The Momentum for Change

Lewis T. Preston
at the World Bank, 1991-95

Addresses and Statements
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The World Bank
Washington, D.C.
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Introduction

Lewis T. Preston guided the World Bank through a series of changes that helped position it to face the global challenges of the post-Cold War era. Above all, he worked to make the Bank more flexible, more cost-effective, and more sharply focused on results to meet the rapidly changing needs of its 178 member countries. “The pace of global change in the 1990s is probably faster than at any time since the creation of the Bretton Woods institutions,” he once said. “The Bank’s success depends on its capacity to respond to that change—and to manage it.”

Shortly after coming to the Bank in September 1991, Lew Preston traveled to Moscow to meet President Gorbachev of the Soviet Union and Russian President Yeltsin and to lay the groundwork for a comprehensive Bank effort to help the new states make the transition to market economies. Thus began one of the greatest efforts in the Bank’s history in terms of redeployment of staff and mobilization of financing. By the time of his death in May 1995, the Bank was at work in all fifteen states of the former Soviet Union, and its direct commitments to them exceeded $5 billion.

In addition to meeting the challenges of the former Soviet Union, Lew Preston led the Bank into other new areas. Twenty-three countries joined the Bank between 1991 and 1994, a time of some of the most rapid membership growth in the Bank’s history. Of particular note, the Bank began to provide support for the peace process and for economic development in the West Bank and Gaza, initiated a program with the newly democratic South Africa, and resumed lending to Viet Nam after a fifteen-year hiatus.

In all of this, Lew Preston reinforced the Bank’s core mandate: to strengthen economies and expand markets to improve the quality of life for people everywhere, especially the poorest. He saw as the Bank’s real genius its capacity to borrow on the world’s capital markets and thus fund development in emerging economies.
Under his leadership, the composition of the Bank's lending changed dramatically. Commitments for education and health tripled between 1991 and 1994. Lending for environmental protection grew rapidly, reaching $2.4 billion in 1994 alone. Support for the private sector, too, was given greater emphasis: the Bank's guarantee powers were expanded to leverage additional private financing for infrastructure and other projects; and the loan and equity commitments of the Bank's private-sector affiliate, the International Finance Corporation, increased to $2.5 billion in 1994.

To reflect these operational priorities, Lew Preston reshaped the Bank's organization, creating new units for private sector activities, human resource development, and the environment. Other important institutional changes were designed to make the Bank:

- More open—by expanding information available to the public about the projects that the Bank supports and by establishing an independent Inspection Panel, the first such body created by a multilateral organization, to investigate complaints that the Bank may not have adhered to its own policies
- More cost-effective—by introducing dollar budgeting and a cost-accounting system
- And leaner—by removing layers of bureaucracy.

From the beginning of his presidency, Lew Preston emphasized that it is results that count. He refocused the Bank's attention on the impact of projects already underway rather than on expansion of the volume of new lending for its own sake. This change in the institutional culture "from initiation to implementation" led to a significant restructuring of the Bank's portfolio in a large number of countries. As part of this effort, country ownership of Bank-supported projects, and local participation in them, received much higher priority.

Also under Lew Preston's leadership, the Bank moved from a project-by-project operational approach to countrywide strategies, with assistance programs tailored to the specific needs of different clients. "We must be as effective in helping with privatization as in helping to increase education for girls; as good at assisting with structural change in
the former Soviet Union as at fighting hunger and disease in Sub-Saharan Africa," he said.

As he guided the Bank through its fiftieth anniversary in 1994, Lew Preston returned again and again to the theme of change. "The institution's founders did not foresee the scale of the demands that would be placed on it today—and it cannot be predicted with any certainty what might be required in five or ten years' time," he wrote. "Just as the capacity to adjust quickly to changing circumstances is the key to future progress by the Bank Group's clients, flexibility is also the key to its own future effectiveness."

His enduring legacy is his achievement in shaping an institution that responds more effectively to a changing world—and is poised for further change in the future.

To honor that legacy, the Executive Directors of the World Bank have commissioned this collection of Lew Preston's speeches and comments made during his term as president.
The World Bank consists of the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). It is owned by 178 countries, and its central purpose is to promote economic and social progress in developing nations. It has three affiliated organizations: the International Finance Corporation (IFC), which works with private investors around the world and invests in commercial enterprises in developing countries; the Multilateral Investment Guarantee Agency (MIGA), which encourages investment flows among its member countries, particularly developing member countries; and the International Centre for Settlement of Investment Disputes (ICSID). Together, these organizations are known as the World Bank Group. The IBRD and the International Monetary Fund (IMF) were founded in 1944 at an international conference at Bretton Woods, New Hampshire.

All dollar amounts given in the text are current U.S. dollars. A billion is a thousand million.
Fifty Years of Development
To the Bretton Woods Anniversary Conference
Madrid, September 29, 1994

I would like to thank Prime Minister Felipe Gonzalez for his generous words and the government and people of Spain for their warm hospitality. I would also like to join in welcoming all of you to this conference.

The Importance of Flexibility

This is an occasion to praise the visionaries at Bretton Woods. Perhaps their greatest achievement was the flexibility they allowed the Bank:

- To become global in its membership
- To evolve into the Bank “Group,” establishing IDA, the IFC, and MIGA
- To leverage about $10 billion in paid-in capital into more than $300 billion in loans and credits
- And to support over 6,000 projects in over 140 countries with financing and, equally important, with objective advice.

This flexibility has enabled us to help our members respond to diverse challenges: from postwar reconstruction in Europe and Japan to boosting food production in South Asia; from assisting the newly independent nations of Africa to helping Latin America overcome the debt crisis; from supporting China’s integration into the global economy to assisting the transition economies in Eastern Europe and the former Soviet Union.

Flexibility has been the key to the Bank Group’s effectiveness in the past. It is the most powerful asset we have as we think about how best to serve our members in the future.
Fifty Years of Development Experience

The delegates at Bretton Woods could not have predicted the speed or scope of development progress over the past fifty years. Life expectancy in the developing countries has improved more than during the entire previous span of human history; child mortality has been reduced by two-thirds; smallpox, which was killing 5 million people a year in 1950, has been eradicated.

Average per capita incomes in the developing world have doubled. The gross domestic products (GDPs) of some economies have quintupled. The developing nations have become increasingly integrated into the global economy, and large numbers of people have been able to lift themselves out of poverty. In the process, the world has united as never before to support development. The Bretton Woods institutions played a major role in financing and coordinating this support.

The development effort has been a success. But it could have been even more effective had we known at the outset what we know today. Until relatively recently, there was excessive trust in the capacity of governments to manage activities that the private sector can undertake more efficiently; protectionism too often won out over competition; insufficient attention was paid to the environment; primary education was underrated; and women were not allowed enough access to development opportunities.

In the 1960s many economists were more optimistic about Sub-Saharan Africa than East Asia. Yet East Asia proved to be the "miracle" of the developing world—and Sub-Saharan Africa, its most daunting challenge. Sub-Saharan Africa is the only region in which poverty is projected to increase by the end of this century. It is not, however, the only region in which poverty remains pervasive. Worldwide, over a billion people still struggle to survive on about a dollar a day.

The Major Challenges

There are certain fundamental components that can help in achieving rapid and sustainable development. Applying these common
elements across a range of increasingly diverse country circumstances is the great challenge facing us all.

First, we know that people are both the means and the ends of development. Investment in human resources is linked to productivity and employment, as well as to slower population growth rates and more rapid poverty reduction. Education is the building block. No nation has managed to take off economically with a less than 50 percent literacy rate. Institutional strength and a country's ability to compete in a rapidly changing world depend on its trained people.

Yet too many countries still invest far too little in their people. Almost 100 million girls in developing countries never get the chance to go to school. Early childhood development should be given much higher priority, and we must commit ourselves to the goal of universal primary education within the next generation.

Second, good policies are crucial: macroeconomic stability; openness to trade, investment, and technology; and adequate social and physical infrastructure. The critical role of good policies is encouraging because it implies that countries that have not prospered so far can do so. Countries like Ghana, Uganda, and others in Sub-Saharan Africa which have stayed the course of reform are seeing signs of success.

Liberalizing an economy brings its own set of challenges. As markets expand, a country's institutional capacities—legal, financial, and regulatory—need to keep up; safety nets must be put in place to protect vulnerable groups; and the pace of reform has to be governed by a country's own view of what is practical. Mexico and Poland, for example, have shown the benefits of speed; China demonstrates that a more gradual approach can also be effective. But whatever the sequencing, a country's commitment to continuous structural change is essential—as is the building of a consensus to support it.

Redefining the roles of state and market is the third challenge. Governments cannot do everything, so they must focus on what is essential. A healthy private sector reduces the burden on government; it broadens participation in the running of an economy; it attracts savings—domestic and foreign—to sound investment; and it promotes growth and jobs.
The revolution in economic management in the developing countries is well underway, but it is still far from complete. We must do more to nurture private sector growth because that will enable more countries to become competitive and to hook up with the global economy. Experience tells us that this integration offers the best hope of prosperity. This places a premium on measures to open up world trade—particularly through speedy ratification of the Uruguay Round and by helping to bring the countries of Eastern Europe and the former Soviet Union fully into the international trading system.

The fourth challenge is environmental sustainability. Two billion people in the developing world are without adequate sanitation; 4 million children died last year from acute respiratory diseases brought on by air pollution; almost another 4 million died from diarrheal diseases caused by dirty drinking water. These issues must be given priority on the environmental agenda. We have learned that poverty reduction and environmental protection are mutually reinforcing. We must do more to act on that knowledge.

It seems to me that another major lesson of development experience is that economics by itself is not enough. Good governance—accountability, transparency, and the rule of law—is imperative. People must be allowed to participate in the decisions and actions that affect their lives. Resources must be allocated and used efficiently. For example, the developing countries currently spend as much on arms as on education. It should also be noted, of course, that industrial countries spend more than ten times as much on arms as on development assistance. This must change.

Ultimately, development can only come from within. Aid—when it is used efficiently—can help to supplement a country's own efforts. Twenty countries have now graduated from IDA. One of those is the Republic of Korea, which was extremely poor in the 1960s but today is a vibrant economy, able to rely on its own savings and private capital for continued growth. This is an example of development assistance at its best. We should recognize, however, that in the absence of internal commitment, neither external financing nor advice can transform economies.
The Role of the World Bank

The task before the development community now is to implement what we have learned. The World Bank Group is well positioned to help. We have a long-term association with virtually every developing nation, a wealth of cross-country experience, and a service that combines finance—for public and private investment—and advice. We can tailor that service to individual country needs.

Like the countries, however, we too must adapt to change. Yes, the World Bank Group has been flexible in the past. But given the rapidly changing global environment—and the increasing diversity of our membership—we must be even more flexible in the future.

- To strengthen our focus, we must be more selective in the tasks we undertake.
- To maximize our impact—and that of others engaged in development—we must expand and deepen our partnerships.
- To increase our responsiveness, we must be even more cost-efficient and dedicated to excellence.

A development institution can ensure its credibility only if it is effective where it matters most: getting results on the ground.

Conclusion: An Opportunity for Progress

Mr. Chairman, on this fiftieth anniversary of the Bretton Woods Conference, we have a tremendous opportunity to make rapid and sustainable development progress. Global links between the rich and poor countries are much stronger than they were five decades ago; policymakers have a better understanding of the options for development; and there is more agreement about what needs to be done.

Now we need to do it.
The Changing Bank
To the Board of Governors

Washington, D.C., September 25, 1993

Welcome to Washington—and a special welcome to our new members who have joined since last year.

I would like to begin on a personal note. As some of you may know, I have only recently returned from medical leave. I would like to take this opportunity to thank the many people who have conveyed to me their expressions of concern and friendship. I am looking forward to working with all of you in the challenging years ahead.

The Increasing Pace of Change

When I spoke to you for the first time, in Bangkok, I emphasized global change: political, economic, and technological. The pace of change has accelerated since then—probably faster than anything we have known since the creation of the Bretton Woods institutions. I would like to return to the theme of change this morning because I believe it holds great potential for the developing countries and for sustainable development. But success will depend on our capacity to respond quickly to change—and to manage it.

Anticipating change, of course, is never easy. The historic accord between Israel and the Palestine Liberation Organization (PLO), for example, could not have been foreseen even a few months ago. Over the past year, however, the World Bank has been supporting the peace process in the Middle East through our economic work on the Occupied Territories. This work, summarized in the report we have just issued [Developing the Occupied Territories: Investing in Peace, Vols. 1-6], provides a platform for launching an international effort in the West Bank and Gaza.

We are well prepared to invest in peace.

In South Africa, too, over the past several years, the Bank has been working with all the parties involved to design a program that
can address the country’s most urgent needs. This program, obviously, is contingent on political change that makes development possible for all her people. As Mr. Mandela recently indicated, this is now happening—and the Bank is ready to move ahead.

These are just two examples of how recent changes have brought unprecedented challenge to the Bank.

Global Change and the Bank

More than twenty new members have joined us in the past two years. Assisting them has involved one of the greatest efforts in the Bank’s history—including major redeployment and resource-mobilization exercises. Operational work is now well advanced. Most of the increase in last year’s lending program, for example, was in commitments to our newer members in the former Soviet Union and Eastern Europe.

Many other countries have also required increased support as they introduced a second generation of reforms aimed at creating more market-friendly systems. We were enjoined by you, our shareholders, to assist our new clients without reducing services to our existing membership. We have met that request.

We have also responded to a number of new issues. I mentioned our work in the Occupied Territories and South Africa. But we have also been seeking alternatives to nuclear power in Eastern Europe and Central Asia, coordinating the buyback of commercial debt in Africa, and helping to restructure the Global Environment Facility. All this has been done even as our core programs, aimed at reducing poverty, have been strengthened. In responding to this changing demand, the Bank itself has changed—a subject to which I will return.

Major Elements of Change

The political effects of the end of the Cold War are only one element of the changes underway in our world. Global economic and financial relationships are also being transformed.
The developing countries have become a powerful force in the world economy. Over the past five years they have accounted for more than a quarter of the increase in global imports. Trade among the developing countries is growing rapidly. They are projected to contribute about one-third of the growth in world GDP over the next five years. Their markets also represent the fastest-growing trade areas for many industrial nations—including the United States.

