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THE WORLD BANK

Washington, D.C.

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WBG Archives

Lunch/Interview: Ms. Zanny Minton-Beddoes
(The Economist)

DECEMBER
Monday, ~~November~~ 9, 1996

1:00 - 2:00 p.m.

JDW Private Dining Room

The World Bank Group
Archives



30486582

R2002-036 Other #: 28 Box #: 186478B

President Wolfensohn - Briefings Books for Presidents Meetings - Meeting Materials
Lunch - Interview - Ms Zanny Minton-Beddoes - The Economist - December 9,

Archive Management for the President's Office

Document Log

Reference # : Archive-01088

12/17/96

Edit

Print

A. CLASSIFICATION

- ☒ Meeting Material
- ☐ Trips
- ☐ Speeches

- ☐ Annual Meetings
- ☐ Corporate Management
- ☐ Communications with Staff

- ☐ Phone Logs
- ☐ Calendar
- ☐ Press Clippings/Photos

- ☐ JDW Transcripts
- ☐ Social Events
- ☐ Other

B. SUBJECT: LUNCH/INTERVIEW: MS. ZANNY MINTON-BEDDOES, THE ECONOMIST (N) (B) (TOTAL: 3) - Monday, December 9, 1996 from 1-2 p.m.
VENUE: JDW'S PRIVATE DINING ROOM
CONTACT: MERREL TUCK-PRIMDAHL @ 39516 // ZANNY @ 783-5754
IN ATTENDANCE: JDW, MINTON-BEDDOES, BERMAN
EXT STAFF TO ACCOMPANY: KLAS BERGMAN
(B) EXTVP // DUE: THURSDAY, DEC. 5
10/17 - INTERVIEW CONFIRMED BY EXTVP // 12/6 CIHAT (3)
EXC: BERGEN // ALI (10/17)

DATE: 12/17/96

C. VPU

Corporate

- ☐ CTR
- ☒ EXT
- ☐ LEG
- ☐ MPS
- ☐ OED
- ☐ SEC/Board
- ☐ TRE

Regional

- ☐ AFR
- ☐ EAP
- ☐ ECA
- ☐ LAC
- ☐ MNA
- ☐ SAS

Central

- ☐ CFS
- ☐ DEC
- ☐ ESD
- ☐ FPD
- ☐ FPR
- ☐ HRO

Affiliates

- ☐ GEF
- ☐ ICSID
- ☐ IFC
- ☐ Inspection Panel
- ☐ Kennedy Center
- ☐ MIGA

D. EXTERNAL PARTNER

- ☐ IMF
- ☐ UN
- ☐ MDB/Other IO
- ☐ NGO
- ☐ Private Sector

- ☐ Part I
- ☐ Part II
- ☐ Other

E. COMMENTS: This brief includes the following:
-briefing note from Klas Bergman dated December 5, 1996
-Economist Article of October 5, 1996

File Location ☐ EXC ☐ IISC ☒ Archives	Cleared By	Date: 12/17/96
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OFFICE MEMORANDUM

DATE: December 5, 1996

TO: Mr. James D. Wolfensohn, EXC

FROM: Klas Bergman, EXTME 

EXTENSION: 33798

SUBJECT: **Your lunch with Zanny Minton-Beddoes of The Economist, Monday, December 9**

You are scheduled to have an informal lunch with Zanny Minton-Beddoes at 1 p.m. this coming Monday, December 9 in your dining room. I will accompany Zanny, who you may remember best by the piece she wrote during the Annual Meetings, "Mr. Wolfensohn sets the score" (clip attached).

This will be very much "off the record" -- Zanny is especially interested in your agenda for the Bank and what you view as the institution's top priorities. She wants to know about the longer term outlook for IDA and what she sees as the changing power shift in client countries.

Zanny is interested in your achievements as president; she is likely to ask you how you will judge your own success at the helm of the Bank Group.

