

The Challenge of Inclusion: 1997 Annual Meetings
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Annual Meetings Address

by

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I am very pleased to welcome you to these Annual Meetings of the World Bank Group and the International Monetary Fund (IMF). I am also delighted to be in Hong Kong. This beautiful and bustling city, which I have visited regularly for forty years, exemplifies the openness, dynamism, and optimism of so much of Asia today. And so does our meeting here in this magnificent conference center, where everything has been done impeccably. I would like to express my thanks to our hosts, the Government of China, and the authorities here in Hong Kong. It is impossible to imagine greater courtesy, generosity, and efficiency. We look forward to your continued progress.

China's success has been truly remarkable. Less than a generation ago, eight in ten Chinese eked out an existence by tilling the soil for less than a dollar a day. One adult in three could neither read nor write. Since then, 200 million people have been lifted out of absolute poverty, and illiteracy has fallen to less than one in ten. China is our largest borrower, one of our most valued shareholders, and home to more than a quarter of our clients. I am delighted that our partnership continues to strengthen.

This is the third time that I address you as President of the World Bank Group - the third time I have had the opportunity to express my deep gratitude to my friend Michel Camdessus, whose collaboration over the last two and a half years has been so invaluable to me. We work ever more closely together, and I continue to benefit from his great experience and judgment.

From the beginning, one of my priorities has been to take the pulse of development firsthand. I have now visited almost 60 countries. I have met with governments, parliamentarians, and the private sector. I have talked with national and international nongovernmental organizations (NGOs) on subjects ranging from women's issues to the environment, from health to the impact of macroeconomic reform.

Wherever I go, I continue to be impressed by the people we serve - by their strength, their energy, and their enterprise, in the most abject conditions. By the hundreds of thousands disadvantaged by war, by the millions of children without families condemned to live on the streets, by the disabled shut out from any kind of social support. By the plight of the poorest.

Today our clients number 4.7 billion people in over 100 countries. Three billion live on under 2 dollars a day. A billion three hundred million live on under 1 dollar a day. One hundred million go hungry every day; 150 million never even get the chance to go to school.

But whether they live on the plains or in the valleys, whether they live in slums or isolated villages, whether they speak Hindi, Swahili, or Uzbek, they have one thing in common: They do not want charity. They want a chance. They do not want solutions imposed from without. They want the opportunity to build from within. They do not want my culture or yours. They want their own. They want a future enriched by the inheritance of their past.

I have learned that people are the same wherever they are – here in this room and across the world. We all want the best for our children and our families. We all want peace and economic and physical security. We all want to live in a supportive community. We all want personal dignity.

This was vividly brought home to me six months ago when I visited a large water and sanitation project that the Bank is supporting in the favelas of Brazil. The project, which is now self-sustaining, brings together the local community, the private sector, and NGOs.

With my host, the vice governor of the state of Rio, I went from one makeshift home to the next, talking with the women who live there and who used to carry water on their shoulders from the bottom of the hillside to their dwellings at the top. One after the other, they proudly showed me their running water and flushed their toilets and told me how the project had transformed their lives.

And as I walked around, more and more of the women came up to me displaying pieces of paper showing charges and receipts for a few reals a month. I watched and listened to this until the vice governor, said, "What they're showing you, Jim, is that this is the first time in their lives that their name and address have appeared on an official notice. This is the first time their existence has been officially recognized. This is the first time that they have been included in society. With that receipt they can get credit to purchase goods, with that receipt they have recognition and hope."

As I walked back down the hill from that favela, I realized that this is what the challenge of development is all about – inclusion. Bringing people into society who have never been part of it before. This is why the World Bank Group exists. This is why we are all here today. To help make it happen for people.

The State of Development Circa 1997

Where are we in terms of "making it happen" in 1997? In many ways, this is the best of times for developing countries: Output grew last year by 5.6 percent – the highest rate in 20 years. Foreign direct investment exceeded \$100 billion – the most ever. Private capital flows now total \$245 billion – five times official development assistance. And developing

countries are projected to enjoy continued strong growth over the next ten years.

Social indicators are also improving. Life expectancy has risen more in the past forty years than in the previous four thousand. And freedom is blossoming. Today nearly two in three countries use open elections to choose their national leadership and 5 billion people live in a market economy – up from 1 billion ten years ago.

There is also much good news regionally: Reform programs in Eastern European and Central Asia continue to advance, and prospects for accession to the European Union now look promising for several countries in the region. There is real progress in Sub-Saharan Africa, with new leadership and better economic policies. Gross domestic product (GDP) grew 4.5 percent in 1996, up from 2 percent two years ago.