This highlights the fundamental importance of the North American Free Trade Agreement (NAFTA) and, on a global scale, the fundamental importance of free trade. There should be no doubt that NAFTA holds great potential for boosting wages and living standards for all parties concerned. The General Agreement on Tariffs and Trade (GATT), by establishing clear and enforceable rules, will also lead to increased trade and prosperity for rich and poor nations alike. A successful NAFTA and a successful Uruguay Round are absolutely essential if we are to take full advantage of these changing trade relationships.

Financial relationships, too, are changing. Capital markets are integrating. Competition for resources is greater than ever before. A new degree of financial discipline and transparency is required at both the corporate and the national level. Many developing countries that have implemented strong reforms have attracted substantial private flows. Foreign direct investment in the developing world increased by almost 60 percent over the past two years, bringing benefits of know-how, market access, and technology. As the pace of technological change accelerates, it will dramatically affect competitiveness across a wide range of sectors and countries. The greatest rewards will go to those who show the greatest flexibility.

A Changing Development Universe

The forces of change have altered our view of the development universe. Thinking of developing countries as a single group was never an accurate concept. Today, it is completely irrelevant.
East Asia's remarkable performance over the past twenty-five years has positioned it to become the world's fourth major growth pole by the end of this decade. And change is creating further opportunities for progress. Viet Nam, for example, has been making vigorous efforts to reform its economy—and the World Bank has been working toward a resumption of lending there.

In Latin America, after a long period of crisis, reform has led to a turnaround. It has also led to a renewed inflow of private investment—almost $60 billion last year.

In Sub-Saharan Africa and South Asia, there are signs of progress in those countries that have maintained the momentum of reform. But even greater efforts must be made to fight persistently high levels of poverty.

In the former Soviet Union, the challenge is essentially one of reconstruction and redesign, not of development in the traditional sense. Constitutional uncertainties and civil strife have hampered both internal reform and the external assistance effort. There can be no lasting progress until those issues are resolved. But—provided they are—the region holds great potential.

As I mentioned earlier, the picture in the Middle East is changing almost as we speak. Again, many uncertainties remain. But there is now the prospect of real peace and real development.

This differentiated development universe has required a differentiated response from the World Bank. In the middle-income nations of East Asia and Latin America, for example, the emphasis is on strengthening financial markets and rebuilding infrastructure. By contrast, in low-income Sub-Saharan Africa and South Asia, the focus—mainly through IDA lending—is on policy reforms and basic human needs.

Responding Quickly to Change

We must all adjust continuously to change. We can see in the industrial countries the high costs of failing to adjust quickly enough: unsustainable budget deficits, exchange rate volatility, and high
unemployment. On the other hand, many developing countries have adjusted their policies in recent years. These changes will continue to bear fruit through the 1990s. My message today is that developing countries must persevere: the pace of reform must match the pace of change.

We have to focus on fundamentals. Macroeconomic reforms that promote stability and growth are the first steps. But they are only the first steps. They must be underpinned by institutional and legal reforms, by financial sector reforms, and by a climate that encourages competition and investment.

Second, the private sector must be allowed to play its role as the primary engine of growth. From the transition in the former Soviet Union to the development crisis in Africa, it is clear that only the private sector can deliver incomes and jobs on the scale required.

But—my third point—the private sector cannot do it alone. An efficient public sector is an essential partner: to invest in people, to provide safety nets for those in need, to support basic infrastructure and regulatory frameworks, and to enforce environmental protection. Without these, there can be no sustainable development.

My fourth point is people. The capacity for change depends, fundamentally, on human resources. Investment in people not only spurs growth but also reduces poverty. In East Asia, consistent investment in education and health, combined with growth, has contributed to a reduction in poverty from 30 percent of the population in 1970 to just 10 percent today. If other regions could achieve a similar rate of progress, global poverty could be reduced by two-thirds within a generation.

But in addition to investment in people, there must be participation by people—and that's my fifth point. Change has brought more information and openness to the world. It has also brought more participation to development—from nongovernmental organizations and, even more importantly, from the people affected directly by development. All of us—governments, donor agencies, international organizations—should welcome this change. Increased participation in development will increase the effectiveness of development.
A Changing World Bank

This brings me back to the question of change at the Bank. An increased emphasis on participation in the projects we finance is one of its features. Our new information policy will help to expand participation. Furthermore, it will enhance the effectiveness of our work. So too will the new steps we have taken to improve project implementation. Results on the ground are what count.

We have changed our organizational structure to reinforce our focus on poverty reduction. Changes in our lending program underscore this: our support for human resource development has tripled over the past three years; environmental projects have become the fastest-growing segment of our portfolio; and a new generation of loans is focused on private sector development, complemented by the work of the IFC and MIGA.

In short, the Bank has changed—and we will continue to change to meet the needs of our members. But the Bank's efforts to improve its development impact can only be as effective as the efforts made by our borrowers. The international institutions can only help those who help themselves. In the post-Cold War era, external assistance is being more closely scrutinized than ever before. Recipient countries must demonstrate the capacity to use aid effectively—through good policy and good governance—or, frankly, they risk losing it.

Conclusion: Perspective on Change and Development

Mr. Chairman, the Bretton Woods institutions are approaching their fiftieth anniversary. The business we are in—development—is a difficult one. We are all learning and are building on the lessons of experience.

The challenges remain formidable. Over a billion people live in absolute poverty—and this provides the fundamental perspective for our efforts. At the same time, we should not lose sight of what has worked and what development has achieved. The past five decades have seen more progress in improving the human condition
than any comparable period in history. Life expectancy has increased by 50 percent. Infant mortality has been halved. Per capita incomes have doubled.

The Bank and the Fund have played a vital role in the transformation of the past fifty years. We can play an equally important role in the future. But to be successful, we need the support of all our partners in development—and of you, our shareholders.
To the Bretton Woods Commission Conference
Washington, D.C., July 21, 1994

I would like to express my appreciation to the Bretton Woods Commission for its constructive report, which is being eagerly read at the World Bank. We welcome the external debate on our future role. I can assure you that the internal debate is, if anything, even livelier!

A Turning Point

The fiftieth anniversary of the Bretton Woods Conference finds the world at a turning point. The post-Cold War era is witnessing a dramatic set of changes—economic as well as geopolitical. This transformation, combined with the increasing diversity of the developing world, has changed the nature and complexity of development. All of us—every country and every institution—must change to deal with the new realities.

In some ways, the stakes are even higher in 1994 than they were in 1944:

- Globalization has tied the fortunes of industrial and developing nations much more closely together.
- There is greater competition for the flow of capital to the developing world.
- And development assistance is under greater scrutiny.

Note: The Bretton Woods Commission is a private, independent group of high-ranking people with experience in international finance, development, economics, and related areas of public policy. For the fiftieth anniversary of the Bretton Woods Conference, the commission was charged with reviewing and reporting on the state of the international monetary system, development finance, and the two Bretton Woods institutions and with making such recommendations as it thought appropriate.
As we consider how the Bank's role will change, it helps to recall the achievement of the institution's founding fathers at Bretton Woods. Their greatest success, in my view, was the flexibility they gave the Bank, enabling it:

- To become global in its membership
- To evolve into the Bank Group, with the establishment of IDA, the IFC, and MIGA
- To leverage about $10 billion in paid-in capital into more than $300 billion dollars' worth of loans and credits
- And to support over 6,000 operations in more than 140 countries with financing and, equally important, with objective advice.

In the process, the Bank has made an important contribution to development progress over the past generation—progress more rapid than in any comparable period in history. Per capita incomes have doubled, life expectancy has increased by 50 percent, and infant mortality has been halved.

Fifty years of experience have led the Bank to its fundamental objective today: to help countries reduce poverty and improve living standards through sustainable growth and investment in people. Now the question facing us is this: will the Bank have the flexibility to contribute even more in the future?

Why the World Bank Is Needed

The need for a global institution that can effectively promote development is clear. More than a billion people still live in absolute poverty. Environmental damage threatens this generation and future generations. More than 100 million children are without access even to primary education, and an estimated 2 million to 3 million children die every year from malnutrition.

Those needs have to be addressed against the backdrop of accelerating global change:

- The increasing integration of financial and trading systems
• Increasing democratization, openness, and participation
• And a fundamental change in thinking about economic management.

A new development paradigm has emerged—one that emphasizes the role of the private sector and the need to redefine the role of the public sector.

The New Development Paradigm and the World Bank

As the commission's report notes, the World Bank Group has been crucial in sparking the economic revolution taking place in the developing world. Bank-supported adjustment programs have helped to liberalize trade, free prices, dismantle state monopolies, and establish a climate conducive to private enterprise. In addition, commitments by the Bank, the IFC, and MIGA now help catalyze nearly $25 billion in total private investment per year.

The commission is right in noting that this transformation is not complete. The Bank Group can do even more to speed the movement from state to market—and we will do more. At a minimum, the Bank Group will complement—not substitute for—private flows. More than this, through the judicious use of guarantees, the IBRD will seek to encourage commercial banks back into project financing. IFC commitments, unconstrained by capital in the medium term, are set to grow by 12 percent a year, reaching $5 billion by the end of this decade. MIGA's insurance portfolio already exceeds $1 billion.

In short, strengthening our support for the private sector will be one of the hallmarks of the World Bank Group in the future.

The Development Challenges of the Future

However, it will not be—and should not be—the only one. Fifty years of experience tell us that no single prescription can encompass the diverse needs of the developing world. For development to be broad based and sustainable, other important challenges must not be neglected.
Human resources are the foundation of development. Programs for education, health, and family planning and support for the role of women in development must be expanded and made more effective. The Bank's investments in people have increased from an average of 5 percent in the 1980s to nearly 20 percent in fiscal year 1994.

To help countries grow and become more productive, there must also be continued support for policy reforms and the institutions necessary to support modernizing economies. The capacity to adjust quickly to exogenous forces is the key to a country's competitiveness.

To ensure that growth and poverty reduction are long-lasting, environmental protection is imperative. There are now more than a hundred Bank-supported environmental projects in fifty countries, representing $5 billion in commitments.

Another major challenge is to support governments in their efforts to provide effective regulatory frameworks, essential infrastructure, and more efficient public services. These tasks must be undertaken in an open and competitive environment. Governments should do less where markets work well and more where markets alone cannot be relied upon. We should also recognize, of course, that what markets can and cannot do will continue to vary across countries. There are no panaceas.

The Bank's Comparative Advantage

To help fulfill this broad agenda, the Bank Group must maintain its role as a financier of development, providing resources itself and helping to mobilize other resources, public and private. The Bank must also strengthen its role as an adviser on development, doing more to share and apply its global experience. The combination of these roles is what gives the Bank its comparative advantage. The emphasis accorded to each, however, will vary.

In some of the successfully adjusting middle-income nations, for example, the Bank's financing will be relatively less important than its advice. Many of those countries are now able to attract large
levels of private investment, but Bank financing can still help them to address issues such as human resource development and environmental protection. The Bank can also be catalytic in helping to attract the large levels of financing needed for infrastructure. But the growing trend will be for the countries in this group to rely on the capital markets. Several countries will no longer need the Bank’s money. Others will continue to reduce their dependence on it. We should welcome this important indicator of development success.

By contrast, in the low-income countries of Africa and South Asia, both our advice and high levels of financing—particularly through IDA—will remain vital: to help address basic development issues and to create an attractive environment for private investment.

Guiding Principles

Given this diversity among its clients, the World Bank of the future must give more emphasis to specific country needs. It must also encourage a more sensible sharing of tasks with its partners.

A new set of guiding principles will enhance the Bank’s focus and effectiveness:

Increased selectivity. The Bank should not—nor should it be expected to—deal with every global problem or every aspect of development in each borrowing country. Instead, it must focus on those areas in which it can have the greatest impact.

Stronger partnerships with all participants in development. By drawing on the strengths of each, overall impact can be increased.

Client orientation. Bank-supported projects must match a borrower’s priorities, and there must be stronger borrower ownership of those projects.

Results. Our performance should be judged by development impact. A key element is increasing the participation of those affected by the operations designed to help them.

Cost-effectiveness. I share the view that an international organization can ensure its credibility—and its continuity—only if it is well managed and efficient.
Continued financial integrity. Maintaining the Bank's high standing in the financial markets is essential to maintaining its cost-effective service to its clients.

A Changing Bank

Applying these principles will require further change on the part of the Bank. Over the past several years we have been engaged in an effort to build a more efficient institution through:

- A new emphasis on portfolio management and implementation
- A streamlining of our business processes and costs
- And a significant attempt to make the Bank more open and accountable through, for example, expanded disclosure of information and the establishment of an independent inspection panel.

These measures point toward an increasingly flexible Bank—one that is leaner, more agile, and more responsive to a rapidly changing world. We still have a way to go. But institutional change is well underway.

The Bank should expand its contribution to development in the future. It should not, however, measure its success simply by the amounts that it lends. The key criteria now must be the quality of its services, the effectiveness of the projects it supports, and the depth of its partnerships.

Conclusion: A Global Asset

Our fiftieth anniversary is an occasion for praising the visionaries at Bretton Woods. They could not predict the changes of the past fifty years, just as we cannot predict what will happen in the next fifty years—or even the next five years! They had the wisdom to create a Bank that could change and grow. We must do no less.

Development is a risky business. Any development institution worth its salt makes its share of mistakes. From a fifty-year perspec-
tive, the Bank has been an invaluable global asset for development. Time and again, the international community has been able to turn to it:

- For help with the reconstruction of Europe and Japan after the Second World War and now with the transformation of the states of the former Soviet Union after the Cold War
- For assistance with China's integration into the global economy and with investing in peace in the West Bank and Gaza
- For help in boosting global food production and addressing global environmental issues.

Today, in many ways, the Bank Group is better equipped than ever to help in reducing poverty and securing sustainable development. This is an institution with five decades of experience, a long-term relationship with virtually every developing country, and a committed staff of development professionals.

