

Address
to the
Board of Governors
by Barber B. Conable

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President
The World Bank Group



Washington, D.C.
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I would like to welcome you all to these Annual Meetings. I particularly want to welcome the delegation of Angola, the newest and 152nd member of the World Bank Group.

Before proceeding with my remarks, I want to say how sad we all are about the tragic loss last week of the Bank Governor for Chad, Soumaila Mahamat, and Ali Abakar, a member of the Chadian delegation. Our sincerest sympathy to their families, friends, and colleagues.

We have been hard at work over the weekend, and during the next few days I look forward to continuing our friendly and productive discussions of the important business at hand.

Our business—working for the future welfare of all people—could hardly be more pressing. As we enter a new decade, the World Bank—your World Bank—wants to make that future brighter, more productive, and more fulfilling for the people of the developing countries. Of course, the first task must always be to deal practically and efficiently with the problems of today. But we must never lose sight of that great vision.

As we enter the 1990s, we must take a hard look at the development priorities for the decade ahead—priorities both for developing countries and for the international community as a whole.

The Outlook for Development

The development record of the 1980s has been mixed. Some developing countries have made extraordinary strides in the past ten years. Their rapid growth and new presence in world markets are an inspiring example. The outlook for their peoples, from Korea to Indonesia, from Thailand to Mauritius, is one of hope and new achievements.

But the 1980s have also been a painful decade. We have learned a bitter lesson: development can be reversible. More developing countries have suffered reverses in the past decade than have experienced success. The consequences of decline will be felt well

into the 1990s—in Sub-Saharan Africa, in the debtor countries of Latin America, and in Central Europe.

Yet, as we begin the new decade, the potential for progress is great. The political and ideological forces that have polarized the world for half a century are diminishing. Political and economic power is becoming less concentrated. There is a new recognition of the pressures that bind countries together: the need for peace and mutually assured security, the rapid emergence of a truly global economy, and the imperative of managing the world's resources in the interests of people everywhere.

This new reality should lead more countries to seek solutions through cooperation, despite the differences that remain. The result should be more plural economic and political institutions and expanded opportunities for individuals and communities. The possibilities of building a peaceful, prosperous, and sustainable world economy in the 1990s increase as these forces take hold.

In short, to quote the social philosopher John Gardner, "The prospects never looked brighter, and the problems never looked tougher. Anyone who isn't stirred by both of those statements is too tired to be of much use in the days ahead." A vigorous World Bank is planning to be of use in ways I shall describe.

The State of the Bank

With your support, the World Bank Group has had a strong and active year since we last met. We committed a record \$21 billion in Bank resources and mobilized an additional \$9.3 billion in cofinancing. Commitments of the International Finance Corporation (IFC) rose by one-third to \$1.3 billion, and its net income virtually doubled—as it has in each of the past three years—to almost \$200 million. The Bank Group's newest member, the Multilateral Investment Guarantee Agency, has put in place operating procedures and has begun giving policy advice and guarantees for private investment.

We at the World Bank are keenly aware of the scale of the problems that face our members. The Bank's development work has continuously evolved to meet the changing needs of its borrowers. Adjustment lending has come into its own. The breadth, depth, and intensity of the Bank's policy dialogue with its borrowers has increased, and Bank efforts in resource mobilization and aid coordination have grown. Our operational collaboration with nongovernmental organizations has increased sharply. So, too, has our commitment to environmentally sound development. And most recently—following announcement of the Brady initiative—the Bank approved its first loans with set-asides to facilitate debt reduction in Mexico and Venezuela. The Bank is also working on debt reduction initiatives in other countries, such as Chile, Costa Rica, and the Philippines.

Change is the only constant in human endeavor, and the Bank, as a human institution, is no exception. But one thing that has not changed over the Bank's forty-three-year history is its basic mission—to reduce poverty and accelerate growth.

The Bank spends a great deal of time analyzing economic statistics and worrying about macroeconomic performance. But, in the end, we know that what we are dealing with is people, not statistics. Unless the quality of life of individual poor people is improved by what we do, no amount of statistical analysis or macroeconomic planning will justify our work.

