THE EVOLVING ROLE OF THE WORLD BANK

The Challenge of Africa
The World Bank Group

The World Bank Group is a family of multilateral development institutions owned by and accountable to member governments. These governments exercise their ownership function through Boards of Governors on which each member country is represented individually. All the powers vested in the Board of Governors, with a few exceptions, have been delegated to Boards of Executive Directors, who are appointed or elected by member governments. The President of the Bank Group is appointed by the Executive Directors.

The World Bank Group today includes five international organizations:

The International Bank for Reconstruction and Development (IBRD), the original institution in the group, opened its doors for business in 1946. Today, it is the largest source of market-based loans to developing countries and is a major catalyst of similar financing from other sources. It lends to governments or to private entities with government guarantees. It is funded mainly through borrowings on the international capital markets.

The International Finance Corporation (IFC) was established in 1956 to support private enterprise in the developing world through the provision and mobilization of loan and equity financing and through its advisory activities relating to, among other things, capital market development and privatization. IFC is also a major catalyst of both local and foreign private investment. Its lending and equity investment activities are based on the principle of taking market risk along with private investors. Under the terms of its Articles of Agreement, it cannot accept government guarantees.

The International Development Association (IDA) was created in 1960 to provide finance on concessional terms to low-income countries that lack creditworthiness for IBRD borrowing. IDA is primarily funded from grants it receives from donors in periodic replenishments.

The International Centre for Settlement of Investment Disputes (ICSID) was added to the World Bank family in 1966 to provide conciliation and arbitration services for disputes between foreign investors and host governments that arise directly out of an investment.

The Multilateral Investment Guarantee Agency (MIGA) was created in 1988 to provide noncommercial investment risk insurance and technical services that help promote investment flows. It also disseminates information on investment opportunities.

As is now common practice, the "World Bank" or simply the "Bank" are used interchangeably to mean both IBRD and IDA. The "World Bank Group" refers to IBRD, IDA, IFC, ICSID, and MIGA.
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Foreword

The world has changed dramatically over the last five decades and so has the World Bank. The Fiftieth Anniversary of the World Bank has provided us with an opportunity to reflect on and learn from the Bank's experience and to apply the lessons to the Bank's future agenda.

This series of essays is devoted to improving understanding of the evolving role of the World Bank. Each essay analyzes the Bank's approach to the major development challenges its borrowing countries have faced, starting with the reconstruction and development needs of Europe and Japan in the 1940s and 1950s and ending with the transition of Central and Eastern Europe and the former Soviet Union. One essay examines the evolution of the Bank's relations with the world's capital markets as it mobilizes private savings for development. An overview paper provides a picture of the fifty-year period as a whole.

The story that emerges is one of an evolving and learning institution that has built on its successes and its mistakes. The Bank has responded with vigor and energy to the challenges confronting its borrowers. In this process, it has made a significant contribution to the impressive developmental gains recorded in these past fifty years. In responding to those challenges, the Bank itself has changed, learning from its experiences, deepening its understanding of the development process, and recasting its analytical and financial support to help its borrowers better.

The Bank will continue to nurture its tradition of self-evaluation and learning. These essays will, I hope, contribute to a better-informed debate on the Bank's future role. They complement the recently issued paper, The World Bank Group—Learning from the Past, Embracing the Future, which sets out the future directions for the Bank Group.

Armeane M. Choksi
Vice President, Human Resources Development and Operations Policy, and Chairman of the Bank Group Committee on the 50th Anniversary
The Challenge of Africa*

Ishrat Husain

The World Bank’s involvement in Africa has spanned three decades and been wide-ranging. It has included direct lending in support of production, economic and social infrastructure, and policy reforms; “intellectual activities” (research and studies) that contribute to the diagnosis of problems and to the definition of priorities and policies of borrowing countries, donors, and the Bank; aid coordination and mobilization of resources; and technical assistance and capacity building.

Development outcomes are a product of a wide range of factors (economic, political, geographic, institutional, and cultural). External finance and advice is only one element. Moreover, institutional and economic change takes time, and given the shortness of the Bank’s intense involvement in Africa, it may be too soon to arrive at a definitive judgment. This paper attempts, nevertheless, to document Africa’s development record since the inception of Bank–Africa relations. It examines the distance that the African region has traveled, identifies key elements of the current situation, both promising and distressing, reviews the Bank’s involvement and how it has evolved, and assesses prospects and implications for the Bank’s future involvement in Africa.