Zanny has written most recently on banking systems in developing countries (see clip). A few weeks ago she interviewed Mike Stevens and Raghavan Srinivasan for a story on corruption that has not yet appeared, so she may want to talk about that. For the most part however, she will let you drive the conversation.

cc: M. Malloch Brown (EXT), J. Holden, A. Horiguchi, H. Assad, A. Tsatsakis, L. Goh (EXC)

Development finance

Mr Wolfensohn sets the score

WASHINGTON, DC

WITH an indefatigable passion for her profession, prodigious talent and an ego to match, Maria Callas redefined the world of opera. In many ways, James Wolfensohn, the president of the World Bank, has much in common with La Callas. Perhaps he could even be dubbed—let's not be sexist about this—the new diva of development. Mr Wolfensohn's resounding aria has been a new initiative to relieve the



The other diva

debts of up to 41 of the world's poorest countries, which was endorsed at this week's annual meetings of the World Bank and International Monetary Fund (IMF).

Admittedly, he has not been the only supporter of debt relief. Kenneth Clarke, Britain's chancellor of the exchequer, has long been a staunch advocate of it. But amongst international bureaucrats, Mr Wolfensohn has pushed hardest for the plan, which is likely to cost between \$5.6 billion and \$7.7 billion over the next decade. He has already recommended that the World Bank contribute up to \$2 billion of this. Although exact details of where the rest of the money will come from remain unclear, moves to help the first of the poor countries—with Uganda at the top of the list—should begin by year-end.

Mr Wolfensohn also proved that he is not afraid of speaking his mind. His main speech this week dwelt on the "cancer of corruption" in poor countries—hardly a novel observation, but one that past bosses of the World Bank have avoided making publicly, for fear of ruffling the feathers of politicians in "client" countries. Like Michel Camdessus, his counterpart at the IMF, Mr Wolfensohn also drew attention to the fact that one in five developing countries faces a banking crisis. Both the Bank and the IMF have made strengthening banking systems one of their priorities.

As all this shows, it is impossible to doubt the passion that Mr Wolfensohn brings to his job. He has pressed palms in more than 40 countries in 16 months; he has welcomed co-operation and criticism from non-governmental organisations (NGOs), private foundations and anyone else who shows the slightest interest. No two-bit NGO is too small for a word with Mr Wolfensohn, no photo-opportunity worth missing. Like a true diva, he basks in the limelight and loves to be loved.

That is all well and good. But Mr Wolfensohn also has some of the less desirable characteristics of a diva—notably a short temper and thin skin. Tantrums and resignation threats are common. These may be understandable, given that he is trying hard to get the Bank's sluggish bureaucracy moving. The world of development finance is changing radically. Private capital flows to developing countries are rising inexorably, and official aid flows to poor countries are diminishing fast: at \$59 billion, they are now at their lowest point in real terms for 23 years.

Mr Wolfensohn is well aware that these trends demand big changes at the Bank. And he has achieved a fair amount already. No bureaucrat has remained untouched by his "change management effort", designed to make the place more efficient. In fact, many are heartily sick of constant internal juggling. Now even more radical plans are afoot. These include further cost-cutting initiatives and a proposal to make richer developing countries pay for, say, advisory services that they currently get for nothing.

Both are good ideas, but they will be hard to push through. Cutting some administrative costs and reallocating the money saved to areas such as training, for instance, may face stiff opposition from the Bank's staff association, its powerful quasi-union. Persuading some of the Bank's shareholders of the merits of service charges will be equally tricky. Rich countries might see bigger Bank profits as a useful excuse to reduce their foreign-aid budgets. But middle-income countries, which do not borrow much from the Bank but still get lots of free advice, will surely put up a fight. Expect plenty of operatics.

Emerging, or collapsing?

Wobbly banks pose a serious threat to many emerging economies. Proposed common banking standards for such countries offer only a partial cure



ANYONE wanting to produce an encyclopedia of emerging-market banking disasters would find it a mammoth task these days. Since 1980, more than 100 poor countries, ranging from Argentina to Zaire, have suffered one or more banking crises. On one estimate, the cost of dealing with all of these has now reached a breathtaking \$250 billion. In a dozen cases, poor countries have had to splash out the equivalent of over a tenth of their annual GDP on nursing sick banks back to health or on closing them down.