Working with our membership—and with all our partners—we are ready for the future.
To the Board of Governors

Madrid, October 4, 1994

Your Majesties, Mr. Chairman, Governors, Ladies and Gentlemen:
A warm welcome to this fiftieth Anniversary Meeting.

I would like to express my profound appreciation to King Juan Carlos and Queen Sofía, and to the people of Spain for their generous hospitality.

Until 1977, Spain was a borrower from the Bank, and we are pleased to have been associated with her success. This country has moved boldly to embrace change and to realize its potential for social and economic advance.

Embracing change—and harnessing it for development—is the great challenge facing us all today.

A Changing World

The past fifty years have seen faster progress in improving the human condition than any time in history. In the developing countries, life expectancy has been increased by 50 percent, infant mortality has been reduced by two-thirds, and average income per person has more than doubled.

There has been a "green revolution" in South Asia; an "economic miracle" in East Asia. Latin America has overcome the debt crisis and there have been substantial gains in health and literacy in Africa.

We can look back with pride on the success of the development effort—and the role of the Bretton Woods institutions in that effort. It is even more important, however, to look forward.

Changes in the world hold major implications for us, and we must respond. The context in which we work today is vastly different from that of fifty years ago.
Most importantly, we have learned much more about what does and does not work: about putting people at the center of development; about the importance of policies, institutions, and markets; about the need to protect the environment and promote the role of women in development. Now we need to apply those lessons in a world of increasingly rapid change.

The developing nations' role in the global economy has been transformed. In the first three difficult years of this decade, they accounted for 70 percent of global GDP growth and 50 percent of the growth in world trade. A quarter of industrial country exports—and 15 million jobs—now depend on trade with the developing nations. The rapid pace of technological change has reinforced this global integration—and accelerated global competition.

As more and more countries have adopted market-oriented policies, the private sector's role in development has been revolutionized. The increase in private capital flows to the developing world has been spectacular—about three times the level of development assistance last year.

Several other factors also have contributed to the changing context for development:

- The spread of democracy and participation has allowed more people more say in the decisions that affect their lives.
- Educational levels in the developing countries have risen dramatically—as have their skills in analyzing and implementing development programs.
- And the capacities of all development institutions have grown, from the multilateral institutions to NGOs.

All this has brought new participants—and new ideas—to development. In a fundamental way, of course, the challenge of development remains unchanged: over a billion people still live in absolute poverty.

This brings into sharp focus the need for increased levels of development assistance and the need for an institution like IDA, which is the linchpin of the international effort to reduce poverty.
Discussions on IDA’s eleventh replenishment began here in Madrid a few days ago. Donor budgets are tight, and priorities are changing. But the world’s poorest nations depend on IDA, and IDA depends on your support.

A strong IDA will enhance the opportunity for progress that the changing development context offers us all. Taking advantage of that opportunity, in turn, will require change—from us all.

A Changing Bank

What does that mean for the Bank?

Our objective remains clear: helping our borrowers to reduce poverty and improve living standards through sustainable growth and investments in people.

Meeting that objective involves increasing demands: our membership has grown from 155 to 178 countries in the past three years alone.

It also involves increasing complexity: we must be as effective in helping with privatization as in helping to increase education for girls; as good at assisting with structural change in the former Soviet Union as at fighting hunger and disease in Sub-Saharan Africa.

Two main assets help the Bank to address this diversity:

• Finance—our capacity to invest our own money and to mobilize resources from others
• And advice—bringing to bear our global experience and sharing it with our member countries.

The emphasis on each of these elements varies according to country circumstances.

Some of the rapidly growing middle-income nations, for example, can now acquire most of their resources from the markets. The Bank’s financing will remain vital in areas where private capital is not forthcoming—such as the environment and education. But generally, in those countries our money will become less important than our advice.
This should be welcomed. Twenty-five countries have already “graduated” from needing the Bank’s assistance. Others will follow. For us, the ultimate success is when we are no longer needed.

In many countries, however, the Bank will continue to be needed for some time to come. The unfinished development agenda is large. So too is the need for a development institution that has:

- Five decades of experience
- A long-term relationship with virtually every developing country
- And a committed staff of development professionals.

But again, the changing context in which we work means that we have to change to remain effective. That applies to the Bank’s management, staff, and shareholders.

Six principles guide that change:

- First, the Bank must be more selective—tailoring our assistance to individual country needs and focusing on issues that maximize our impact. We neither should—nor should be expected to—deal with every aspect of development everywhere. A more sensible sharing of tasks within the international system is required.

- Second, increased collaboration with all our partners is essential. At one end of the spectrum, the Bank Group’s work with the private sector is expanding—through, among other means, the steady growth of the IFC and MIGA. At the other end, our work with nongovernmental organizations also is expanding; they are involved in 50 percent of the projects we supported last year. Overall, our goal is to help our borrowers benefit from the different strengths of everyone engaged in development.

- Third, we are deepening our client relationships. Country ownership—of policies and projects—is crucial to their success. In response to our clients’ changing priorities, the composition of the Bank’s lending has changed. Over the past five years, our investments in education and health have doubled, and
our environmental lending has grown tenfold. The Bank Group now lends about $25 billion a year for private-sector development.

- Fourth, success must be measured by results. To improve the long-term impact of our operations, we are emphasizing participation in project design and management and increasing project supervision. An "implementation culture" is emerging.
- Fifth, cost-effectiveness is imperative. We owe it to our members—especially our borrowers—to meet the highest standards of efficiency. We will do so. Red tape is being cut; cost-efficiency is being increased. There is zero budget growth this year, and substantial savings are planned for the next two years.
- Sixth, excellent financial management has long enabled the Bank to obtain funds on the capital markets at the finest terms for our members. This will continue.

Changes already underway reinforce our efforts to apply these principles. We have become a more open institution—with expanded disclosure of information and an independent inspection panel. We are improving our mix of staff skills to meet borrower priorities. And we are striving to be more responsive: from new financial engineering, such as expanding the use of our guarantee powers, to new ways of reaching the poorest of the poor—for example, exploring with our partners the possibility of a microenterprise fund.

In this fiftieth anniversary year, there has been much debate about the role of the Bretton Woods institutions. My own view on the future of the Bank Group is that we must be:

- A flexible institution—able to respond quickly to diverse and rapidly changing needs
- A cost-conscious, efficient institution—able to offer the highest-quality service
- And a learning institution—weaving the lessons of research and experience into our own work while sharing that knowledge for the benefit of all our members.
Conclusion: The Future of the Bank Group

Your Majesties, Mr. Chairman, Governors: the World Bank Group is a unique global asset dedicated to improving the quality of life in all our member countries.

To meet that task even more effectively, we are changing. With your support, we will succeed.
The fiftieth anniversary of the World Bank offers a timely opportunity to reflect on the institution’s past and, more importantly, look to the future. The world has changed dramatically since 1944. There has been substantial economic and social progress. In the developing countries, average life expectancy has increased by about 50 percent; the proportion of children attending school has risen from less than half to more than three quarters; and since 1960 average income per person has more than doubled. The Bank—through its support for over 6,000 operations in about 140 countries with more than $300 billion in financing—has contributed to this development progress.

And yet, enormous challenges remain. More than a billion people struggle to survive on about a dollar a day. Two out of every five people in the developing world do not have basic sanitation or clean water. High population growth and low economic growth have kept about half the people of Sub-Saharan Africa trapped in poverty. The problems associated with economic transformation in Central and Eastern Europe and the former Soviet Union are much more complex than originally thought. There are also new challenges—for example, those presented by South Africa and by the West Bank and Gaza.

In a number of ways, the Bank is uniquely placed to help address these challenges. It has fifty years of experience in working on almost every kind of development issue in almost every developing country. It has a global membership of 177 countries. Affiliates have been created to meet the diverse needs of that membership: IDA to serve the poorest countries, the IFC to support private enterprises in
developing nations, MIGA to help promote foreign investment, and ICSID to settle investment disputes. The “Bank” has become the Bank Group.

Hard lessons have been learned over the years: that people are both the means and ends of development; that sustained commitment to sound macroeconomic policy is vital; that institutional capacity is a major determinant of progress; and that economic growth should be broad based and environmentally sustainable to reduce poverty effectively. Of fundamental importance, the Bank Group has evolved from being simply a financier of development to being also a trusted adviser on development, sharing its global experience of what does and does not work and helping its member countries apply the lessons.

The Bank Group continues to learn today in a more competitive, market-oriented world where the pace of change—political, economic, and technological—is increasingly rapid. The developing countries, too, are increasingly diverse. The needs of some middle-income nations in East Asia and Latin America—those that have achieved strong growth rates and can attract high levels of private investment—are very different from those of Sub-Saharan Africa, where poverty is increasing and development is still heavily dependent on aid. The needs of the centrally planned economies are different again—to build market systems where there is little private sector history or capacity.

Fifty years of experience have validated the Bank Group’s fundamental objective today: helping borrowers reduce poverty and improve living standards through sustainable growth and investment in people. Meeting that objective in different countries requires customized assistance strategies. Overall, however, five major challenges are crucial to future progress:

- Pursuing economic reforms that promote broad-based growth and reduce poverty
- Investing in people through expanded, more effective programs for education, health, nutrition, and family planning—so that the poor can take advantage of the opportunities that growth creates
- Protecting the environment so that growth and poverty reduction can be lasting and benefit tomorrow's generations as well as today's
- Stimulating the private sector so that countries can become more productive and create jobs
- Reorienting government so that the public sector can complement private sector activity and efficiently undertake essential tasks such as human resource development, environmental protection, and provision of social safety nets and legal and regulatory frameworks.

In assisting its member countries to meet these challenges, the Bank Group will need to build on and enhance its two main roles: financial—by continuing to mobilize and invest substantial resources for development; and advisory—by distilling and disseminating its own cross-country experience and helping to connect clients with the best available knowledge from other sources. These roles will continue to be performed primarily at the country level, although on occasion the Bank Group will respond, as in the past, to shareholder requests to help address strategic development issues that transcend national boundaries.

The combination of its financial and advisory roles gives the Bank Group its comparative advantage. But the emphasis accorded to each will vary according to country circumstances. Balancing these different emphases will require increased flexibility. Given the scale and scope of the development agenda, the Bank Group must avoid stretching itself too thin. It must focus more on doing what it does best and encourage a more sensible division of labor with its partners in the international development community. Six guiding principles will help to enhance focus and effectiveness:

- Selectivity: identifying, particularly at the country level, the strategic actions through which the Bank Group can help catalyze the maximum potential of its partners, as well as maximize its own impact
- Partnership: seeking out alliances with other participants—multilateral, bilateral, governmental, nongovernmental, and private sector
• **Client orientation**: responding to the real needs of clients and facilitating their participation in the design and implementation of Bank-supported programs

• **Results orientation**: looking beyond lending commitments and concentrating on maximum development impact, higher-quality service, increased efficiency, and more accountability for performance

• **Cost-effectiveness**: ensuring that scarce development resources are spent wisely and efficiently by streamlining bureaucratic processes and paperwork, cutting unnecessary administrative costs, and improving coordination

• **Financial integrity**: continuing to ensure the Group's ability to provide both resources and the best possible service to its clients through maintaining its high standing in the financial markets.

Applying these principles will entail further change by the Bank Group. The environment in which it operates today is more competitive in every respect. Financially, the private sector is helping increasingly to meet the needs of a number of borrowers. Many borrowers are also rapidly developing their own analytical capacities and using the resources of a wide range of other development agencies, official and unofficial.

This increased competition offers the Bank Group an unprecedented opportunity to become even more responsive to the needs of its clients. But taking full advantage of it will require listening more to others, being more open to partnership, and being more conscious of the need to demonstrate its value to its shareholders. The institution's founders did not foresee the scale of the demands that would be placed on it today—and it cannot be predicted with any certainty what might be required in five or ten years' time. Just as the capacity to adjust quickly to changing circumstances is the key to future progress by the Bank Group's clients, flexibility is also the key to its own future effectiveness.

Institutional change is already underway. The themes of human resource development, environmental sustainability, and private
sector development—which are essential for reducing poverty—are being given higher priority. An organizational culture is emerging that places its emphasis on development impact and results in the field. Steps are also being taken to improve business processes and technical skills. Much remains to be done. But these reforms mark an important beginning.

Just as the world is changing rapidly, the Bank Group is changing rapidly too. The momentum for change will help to build an even more efficient, flexible institution—better equipped to serve its member countries in the future and better able to help the world reduce poverty and secure sustainable development.
Key Development Challenges
To the United Nations Conference on Environment and Development
Rio de Janeiro, Brazil, June 4, 1992

Mr. President, excellencies, distinguished guests, ladies and gentlemen: The Earth Summit is a historic occasion, and I am honored to be participating on behalf of the World Bank. I would like to thank the government of Brazil for hosting this conference, and I congratulate Maurice Strong, Tommy Koh, and the UNCED Secretariat for making it possible. This meeting is an important step toward helping us meet the greatest challenge of our time: achieving sustainable development.

Shared Responsibility

Today, over a billion people live in acute poverty. Within the next forty years, the world’s population will grow by about 4 billion people, most of them in poor countries. To meet their needs, food production will have to double. Industrial output and energy use will triple worldwide and will increase fivefold in the developing countries. This will place great strains on the environment.

At the same time, the loss of habitat, species, and genetic resources is already damaging natural ecosystems; the degradation of soils and water is limiting agricultural productivity and contributing to famine and disease; and global warming threatens the earth’s climate.

These problems are formidable. Working together, we can overcome them. Based on the experience gained from both successes and failures, better environmental decisions can be made; improved technology is available, and resources can be mobilized. We may not have all the answers, but we know enough to make a beginning. It is time for action.
Clearly, the developing countries must take the necessary steps to address the daunting problems they face. But it is the industrial countries that have primary responsibility for addressing global environmental issues, caused in large part by them. In addition, the richer countries must solve their own environmental problems.

The industrial countries have the income levels, and are developing the technology, to protect the environment through better resource management. By sharing this knowledge with developing countries—and backing it with the necessary financial support—industrial countries can also help developing countries meet their environmental challenge.