*Throughout this paper, Africa refers to Sub-Saharan Africa.
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For almost all, economic planning was a means of achieving rapid, inward-oriented economic growth.

Hope and Despair

Africa’s record of the past thirty to forty years is one of advances and reversals. Wealth has been created and destroyed, institutions revitalized and atrophied, and economies stabilized, destabilized, and restabilized. The current situation is one of both hope and despair. The installation of a democratically elected government in South Africa, after centuries of racial discrimination and minority rule, is a promising prospect for the Southern part of the continent. At the same time, the mass carnage and upheaval in Rwanda reminds us of the fragility of the nation state and the importance for government to have the writ of its authority.

Most countries in Africa became independent around 1960, a few much later. Many of the new African governments believed that they had to intervene in the economy to mobilize resources, establish industries, and accelerate public investments. For almost all, economic planning was a means of achieving rapid, inward-oriented economic growth; the state was the instrument of such planning. Development meant the mobilization of capital for industry, which would, in turn, benefit from protection against the industrialized economies. Such African socialism took root in Angola, Benin, Congo, Ethiopia, Ghana, Guinea, Guinea Bissau, Mozambique, Tanzania, and Sao Tome and

Figure 1 Key Social Indicators in Africa

<table>
<thead>
<tr>
<th>Life expectancy at birth</th>
<th>Infant mortality rate</th>
<th>Adult literacy rate</th>
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<tbody>
<tr>
<td><strong>1960</strong></td>
<td><strong>1992</strong></td>
<td><strong>1970</strong></td>
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<td>65</td>
<td>60</td>
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<td>45</td>
<td>120</td>
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<td>40</td>
<td>40</td>
<td>110</td>
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</tbody>
</table>

All developing countries

Sub Saharan Africa

All developing countries

Sub Saharan Africa
Principe. Even such mixed economies as Côte d’Ivoire, Cameroon, and Kenya adopted planning and substantial state intervention in marketing, agriculture, labor markets, external trade, public enterprises, and so on.

Africa’s development record over the past thirty to forty years is mixed. Most social indicators have improved, particularly education and health indicators (Figure 1). Illiteracy and infant mortality are sharply down, and average life expectancy has increased by more than ten years. There has been economic progress, too (Figure 2 and 3). The real GDP of the continent is 2.3 times larger today than in 1965, not counting the output of the unrecorded sector which has exploded in recent years and is estimated to be as large as one-third of the recorded output in some countries. New physical infrastructure facilities (airports, highways, telecommunications, ports, power stations) have been built in most African countries, although maintenance has not always been adequate. Agricultural research, supported through the Consultative
Economic growth has been much slower than in other developing regions, even that began with similar handicaps.

Group on International Agricultural Research (CGIAR) by the Bank and other donors, has generated new varieties and techniques, albeit on a modest scale compared to Asia.

Lastly, there has been appreciable political progress. Twenty-three African countries are at various stages of political liberalization, transforming from military controlled or narrow, one-party authoritarian regimes to more participatory, broad-based, multi-party systems. A few years ago only four countries had a democratic regime. Freedom of press, freedom of association, discussion of human rights and civil liberties, and increased participation of civil society in the decisionmaking process are gaining acceptance in most African countries.

The tendency in discussions on Africa is to ignore the successes and focus on the failures. For example, economic growth has been much slower than in other developing regions, even those that started out with similar handicaps. The gap between Africa and Asia has widened although the two regions began with similar conditions and natural resource endowments and faced the same external trading environment. The benefits from advances in trade expansion, technology diffusion, and financial market integration have not been captured in Africa to the same extent as in other developing regions. Africa’s share in world trade has declined from 3 percent to 1 percent; foreign direct investment flows remain extremely low, at 1 to 2 percent of the world’s total; and the continent has not seen any technological breakthrough on the scale of the Green Revolution in Asia.

Furthermore, population growth has accelerated; environmental stress has risen; and productivity gains have been weak or absent. The rise in population growth is a consequence of improved health which, in the absence of rapid economic growth, may increase poverty in the short run, though not in the long run.