In the Middle East and North Africa, despite political problems, efforts continue to boost regional trade and investment, improve competitiveness, and expand economic opportunity. In Latin America countries have emerged from the tequila crisis, with their earlier gains against hyperinflation fully intact.

In East Asia, despite recent turbulence in financial markets, we still expect long-term growth and poverty reduction to be strong. And in South Asia, home to 35 percent of the developing world's poor, growth rates over the past several years have approached 6 percent.

This all adds up to much to celebrate – but there is also much to lament. Yes, the glass is half full, but it is also half empty. Too many people are not enjoying the fruits of success –

- here in East Asia, where, despite the "miracle," inequities between rural and urban areas and between the skilled and the unskilled are becoming more widespread
- in the countries of the Former Soviet Union, where the old and the unemployed have become more vulnerable amidst the turbulence caused by the transition from command to market economies
- in parts of Latin America, where problems of landownership, crime, drug-related violence, unequal access to education and health care, and enormous disparities in income hinder progress and threaten stability
- and in many of the world's poorest countries, where population growth continues to run ahead of economic growth, eroding living standards.

And the deeper tragedy is that the glass is almost totally empty for too many. Indeed, for too many, it is the worst of times, as huge disparities persist across and within countries.

In too many countries, the poorest 10 percent of the population have less than 1 percent of the income, while the richest 20 percent enjoys over half. In too many countries, girls are still only half as likely as boys to go to school. In too many countries, children are impaired from birth because of malnutrition, inadequate health care, and little or no access to early childhood development programs. In too many countries, ethnic minorities face discrimination and fear for their lives at the hands of ethnic majorities.

What we are seeing in the world today is the tragedy of exclusion.

The Challenge Ahead

Our goal must be to reduce these disparities across and within countries, to bring more and more people into the economic mainstream, to promote equitable access to the benefits of development regardless of nationality, race, or gender. This – the Challenge of Inclusion – is the key development challenge of our time.

You and I and all of us in this room – the privileged of the developing and the industrial world – can choose to ignore it. We can focus only on the successes. We can live with a little more crime, a few more wars, air that is a little bit dirtier. We can insulate ourselves from whole sections of the world for which crisis is real and daily but which to the rest of us is largely invisible. But we must recognize that we are living with a time bomb, and unless we take action now, it could explode in our children's faces.

If we do not act, in thirty years the inequities will be greater. With population growing at 80 million a year, instead of 3 billion living on under \$2 a day, it could be as high as 5 billion. In thirty years, the quality of our environment will be worse. Instead of 4 percent of tropical forests lost since Rio, it could be 24 percent.

In thirty years, the number of conflicts may be higher. Already we live in a world which last year alone saw twenty-six inter-state wars and 23 million refugees. One does not have to spend long in Bosnia or Gaza or the Lakes District in Africa to know that without economic hope we will not have peace. Without equity we will not have global stability. Without a better sense of social justice our cities will not be safe and our societies will not be stable. Without inclusion, too many of us will be condemned to live separate, armed, and frightened lives.

Whether you broach it from the social or the economic or the moral perspective, this is a challenge we cannot afford to ignore. There are not two worlds, there is one world. We breathe the same air. We degrade the same environment. We share the same financial system. We have the same health problems. AIDS is not a problem that stops at borders. Crime does not stop at borders. Drugs do not stop at borders. Terrorism, war, and famine do not stop at borders.

And economics is fundamentally changing the relationships between the rich and the poor nations. Over the next twenty-five years, growth in China, India, Indonesia, Brazil, and Russia will likely redraw the economic map of the world, as the share in global output of the developing and transition economies doubles. Today these countries represent 50 percent of the world population but only 8 percent of its GDP. Their share in world trade is a quarter the European Union. By the year 2020, their share in world trade could be 50 percent more than Europe's.

We share the same world, and we share the same challenge. The fight against poverty is the fight for peace, security, and growth for us all.

How, then, do we proceed? This much we know: No country has been successful in reducing poverty without sustained economic growth. Those countries that have been most successful – including, most notably, many here in East Asia ??? have also invested heavily in their people, have put in place the right policy fundamentals, and have not discriminated against their rural sectors. The results have been dramatic: large private capital inflows, rapid growth, and substantial poverty reduction.