As we gather on the threshold of a new decade—the one in which the Bank will celebrate its fiftieth anniversary—I am pleased to report to you that the state of the Bank is good. This unique institution has continually demonstrated its resiliency and adaptability in responding to our borrowers' needs. The Bank's main asset, of course, is its corps of extraordinarily skilled and committed staff. Their capacity for change, their ability to build and apply the Bank's knowledge, experience, and financial creativity have been, and will continue to be, central to the success of our efforts to improve the lives of the world's poor.

To continue our fight against poverty in the poorest countries of Sub-Saharan Africa and Asia, a ninth replenishment of the International Development Association (IDA) is vitally needed, since full commitment of IDA8 funds is rapidly nearing completion. Negotiations for IDA9 are under way. It is my hope that they will be brought to a successful conclusion in the near future and that the ninth replenishment will be at least as large, in real terms, as was IDA8. Anything less would let down hundreds of millions of people living in squalor. Anything less would be a grave disappointment.

The International Monetary Fund, our sister institution, is also seeking a quota increase. I urge our member governments to give quick and favorable consideration to this increase, too, so that the Fund can sustain and expand its own very important work.

The task ahead is clear. The development agenda for the 1990s must be to harness growth and use resources creatively, so as to improve the quality of life for poor people everywhere. This is the real challenge of development and the central task of the World Bank and its partners, particularly the governments of developing nations.

Priorities for the Next Decade: Using National and International Resources More Efficiently

The development needs of the 1990s will be enormous: to overcome stagnation in Africa, to move beyond debt paralysis in Latin America and elsewhere, to offer growth and hope to Asia's hundreds of millions of poor people, to assist reform and renewal in countries moving away from centrally planned economies, and to reverse the degradation of developing countries' natural resources. In all of this the developing countries carry the main burden of responsibility for their own future. But the industrial world also has a vital part to play—not just in providing external resources, but also in ensuring the developing countries' access to their markets and in conducting their own economic policies so as to create a global "enabling environment" for growth.

External Resources and Country Performance

External finance will be crucial, not only in monetary terms, but also because with it comes new technology, knowledge, and access to markets. Financial flows will depend on many factors, including economic growth in the industrial countries. Any observer of the development scene knows that the prospects for public and private resource flows for the 1990s have changed. But development during the coming decade cannot, and must not, be held hostage to external finance. Governments and the donor community must focus on the creative mobilization and use of both domestic and international resources. This is a fundamental requirement for healthy economic growth. It is also the best way to lay the basis for more sustainable, high-quality flows of long-term external finance.

There is no substitute for good macroeconomic policies and strong adjustment programs in the quest for economic stability and growth. These are the essential preconditions for external finance. When governments have the courage and farsightedness to make deep-seated, sustained, and credible changes, the international community should be ready to respond by providing swift, strong, and reliable financial support and by helping to reduce the sometimes painful impact of adjustment on individuals—particularly on the poor.

Savings and Investment Efficiency

An important priority for most developing countries is to raise savings and investment rates, so as to use the energies of their people to the fullest. The developing countries that grew fastest and most consistently over the past twenty years were those that managed to sustain savings and investment at high levels—a quarter or more of gross domestic product. Even more important, the rapidly growing developing countries used their resources more efficiently. If developing countries are to make up lost ground, what needs to be done is clear.

Reforming the Financial System

The financial systems of developing countries often hold the key to economic growth. If financial institutions are undeveloped, mistrusted, or shackled by inappropriate controls, they cannot mobilize savings efficiently and cannot allocate them to the most productive use.

This year's *World Development Report* shows that the economic shocks of the 1980s have combined with bad government policies to undermine financial systems to a dangerous degree. Governments have weakened banks by controlling the allocation of credit, and they have disguised public sector deficits by recourse to the banking system. In many countries, the so-called quasi-fiscal deficit has become a major source of financial instability and inflation. And weak regulations have made it all too easy for banks to compound past lending mistakes by throwing good money after bad.

These are not arcane technical problems: they inflict massive human damage. Because of them, people find their savings rendered worthless, the prices of everyday necessities running wildly out of control, and vital public services—such as schools and health clinics—decaying for want of resources. Financial stability is a quality-of-life issue, too.