We all have a stake in safeguarding the planet and the future of our children and grandchildren. International cooperation is the key to success.

The Poverty-Environment Link

As set out in the World Bank's World Development Report 1992, the protection of the environment is essential to development. Without adequate environmental protection, development is undermined. Without development, resources will be inadequate for needed investments, and environmental protection will fail. In short, promoting development and protecting the environment are complementary aspects of the same agenda. Both are necessary for reducing poverty.

The poor are most often exposed to the greatest environmental health risks. Living in crowded slums, they routinely endure unsafe water and sanitation, and exposure to pollution. It is also the poor who live on less productive and easily degraded land. Desperate farmers who need to feed their families have no alternative but to cultivate environmentally fragile areas.

The poor cannot buy their way out of this predicament. Environmentally responsible development is the only solution. The positive links between promoting income growth, reducing poverty, and protecting the environment must be vigorously pursued.
Policy Choices

Policies that make economic sense, as well as environmental sense, are the most important positive links. For example:

- Removing subsidies that encourage overconsumption of natural resources
- Clarifying property rights as an incentive for better resource management
- Accelerating the provision of clean air and water, sanitation, and health services to improve living standards
- Promoting agricultural research and extension which can boost productivity in environmentally sound ways
- Empowering and involving local communities so that they can participate in decisions and investments affecting their long-term interests
- Promoting the role of women, so often the principal managers of resources
- Implementing programs aimed at slowing the population growth rate, which is placing unsustainable pressure on natural resource use.

As well as positive links, of course, there are tradeoffs that sometimes have to be made between economic development and the environment. If the benefits of a project are offset by negative effects on health and the quality of life, this is not development. Assessing these tradeoffs is conceptually difficult, requires judgment, and will often be contentious. It is essential that diverse views be heard and that national governments make their decisions accordingly. Carefully assessing costs and benefits is especially important for developing countries, where resources are scarce and yet basic needs still must be met.

The Most Urgent Problems

In the global environmental debate, not enough attention has been given to some of these most basic needs. Inadequate sanitation affects
one-third of the world’s population. One billion people are without safe drinking water, and 1.3 billion are exposed to indoor pollution caused by soot and smoke. The livelihoods of hundreds of millions of farmers and forest dwellers are threatened by declining productivity due to soil erosion, deforestation, and other symptoms of poor environmental stewardship.

These problems exemplify the link between poverty and the environment. They demand urgent attention.

The World Bank’s Role

International institutions can and must play a leading role in bringing about a new era of international cooperation for sustainable development. At the World Bank, our fundamental objective—to reduce poverty—remains constant. The Bank’s effectiveness in combating poverty, while protecting the environment, is the benchmark against which our performance as a development institution should be judged.

Like everyone else, we have learned from experience. As a result, we are reinforcing our poverty reduction programs and ensuring that environmental considerations are fully integrated into our economic thinking and lending activities. The Bank will expand its work in areas where urgent action is required, such as water supply and sanitation, agricultural research and extension, energy conservation, reforestation, family planning, health, and education—particularly education for girls.

We are also improving our policies and, even more important, their implementation. Our lending for specific environmental purposes is expanding, and Bank-supported projects now include environmental assessments. Consultation with the local people affected by development projects is a priority. We are working together with all our partners in the effort to achieve sustainable development.

Forging strong operational links between actions to address global issues and pressing national problems is vital. For this purpose, the Bank is supporting its developing country members in
designing comprehensive environmental action plans to carry out the challenging objectives embodied in UNCED's Agenda 21. We are also helping to mobilize the resources needed to implement these country programs, particularly through consultative group meetings.

Additional Resources

The bulk of developing countries' incremental investment needs for environmental purposes must come from savings that they achieve through improved economic policies, from private sector sources, and from improved trade. But good economic policies and more trade alone are not enough. Substantially increased aid flows are crucial if the low-income countries are to meet their national environmental needs.

There is therefore a compelling case for providing IDA—the Bank's concessional lending arm—with additional funds to help the poorest countries meet their environmental objectives. We have proposed an “earth increment” for the tenth replenishment of IDA (IDA-10), covering the period 1993–95. This would be additional to the volume of resources needed to maintain the IDA-9 funding level in real terms. If donors are prepared to support such an initiative, we would be prepared to propose to our Board an annual allocation from the IBRD's net income as the Bank's own contribution to this “earth increment” to help address national environmental issues.

The costs of addressing global issues will be additional, and the primary responsibility here rests with the industrial countries. The United Nations Development Programme (UNDP), the United Nations Environment Programme (UNEP), and the World Bank—together with governments, the scientific community and a host of other organizations—have pooled their talents and resources to create the Global Environment Facility (GEF). It is a unique mechanism that draws on the particular strengths of its participants in addressing agreed global environmental priorities.

The GEF has already demonstrated its ability to mobilize additional resources and to implement well-designed programs and
projects in an effective manner. It is prepared to play a major role in the international effort to protect the global environment. I strongly urge donors to support its replenishment next year.

The additional costs of protecting the environment may appear high in absolute terms. They are modest, however, in comparison with the benefits to be gained in economic development, poverty reduction and improvement of the human condition. The question is not whether we can afford to do it; the question is, can we afford not to do it.

Conclusion: Action Now

Mr. President, ladies and gentlemen: The time has come to stop arguing over who is to blame for environmental degradation. We need a common effort to ensure our common future. Sustainable development is our shared responsibility. This conference offers a unique opportunity to commit ourselves to programs that can more effectively achieve it. We must act now.
To the Conference on Overcoming Global Hunger
Washington, D.C., November 30, 1993

Like most of the organizations represented here today, the World Bank—through its commitment to poverty reduction—has long been concerned about global hunger. Congressman Tony Hall’s fast earlier this year brought renewed and dramatic attention to the issue and sparked the thinking that led to this event. I would like to take this opportunity to commend Congressman Hall on his efforts and to say how delighted we all are that he is here today.

Sense of Perspective

This conference does not take place in isolation. There have been many other conferences that—as you know—have set ambitious hunger reduction objectives. The actual results, however—again, as you know—have too often fallen short of those objectives. We must ensure that our words during the next several days are matched by our actions during the next several years. We need to be realistic and view this conference as a step toward a stronger international effort to address global hunger and as part of a continuing dialogue. That does not mean, of course, that we will necessarily agree on everything, but it is in everybody’s interest to be open to different views and perspectives.

The World Bank has convened this conference, but it does not act alone. Hunger can only be effectively addressed through a partnership involving all of those concerned. The governments and

peoples who face the problem every day are—ultimately—the key actors, but the United Nations organizations, donor agencies, non-governmental organizations, and multilateral institutions also have important roles to play. It is encouraging to see this partnership strongly represented here today.

**Poverty and Hunger**

Hunger in the midst of plenty is one of the most difficult development challenges of our time. Aggregate food production continues to increase, yet hunger also continues to blight the lives of hundreds of millions of people.

Hunger is sometimes caused by drought, disease, or war, and a strong humanitarian response is always needed in those cases. But the more widespread and deep-rooted form of hunger is caused by people having neither the capacity to produce food nor the income to pay for it. Fundamentally, hunger is caused by poverty.

**Broad Spectrum of Actions**

If we want to reduce hunger effectively, we have to reduce poverty, and that requires a broad spectrum of actions:

- Supporting government policies that encourage growth and employment for the poor and removing policies that discriminate against agriculture and peasant farmers
- Investing in people's capacities through education, health, family planning, and nutrition
- Implementing better agricultural technologies and research
- Focusing on the vital linkage between environmental sustainability and increased food production
- Expanding the participation of the poor in development through increased access to credit, land, and services.

The Bank, working with its partners, is deeply engaged in supporting these efforts but recognizes that more needs to be done, both by the Bank and by its partners.
Complementary Action at the Grass-Roots Level

The discussion over the next few days ought to consider how we can complement our ongoing efforts and reach the poorest of the poor more directly.

Microlevel credit schemes, such as those undertaken by Grameen Bank of Bangladesh, the Badan Kredit Bank of Indonesia, and the International Fund for Agricultural Development, have proven to be highly effective at the grass-roots level. The basic idea behind these schemes is to help people help themselves by starting small-scale income generation projects and businesses. They are a particularly effective way of reaching women, thereby helping to improve the incomes and well-being of their children and families.

The World Bank is willing to work with our partners to expand effective microlevel credit schemes for the poorest of the poor, perhaps by joining other donors who might be willing to take the lead in establishing a consultative mechanism that could focus not only on funding but also on the dissemination of best practices.

In the meantime, the Bank is ready to make the concept action-oriented. The Grameen Trust, represented here today by its founder, Dr. Muhammad Yunus, has already initiated a program to provide seed capital to some thirty to forty microcredit schemes in various countries during the next five years. A number of donors have already contributed to this program, and I am pleased to announce that the Bank is also willing to contribute a $2 million grant to help cover the Grameen Trust’s startup needs. As you may know, the Bank does not generally provide grants. We are prepared to make an exception in this case because the need is urgent and because, as I indicated, we hope it might help to catalyze a broader response from the donor community.

Conclusion

Many other actions can and must be taken to fight hunger, and I emphasized earlier the importance of embedding our efforts in the context of a broad poverty reduction strategy. The various organiza-
tions represented here have different comparative advantages, but we all share the same goal. More collaboration and a more regular, more open dialogue can help us to achieve it. If this conference moves us further down that road, it will have served its purpose, and the millions who suffer in poverty and hunger will benefit.
I think it is important to keep reminding ourselves why we are here. Most of us have attended this kind of large conference before. We meet; we highlight the issues; we reach a consensus; we make promises. Then we go home—and, all too often, there is very little action.

We cannot afford to let that happen in Cairo. The stakes are too high. Putting it bluntly, if we do not deal with rapid population growth, we will not reduce poverty—and development will not be sustainable.

A billion people already struggle to survive on a dollar a day. Two billion people are without clean water. Three million children die each year from malnutrition. And yet, population in the developing countries will increase more during this decade than ever before—by some 80 million people a year. Within the next thirty-five years, global population will increase by about half. South Asia’s population will grow by two-thirds. Sub-Saharan Africa’s will more than double.

Who will feed and house the additional numbers? How will they be educated and employed? And what will be done to relieve the inevitable stresses on the environment?

These are difficult questions. But to a great extent, we know the answers. The problem is that we are not doing enough—quickly enough—to implement the basic actions that experience has shown to be effective.

Critical Actions

The Cairo Program of Action offers us the proper perspective on rapid population growth: it is a symptom of poverty—and an obstacle to poverty reduction.
We know that as incomes increase—and people lead longer, healthier lives—fertility decreases. Rapid fertility declines in East Asia, for example, went hand in hand with steady economic growth and improved living standards. In Sub-Saharan Africa, by contrast, the population growth rate of more than 3 percent over the past decade has been running far ahead of the economic growth rate of less than 2 percent. Africa's people have paid the price in terms of declining incomes and increasing poverty.

Our approach to population policy, therefore, must be part of a broader strategy to reduce poverty—through sustainable growth and investments in people. Three types of investment are particularly important:

- First is basic health care, especially for women and children. In many of the poorest nations, one in every ten children dies before its first birthday. Reducing these appallingly high infant mortality rates—so that parents do not have to worry so much about their children's survival—is essential to reducing fertility rates.

- Second, we know that birth rates decline when women are given access to education. An educated woman is more likely to delay marriage, space her pregnancies, and have fewer and healthier children. She is also likely to earn more if she works and to invest more in her children's education. Yet nearly 100 million girls are currently denied education. The goal of universal primary education is something that we can—and must—achieve within the next generation.

- Access to family planning services is a third critical investment. Combined with economic growth and social investment, access to family planning has shown remarkable results in countries as diverse as Indonesia, Mexico, and Zimbabwe. Even in very poor countries where income growth and investment in people have lagged, family planning has made a big difference. Average fertility rates in Bangladesh, for example, have declined from seven births per woman in the mid-1970s to close to four in the 1990s.
Cost Effectiveness

These kinds of investments are highly cost-effective, but not high cost:

- The Bank estimates, for example, that a basic preventive health care package—including maternal and child care—can be provided at an annual cost of about $8 per person in the poorest countries.
- Raising girls’ primary school enrollment rates to equal boys’ would cost just under $1 billion—or only 2 percent of annual education spending by the developing world.
- Resources needed for family planning services are also relatively modest. Around $5 billion per year is currently spent on family planning in the developing countries—less than 5 percent of military expenditures.

Clearly, financing is not the main issue. Much of the money required can be generated through redirecting resources toward priorities—and making sure that they are used efficiently. Nor need all the additional investment come from government budgets. There is ample evidence that people are willing to pay for family planning services, provided they have access to them.

The Role of Donors and the Bank

Donor support, of course, remains important, particularly in the poorest countries. But it must be better tailored to meet individual country needs—and to offer people a range of appropriate choices. The proportion of couples using some kind of fertility regulation has increased from 10 percent thirty years ago to more than 50 percent today. Further and faster progress depends on making those services even more responsive to people’s needs. That means listening even more to what people want—and we donors are not always very good at listening.

The World Bank’s support for poverty reduction focuses on the same investments required for a broad approach to fertility reduc-
tion. About half of the projects that we finance, for example, now include specific components aimed at empowering women. Last year, we committed almost $2 billion for education alone—much of it focused on keeping girls in school. Over the past five years, the Bank has also become one of the largest financiers of family planning and reproductive health services. Close to $200 million was committed last year, and this is projected to increase by 50 percent over the next three years.

Quality, however, matters more than quantity. The Bank—and all of us—must do more to ensure the effective implementation of the programs we support:

- By better targeting our resources, so that they reach the poor
- By strengthening partnerships among all those engaged in this effort to enhance overall impact
- By keeping population issues at the forefront of the policy dialogue.

Conclusion: A Shared Responsibility

The world's rapid population growth rate affects us all. Addressing it is a responsibility that we all share—which brings me back to why we are here.

The issue cannot be resolved around the conference table. It can only be resolved when individuals decide that it is in their own best interest to have smaller families so that more resources can become available for education, health, and poverty reduction. The international community must help to create the conditions in which they can make that choice.