There is no single explanation for Africa’s economic decline. The African panorama is diverse. The continent consists...
of forty-six countries ranging from Nigeria, with 100 million people, to Sao Tome and Principe with a few hundred thousand. Progress has been uneven across countries, within countries, and over time.

- **Small island economies.** There are ten countries with populations of 1 million or less—most of them small island economies with special economic characteristics and problems. Depending on a handful of major events—external or internal—there have been wide swings in the performance of this group.

- **Countries experiencing man-made disasters.** Ethnic strife and prolonged civil wars have almost destroyed the economic, social, and physical infrastructure of another ten countries. Normal economic and social conditions in these countries can only follow from the restoration of security, law and order, and some semblance of political stability. Even then, sustained economic growth will take time.

- **Countries prone to natural disasters.** From time to time, natural disasters, such as drought, desertification, and floods, have played havoc in many parts of Africa, mainly in the fragile ecological zones of the Sahel and the Horn of Africa. The 1992 drought in Southern Africa, however, showed that the economic costs and large-scale human sufferings of these natural disasters can be averted by advance planning and coordination.

- **The CFA Zone countries.** There are thirteen former French colonies with larger economies, part of a common monetary arrangement with a currency freely convertible at a fixed exchange rate. Until January 1994, the currency of the CFA zone had become seriously overvalued and member countries were unable to make full use of policy instruments at their disposal. With the recent devaluation of the CFA franc, the situation has been rectified, but the future of these economies will depend on the supply response to this important policy change and other adjustment measures they will undertake.
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Either all the difficulties were blamed on economic mismanagement and poor domestic policies or they were laid at the door steps of a hostile external environment.

- Countries pursuing structural reforms. The remaining thirteen larger economies, mainly Anglophone countries, have been on a course of structural adjustment for the past several years and have seen some positive results in growth, export expansion, and agricultural production.

The 1960s were a period of calm and tranquillity for most African countries so far as economic policies were concerned. Since then, there have been wide variations. Botswana and Mauritius have performed well steadily. Three star performers of the 1970s—Côte d’Ivoire, Kenya, and Malawi—had serious difficulties in the 1980s, while the poor performers of the earlier period (such as Ghana, Tanzania, and Uganda) turned around to make significant progress. It is yet to be seen whether this improved performance can be sustained in the 1990s.

Why has Africa lagged behind other low-income regions? The debate that took place in the 1980s to explain Africa’s economic difficulties revealed a range of viewpoints, and some of the most strident voices were also the most extreme. Either all the difficulties were blamed on economic mismanagement and poor domestic policies or they were laid at the door steps of a hostile external environment symbolized by declining terms of trade, severe indebtedness, and primary commodity specialization. The consensus that emerged is that many factors have contributed to Africa’s situation, including:

- The pursuit of an economic ideology represented by central planning, state controls and ownership, protection and discretionary regulation. This model created harmful social and economic consequences as it became entangled with kleptocratic governments in a number of African countries.

- Leadership in Africa was too preoccupied with consolidation of power and in some instances, with building nation states. The attention given to a long-term economic vision was at best sporadic and in most cases scanty. The harmful effects of poor governance on
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Economic outcomes were not recognized at the time by either the leaders or the external donors.

- Institutional decay in Africa occurred at a much more rapid pace than elsewhere. A fast expansion of the state sector ignored the quality of personnel, shrinking the number of professionals within the civil service. The large-scale intrusion of external donors and the fragmentation of donor assistance accentuated the problem.

- The severe burden of external debt and the falling prices of major commodity exports did not permit those African countries embarked on the reform path a sufficient cushion for quick recovery and rapid growth.

The external environment became onerous at the time when most African countries were just beginning policy reforms. The pressures of political transition also slowed the speed of economic recovery implementation in many cases. As a result of these and other factors, there is now a broad consensus that Africa did not invest enough in its people, utilize its resources efficiently, or adequately respond to outside shocks.

Figure 4 Net Resource Flows to Sub-Saharan Africa, 1970–1973

Sub-Saharan Africa received over one fourth of World Bank net flows in 1993.