The message for countries is clear: Educate your people; ensure their health; give them voice and justice, financial systems that work, and sound economic policies, and they will respond, and they will save, and they will attract the investment, both domestic and foreign, that is needed to raise living standards and fuel development.

But another message is also emerging from recent developments. We have seen in recent months how financial markets are demanding more information disclosure, and how they are making swift judgments about the quality and sustainability of government policies based on that information. We have seen that without sound organization and supervision a financial system can falter, with the poor hurt the most. We have seen how corruption flourishes in the dark, how it prevents growth and social equity, and how it creates the basis for social and political instability.

We must recognize this link between good economic performance and open governance. Irrespective of political systems, public decisions must be brought right out into the sunshine of public scrutiny. Not simply to please the markets but to build the broad social consensus without which even the best-conceived economic strategies will ultimately fail.

The Development Community

How can we in the broader development community be most effective in helping with the enormous task ahead?

It is clear that the scale of the challenge is simply too great to be handled by any single one of us. Nor will we get the job done if we work at cross purposes or pursue rivalries that should have been laid to rest long since. Name calling between civil society and multilateral development institutions must stop. We should encourage criticism. But we should also recognize that we share a common goal and that we need each other.

Partnership, I am convinced, must be a cornerstone of our efforts. And it must rest on four pillars.

First and foremost, the government and the people of developing countries must be in the driver's seat – exercising choice and setting their own objectives for themselves. Development requires much too much sustained political will to be externally imposed. It cannot be donor-driven.

But what we as a development community can do is help countries – by providing financing, yes; but even more important, by providing knowledge and lessons learned about the challenges and how to address them.

We must learn to let go. We must accept that the projects we fund are not donor projects or World Bank projects – they are Costa Rican projects, or Bangladeshi projects, or Chinese projects. And development projects and programs must be fully owned by local stakeholders if they are to succeed. We must listen to those stakeholders.

Second, our partnerships must be inclusive – involving bilaterals and multilaterals, the United Nations, the European Union, regional organizations, the World Trade Organization, labor organizations, NGOs, foundations, and the private sector. With each of us playing to our respective strengths, we can leverage up the entire development effort.

Third, we should offer our assistance to all countries in need. But we must be selective in how we use our resources. There is no escaping the hard fact: More people will be lifted out of poverty if we concentrate our assistance on countries with good policies than if we allocate it irrespective of the policies pursued. Recent studies confirm what we already knew intuitively – that in a good policy environment, development assistance improves growth prospects and social conditions, but in a poor policy environment, it can actually retard progress by reducing the need for change and by creating dependency.

I want to be very clear on this point: I am not espousing some Darwinian theory of development whereby we discard the unfit by the wayside. Quite the contrary. Our goal is to support the fit and to help make the unfit fit. This is all about inclusion.

In Africa, for example, a new generation of leaders deserves our strongest possible support for the tough decisions they are making; they have vast needs and a growing capacity to use donor funds well in addressing them. We must be there for them. It is an economic and a moral imperative.

However, where aid cannot be effective because of bad policy or corruption or weak governance, we need to think of new ways of helping the people. Not the old technical assistance approaches of the past that relied too heavily on foreign consultants. But helping countries help themselves: by building their own capacity to design and implement their own development.

Finally, all of us in the development community must look at our strategies anew.

We need that quantum leap that will allow us to make a real dent in poverty. We need to scale up, to think beyond individual donor-financed projects to larger country-led national strategies and beyond that to regional strategies and systemic reform.

We need approaches that can be replicated and customized to local circumstances. Not one agricultural project here or one group of schools there. But rural and educational country strategies that can help the Oaxacas and the Chiapas of this world, as well as the Mexico Cities.

We need to hit hard on the key pressure points for change – adequate infrastructure in key areas, social and human development, rural and environmental development, and financial and private sector development.

And we need to remember that educating girls and supporting opportunities for women – health, education, and employment – are crucial to balanced development.

In the struggle for inclusion, this all adds up to a changed bottom line for the development community. We must think results – how to get the biggest development return from our scarce resources. We must think sustainability – how to have enduring development impact within an environmentally sustainable framework. We must think equity – how to include the disadvantaged. We must focus not on the easy projects, but on the difficult – in northeast Brazil, in India's Gangetic Plain, and in the Horn of Africa. Projects there will be riskier, yes. But success will be worth all the more in terms of including more people in the benefits of development – and giving more people the chance of a better life.

The World Bank Group's Response

How is the Bank Group responding to the Challenge of Inclusion?