Such telephone-number figures are not the only reason that feeble banks cause such alarm to poor-country governments and to institutions such as the World Bank and the IMF. Unlike rich countries, several of which have also had to prop up their banking systems in recent years, developing nations tend not to have well-developed capital markets provid-

ing an alternative source of finance to banks. So if a poor country's banking system runs into trouble, it can have a swift and devastating effect on the rest of the economy.

What can be done to solve the problem? The most common answer to this question is to improve the quality of banking supervision in poor countries. This is first and foremost the responsibility of national governments. But several people, including Michel Camdessus, the head of the IMF, have suggested that a set of voluntary, common banking standards for emerging markets could help matters (see page 77). Countries that sign up would have to meet minimum requirements for, say, the disclosure of financial information and the degree of political independence of bank supervisors.

General guidelines may well make sense. Few international banking standards of any kind exist. Those that do—

such as the so-called Basle rules, which require banks to set aside different amounts of capital according to the riskiness of the loans they make—were designed for rich rather than developing economies. Guidelines for emerging markets might be an ideal way to spread good supervisory practice.

The devil in the detail

It makes less sense, however, to impose actual rules. For a start, emerging-market banks operate in a wider variety of economic environments than in the rich world. The idea that one set of rules could apply to Thailand as well as Tanzania seems fanciful. This makes drafting common standards tricky. If the rules are strict, they could penalise well-run banks in countries with a generally poor banking system. If they are vague they will be meaningless—or worse than meaningless if investors mistake a bank's compliance with general standards for proof of good health.

Then there is the problem of enforcement. It is no use having a set of rules if supervisors lack the know-how, resources and political independence to enforce them—as is the case in

many emerging markets. Until more has been done to improve this—by, for example, getting rich-country central banks to give more advice and training to their poorer counterparts—introducing such standards would be like putting the cart before the horse.

Moreover, too much emphasis on standards—and hence on banking supervision—may obscure better means of making banks safer. Argentina, for instance, has just introduced an innovative scheme whereby its banks must issue subordinated debt worth 2% of their total deposits every year. The price of this subordinated debt will be a constant gauge of how healthy the market perceives a bank to be. This promises to harness market forces to the job of supervision.

But perhaps the best cure for emerging markets' banking headaches already lies in the hands of their governments. It is no coincidence that many banking crises are preceded by a period of fluctuating asset prices or exchange-rate volatility. One of the most important means of avoiding such crises is to pursue stable macroeconomic policies. Now there's an idea worth considering.

Emerging markets

Standard raisers

Regulators are seeking to set common standards for banks in developing countries. That will not be simple

WHEN it comes to getting into trouble, commercial bankers are hard to beat. Since 1980 banking panics have been ten a penny. Banking-system failures, threatened or actual, have blighted more than 100 countries and dealing with many of them has proved spectacularly expensive. The World Bank estimates that a banking crisis in the early 1980s cost Argentina the equivalent of half a year's output, spread over several years. Mexico's banking collapse in 1995 has cost over 12% of GDP, and the after-effects rumble on. Eastern Europe and Asia can boast of similarly mind-boggling numbers. As country after country liberalises its economy, the number and scale of banking emergencies seem to be growing.

Finding ways to prevent banking breakdowns has become a matter of great interest to regulators and development agencies. The International Monetary Fund (IMF), the G10 group of rich-country central banks and several other official bodies are engaged in the task. Can they do anything to help?

The main difficulty is that banking-system failures have no single cause. They are usually the result of a combination of factors: economic volatility, shoddy management, weak regulation, political meddling and dubious loans to shareholders at favourable rates. Bulgaria's present crisis, in which at least ten banks have failed, is a good example of multiple causes. Getting a banking licence took no experience and little capital. Weak government supervision, a choppy economy and more than a dash of reckless lending then reduced much of the banking system to ruin.

