standards and actual practices.</p>	<p><i>ROSC (Accounting and Auditing Assessment)</i></p> <p>World Bank</p> <p>6 assessments considered for FY01</p>
<p>Insolvency and Creditor Rights</p> <p>Agency</p> <p>Status</p>	<p><i>Principles and Guidelines for Effective Insolvency Systems</i></p> <p>World Bank</p> <p>A consultation draft of <i>Principles and Guidelines for Effective Insolvency Systems</i> has been discussed at 2 regional insolvency workshops and will be posted on the World Bank <i>Global Insolvency Law</i> web-site in August. UNCITRAL adopted the <i>Model Law on Cross-Border Insolvency</i> in May 1997. The IMF published a report <i>Orderly and Effective Insolvency Procedures</i> in 1999.</p>	<p><i>Assessment Matrix</i></p> <p>World Bank</p> <p>An assessment matrix is being developed by the Bank for use in pilot assessments.</p>	<p><i>ROSC (Country Creditor Rights and Insolvency Systems Assessment)</i></p> <p>World Bank</p> <p>6 assessments considered for FY01</p>
<p>Debt Management</p> <p>Agency</p> <p>Status</p>	<p><i>Guidelines for Public Debt Management</i></p> <p>IMF and World Bank</p> <p>The Draft of the <i>Guidelines</i> has been discussed at informal IMF and World Bank Board meetings in mid-July. After a program of extensive outreach and further discussion by Executive Directors, final guidelines will be presented for endorsement by the IMFC at the 2001 Spring Meeting.</p>		<p><i>Not proposed for ROSC assessments</i></p>

Annex 2: ROSCs Process and Bank-Fund Country Work



Note: ROSCs = Reports on the Observance of Standards and Codes; FSAP= Financial Sector Assessment Program
 FSSA= Financial Sector Stability Assessment; FSA= Financial Sector Assessment;
 ESW= Economic and Social Work; CAS= Country Assistance Strategy