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<tr>
<td>Flows (US $ billions)</td>
<td>0.0</td>
<td>2.0</td>
<td>4.0</td>
<td>6.0</td>
<td>8.0</td>
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Total World Bank net flows

World Bank net flows to Sub-Saharan Africa

Sub-Saharan Africa received 19.9% of the net flows from the World Bank between 1970 and 1993.
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The Bank has approached the problems of Africa with the best combination of hands-on experience and intellectual tools available at the time; through its successes and failures, the Bank has learned and incorporated these lessons respond to outside shocks. It is true that Asia's human capital base was much stronger than Africa's in the 1960s, but this could have been corrected in several African countries if other factors were in place, such as political and economic stability, adequate levels of investment, and a deliberate policy of investing in human resources. Unfortunately, ineffective functioning of institutions and a weak government machinery did not permit this.

The World Bank role in Africa has evolved over time and been shaped according to changing circumstances. Subsequent discussions detail Bank responses during the various periods but, at this stage, it may be useful to provide an overview. The Bank has approached the problems of Africa with the best combination of hands-on experience and intellectual tools available at the time; through its successes and failures, the Bank has learned and incorporated these lessons.

In the 1960s, most African countries enjoyed a fairly stable and tranquil economic situation. The new governments were in the process of defining themselves. As they fought for independence, most African leaders identified the private sector-driven model of economic management with the former colonial powers. Thus, they opted for the state-led model, suppressed private initiative and enterprise, and used the state's economic apparatus to win political favors and consolidate their power. What little Bank lending occurred in Africa in the 1960s was for capital investment in economic infrastructure.

The oil price shocks of the 1970s, coupled with the broadening of the Bank's internal agenda, prompted increased inflows of resources for a variety of activities in diverse sectors such as agriculture, education, and rural development, together with lending for public enterprises. But the results were generally disappointing—most countries began heading toward inevitable economic decline due to the expansion of state enterprises, close regulation of
economic activities, allocation of resources through administrative fiat, increased rent-seeking by privileged few, and the elimination of private sector elements that could have compensated for these shortcomings. It was not yet realized that the growing economic and financial crisis faced by most countries in Africa was not a result of adverse external shocks but stemmed from underlying economic and structural weaknesses including the build up of a large unproductive civil service.

In the early 1980s, a major study undertaken by the Bank analyzed the roots of the economic malaise in Africa. But the Bank's diagnosis and suggested remedy was hotly contested and only in the last few years has there been some convergence to the view that macroeconomic stability, incentives to agriculture producers, liberal trade and exchange rate regimes, and a deregulated economy are necessary for resumption of economic growth in Africa. The Bank, along with other donors, has begun to address this agenda of economic restructuring with its financial and intellectual resources. Yet skepticism about this approach, especially from the NGO community, has remained unabated.

In the 1990s, new modes of operating have been introduced as poverty alleviation and environment moved to center stage, governance issues were incorporated into aid coordination, and sectoral modes of operations were introduced to combat the fragmentation of donor investment. The challenge for the Bank is to use the whole array of instruments at its disposal—lending, advice, technical assistance, and coordination—in a pragmatic and responsive manner.

**The Bank's Lending**

The World Bank has provided US$49 billion to Africa since it began lending to the continent in FY1951. Most has gone to agriculture, human development, and infrastructure. Average annual commitments have risen from US$160 million in the late 1960s to US$3.4 billion in the early 1990s. Almost
90 percent of new commitments in recent years have been on soft, highly-concessional terms (with forty-year repayment, ten-year grace periods, and a 0.75 percent service charge). The Bank and IDA accounted for 9.6 percent of net resource flows (including grants) to Africa in 1991-92 and for 48.1 percent of net concessional flows on debt. FY1992 net flows from the Bank and IDA are nearly $1.7 billion, compared to the annual average of $226 million in the 1970-75 period or nearly twice the level in real terms.

1960s—A Supporting Role

In the first phase of its association with African countries, the Bank played a supporting (but limited) role for several reasons. First, the main instruments deployed by the Bank financed economic infrastructure projects—ports, highways, electric power, and other public utilities. The Bank's philosophy at the time was that investment in infrastructure was a precondition for development. Between 1961 and 1965, three quarters of all Bank lending was for electric power and transportation; only 6 percent went to agriculture and 1 percent to social services.

Second, most African countries were just emerging from colonial rule, and their priorities lay in taking control of the essential elements of a new state—law and order, security, civil service, tax collection, and so on. Economic development did not figure prominently. For some countries, disillusionment with former colonial powers meant that the Bank—perceived to be a Western institution—had to be kept at a distance in economic policymaking.