To tackle these difficulties, interest rates need to be progressively freed. This will guide scarce savings to their most productive use. Many countries also need to reduce financial restrictions. At the same time, they require stronger regulation and legal and accounting standards. Competition should be strengthened to ensure that savers and entrepreneurs do not face financial monopolies serving entrenched interests. The Bank is assisting reforms of this sort through its financial sector lending. And IFC is helping several countries to establish securities markets and the financial institutions that will operate in them.

Using Public Money Rationally

If countries are to grow and to harness that growth to the quality of life, governments must make better use of the resources they themselves claim from the economy. This means sound public finance.

Many countries will have to endure prolonged fiscal austerity during the 1990s. The capacity of the public sector will continue to be severely constrained. This forces all of us—in industrial as well as developing countries—to think afresh about priorities and about the productivity and equity of taxation and spending.

Public sector deficits must not be allowed to continue fueling inflation and to crowd out the private investments that are essential to drive renewed growth. Governments need to take a fresh look at the efficiency and equity of taxes—at how to broaden the tax base, reduce excessive burdens on productive people, phase out special exemptions, and rely less on trade taxes that distort incentives against exports. In short, the pursuit of sound public finances must not mean imposing ever-higher taxes on sections of the population whose productivity is discouraged by an unfair or excessive tax burden. Instead, the causes of fiscal deficits must be brought under control.

When resources are tight, governments have a particular duty to look more closely at the effectiveness—and the equitable use—of the money they spend. Developing countries need to use public funds for building functioning school systems, not white elephant projects in industry. They need to adequately maintain essential services, not to expand public employment beyond the numbers that can be decently paid and effectively used. They need governments to provide essential urban infrastructure, not to divert scarce resources to luxuries for select groups. Better ways must be found for public expenditure to complement and spur private production, not to displace it.

Debt Reduction and Sound Policies

Another important way to ensure that developing countries get the external resources they need is to bring their indebtedness—in those cases where it is a binding constraint—down to manageable proportions. You, our shareholders, have put the Bank and the Fund at the center of international efforts.

We have seen breakthroughs in the debt strategy in the last year, from the Toronto Summit agreement to the Brady initiative. These developments are welcome and encouraging. They strengthen our collective ability to respond to each country flexibly, according to need and merit.

We are far from the end of the debt crisis. New solutions continue to be needed for each country. The financial, regulatory, and other problems that Third World debt poses will continue to be a challenge to our collective creativity.

Military Expenditure

As we think about the tasks of development in the coming years, we can no longer neglect a sensitive component of the fiscal problem: military spending. All countries have the sovereign right and responsibility to defend themselves. But let us hope that, in the changing political climate of the 1990s, resources are increasingly allocated to more productive purposes, in industrial countries as well as developing countries.

Although there is much variation among developing countries, as a group low-income countries currently allocate around 20 percent of central government budgets to defense. In the mid-1980s military spending in developing countries exceeded spending on health and education combined. At a time when many components of national budgets have been cut, the \$200 billion that the developing world spends annually on the military has largely been protected. And arms are often a prime source of external debt: military debt accounts for a third or more of total debt service in several large developing countries.

Developing countries on one side, and their arms suppliers and creditors on the other, must adapt to a world where budgets are tight. It is important to place military spending decisions on the same footing as other fiscal decisions, to examine possible tradeoffs more systematically, and to explore ways to bring military spending into better balance with development priorities. In evaluating their military expenditures, governments should be realistic, but they also should remember the human consequences of these choices.

The Bank's Operational Role

Steady effort in all these directions can dramatically improve developing countries' prospects in the 1990s by creating new opportunities for the enterprise of their citizens.

The Bank will use its strengths flexibly to support these efforts by our members. We will retain our capacity for rapid disbursement of finance. This commitment is evident in our adjustment programs and in the financial support the Bank is extending for debt reduction. Adjustment lending and debt reduction operations will continue to play a critical role in our support for Sub-Saharan Africa and the heavily indebted countries.

As we move into the 1990s, the Bank also will stress increasingly our core business: supporting efficient, long-term investment that multiplies domestic entrepreneurial energies and productivity and directly addresses the needs of poor people.