Last year, I said that if the Group was to be more effective, it needed to change – to get closer to our clients' real needs, to focus on quality, and to be more accountable for the results of our work. This year, I want to tell you that it is happening. The Bank is not only changing, but the need for change is now fully accepted.

I know – and you know – that the Bank has tried to change before. But there has never been this level of commitment and consensus. We are building on the mission statement articulated by my predecessor, Lew Preston, whose untimely death prevented him from implementing his plans.

Earlier this year, we launched an action program – the Strategic Compact – to renew our values and commitment to development and to improve the Bank's effectiveness. I believe the Compact is historic. Not because there is agreement on every paragraph of the document; but because staff, management and shareholders – with terrific support from our Executive Directors – are now united on the future direction of the institution.

And while we still have a long way to go, and while change is painful – and some people are undoubtedly feeling that pain – implementation is well underway.

I really believe that this time we can succeed. And we will succeed because of our truly remarkable and dedicated staff. I do not believe a

better development team exists, or one with more experience in fighting poverty.

But the Compact is not primarily about our organization and internal change; it is about our clients and meeting their needs more effectively. To take this beyond rhetoric, we have decentralized aggressively to the field. By the end of this month, eighteen of our forty-eight Country Directors with decisionmaking authority will be based in the countries they serve – compared with only three last year.

We have speeded up our response time and introduced new products such as the single currency loan and loans for innovative projects of \$5 million or less that can be implemented very quickly.

Working with Michel Camdessus and our colleagues in the IMF – as well as with many other partners – we have prepared debt reduction packages worth about \$5 billion for six heavily indebted poor countries under the HIPC Initiative. Not bad for an effort that did not even have a name eighteen months ago. And we are moving speedily ahead to help other HIPC countries.

The New Bank is committed to quality.

We have put in place reinvigorated country management teams, with 150 new managers selected over the last six months, and rigorous training and professional development programs have been introduced for all staff. The International Finance Corporation (IFC) has also made major changes in management and is decentralizing to the field.

We have improved the quality of our portfolio, and as a result our disbursements reached a record level last year of \$20 billion.

And the quality of all our work is being enhanced by the progress we have made toward becoming a Knowledge Bank. We have created Networks to share knowledge across all regions and all major sectors of development. Our Economic Development Institute is playing a leading role in this area. Last June in Toronto, working with the Canadian Government and many other sponsors, EDI brought together participants from over 100 countries, for the first Global Knowledge Conference.

My goal is to make the World Bank the first port of call when people need knowledge about development. By the year 2000, we will have in place a global communications system with computer links, videoconferencing, and interactive classrooms, affording our clients all around the world full access to our information bases – the end of geography as we at the Bank have known it.

We are also promoting increased accountability throughout the Bank Group:

We have developed a corporate scorecard to measure our performance. We are closely monitoring compliance with our policies and continuing to work to improve the inspection process by making it more transparent and effective. And we are designing new personnel policies that explicitly link staff performance to pay and promotion.

We are also emphasizing accountability in the dialogue with our clients. Last year, I highlighted the importance of tackling the cancer of corruption. Since then, we have issued new guidelines to staff for dealing with corruption – and for ensuring that our own processes meet the highest standards of transparency and propriety. We have also begun working with a first half-dozen of our member countries to develop anticorruption programs.

My bottom line on corruption is simple: If a government is unwilling to take action despite the fact that the country's development objectives are undermined by corruption, then the Bank Group must curtail its level of support to that country. Corruption, by definition, is exclusive: It promotes the interests of the few over the many. We must fight it wherever we find it.

But key to meeting the challenge of inclusion is making sure not only that we do things right but that we do the right things. Earlier, I mentioned the strategic pressure points of change. Let me say a few words about what we are doing in each of these areas.

Human and social development. We are mainstreaming social issues – including support for the important role of indigenous culture – into our country assistance strategies so that we can better reach ethnic minorities, households headed by women, and other excluded groups.

We are participating in programs designed by local communities to address pervasive needs, such as the EDUCO basic literacy program in El Salvador and the District Primary Education Program in India, and these programs are being replicated by other countries.

We are increasing our support for capacity-building – particularly the comprehensive program initiated by the African countries last year.

Sustainable development. In the rural sector, which is home to more than 70 percent of the world's poor, we have completed a major rethinking of our strategy. Lending is now up after many years of decline, supporting innovative programs such as the new market-based approach to land reform in Brazil.