Third, most African countries were eligible to borrow principally from the soft-loan window of the Bank, IDA, created in 1960. IDA, however, had only modest financial resources at that time, and the development problems of India and Pakistan loomed larger. These two countries accounted for a significant part of the population of the Bank's borrowers living below the poverty line; their development problems were daunting;
and while they badly needed external resources, they could not qualify for the hard terms of IBRD loans. By contrast, most African countries were considered better-off due to their sizable natural resources.

Finally, in the early part of its history, the Bank was fairly conservative in the ways it judged the performance and creditworthiness of borrowers, concentrating its portfolio in more creditworthy countries and emphasizing its more traditional role as a bank, rather than as a development agency. Only after 1960, following the creation of IDA, did the Bank's role begin to change, and the availability of concessional finance sway the Bank to initiate lending for projects with low financial, but high social, returns.

1970s—The Move Toward Development

With Robert McNamara at the helm, the Bank's role changed from a traditional bank to the world's largest lender for development in low-income countries. The number of projects financed, lending volume, sector coverage, geographical dispersion of activities, and size of Bank staff, all increased dramatically. This also brought about a change in the Bank's attitude and involvement in Africa. Mr. McNamara's Nairobi speech of 1973, was a turning point, changing the Bank's focus from the financing of traditional infrastructure projects to the alleviation of poverty. Project lending for rural development, basic education, basic health, and low-cost housing increased dramatically. By 1981, lending for agriculture and rural development had grown to a third of total Bank lending, almost four times the level of such lending over the first twenty-two years of the Bank's existence. The share of infrastructure projects declined remarkably (from nearly 66 percent to 39 percent) by 1980.

At the same time, African (particularly oil-importing) countries, suffered two external shocks in 1973 and 1979. Africa's response to these oil price shocks was subdued—the recycling of petrodollars by the commercial banks at negative real interest
rates allowed domestic absorption to remain unchanged. Asian countries, on the other hand, embarked on retrenchment of government expenditures. The commodity price booms of the mid-1970s also helped postpone the immediate adverse effects of oil-price shocks. Reflecting these developments, net flows from the Bank and IDA to Africa by 1980 had risen to $707 million, or nearly 12 percent of net flows for the Bank and IDA as a whole.

Since 1980

The 1980s began with a serious financial crisis. The second oil price shock, combined with the cumulative impact of the large increases in public expenditures in the 1970s, led to high domestic inflation, balance-of-payments pressures, and severe external indebtedness. The Bank's approach to lending in Africa was heavily conditioned by that crisis, and by its decision to work selectively with countries willing to undertake reforms with the help of a new instrument: structural adjustment lending, in which financing of imports was provided in support of policy reforms aimed at addressing both short-term stabilization requirements and structural policy reforms.

The Bank's lending evolved in this period in three phases, reflecting modification of its approach as both borrowers and the Bank learnt from their new relationship. The first phase, in the early 1980s, emphasized adjustment lending in support of what were largely IMF stabilization programs. The second phase, (in the mid-1980s) recognized the importance of structural policy reform to restore growth, and the need to protect the poor during adjustment. The third phase, in the late 1980s, recognized that reform efforts need to be accompanied by long-term policies that support direct poverty reduction and investments in people, institutions, and infrastructure to ensure adequate outcomes.

Over time, both adjustment and project lending have grown more poverty-focused.
increased attention to social safety nets and restructuring public spending. The most common safety nets have comprised nutrition programs, labor-intensive public works, and targeted food subsidies. The restructuring of public expenditure has taken the form of maintaining or increasing the share of expenditures on social services, particularly basic social services. In most cases, the focus has also been on improving the composition of social spending. Loans are based increasingly on an assessment of how reforms will affect the poor—both during transition and in the long term. Operations are increasingly supporting the systematic collection of poverty data and the monitoring of the impact of adjustment on the poor. A growing number of adjustment loans include conditions for the release of tranches related to the country’s efforts to reduce poverty. The share of loans that include social sector conditionality increased from less than 5 percent of all adjustment loans in FY1984–86 to almost 30 percent in FY1990–92. In FY1992, eleven of the thirteen structural adjustment loans approved and three of the five sector adjustment loans contained tranche release conditions dependent on poverty reduction measures. Most of these conditions have stipulated the expansion or maintenance of public spending on social services.