If this conference is to have any meaning beyond words and good intentions, we must act—now.
Regional Challenges
Mr. Chairman, ladies and gentlemen: I would like to thank the Bretton Woods Committee for inviting me to speak here today. I am particularly pleased to be sharing the platform with my friend and colleague, Michel Camdessus [managing director of the International Monetary Fund].

The dramatic political changes of the past couple of years have made the Bank and the Fund truly global institutions. Helping the countries of the former Soviet Union achieve economic transformation is as great a challenge as any we have faced in our history. I would like to discuss the nature of that challenge and the Bank's strategy for responding to it.

The Context

The issues involved are complex and diverse. They range from widespread political instability to severe environmental pollution, social distress, and massive economic dislocation. There are tremendous differences among the fifteen republics, and different approaches for supporting them need to be developed.

Russia, for example, is heavily industrialized, has a relatively high income level, and will probably be a contributor to IDA. By contrast, the Central Asian republics have primarily agriculture-based economies, high population growth rates, and low per capita incomes, and one or two of them may become IDA recipients.

Note: The Bretton Woods Committee is a nonprofit U.S. organization dedicated to analysis of multilateral financial institutions and to public education regarding their role and functions.
The situation in each republic has been shaped by widely differing circumstances. Each is responding to the challenge of transformation in different ways and at a different pace. Despite these variations, they share some common problems which the Bretton Woods institutions can help them address.

They are all facing a severe economic crisis. The effects of the dissolution of the Soviet Union have caused an output decline of as much as 25 percent this year. Interrepublic trade has dropped by 50 percent, and external trade is constrained by a shortage of hard currency. There are large budget deficits, rising inflation rates, and, in general, an erosion of living standards.

In addition to these immediate problems, there are deep-seated structural distortions. The productive sectors of the economy are under state or collective management. Prices and incentives are generally uncompetitive; rents in the public housing sector, for example, have not risen since 1928. Infrastructure is aging and run-down—roughly 90 percent of the plants in the sugar processing industry were built prior to the 1917 revolution. Institutional capacity is weak. And the environment is not conducive to private enterprise or investment.

Certainly, the states have taken some courageous steps, and these should not be overlooked. Price liberalization has been implemented in Russia, and small-scale businesses in Nizhny Novgorod have been privatized, with the help of the IFC. The privatization of land has begun in Armenia. Not only must these gains be consolidated, but other major reforms are urgently required.

**The Key Issue: Structural and Sectoral Reform**

The overriding issue is the need for structural and sectoral reform. Stabilization is important, but fundamental systemic change must be implemented if the transition to a market economy is to succeed. The phasing of the reforms is as important as their content. Price liberalization, for example, must be accompanied by structural and sectoral reform, including privatization and enterprise reform. If not, the risk of continued economic deterioration is very real.
This, in turn, puts the political feasibility of reform at risk. People need to see an improvement in their standards of living. If these results do not become apparent, support for reform will dissipate.

**The World Bank’s Strategy**

The Bank's experience with structural and sectoral reform all over the world places us in a unique position. We believe that we can help the republics of the former Soviet Union to be efficient and competitive—and become integrated into the world economy. Let me outline the three major elements of our strategy for doing this.

**Rehabilitation and Structural Reform**

The first priority is to help halt, and then reverse, the precipitous economic decline. To achieve this, we are planning a series of rehabilitation loans for all the republics.

Associated with these loans will be a package of measures aimed at supporting key structural reforms. The vast state enterprise sector needs to be restructured. Monopolies must be broken and competition fostered through the privatization of old enterprises and encouragement of new businesses. Trade relations among the republics, which are currently in disarray, need to be overhauled. It is also essential to greatly strengthen institutional capacities across the board. These reforms will help to create an environment in which additional resources, and particularly private investment, can materialize.

**Key Sectors**

The second priority, which reinforces this broad support for structural reform, is to unlock the productive potential of key sectors. Our work here is furthest advanced in Russia.

One of the key efforts must be in agriculture, to increase the availability of food and thus minimize the need for foreign exchange. This will require a major restructuring of the sector over the next
several years. Incentive prices to reward production and expand output are imperative. So is the opportunity for farmers to obtain land.

These reforms will not be effective, however, unless farmers also have outlets for their products, adequate transport and storage facilities, and access to necessary supplies and credit. Reforms to establish and improve these linkages are critical. If they can be put in place, additional millions of tons of food would become available for consumption and export. The result would be a major stimulus to the economy.

Another sector with similar potential is oil. Oil production has fallen by about a million barrels per day for the past two years. Exports have dropped by 50 percent since 1990. Without infusions of increased local and foreign capital and new technology, the decline will continue.

The Bank is helping to prepare a package of reforms aimed at addressing this situation through a restructuring of the industry. A key measure is to make prices competitive in order to stimulate production and encourage conservation. To promote private investment, a new system of taxation and legislation governing petroleum needs to be introduced. There should be a competitive bidding process so that fields with production potential can be opened up to foreign investors. These measures and others will revive the oil sector, which, in turn, will have a catalytic effect on the entire economy.

Success in the agricultural and oil sectors would generate resources that can assist with investment in other important areas. The Bank is already examining possible programs in housing, transport, and telecommunications in a number of republics. In addition, we have begun work to help address environmental issues in individual countries (Belarus and the Ukraine, for instance), as well as regional issues—for example, the potentially devastating pollution of the Aral Sea.

Social Safety Nets

Given the profound changes in the transition, there will undoubtedly be social costs. For the first time, the republics are seeing open
unemployment. Consequently, governments are facing increasing pressures to slow the pace of reform.

We have learned from experience that attention to social costs must be a central part of any adjustment effort. To give reforms a chance to work, well-designed programs for unemployment compensation, retraining, pension benefits, and assistance to poor families are essential.

The problem at present is that most republics have broad social safety nets that are well beyond their capacity to manage or afford. One of the Bank's important contributions will be to help rationalize expensive and elaborate systems and make sure that they are targeted to benefit the most needy.

**Financing Requirements**

Conservative estimates place the resources needed this year at $20 billion to $25 billion for Russia and $20 billion for the other fourteen republics. So far, most of the resources pledged have been for Russia. The relative lack of attention given to the other republics is a point of major concern. These states are undergoing tremendous terms of trade shocks and badly need support for their reform programs. Given the urgency of the situation, the Bank may move ahead with assistance programs in some cases, even before financing plans have been completed.

We are preparing a lending program for the states of the former Soviet Union that could total $2.5 billion over the next twelve months. By fiscal 1995 the Bank could have an annual lending program of $4 billion to $5 billion. All of this is contingent, of course, on whether the internal momentum of reform is maintained.

Clearly, official agencies alone cannot possibly meet the huge financing requirements of the former Soviet Union. Foreign private investors will have to play a major role. Even more importantly domestic investment must be mobilized: that is the key to the success of the whole process.

In order to raise the external financing required, we believe that separate resource mobilization arrangements should be made for each
state. This could also help with the coordination of technical assistance and ensure that the different needs of the individual republics are given proper consideration.

I would like to add here that even as we highlight the priority of the countries of the former Soviet Union, we must remember our global responsibilities. The needs of the republics must be met without reducing the resources available to the poorest developing countries. This bears on the tenth replenishment of IDA (IDA-10), which is currently under consideration. At least maintaining the IDA-9 level of resources in real terms is essential simply to meet the needs of the association’s existing clientele. There are already eight new countries eligible for assistance under IDA-10. The inclusion of several of the poorest republics of the former Soviet Union would add to this number.

Conclusion

The economic and development challenge facing the former Soviet Union republics must be met, first and foremost, by the governments and peoples of those countries themselves. They must maintain the commitment to reform, implement the programs, and be prepared to endure the hardships that are, inevitably, a part of the process of change. The World Bank will do everything in its power to help ensure that their efforts are successful.
I would like to thank my good friend Enrique Iglesias for inviting me to be here this evening. I am pleased to say that the working relationship between the Inter-American Development Bank (IDB) and the World Bank has been growing steadily stronger in recent years, to the point where the IDB is now our principal cofinancing partner in Latin America and the Caribbean.

I would also like to congratulate the IDB and the United Nations Development Programme (UNDP) for organizing this meeting on a topic which is at the top of the region's development agenda. In all the discussion of stabilization and adjustment, in charting trends and compiling statistics, it must not be forgotten that the objective is to improve the lives and opportunities of human beings. People come first.

Beyond the Economic Achievement

Latin America's economic performance in recent years has certainly been remarkable. Debt is no longer an overwhelming issue. Growth has taken hold in many countries. Private capital is flowing in—almost $60 billion in 1992, the highest annual inflow in the region's history.

Everyone associated with the turnaround—and especially the governments and peoples of the region—can justifiably feel a sense of accomplishment. But we cannot—and we must not—feel complacent.

It has been a long road from recession to recovery. The most difficult part of the journey, however, lies ahead. As the veneer of the debt crisis peels off, the deeper issues of economic and social development have become even more clearly visible:
• Deteriorating infrastructure is a major bottleneck to development in many countries. About a third of the population is without electricity, for example.

• The environment also demands urgent action. While Latin America’s rainforests have captured the world’s attention, it is not so well known that over 40 percent of the population suffers from inadequate sanitation, that 20 percent is without safe water, and that air pollution is a serious problem in a number of cities. These are the environmental hazards that most directly affect the people of the region—in particular, the poor.

• Poverty, of course, remains the most fundamental problem of all.

The Challenge of Poverty

The years of crisis have taken a particularly heavy toll on the poor. Average per capita incomes fell by about 10 percent during the 1980s; a quarter of the population is struggling to survive on less than 2 dollars a day; and an estimated 10 million children are suffering from malnutrition.

Concentrations of poverty are especially high in the Andean countries, in Central America, and in the Caribbean. Poverty is a persistent problem in Brazil, the region’s most populous country. And even in the most dynamic economies, Argentina, Chile, and Mexico, there remain large pockets of poverty. Indeed, because of the region’s exceptionally high degree of income inequality, the contrasts between wealth and poverty are probably more striking than anywhere else in the developing world.

None of us can claim that our understanding of the complexities of poverty is complete. But there is a solid body of evidence, based on diverse regional and country experience, suggesting that a two-track approach is required for effective poverty reduction.

First, there must be a pattern of efficient, long-term growth in which the poor can participate through their labor. Second, there must be investment in health, education, and other social services
so that the poor can respond to the opportunities created by growth. Safety nets for vulnerable groups are an integral part of the approach.

Most governments of the region are making progress on the growth “track”—largely as a result of improved macroeconomic management, trade liberalization, deregulation, and privatization. These reforms must continue because they help to create the framework and the resources for long-term poverty reduction.

But the greatest challenge now is to improve the coverage and efficiency of social services. If growth is to be sustainable—and if it is to have real meaning for the people of the region—governments must do a better job of providing education, health services, and nutrition for the poor.

**Reform of Social Systems**

To some extent, this issue is about quantity. Traditionally, the region has spent a much smaller proportion of GDP on social investment than, say, the East Asian countries. Moreover, social expenditures in many Latin American nations declined during the years of crisis. Governments therefore need to find more fiscal space for social services.

Continued growth should help them achieve that. But some basic reallocation of budgetary resources is also required. Rationalizing military and other nonproductive expenditures would be a useful place to start.

Public sector expenditures in Latin America constitute between 25 and 30 percent of GDP. The share of these expenditures that goes to the poor is only 4 percent of GDP. Clearly, even a modest reallocation of the budget toward the poor would have a significant impact on their welfare.

Increasing budgetary allocations to the social sectors is essential. But increasing the efficiency and effectiveness of those expenditures is even more important.

- Expensive food subsidies that are available to all, regardless of income level, can be effectively replaced by more carefully
targeted programs that reach those most in need—poor women and children, for example.
• Investment in primary health centers that emphasize preventive measures can be much more beneficial for the poor than expensive hospitals focused on curative care.
• In education greater cost recovery at the tertiary level can help provide the necessary resources to sustain basic education programs for the poor.
• As a general rule, giving women increased access to services is one of the most productive ways of investing in human resources.

In short, there is considerable scope for governments to increase the efficiency and impact of social programs without undermining fiscal objectives. But it requires political will to make the necessary reforms.

It also requires implementation capacity. The reduction in the role of government during the 1980s was a generally positive feature of the region’s adjustment effort. To perform those essential functions that remain, however, government must be strong, efficient, and relevant. Building the capacities of state and local institutions in the social sectors is a challenge that lies ahead for most countries of the region.

The Role of External Agencies and the World Bank

External agencies helped Latin America and the Caribbean through the debt crisis. Now we must assist those countries as they move beyond the crisis and begin to address poverty more directly and aggressively.

World Bank–supported adjustment operations are increasingly helping governments to restructure public expenditures in favor of social services—in Guatemala and Peru, for example. We are also helping to refocus expenditures within social sectors to reach the poor more effectively, as in El Salvador and Mexico. Safety nets, in Bolivia and the Central American countries, have also been features of growth-oriented adjustment operations.
At the same time, we are increasing our support for projects and programs that provide basic services and raise the productivity of the poor: extending agricultural services to poor farmers in Chile; expanding access to education for poor children in Costa Rica and Brazil; and providing clean water, sanitation, and electricity to the barrios in Venezuela.

In fact, the World Bank’s lending to the region for human resource development in the current fiscal year is projected to be about four times greater than five years ago (from $224 million in fiscal 1988 to $855 million in fiscal 1993).

Because of its close linkage with poverty, we are also increasing our focus on environmental issues: establishing an assessment system to address environmental aspects of Bank-supported operations; supporting free-standing environmental projects such as natural resource management in Brazil and pollution control in Mexico City; and helping countries put in place national environmental action plans.

The basic message from the Earth Summit in Rio was that if we are serious about reducing poverty, we have to be serious about protecting the environment. The World Bank fully endorses that message—and we have begun to implement it.

Conclusion

Mr. Chairman, for the first time in the history of continental Latin America, there are elected governments in every country. There is also a broad consensus on the need for and direction of reform—toward open economies, open societies, and popular participation in development.