We can best do that by lending which promotes better economic policies, rational investment priorities, and the development of human resources in key sectors; which creates productive assets of high quality; and which is a catalyst for other private and public development finance. We will seek other opportunities to play this catalytic investment role in our regular lending program, in our aid coordination activities, and in the Bank Group's expanding collaboration with the private sector.

The Bank's role as a promoter of efficiency and of market-oriented investment will be particularly important in the complex task of

reforming centrally planned economies, as changes in these countries develop. We have a responsibility to maintain support for badly needed structural change in all countries, even when political conditions make that difficult. The Bank has a substantial involvement in several socialist countries, and our knowledge of the challenges of reform in these economies has greatly expanded. But there are few precedents to guide the reformers, and the economic and political uncertainties are formidable. We are strengthening our knowledge, and we will continue to build our programs in collaboration with others and in line with the progress that these countries achieve.

Priorities for the Next Decade: Environment and Individual Lives

As all of us here think about development priorities in the coming decade, we should focus both on costs and resources, as well as on goals and ideals that are worthy of the great effort that will be needed. We must dare to be visionaries, even as we strive to be prudent treasurers. This is, perhaps, the hardest challenge of all.

In the coming decade it will be impossible to improve the quality of life in developing and industrial countries alike unless we do much more to conserve our global environment. We must deal with population problems, with energy needs, and with sustainable agriculture. But we cannot do so by choking off the hopes of poor people and poor countries. We must protect the environmental quality of life in the fullest sense—by extending economic choice and opportunity, by ensuring strong economic growth, and by reducing mass poverty in the developing world.

The Expanded Bank Environment Effort

We are all very much aware of the great environmental challenges facing the world. The Bank is taking new initiatives in what is now a common international effort. We are urgently adding to our skills and knowledge, and we have greatly expanded the environmental values in our lending. A third of all our projects, half of our energy projects, and almost two-thirds of our agricultural projects last fiscal year contained specific environmental components. We will

lend \$1.3 billion for free-standing environmental projects over the next few years and will triple our forestry lending.

The Bank has greatly expanded collaborative work on the design and financing of environmental programs. We are actively involved in joint programs with member governments and with others, such as the United Nations Environment Program, the European Investment Bank, and the regional development banks. As part of these efforts, we are building the foundations for better management of tropical forests in Ghana and Sri Lanka, for stronger protection from pollution of water supply and coastal waters in Chile and Yugoslavia, and for international collaboration on schemes such as the Environmental Program for the Mediterranean and the Asian Capital Cities Clean-Up Project. These are just a few examples.

My main purpose today, however, is not to report on our current programs. Instead, I wish to emphasize what I see as the key environmental task for the coming decade: to bring together the world's need for collective environmental security and the need of poor people to be able to choose better lives for themselves and their families.

Population Policy

Nowhere is the connection between poverty, individual potential, and the environment more dramatic than in population policy. Rapid expansion of population endangers growth of individual incomes and improvement of the quality of individual lives.

This is not only, or even primarily, an aggregate problem of "too many people." The real concern is that excessive population growth puts heavy, sometimes intolerable, strain on the pressure points of urban and rural environments that are least able to bear it. The consequence is to further undermine the ability of hundreds of millions of people to escape from poverty.

The solution to this exceptionally difficult and sensitive problem does not lie in attempts at massive social engineering by governments or by the international community. Population figures reflect

decisions by millions of individuals and couples as they confront the everyday realities of life: work, health, the survival chances and economic prospects of prospective children, their own old age. But we can help to make available to women, and to men, the ability to make decisions that will meet the needs of individual families and serve the wider society as well.

No single step will provide the answer. Approaches must be adapted to each country's circumstances. Direct support for family planning programs and policies is essential and must go hand in hand with action to increase productivity and welfare—especially for women—through better access to education and health services, better jobs, and higher incomes.