We are also supporting our clients' efforts to address the brown environmental issues – clean water and adequate sanitation – that are so often neglected but are so important for the quality of the everyday lives of the poor.

And, through the Global Environment Facility, the Global Carbon Initiative, and a new partnership with the World Wildlife Fund to protect the world's forests, we are continuing to advance the global environmental agenda.

The private sector. We are capitalizing on the synergies between the Bank, the IFC, and the Multilateral Investment Guarantee Agency (MIGA) and coordinating our activities under a single, client-focused service "window."

Across the Bank Group, we are building up our work on regulatory, legal, and judicial reform designed to help create environments that will attract foreign and domestic private capital. We are using International Bank for Reconstruction and Development (IBRD) guarantees to help support policy changes and mitigate risk, and we are expanding the product line of the International Development Association (IDA) to help poor countries develop their private sectors and become full participants in the global economy.

Meanwhile, the IFC is working in 110 countries, and in more sectors, employing more financial products than ever before. Last year saw \$6.7 billion in new approvals in 276 projects. The IFC's Extending the Reach Program is targeting thirty-three countries and regions that have received very little private sector investment. Again, the goal is clear: to bring more and more marginalized economies into the global marketplace.

MIGA, too, is playing an active and enhanced role. Last year it issued a record seventy guarantee contracts for projects in twenty-five developing countries, including eleven countries where it has not worked before. I am delighted that yesterday the Development Committee agreed to an increase in MIGA's capital that will allow it to continue to grow.

The financial sector. This pressure point has been brought sharply into focus by recent events in this region. Here too we are scaling up our work in coordination with the IMF and the regional development banks for the simple reason that when the financial sector fails, it is the poor who suffer most. It is the poor who pay the highest price when investment and access to credit dries up, when workers are laid off, when budgets and services are cut back to cover losses.

But success in the financial sector requires much more than the announcement of new policies or financial packages pulled together when crisis hits. This is why we are expanding our capacity for banking and financial system restructuring – not just for the middle-income countries, but taking on the larger task of financial sector development in low-income countries.

For those countries, home to the world's 3 billion poorest people, IDA remains the key instrument for addressing the Challenge of Inclusion. I will be coming back to you in due course to seek your support for the twelfth replenishment of IDA.

Conclusion

I believe we have made considerable progress in putting our own house in order in preparation for the challenges of the new millennium.

1997 has been a year of significant achievement. We must push ahead with this process. We must make sure that we deliver next year's work program, that we strengthen the project pipeline and increase the resources going

directly to the front line. And we must implement our recently completed cost-effectiveness review.

But the time has also come to get back to the dream. The dream of inclusive development.

We stand at a unique moment in history when we have a chance to make that dream a reality. Today, we have unprecedented consensus on the policies that need to be put in place for sustainable and poverty-reducing growth. Today, we have clear and unambiguous evidence of the economic and social linkages between the developing and the industrial worlds. Today, we face a future where, unless we take action, our children will be condemned to live in a degrading environment and a less secure world. All we need today is the determination to focus on tomorrow and the courage to do it now.

As a development community we face a critical choice.

We can continue business as usual, focusing on a project here, a project there, all too often running behind the poverty curve. We can continue making international agreements that we ignore. We can continue engaging in turf battles, competing for the moral high ground.

Or we can decide to make a real difference.

But to do that, we need to raise our sights. We need to forge partnerships to maximize our leverage and our use of scarce resources. And we need to scale up our efforts and hit hard on those areas where our development impact can be greatest.

We at the Bank Group are ready to do our part. But we cannot succeed alone. Only if we work together will we make a dent. Only if we collectively change our attitude will we make that quantum leap. Only if, in board rooms and ministries and city squares across the globe, we begin to recognize that ultimately we will not have sustainable prosperity unless we have inclusion, will we make it happen.

Let me end where I began: in that favela in Brazil. What I saw in the faces of the women there I have also seen on the faces of women in India showing me passbooks for savings accounts. I have seen it on the faces of rural cave dwellers in China being offered new, productive land. I have seen it on the faces of villagers in Uganda, able for the first time to send their children to school because of the private profit they can now make through rural extension schemes.

The look in these people's eyes is not a look of hopelessness. It's a look of pride, of self-esteem, of inclusion. These are people who have a sense of themselves, who have a sense of tradition, who have a sense of family. All they need is a chance.

Each one of us in this room must take personal responsibility for making sure they get that chance. We can do it. For the sake of our children, we must do it. Working together, we will do it.