The primary responsibility for consolidating these positive trends lies with the governments and private sectors of the region. But external institutions—bilateral, multilateral, and nongovernmental—can help translate the trends into the goal that we all share: improving people’s lives.
The Financial Times's recent supplement on Sub-Saharan Africa ("Africa: A Continent at Stake," September 1, 1995) performed a valuable service for everyone concerned about development. At a time when the world's attention is diverted to the dramatic changes taking place in other areas, it is vital that the magnitude of the development challenges in Sub-Saharan Africa is not forgotten.

Half the region's 600 million people live in absolute poverty. It is the only region where the number of poor people would—if current trends are not reversed—increase by the year 2000, where population is doubling every twenty years, and where external debt exceeds GDP. Indeed, the future of the continent is "at stake."

However, Africa is also changing. We are all familiar with the evolving political transformation in South Africa. Not so well known is the fundamental change in economic policies which has taken place across much of Sub-Saharan Africa.

This has been a "quiet revolution," with more than thirty countries undertaking structural adjustment programs aimed at increasing productivity and growth. The intensity and the success of their reforms have varied, and more time will be required before definitive results emerge. However, there are signs of progress.

Benin, Burundi, the Gambia, Ghana, Mali, Tanzania, and Uganda are among a group of countries—supported under a special program of assistance coordinated by the World Bank—that has achieved growth rates double the region's average, tripled output in the critical agricultural sector, and reversed the decline in exports.

There remains a long way to go. But these results indicate that in Africa—as in East Asia or Latin America—adjustment to economic realities produces economic results. Now is not the time for Africa to slow down its reform efforts. On the contrary, they must be accelerated.
Many countries have taken the first macroeconomic steps. Africa now needs to underpin them with a "second generation" of reforms—to encourage the private sector and to build its human and institutional capacities.

About 350 million new jobs will be needed in Sub-Saharan Africa within a generation. Only the private sector—free to allocate resources and respond to market signals—can create employment and incomes on this scale. And only the private sector can provide Africa with the access it needs to investment, know-how, and technology. The message is clear: the movement toward a "market-friendly" approach must be broadened and deepened. It is Africa's only hope of competing in the global economy of the twenty-first century.

Educated and healthy people—and competent institutions—are also essential. In this regard, providers of aid to Africa have a major responsibility. The international community needs to reexamine the quality of its assistance effort—and its overall development effectiveness. Donors cannot be satisfied that external technical assistance to Sub-Saharan Africa has increased over the past decade and now stands at about $4 billion a year. Nor can they be satisfied that an estimated 100,000 expatriate "advisers" are at work in Africa today, a larger number than at independence.

At the same time—and as the Financial Times pointed out—Africa knows that the "rules of the aid game" have changed in the post-Cold War era. The competition for resources has never been greater. Aid budgets are being scrutinized and, in some cases, cut. Countries that cannot show that they are using aid effectively—and that means good governance as well as good economic policy—will lose it.

The World Bank is one of Africa's strongest supporters in its development efforts. Evidence of this is the wide range of special initiatives we have undertaken, as well as the volume of our lending program. But we don't have all the resources required. And we don't have all the answers. Our partners in the donor community have a crucial role to play. Nongovernmental organizations are vital at the grass roots. And the private sector holds the key to providing the bulk of future investment.
However, the principal responsibility for Africa's development rests with Africa and its leaders. They must adopt the right policies, inspire confidence in investors, and motivate their peoples.

Many African nations have started to change in the right direction. The international community must support them.
Thank you, Mr. Chairman. I am very pleased to represent the World Bank here this morning.

Just a few weeks ago, Prime Minister Rabin and Chairman Arafat seized an historic opportunity and opened the door to peace in the Middle East. Today, we have another unprecedented opportunity: to open the door to development, and to invest in peace.

This is an opportunity that we dare not lose. And even as we focus on the Occupied Territories, we must not forget the needs of other countries in the region which also require our assistance. Supporting them is crucial to the ultimate success of the Middle East peace process.

In terms of today’s agenda, we face two practical issues:

• How can we help establish in the Occupied Territories an effectively functioning civil administration that can begin to improve living conditions, employment opportunities, and social services?

• How can we mobilize the resources and implement the programs needed to help the people of the West Bank and Gaza help themselves?

The Development Challenge

With our friends in the region, in Europe, and in the United States, the Bank has prepared a report that details the magnitude of the challenge:

• Incomes have stagnated for a decade, and living conditions are appalling, especially in Gaza.
• Unemployment is high and increasing.
• Public institutions and financial systems need to be developed.
• The environment is already threatened, and we need to ensure that future development is sustainable.
• And both social services and physical infrastructure are inadequate for meeting the needs of a growing economy.

The Economic Future of the Occupied Territories

As we begin to face these challenges, it is important that we have a shared vision of the Occupied Territories' economic future. That vision must be of an efficient, productive, self-sustaining economy, able to compete abroad and raise living standards at home.

A first priority is to help local entities and organizations function as part of a new civil administration. Beyond that, realizing the vision of an independent economy will depend on the strength and speed of external support and the quality of domestic management. Striking the proper balance between the roles of the public and private sectors, and strengthening economic links with the outside world, are especially critical issues.

The private sector in the Occupied Territories has already shown itself to be highly resourceful. Given the right policy environment, there is potential for greatly expanded business activity and significant private investment, both domestic and expatriate. Opening up to trade—particularly with neighboring countries—is also essential for creating jobs, raising incomes, and spurring competitiveness in the global economy.

It is imperative, therefore, that donors adopt the right approach from the outset. That means supporting policies to encourage private investment and access to labor and export markets. And it means emphasizing the building of institutional and absorptive capacities, developing a domestic financial sector, and setting up a sound regulatory system.

At the same time, immediate relief assistance is urgently required. Medium- and long-term investment in social and physical infrastructure is also crucial. The international community has a major
responsibility here. Our role must be to “jump-start” the economy of the Occupied Territories and help them onto the path of sustainable development.

Financing and the Bank’s Role

How much will it cost?

The World Bank has already done some analysis of financing needs, and our numbers reflect the views of all concerned. Over the next five years, we estimate the total external requirement at about $2.5 billion.

Mobilizing these resources and implementing the international effort will demand real cooperation and coordination. The World Bank has already started work.

- We have proposed to you, our members, the establishment of a $35 million Trust Fund for technical assistance, training, and project preparation, which will be in operation soon.
- We have proposed to the Bank’s Board an allocation of $50 million, on concessional terms, to initiate lending in Gaza.
- We are working on an immediate Emergency Assistance Project, to be cofinanced by other donors, which will focus on the rehabilitation of vital social and physical infrastructure, logistical support for establishing the new administration, and the import of urgently needed materials and supplies.
- Looking ahead, we plan to broaden our support, with a substantial role for the IFC in promoting the private sector.

Conclusion: Potential and Hope

In conclusion, I would like to express my appreciation, on behalf of the World Bank, to the president of the United States for convening this meeting.

The challenge ahead is daunting. But so too is the opportunity to build on the rich human resource base in the Occupied Territories, to exploit the great potential for regional cooperation, and
to take advantage of the goodwill and support of the international community.

This meeting embodies that spirit of goodwill and of hope for the future.

We must seize this moment.
Development in the Post–Cold War Era
Welcome to these Annual Meetings. And a special welcome to the
deleagates from countries that have applied for membership. I would
like to thank the people and government of Thailand for their warm
welcome and generous hospitality.

I want to start with a tribute to Barber Conable. At the last An-
nual Meetings, no one—perhaps not even Barber himself—knew
that he would retire before the Governors would meet again. Many
of you may not have had an opportunity to say goodbye to him.
Allow me, therefore, on behalf of everyone here, to express deep
gratitude to Barber Conable for his stewardship of the World Bank
Group these past five years. During this tumultuous time, he en-
sured that the Bank, the IFC, and MIGA responded effectively to the
changing needs of their members. He repeatedly emphasized the
importance of the human and environmental aspects of develop-
ment, and he strengthened the Bank's work in these areas. Amid
the urgent need for economic adjustment, he redefined the Bank
to its fundamental objective of reducing poverty. I am honored to fol-
low Barber Conable in this challenging position.

Allow me also to say how pleased I am that Michel Camdessus
will be continuing as managing director of the IMF. I look forward to
working closely with him in the years ahead.

This is a time of unprecedented opportunities. The Cold War has
ended. Political and economic liberalization is occurring in many
parts of the world. Agreement on how to promote sustainable de-
velopment is broader than ever before. The pace and complexity of
change have been staggering in the past few years. The competition
for capital and markets has increased. Nations of the world have
become increasingly interdependent.

At the same time, strong centrifugal forces have emerged within
nations. Environmental problems have become steadily more urgent.
We face new challenges in the efforts to restructure the centrally planned economies of Eastern Europe, the U.S.S.R., and its republics. The implications of these changes are truly global. I want to discuss how we can take advantage of the opportunities and deal with the challenges before us so that we can make progress toward our ultimate objective—the reduction of poverty.

One can be optimistic about the world's prospects. Consider, for a moment, how different the world is today from a decade ago. First, the industrial economies appear poised for relatively stable growth. Unlike the situation of the early 1980s, there is reasonable price stability. To maintain price stability and steady growth, industrial countries will need to continue to pursue actively the sound policies and cooperation that have served us well in recent years.

Second, the world economy has become much more integrated. Trade expanded more rapidly than income during the 1980s, which benefited both efficient producers and consumers. A successful conclusion this year to the Uruguay Round of negotiations for the General Agreement on Tariffs and Trade will push this process forward. Industrial nations must accept primary responsibility for fostering a more open international trading system. Failure to reach an agreement that results in significantly reduced barriers to trade will undermine domestic policy reform and reduce potential output in developing countries. Failure will also reduce the impact of external assistance to these countries. No international issue affects the developing countries more.

Third, over the past decade progress has been made in managing the debt of low- and middle-income countries. Yet many developing countries continue to struggle with their debt burden. This, in turn, discourages new investments and impedes access to capital markets. Experience shows that adjustment programs and good-faith negotiations with creditors, both public and private, can help relieve the pressure of debt and restore access to capital markets. That foreign direct investment is on the rise reflects a welcome shift from debt to equity financing. Chile and Mexico have demonstrated what can be done. We must build on that experience.
Fourth, the most dramatic difference from ten years ago, of course, is the relaxation of tension between the superpowers. This offers an opportunity to redirect vast resources in industrial countries to investment and development. It can help reduce budgetary strains and thus ease the worldwide competition for capital. Just as important, the stage is now set for the countries of Eastern Europe, the U.S.S.R., and other countries around the world to be fully integrated into the global economy. The entire world community will benefit.

Fifth, and equally fundamental, is the broad convergence of thought on the subject of development—a convergence that has superseded ideological conflict. The role of government is being reconsidered throughout the world, and the potential of the private sector increasingly appreciated. Peoples and governments are recognizing that it is their country’s policy framework and governance that will largely determine their future prosperity. External conditions are, of course, a factor. But the quality of domestic institutions and policies determines how well countries adjust to external shocks and exploit economic opportunities. This realization is perhaps the most important building block for the future.

These developments over the past decade are the source of my optimism. Developing countries can meet the tremendous challenges ahead with the effective support of the international community.

Measured by indicators of economic growth, literacy, mortality, and nutrition, the quality of peoples’ lives in developing countries as a group has improved over the past thirty years. The income of developing countries has increased faster than in either the United Kingdom or the United States during their periods of most rapid expansion. But aggregate figures mask wide differences in performance between countries and regions. For instance, over the past thirty years, per capita income in East Asian countries increased by more than 5 percent annually, compared with less than half of 1 percent in Africa. Any optimism must be tempered by the realization that 1990 and 1991 have been the years of slowest growth for developing countries since 1965.
In the decade ahead, competition for capital and for goods and services will be intense and will place great pressure on developing countries. The competition for scarce resources will put a premium on sound investments and on increased efficiency in the use of resources. The decisive influence on a country’s economic performance will be the policies the government pursues and the quality of services it provides. Those which pursue policies that permit producers and consumers to adapt to the changing world economy will flourish; those which do not pursue such policies risk being left further behind.

Implementing efficiency-oriented policies takes perseverance and commitment. It also requires skill, well-run institutions, and a conducive legal framework. The consensus on what constitutes appropriate policies must be followed by actions that will sustain these policies. Only then will these policies yield the expected improvements in standards of living.

Our experience as a multilateral development institution demonstrates that development is most likely to succeed when there is an appropriate balance between the role of government and the role of the private sector. Governments must assume those economic tasks which markets cannot; markets should be relied on for the production and distribution of most goods and services. Striking this market-friendly balance ensures more efficient use of both private and public resources.

Increasingly, countries are relying on, and responding to, market forces to improve the efficiency of resource use. The outward-looking policy practiced by the rapidly growing countries of East Asia continues to yield excellent results. Eastern Europe is adopting the market model. Chile and Mexico are inspiring imitation in Latin America; and Indonesia is doing likewise in Asia. In Africa, more than two dozen countries are undertaking bold adjustment programs that were unthinkable only a decade ago. Yet much remains to be done.

The potential for enlarging the scope for private initiative must be exploited. A healthy private sector can be the main source of innovation and employment, provided there is confidence in sound
and consistent economic management. Many governments are trying to enlarge the private sector by selling off state enterprises. But privatization, which can be complicated and slow, is only part of the answer. Government policies must encourage new and existing entrepreneurs, support the creation of small enterprises, and provide a well-supervised, efficient financial sector. They also must ensure access to technology, information, and best practices.

As governments do less of what they should not be doing, they must do more of what they should be doing. And they must do it better. In our increasingly interdependent and competitive world, where communications and technological innovation have no boundaries, nations can thrive only with a healthy, literate, well-trained population. Efficient investment in education, especially for females, and in health care systems must have the highest priority. A critical requirement for improving both the human condition and the environment in many countries is to lower population growth rates. Improved access to voluntary family planning services is essential. These investments in people will reap enormous benefits, not only for the individuals and families involved but also for their nations as a whole.