Greater access to family planning information and services can be provided through many different channels: through governments' primary health care services, through the private sector, and through voluntary organizations. Countries such as Botswana, Indonesia, and Zimbabwe have demonstrated that family planning programs work—not only as an instrument of population policy, but as a way to improve the welfare of everybody—men, women, and children. Indonesia's family planning program has grown from a coverage of 50,000 couples to over 17 million couples in less than twenty years. Zimbabwe and Botswana have stressed human resource development, along with family planning. As a result, many of their people are educated, health services are widely available, and mortality is among the lowest in Africa. Other countries with active family planning programs have been equally successful.

Helping to reduce population growth is a priority for the Bank. We lent over half a billion dollars for population projects during the past five years. We expect to raise this level to \$800 million in the next three years. This constitutes nearly a tripling of our population lending on an annual basis.

Families need to feel confident that their children will survive and lead better lives. Households need the assurance of economic

well-being, which comes with secure property rights, a decent education, and basic income-generating skills. Poor people—especially when they live in environmentally or economically precarious conditions—need to be able to spread their risks, to take advantage of economic opportunities, and above all to have secure access to food.

Sustainable Agriculture

This brings me to a second fundamental environmental task for the decade ahead: the promotion of sustainable agriculture. Despite the growth of cities, the coming decade will see many more people in the rural areas of Africa and Asia and an even larger growth in the workforce that rural areas will have to absorb on and off the farm.

Governments will face these pressures—and the accompanying degradation of natural resources—with little prospect of a leap in yields such as the green revolution provided twenty years ago. We have to find ways of raising farm output that are within reach of poor people—techniques that do not rely too much on chemical inputs and engineering investments. Otherwise, the present frightening rates of soil and water depletion will continue, and the livelihoods of millions of people, from the Yangtse River system to the African savannah, will be endangered.

Government policies must play a major role. Underpricing of chemical fertilizers and pesticides can lead to poisonous over-use and can discourage better methods of restoring essential nitrogen to the soil and of controlling pests. Improper pricing of water leads to waste. Subsidized electricity results in overpumping of groundwater aquifers. Unrealistic stumpage rates lead to overcutting rather than conservation of forests.

Changes in such policies should aim to reflect the true economic value of land and water resources. Reform would save governments money that they now spend on subsidies and incentives, and it would also encourage the better use of all the resources that contribute to agricultural growth.

In dealing with the new challenges of sustainable agriculture, we must always be willing to re-examine existing attitudes and conventional wisdom. For instance, experts in the field of agricultural development are beginning to pay more attention to the ability of small-scale farming to spread risks and conserve biodiversity. We need to support small farmers by promoting the broader application of some basic “benign” technologies. We need to reinforce the diversity of such farms, rather than encourage dependence on a single crop.

In agriculture, as in the population issue, there is a strong link between policy reform, improving the incomes and economic security of poor people, and safeguarding the environment. If we can forge those links effectively and increase attention to nutrition and health, we can in the upcoming decade make great progress toward ending hunger in the world.

The Importance of Education

Development must expand people’s horizons. It must expand opportunities—but it must also endow each individual with skills and with knowledge of how the world works, so that those opportunities can be seized. People, as I have said before, are our most precious resource.

In the new century the dividends from knowledge will grow dramatically as the penalties of ignorance increase. Much of the gulf between misery and opportunity, squalor and hope, can be bridged by education, by investing in the bright inquisitiveness of children and the thirst for knowledge of enterprising adults.

Education, and human resource development more broadly, must be a central focus of the development effort in the 1990s. Education adds to the choices people can make. At the very least we must ensure the availability of primary education for all children, boys and girls alike. In this the World Bank will play a growing part.

The Global Need for Cleaner Energy

So far I have talked of environmental problems that are essentially national in character: they mainly affect the quality of individual and community life within countries, and their solution lies within the grasp of national authorities. But in the new decade the world must also deal much more effectively with problems that are regional and global in reach—acid rain, ocean pollution, nuclear hazards, ozone depletion, climate change.

At the heart of many of these global problems is energy. This is a vital issue for developing countries, given their vast energy needs. Fossil fuels are the main source of the gases that may produce long-term global warming and changes in the climate. If these changes occur, the poor in developing countries would be the least able to cope.