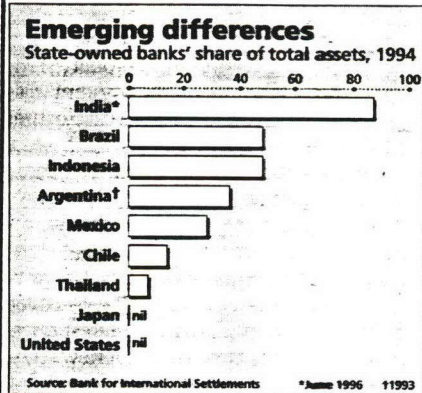
At the moment, few international rules stand in the way of such mismanagement. The most important set of rules, known as the Basle Accord, is intended to ensure that banks have enough shareholders' capital to cover the risks they take. There are also agreements under which national supervisors co-operate to regulate international banks. These initiatives are aimed at rich countries, but many emerging economies have adopted them. Some 35 countries now follow the Basle capital standards.

But this is of limited use on its own. The capital level that the accord calls for—roughly 8% of assets—is nowhere near high enough for the more volatile developing countries; several have commercial banks that exceed the ratio but are sickly nevertheless. And the most stringent capital requirements count for little if lax accounting rules allow banks to disguise rotten loans as profitable ones.

For some third-world governments, the answer is to write their own tough standards. Chile, whose banking system collapsed in the 1980s, emphasises disclosure: banks' credit must be rated twice a year, and information on their financial condition has to be published regularly. Chile's regulators have also brought their accounting rules up to international norms. Argentina has become equally cautious. It insists that banks set aside extra capital to cover defaults on loans with higher interest rates, which are deemed to be riskier. A new regulation forces banks to issue bonds worth a small percentage of their total assets each year. The idea is to increase the number of outside investors with a stake in making sure that banks are run properly.

All well and good. But what about the countries that aren't rushing to improve their banking supervision? Experts are warming to the idea of new global rules that would go much further than the Basle Accord. One provocative suggestion comes from Morris Goldstein of the Institute for International Economics in Washington. Mr Goldstein argues for voluntary standards covering disclosure of financial information, accounting rules, loan provisioning, government involvement and capital levels. In order to take account of differences between countries, the standards would have two levels. Wealthier countries, whose banks are more heavily involved in international capital markets, would face stricter rules than poorer nations.

Fans of such international standards argue that they would bring clear benefits. Governments would find it easier to tighten their regulations in the face of domestic political opposition. Global standards would allay fears that a country that beefs up supervision will place its banks at a competitive disadvantage internationally. And although no country could be forced to participate, the market would be



free to penalise non-compliance by demanding higher interest rates from poorly regulated banks.

The idea of setting new standards has been vigorously taken up. America's Treasury is encouraging change. The IMF, always eager to expand its influence, is looking for a big role in the process. Rich-

country bankers also want a say. The Basle Committee on Banking Supervision, which represents bank supervisors in the G10 developed economies, has traditionally been less than keen to get too involved in emerging-market issues. Now, says its chairman, Tommaso Padoa-Schioppa, the committee wants to help write comprehensive rules for banks everywhere.

The reaction in emerging countries has been mixed. As you might expect, most central bankers are keen. Pedro Pou, Argentina's central-bank chief, wants to extend tough standards like his country's to all of Latin America. But commercial bankers are less convinced. Some fear that it would raise their costs and destroy their competitiveness against rich-world banks.

Certainly, the idea has several shortcomings and leaves plenty of questions unanswered. How much of a transition period would banks be granted, for example? Which would work better, guidelines or formal rules? And if the standard is jointly

sponsored by several organisations, which would monitor compliance and pay for the necessary staff?

The rising cost of bank bail-outs does demand attention, not least because banks, especially state-owned ones (see chart), play a bigger role in emerging countries than they do in most rich ones. But no single set of standards will put an end to bank crises.

In many countries the real problem is not so much bad supervision as inconsistent economic policies. Here, governments can do a lot to make banking healthier: foster economic stability; stop telling banks where to lend; privatise more of them; open up to foreign banks; and raise capital levels to far above the Basle minimums. If foreigners want to help, they might start by letting some emerging countries join bodies like the Basle Committee. Who, after all, wants to emulate the high standards of an exclusive club when that club won't let them through the door?