Beyond investments in human resources, governments must make or encourage the needed investments in infrastructure to support efficient production and distribution. Governments must provide incentives and establish regulations to protect the environment. Regulations also must ensure that markets operate fairly and consistently with the country's objectives to develop its people and reduce poverty.

Emphasizing government commitment in one area often implies reducing it in another. Given the changing world order, the security situation in all countries may permit a reduction in present outlays for defense. Sovereign nations, of course, have an obligation to provide for their national security. But current military spending in many developing countries far exceeds their spending on education and health together. Reductions in defense expenditures would increase domestic savings, thus allowing a reallocation of scarce resources to other high priorities. They also
would reduce requirements for external capital. We cannot afford to miss this opportunity.

The role of the World Bank Group will be shaped by the constantly changing global opportunities and challenges. But our fundamental objective remains the same—to promote sustainable growth and reduce poverty. In order for the World Bank Group to continue to provide leadership for development and help our members adapt to new realities, it, too, must accommodate to change and remain flexible.

The effectiveness of the Bank as a multilateral development agency, and the strength of the Bank as a financial institution, rest heavily on the quality of its staff and its constantly accumulating knowledge. Ideas and analysis derived from worldwide experience are the foundation of our advice to policymakers in both industrial and developing countries. In recent years, policy reform and adjustment, debt management, and our new members have increased the demand for some of the Bank’s nonlending services. Our commitments to reducing poverty, to integrating environmental protection into all our work, to enabling women to realize their potential for development, and to stimulating the private sector all rely heavily on these services.

Because there is stiff competition for the domestic and external capital needed to accelerate growth and reduce poverty, one of our fundamental objectives must be to help improve efficiency of investment and maximize its return. The potential benefits are immense. Even a modest improvement in the efficiency with which resources are utilized in the developing world would result in greatly improved living standards for the world’s poor.

More efficient use of existing resources must be complemented by additional capital. Bank Group lending and investment should be expanded. The constraint is neither our capital base nor our capacity to take risks prudently. Rather, it is the ability of our borrowers to establish a conducive climate for investment with high economic payoff. Vigorous implementation of adjustment programs, including reform in major sectors, will expand opportunities for investment lending.
The World Bank Group, and the other multilateral development lending institutions, must intensify efforts to mobilize funds from the private markets for development. The IFC will be well placed to expand its role as a result of its capital increase. The World Bank, with its capacity to intermediate at the finest terms, likewise can expand its operations in support of the private sector. MIGA guarantees help overcome investors' reluctance to venture into unfamiliar countries.

The poorest countries, of course, cannot borrow on commercial terms. For these countries, a substantial replenishment of IDA is crucial for sustaining reform programs and reducing poverty. Discussions on the tenth replenishment of IDA started this week. Simply maintaining the real volume of the ninth replenishment will not be adequate if we are to respond to the many and diverse requirements of the increased number of countries that must rely on concessional assistance. Despite the budgetary constraints in many donor countries, I hope we can count on everyone to make a determined effort to expand IDA’s resources.

Competition for external capital also puts a premium on effective coordination of assistance. We continue to collaborate closely with our sister institution, the IMF, and with other international agencies, bilateral donors, and the private sector. Together, we must make the best use of all available resources in support of our common objectives. I attach particular importance to the Global Environment Facility as a new and evolving multilateral instrument for addressing our environmental concerns in a collaborative and pragmatic manner.

We live in a complex, rapidly changing, and highly competitive world. We must help our members use scarce domestic and external resources as effectively as possible to accelerate development, stimulate employment, and thus reduce poverty. Poverty reduction, to which I am fully committed, remains the World Bank Group's overarching objective.

And how do we plan to realize this objective? First, the Bank Group must serve as a strong leader of the worldwide development effort. We must articulate the interests of developing countries in
global forums and policy councils of industrial countries and help coordinate the efforts of the many governmental agencies and nongovernmental organizations that contribute to development.

Second, the Bank Group must support policy reform at both the macroeconomic and the sectoral levels to help ensure that the incentive and regulatory frameworks promote the efficient use of resources. Country policies determine the effectiveness with which human and financial resources can be used. Through our economic and sectoral analysis, our technical assistance, and our dialogue with policymakers, we must provide our members with the best available advice on the design and implementation of improved policies.

Third, the Bank Group must ensure that the policy framework is balanced. The Bank must take into account the interests of the poor so that growth is equitable; environmental aspects so that development is sustainable; human resource issues to provide the basis for a modernizing economy; and the role of women, because they are so vital to the development effort.

Fourth, the Bank Group must continue to be strong financially, capable of mobilizing funds from the world’s markets and lending them to our members at the lowest possible cost. We must be in a position to expand our lending and investments in support of sound reform programs.

Fifth, the Bank Group must have efficient management. The size of our resources and the complexity of our mandate are no justification for a ponderous bureaucracy. We must speed up our decisionmaking and improve our responsiveness. The changes announced recently in our management structure should continue to provide us with the organizational capacity to respond effectively and quickly to the growing needs of our clients.

Fundamental to all of our efforts is our focus on the client. We must continue to provide useful services to our member countries in the most effective way. Our capacities must remain consistent with our priorities. We must maintain the right balance between finance, policy dialogue, and technical assistance. We must be adequately equipped to help our borrowers at various levels of development and with different needs.
The task is formidable, but the World Bank Group has almost half a century’s experience, a strong capital base, and a highly skilled, internationally experienced and dedicated staff. I am optimistic that, with your full backing, we can achieve our development objectives. I hope you share both my optimism and my determination. I look forward to working with all of you.
To the Board of Governors
Washington, D.C., September 22, 1992

Mr. Chairman, Governors, ladies and gentlemen: On behalf of the World Bank, welcome to the 1992 Annual Meetings. A special welcome to all the new member countries that have joined since our meeting in Bangkok. As we begin working with our new members, and as our activities with existing members expand, we remain dedicated to our central mission: reducing poverty. By our progress in helping to reduce poverty, the Bank's performance as a development institution should be measured.

Emerging Results

The past year has seen real development progress but also real cause for concern. In South Asia, the outlook has brightened. India has taken important first steps to open its economy—the task now is to maintain the pace of reform.

Many countries in Sub-Saharan Africa have undertaken significant economic reforms. They can look forward to good results—if they stay the course. An enormous challenge remains. This is evident from events as diverse as the drought in southern Africa and the tragedy in Somalia. But a foundation for enduring progress is at last being laid.

Many Latin American countries are emerging with healthy economies after a decade of debt crisis and painful adjustment. Capital is flowing in, attracted by a flourishing private sector. Governments can now focus more directly on the fundamental tasks of reducing poverty and restoring infrastructure.

Most of the nations of East Asia continue to prosper. Many countries are growing so rapidly that living standards could double within a decade. We now have more than a dozen years of experience with economic reform in China, and the results have been impressive.
China's GDP is two-and-a-half times greater than in 1978, the year reforms began, and the proportion of people living in poverty has been drastically reduced. The East Asian experience illustrates what sound development strategies can accomplish.

The potential for development in the rest of this century, and into the next, is great. There is widespread agreement on economic fundamentals: the importance of macroeconomic stability; competitive markets; private ownership; and a well-defined role for government. But we have not yet taken advantage of the great promise offered by the post–Cold War era.

Output growth for the world economy in 1991 was one of the slowest in any year since the Second World War. Trade barriers are on the rise in much of the industrial world, while aid flows are stagnant. Average living standards in the developing world have declined for three years in a row. What should be done to reverse this situation?

The market for developing country exports—their main engine of growth—must expand. Rapid recovery from the current downturn in the industrial countries would increase developing country exports by nearly $50 billion a year—almost equal to the annual aid they receive. The completion of a successful Uruguay Round would be an important further spur to growth.

Continued policy reform in developing countries is also essential. Reform is difficult and takes time to show results. Doubt and disillusion can set in, as pain often precedes gain. But history documents the benefits of perseverance. Sound policies, backed by appropriate investments, can transform societies over time. In the last generation, the per capita incomes of the poorest countries have doubled, life expectancy has risen by ten years, and infant mortality rates have been almost halved. To maintain the momentum of reform in this generation, we must focus on two critical challenges highlighted by events of the past year:

- The challenge of promoting environmentally sustainable development for poverty reduction
- The challenge of helping the former centrally planned economies make the transition to modern market-based systems.

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Sustainable Development for Poverty Reduction

The Earth Summit in Rio de Janeiro reaffirmed the close connection between poverty reduction and environmental protection. Almost all of the 3 million children who die each year because of unsanitary water live in poverty. High lead levels depress children's intellectual abilities in the slums of major cities, such as Bangkok and Mexico City, and hundreds of millions of poor people are exposed to large quantities of indoor soot and smoke every day. Poor farmers are often forced to shorten fallow periods and deplete their soils in order to feed their families, while poor families in rural areas often resort to cutting down forests. Poor countries usually do not have sufficient resources to maintain adequate environmental standards. In short, the most serious environmental problems hit the poor hardest. Helping the poor requires improving their environment. Equally, protecting the environment requires growth and poverty reduction.

But sustainable development is achievable. As a first step, we must all be more sensitive to the impact of our activities on the environment. We must assess environmental costs and benefits, engage in local consultation, and seek broad participation in all development projects. There are sometimes tradeoffs between environmental and other values. But many of the measures most effective in reducing poverty also produce environmental gains. Economic growth, which is central to poverty reduction, creates the means to improve the environment. As countries grow, sanitary conditions improve, farmers are able to increase their productivity, and air pollution levels usually decline.

Reducing subsidies—on energy, water, and logging—helps to promote growth and preserve natural resources. Open trade and investment policies boost prosperity and can encourage the transfer of cleaner technologies. Giving poor farmers property rights raises their productivity and reduces their incentive to deplete soils.

Investing in people is also critical. Accelerating the provision of education and health services—as well as clean air, water, and sanitation—helps to reduce poverty and protect the environment. Supporting
the role of women in development is especially important. Educating girls, for example, may be the highest-return investment in the developing world.

Population policies are also linked to poverty reduction and environmental protection. Each year, the world’s population grows by about 100 million people. The population of some of the world’s poorest countries will double within two decades. Experience in East Asia and elsewhere confirms that income growth—coupled with an emphasis on human resource development—can reduce fertility, poverty, and environmental damage.

The World Bank’s investment in education, health, nutrition, and family planning has steadily increased over the past decade. Commitments have risen from an annual average of $635 million to more than $3 billion today and they are projected to increase by a further 50 percent over the next three years.

There are many measures that both spur growth and improve the environment. There are also investments that, while not yielding direct productivity benefits, are necessary for protecting the environment. In the global environmental debate, however, not enough attention has been given to those issues—dirty water, inadequate sanitation, pollution—that cause illness and death on a huge scale.

Ours must be a people-first environmentalism. In pursuit of this strategy, the Bank’s investment in water and sanitation is projected to increase by 75 percent over the next five years. Our lending for agricultural services and pollution abatement will also expand. And our support for national environmental action plans helps to ensure concentration on problems that have the greatest impact on human welfare.

There are also, of course, formidable global environmental problems. These include the loss of habitats and species, damage to the oceans, and global warming. As citizens of the world, we have a major stake in their solution.

The Earth Summit strongly endorsed the role of the Global Environment Facility (GEF) as the principal financial mechanism for addressing these global issues. The GEF has demonstrated its ability to mobilize additional resources, and a number of projects are already
underway. We must support its replenishment when its pilot phase ends in late 1993.

The Transition Economies

There is no more important task facing humanity than poverty reduction and sustainable development. But there is another challenge that has recently emerged and to which I would now like to turn: the transition of the former centrally planned economies. There are almost thirty countries struggling to overcome the political, ethnic, and economic difficulties associated with transformation. The world’s stake in their success is enormous. The evolution of stable, open, market-based economies in Eastern Europe and Central Asia would permit savings of hundreds of billions of dollars in worldwide defense spending. The integration into the global economy of areas in which more than 400 million people live will create increased trade, investment, and prosperity for all.

We now have nearly three years of experience with reform in Eastern Europe. The circumstances have been extremely difficult. Just as they were reforming their economies, these nations were hit by the collapse of the Soviet economic system. It is the loss of nearly half their trade with the former Soviet Union—and not their reforms—that has been a major factor contributing to economic decline in Eastern Europe.

Even under these difficult circumstances, there are signs of progress. Prices have been freed, food lines eliminated, and inflation contained. In Poland, exports to market economies have risen by more than 50 percent. Hungary has witnessed the emergence of 60,000 new businesses. And the rule of law in ordering economic life has been restored by establishing property rights and permitting the enforcement of contracts. A long road lies ahead, but these countries are now on the right track.

An even longer and tougher road faces the fifteen states that were once the Soviet Union. Already, the breakdown of the old economic system has reduced output by more than 25 percent. Historically, these states have had less exposure to market systems than the East-
ern European countries, they have been more closed to trade, and they lack effective institutions that can respond to the new economic frameworks. Nevertheless, if the difficulties of transition can be overcome, there is tremendous potential. These fifteen new nations produce a third of all the world's doctorates in science and engineering. They have a highly educated workforce. Many of them are well endowed with natural resources. The transition can succeed.

Stabilization is a prerequisite. But adjustment means more than austerity. The macroeconomic framework will prove unsustainable without fundamental structural reform. This is difficult to implement and takes a long time to achieve. But the effort must start immediately.

Structural reform aimed at the creation of a viable private sector is the key to long-term growth.

- First, small businesses need to be encouraged because they offer the best hope for the future. A beginning has been made. Lithuania, for example, has privatized about 80 percent of its small businesses, and with the help of the IFC, small enterprises in Nizhny Novgorod have been privatized. The process needs to be expanded and accelerated.

- Second, large state enterprises should be restructured and, wherever possible, privatized. A mass enterprise restructuring and privatization program is about to be launched in Russia. Thousands of state-owned enterprises will be transformed into joint stock companies. The ultimate aim is to transfer ownership to workers, managers, and the general public. Inevitably, this type of radical restructuring will involve dislocations. To ensure the sustainability of reform, adequate social safety nets must be in place. The Bank is already working on this issue with Russia and with the Baltic and Central Asian states.