Most of these fuels are now burned in industrial countries. Industrial countries account for over 75 percent of carbon dioxide emissions, the main cause of global warming. And virtually all of the chlorofluorocarbons escaping into the atmosphere and depleting the ozone layer come from industrial countries. Clearly, therefore, the major responsibility to reduce emissions rests there.

But plans for electrification and industrialization of major developing nations over the next decade call for big increases in the burning of coal, the least carbon-efficient of the fossil fuels. If present trends continue, the developing world will double its share of carbon dioxide emissions from coal-fired power plants by the turn of the century—in contrast to the strong move away from coal-based power generation in industrial countries. China and India alone plan coal-based thermal power plants with a combined capacity around 150,000 megawatts. Wood burning for land clearance and fuel is another potent source of developing countries' emissions of greenhouse gases.

If the danger of global warming from present and future energy use is to be reduced, international cooperation will be indispensable. We cannot now know the precise timing or extent of the threat. But we cannot let that be an excuse for inaction.

Greater efficiency in the use of energy is a fundamental requirement for all countries and is amply justified on purely economic grounds. Too many countries still subsidize the profligate and environmentally harmful use of energy by industry and by households and provide few incentives for the introduction of more efficient technologies. A complementary approach in the 1990s would be to encourage the use of gas, a plentiful and relatively clean fuel, while vigorously pursuing research and development of more ambitious energy alternatives for the new century. Taken together, increased efficiency and increased use of cleaner fuels could greatly reduce greenhouse gas emissions from developing country plants—perhaps by as much as a third by the end of the century.

Energy is vital to development. We cannot turn our backs on the needs of the poor countries. Unlike industrial countries—which, as we all know, are the source of most of the environmental damage in the world today—developing countries cannot forgo growth or switch to more expensive fuels without help. Unless the necessary resources are made available, they will be compelled to use energy sources that seem cheapest in the short term. In the same way, poor people cannot switch to cleaner and more efficient means of cooking and heating unless new technologies are brought within their economic grasp.

Closer international collaboration is needed to tackle these growing problems of the global environment. Industrial countries should accept their own long-neglected responsibilities and put their environmental house in order. Developing countries need to put aside any remaining defensiveness and recognize that determined action is in their own national interest. The key will be to think globally and act locally. If that can be done, we will help the developing countries to avoid repeating the damaging mistakes of

the industrialized world. Extending the necessary help to make this possible is in all our interests.

Shared Responsibilities for the 1990s

My address today has been about the basic goal of development—enhancing the quality of hundreds of millions of individual human lives. No amount of statistical argument will help the cause of development, unless individuals find better lives.

Our work, in the words of Pericles, must be “woven into the stuff of other lives.” This is what makes development work challenging and singularly exciting. If the international community can concentrate its effort on that simple and inspiring goal, the 1990s can be a decade of great hope and achievement.

I have argued that we must build on the new atmosphere of reduced international tension and the emergence of more pluralistic societies to create a more open world economy, in which developing countries can participate as productive and efficient partners. Despite the scarcity of additional external finance, we must creatively mobilize resources and ensure that these are used for high-priority investments and social services. We must meet the growing environmental challenge through closer international cooperation and by expanding the opportunities and economic freedoms of people everywhere, particularly the poor.

All this requires action now—on development resources and growth, on population and education, on renewed agricultural development, on preserving our common global heritage—if we are not to return to these meetings year after year to review an ever-worsening picture.

If we do act, I believe we can help developing countries to assume fuller responsibility for their own economic destinies, even as they participate more actively in a growing global economy.

We can reduce poverty and protect the environment in ways that respect the rights and hopes of individual people.

We can meet the global environmental challenge while respecting the sovereignty of poor countries.

And we can encourage greater diversity in economic and social institutions, so that the abilities of every single one of us can flourish and enhance all our lives, and not be stifled or brushed aside.

If we do act effectively together, I believe we will be able to look back on this time as a turning point. We will have laid the ground for nations and peoples to work together in building an efficient, peaceful, and unpolluted world economy.

In tackling the problems of the coming decade, the World Bank is just one institution—but a powerful and resourceful one. In partnership with other multilateral institutions and with you, our shareholders, we will meet the challenge.



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