Social funds and social action programs were originally established to protect those adversely affected by adjustment but can also operate as wholesale financing mechanisms that target the poor. Such interventions often help to increase political support for reform and mobilize external resources. The Bank has supported nineteen such interventions in seventeen countries, including eleven in Sub-Saharan Africa. Usually, these programs channel resources to small, demand-driven subprojects proposed by a local group (usually an NGO) or a local government agency. Typically, the programs involve local governments, private-sector groups, and NGOs in both design and implementation.
A recent evaluation of adjustment policies in Sub-Saharan Africa suggests that implementation has been uneven but that the countries that have consistently implemented these policies have witnessed a positive turnaround in growth of GDP, agriculture, exports, and industry. After almost a decade of reforms, important and positive changes have taken place in most African countries. Domestic price controls have been replaced by market-determined prices. Exchange rates, interest rates, producer prices, and other key prices are no longer administered by governments. Non-traditional exports are beginning to appear. Discrimination against and high taxation of agriculture have given way to improved incentives that have already arrested the long decline in domestic food production. There is some evidence, too, that the rural poor have benefited from these policy changes.

A useful instrument that evolved in the 1980s to underpin the allocation and efficient utilization of public-sector resources is the review of public expenditure undertaken by Bank staff in collaboration with African governments. These reviews focus on intersectoral and intrasectoral trade-offs and ultimately contribute to the restructuring of public expenditures. They examine the equity, effectiveness, and efficiency of planned spending in the context of the macroeconomic framework and poverty alleviation strategy. Possible imbalances between capital and recurrent spending, the impact on the conditions of the poor, and analysis of social safety net programs for cost effectiveness and coverage of target groups are key issues in the underlying policy dialogue.

The Bank's initial adjustment loans did not explicitly take environmental sustainability into account, but a 1989 review of adjustment lending found no evidence that policy changes associated with such lending were related to environmental degradation. On the contrary, it concluded that adjustment programs appeared, on balance, to have a positive effect on the environment.
In the coming years, the Bank expects a stronger thrust in environment and in combined “population-agriculture—environment” projects. Adjustment lending accounts for only 30 percent of the Bank's total lending to Sub-Saharan Africa (although, in 1993, it was only about 22 percent), while 70 percent goes to investment and sector lending. In FY1991–92, more than 60 percent of total lending was allocated for investment in small-holder agriculture, human resource development, and infrastructure.

Procedures have been set up to categorize investment projects according to their environmental impact and to assess this impact upfront. To encourage African countries to incorporate environmental considerations into their economic planning and budgeting processes, the Bank has helped eleven countries complete National Environmental Action Plans and mobilize donor funding for their implementation. The Bank is currently helping twenty-two other countries to develop such plans. The Bank's policy concerning forestry is not to finance any projects in the sector unless they are demonstrated to be environmentally sustainable. The Bank has also pledged not to finance commercial logging in primary tropical rainforests.

Intellectual Leadership

In the 1970s, the Bank supported a variety of economic systems ranging from the mixed-economy approach of Kenya, Côte d'Ivoire, and Malawi to the Ujaama Socialism of Tanzania and the Derge Marxism of Ethiopia. The Bank was also directly and indirectly responsible for the creation of public enterprises and parastatals in many African countries, mainly to facilitate execution of Bank-assisted projects. Thus, the Bank's present market-friendly approach to development is not motivated by traditional ideology but has evolved over time and should be seen in light of several failures, and of the Bank's experience with its own projects, particularly in Africa. A satisfactory recipe has not yet been found for the
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enormous problems faced by Africa. The Bank's intellectual role, however, has followed an evolutionary but pragmatic path.

The Berg Report

In the early and mid-1970s, the attention of African policymakers and others was diverted, by necessity, toward finding ways to cope with the financial difficulties resulting from oil price shocks. In response the Bank designed the Structural Adjustment Lending instrument to provide quick-disbursing, balance-of-payment support. This marked a shift from the way the Bank traditionally provided assistance, namely by financing specific projects. To sharpen the focus of this instrument, the Bank commissioned a major study of Africa's economic problems and prospects. This study, led by Elliot Berg, became known as The Berg Report. The report analyzed the respective roles of external factors and domestic policy failures, and concluded that serious policy distortions and poor economic management were the main reasons for the economic woes of Africa. It recommended that the donor community, including the Bank, provide financial support to those African countries making genuine efforts to reform their economic policies, remove policy distortions, and improve the quality of economic management.