- Third, the productive potential of key sectors needs to be unlocked. Oil and agriculture are especially critical. The petroleum sector could attract high levels of foreign investment—if clear property rights and price incentives were established. A competitive agricultural sector would help to increase the avail-
ability of food and ease foreign exchange constraints. The Bank is supporting reforms in both sectors.

• Fourth, if private enterprise is to succeed, interstate trade restrictions will need to be removed. Whatever currency arrangements ensue, there must be a reliable payments mechanism, and the process of exchange must continue. The Fund and the Bank can help with advice and technical assistance.

These are four priority areas. But there is one other that demands the international community's immediate attention: nuclear safety. Unsafe nuclear plants in the countries of the former Soviet Union and Eastern Europe pose grave dangers. The World Bank endorses the call for urgent action. The International Atomic Energy Agency and the European Bank for Reconstruction and Development are taking the lead in identifying immediate steps to be taken—providing technical assistance and financing for safety upgrading and decommissioning. The World Bank is taking the lead in energy sector studies and has begun discussions with five countries that have unsafe nuclear plants. These studies will help identify conventional generating capacity for the power now supplied by such plants.

The costs of upgrading nuclear safety and providing replacement capacity are large. They will require joint action once the magnitudes are better defined. Clearly, adequate financing is critical in all these areas.

Some time ago I announced that the Bank's own support for the fifteen states could total $2.5 billion this year, increasing to between $4 billion and $5 billion a year by 1995. Those projections are on track. As I have said before, however, the multilateral agencies alone cannot meet the huge financing requirements. Industrial country governments will need to increase their assistance—albeit to only a small fraction of what they have spent historically on military expenditures. This assistance must be coordinated and targeted on real priorities. The consultative group mechanism has successfully achieved this for many developing countries. Several of the new nations have now asked the Bank to chair consultative groups on
their behalf. Donor reaction has been encouraging—and the Bank is pleased to be leading the effort.

Private investment, ultimately, is the key to success in the fifteen new nations. But private investment will come forward on the scale required only when a conducive climate has been created. Key to this are internal legislative reform and the establishment of proper regulatory systems. But the speed and scale of external assistance are also critical factors.

Other World Bank Group Actions

A healthy and growing private sector is, of course, central to development in every part of the world. Last year, gross private capital flows to the developing countries were over $100 billion, much higher than the levels of the late 1980s. Through support for policy reforms and investment, the Bank Group has contributed to this positive trend. The work of the IFC and MIGA has been rapidly expanding. With its capital increase in place, IFC’s investments increased by 15 percent last year. The corporation leveraged total financing of $12 billion for private-sector projects in the developing world. MIGA also significantly increased its investment insurance coverage. Ninety-two countries are now members of MIGA. This indicates the desire, and the need, for private flows in the developing countries.

But poor countries depend heavily on concessional resources. Donor budgets are tight. The international community must not turn its back on the poor. Over the past three decades, IDA has become the centerpiece of the global effort to reduce poverty. There are at least nine new countries eligible for IDA resources. And existing recipients need to tackle additional issues of importance to us all—efforts to protect the environment, for example. World leaders at the Earth Summit expressed strong support for an earth increment for IDA-10. But despite IDA’s proven record and the proven increasing needs, the tenth replenishment is not yet secure. To allow IDA to meet the challenges before us, a real increase over IDA-9 is vital.
Improving Implementation

All of us involved in development need to evaluate our performance constantly. We have to use resources as effectively as possible and to ensure results. Effective implementation of projects and programs is imperative. Within the Bank, we have been examining our own performance with a view to improving implementation. I urge all our partners to do the same. We need to learn from our mistakes, build on our successes, and, always, listen to each other.

We began this fiscal year with more than 1,800 Bank/IDA-supported projects in our portfolio. These represent a commitment volume of more than $140 billion. Of that amount, however, about $65 billion remains undisbursed. Working together, surely, we can make effective use of these already existing resources—and achieve the development impact that we all want.

Conclusion

Mr. Chairman, ladies and gentlemen, let me leave you with a final thought. The Cold War is the third global war to have ended in this century. After the First World War, governments had trouble managing their domestic economies. They turned inward and made no systematic effort to help rebuild the defeated nations. The Depression and the Second World War followed.

After the Second World War, the pattern was different. Nations carried out growth-oriented domestic policies, pursued cooperative external policies, and helped rebuild the countries devastated by war. In addition, the Bretton Woods institutions were established to help promote growth and development. Two generations of social and economic advance resulted. Now the Cold War is over. Domestic economic problems preoccupy angry electorates, trade frictions are growing, and the economies of the former Soviet Union, and of the world's poorest nations, are declining. This is a critical moment in history. The spirit of Bretton Woods must prevail.
I would like to thank the Foreign Policy Association for inviting me to speak here today. It is always good to have an excuse to return to New York—and it is especially nice to see so many old friends in the room. Thank you for coming.

Events in Russia and the former Soviet Union are uppermost in people's minds at present, and I will return to the situation there later in my remarks. But while responding to the crisis in Russia, we must not neglect what is the fundamental challenge for the remainder of this decade and into the next century: development—economic and social progress throughout the world.

Change in the New Era

The post-Cold War era is witnessing the emergence of a new set of international relationships—and the breakup of nation states as economic units. From famine in Somalia to ethnic conflict in Bosnia, the United States has already been confronted with some of the implications of the collapse of the old geopolitical order.

Economic relations too, are being transformed. A fifth of world output is now traded between industrial and developing countries. Financial markets are integrating. Private capital is moving to the developing world in larger volume—about $70 billion last year—and in a very different way from the commercial bank flows of the past.

The world has become increasingly interconnected—and increasingly unstable. There is a great temptation to turn inward. The failure thus far to conclude the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) is perhaps the most serious indication of the pursuit of national interests at the expense of the global interest.
But it is not the only one. Governments that had been the strongest proponents of development are cutting back their aid programs, even as the list of nations needing assistance grows. In the United States a recent Gallup poll showed that only 4 percent of voters considered foreign policy to be important—a worrying statistic, especially for this audience.

Commonality of Interests

Against this backdrop of change and introspection, the role of international institutions takes on heightened importance. We have seen a welcome recognition that a strengthened United Nations can play a constructive role, particularly in peacekeeping. Other international organizations are also valuable tools in tackling global issues. Indeed, faced with their own budgetary problems, some industrial countries are inclined to use multilateral institutions as a surrogate for bilateral assistance.

The Bretton Woods institutions were established at the end of the Second World War to help reconstruct devastated economies and thus not repeat the mistakes made after the First World War. Now, at the end of the third global conflict of this century—the Cold War—these institutions are needed more than ever before: to help build viable economies and improve people's living standards.

The World Bank's core business is development, and, in the long run, development is the only solution to the challenges of the post-Cold War era. Superpower competition no longer provides a motivation for development aid. But economic, ecological, and social imperatives do.

In the United States alone, over 7 million jobs are in the export sector, and trade with the developing nations is the fastest growing segment of the economy. Helping poor countries to become richer is one of the most effective ways to create jobs and wealth here in America. Conversely, not helping the poorer countries carries negative consequences for us all: increasing numbers of refugees will crowd across borders, compounding unemployment problems; drugs
and disease will spread further; and the environment will be irre-
versibly damaged.

Industrial and developing countries share common interests—and
the World Bank is in the business of promoting those interests.

The World Bank and Development

The Bank has been engaged in development for close to fifty years; we
have a global membership of over 170 countries; and we are the
largest single source of development finance—about $23 billion in
combined commitments last year.

The demands on the Bank are growing fast, in volume and in diversity:

- From mobilizing support for economic reform in the poorest
  African nations through the Special Program of Assistance, to
  encouraging private sector investment in the more sophisti-
cated economies of East Asia and Latin America
- From coordinating international agricultural research to help
  meet the needs of an additional 4 billion people by the year
2030, to helping address global warming and other interna-
tional environmental issues through the Global Environment
  Facility
- From contributing economic analysis to the peace process in
  the Middle East, to investing in education, health, and family
  planning in Bangladesh and many other countries.

The Bank has to customize its products to meet this differenti-
ated demand. But they are all part of our focus on the fundamental
challenge: sustainable development.

Some 3 billion people—nearly 60 percent of the world’s popula-
tion—subsist on less than 2 dollars a day. Poverty is most wide-
spread in Sub-Saharan Africa and South Asia, affecting 50 percent
of the population in both regions. The Bank’s concessional arm,
IDA, is the backbone of assistance to the poor.

A new three-year replenishment of IDA’s funds, in the amount of
$18 billion, has recently been agreed by thirty-four donor govern-
ments, including the United States. The necessary legislation will soon be considered by the U.S. Congress. It is absolutely essential that the full U.S. commitment be honored, for two reasons. First, without U.S. approval, the agreement could completely unravel. Second, every dollar contributed by the United States is matched by four dollars from other countries.

The United States has a vital interest in development—and the Bank and IDA represent one of the world's most powerful instruments for development.

The Challenge of the Former Soviet Union

The United States—and every other nation—also have a vital interest in the wrenching transitions taking place in Eastern Europe and the former Soviet Union. An entire region has embarked on a political, social, and economic transformation that has few parallels in history.

International organizations have a special role to play. In fact, given the scope of the adjustment required and the need for technical assistance and financing, the Bretton Woods institutions are probably the only ones that can provide the framework within which the overall effort can be coordinated.

The new nations of the former Soviet Union are confronting an economic crisis much worse than the Great Depression. Exports have fallen by half over the past two years. Average GDP declined by about a fifth last year. Prices are rising at about 25 to 30 percent a month.

In Russia, the drive to establish a market-oriented economy is faltering in the face of hyperinflation and political opposition. The major obstacle to progress is the constitutional crisis and the lack of political consensus on the direction of reform. To that extent, the fate of Russia lies in Russia's hands.

From an economic perspective, there are four priority issues that must be addressed.

The first issue is macroeconomic stabilization and control of rampant inflation. The central bank must demonstrate a commitment
to sound monetary policy, and the reckless issuance of credit must be stopped.

Second, large-scale enterprises—the main recipients of this credit explosion—must be reformed. Subsidies and directed credit to this sector, including agricultural enterprises, constitute nearly half of GDP. These subsidies are at the heart of the economic crisis, and they must be substantially reduced immediately.

A more favorable environment for small and medium-scale businesses also needs to be established. In the final analysis, only the private sector can deliver incomes and employment on the scale required. Russia has more than 200,000 small firms. A significant number of them have already been privatized. But the process must be accelerated to create a critical mass of entrepreneurs and jobs.

The third strategic issue is to unlock the high potential in key sectors. Oil and gas, in particular, hold the promise of financing the restructuring of the economy through increased export earnings. But major investment, public and private, is needed to rehabilitate these industries. Oil production is rapidly declining; Russia has lost a million barrels per day for each of the past three years. To stabilize production at the 1993 level (about 350 million tons) will require investment of around $50 billion between now and 2000. Without this, Russia faces the prospect of becoming an oil importer by the end of the decade—which would be disastrous.

The Bank is trying to help shape an investment climate that can attract badly needed foreign capital. We are also working with the European Bank for Reconstruction and Development (EBRD) on a $1 billion oil sector project in western Siberia which, if successfully implemented, could quickly generate additional revenues—around $750 million a year by 1994.

The fourth critical issue is the creation of a social safety net. Fifty million Russian people—a third of the population—are now living below the poverty line. More than half of all households headed by women have fallen into poverty. The newly unemployed, the old, and the disabled have also been hit very hard. Buffering the impact of the transition on these groups is important to reduce social and political tensions.
Existing arrangements for unemployment compensation, the protection of vulnerable groups, and pensions need to be strengthened by increasing local capacities in Russia's eighty-eight oblasts. The Bank's Board has already approved an employment services project, and we are actively looking at other ways in which we can help the poor.

As you know, representatives of the Group of Seven met recently in Hong Kong, and President Clinton will soon be meeting with President Yeltsin, to discuss how the world can best support Russia. Clearly, external assistance is vital. The Bank and the IMF are deeply involved in helping to shape the joint effort that is required.

The focus on Russia is justified because of its multiple linkages with the other fourteen states. I would emphasize, however, that they have their own specific needs. Everyone recognizes that Russia will require an exceptional financing package over the next several years. But it is often forgotten that the total financing requirement of the other states is roughly the same as Russia's.

The Bank has already made a rehabilitation loan to each of the three Baltic states and an emergency loan to Moldova. A rehabilitation loan for the Kyrgyz Republic is moving forward. Loans under preparation for Armenia, Azerbaijan, Belarus, Ukraine, and Uzbekistan will focus on strengthening institutional capacities to undertake reform. We are also working on environmental issues—from helping to clean up the Baltic Sea to examining energy alternatives to nuclear power.

In addition, donor governments have asked the Bank to mobilize and coordinate financial and technical assistance for most of the new states, and this process is well underway. Meetings have already been held for Azerbaijan, Kazakhstan, the Kyrgyz Republic, and Uzbekistan. There has also been a preparatory meeting for Russia, and meetings for Armenia and Belarus are planned.

These cumulative efforts are substantial—and more will be done. It must be recognized, however, that, ultimately, the problems facing the former Soviet Union cannot be fixed from the outside. Domestic political clarity is required to shape the reform process—and political will is required to implement it.
The new nations are rich in human capital, technology, and natural resources. Provided a political consensus can be attained, the long-term outlook is good—and the Bank can play a catalytic role.

We view this as one of the greatest challenges in the institution's history. With the help of our partners, we are determined to meet the challenge.

Conclusion: A Global Asset

The world is going through a period of dramatic change, and the Bank is changing too. We have adjusted, and we continue to adjust, our policies to meet new challenges. Even more important, we are giving increased attention to follow-up and implementation of those policies. We are focusing on development impact—results.

With its financial strength, global reach, and decades of experience, the Bank is an asset which benefits every nation, industrial and developing. But to be effective, we need the help of governments, businesses, and nongovernmental organizations. We also need the continued support of our shareholders, in this country and throughout the world.

Now is not the time to turn our backs on development. Now is the time to redouble our efforts to ensure that development receives the priority it deserves—and must have—in the post-Cold War era.