The Berg report marked an intellectual watershed and provided the analytical underpinning for most structural adjustment lending by the Bank to African countries. The report, however, sparked heated controversy among African intellectuals and other Western academics, and not until the end of the decade was there a broader recognition among African governments of the need for policy reforms.

Structural Adjustment

The conceptual evolution which the Bank and its partners have undergone in the past ten years occurred in three distinct phases (Chart 1). In the first period, adjustment simply meant stabilization to
<table>
<thead>
<tr>
<th>Adjustment Period</th>
<th>Design Objective</th>
<th>Mode of Dominant Intervention</th>
<th>Constraints</th>
<th>Outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Period I Early 1980s</td>
<td>Reduction in external and internal imbalances</td>
<td>Conventional expenditure reduction policies.</td>
<td>*Foreign exchange to meet debt servicing and import requirements</td>
<td>No growth but improvement in external and internal imbalances.</td>
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<td></td>
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<td></td>
<td>*Recognition of lag on the part of recipients.</td>
<td></td>
</tr>
<tr>
<td>Period II Mid-1980s</td>
<td>Resumption of growth; increase in exports and agricultural output.</td>
<td>*Continuation of sound macroeconomic policies</td>
<td>*Commitments and ownership lag on the part of recipients.</td>
<td>Modest growth rates with reduction in distortions</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>*Trade, exchange rate, agriculture sector reforms; expenditure switching; improved efficiency of resource use.</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>*Depressed commodity prices, debt</td>
<td></td>
</tr>
<tr>
<td>Period III Late-1980s</td>
<td>Higher but sustained growth rates with reduction in poverty and in aid dependence.</td>
<td>*Consolidation of sound macroeconomic policies.</td>
<td>*Implementation lag</td>
<td>Not yet known</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>*Continuation of structural policies.</td>
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<td></td>
<td></td>
<td>*Private sector development, capacity building, mobilization of domestic resources.</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>*Increased social expenditures and social safety nets.</td>
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reduce external and internal imbalances. The dominant mode of intervention in the early 1980s was expenditure reduction, the normal means of stabilization. Unfortunately, most countries did not have enough foreign exchange to meet debt service and import requirements. There was insufficient recognition among countries of the importance of stabilization. In many countries, there was even internal dissent and questioning about stabilization as urged by the IMF and the World Bank.

As a result, in this first phase of adjustment programs there was little or no growth, although there were improvements in the external and internal imbalances—mainly through import compression, cuts in domestic expenditures, and accumulation of arrears on domestic and external debt. It is relevant to stress that the Bank has followed prevailing theoretical and analytical insights to underpin its work. In many instances, it has used its rich cross-country experience to shed new light. But in the case of the structural adjustment, no single universal model has emerged to suit diverse country circumstances; it is a learning-by-doing process.

By the mid-1980s, adjustment program design was improving, and with the launching of the Special Program of Assistance in 1987 (see below), adequate external financing for these programs was assured. Something had to be done if growth in imports, investment, and exports was to resume. The strategy was to help borrowers continue the same macroeconomic stabilization policies but to supplement them with trade, exchange rate, and agricultural reforms, and to reallocate public sector expenditures to improve the efficiency of resource use (weeding out "white elephant" projects and low-priority recurrent expenditures). The supply-side measures emphasized improved incentive structure; deregulation and demonopolization of domestic trade; decontrol of prices; and elimination of exchange controls, import licensing, and non-quantitative barriers to external trade.
The Challenge of Africa

The Bank responded to the critique of the absence of social safety nets, and the need to protect the poor from transition costs of adjustment by launching the Social Dimensions of Adjustment (SDA) program directed towards Sub-Saharan Africa (SSA). Since 1990, the Bank has adopted a more comprehensive focus on poverty reduction with a two-pronged strategy that aims at broad-based economic growth to generate efficient labor demand and improve access to education, health, and other social services to increase the poor's income-earning opportunities.

The current phase of structural adjustment combines the efficiency-improving policies of the first phase with general concerns for poverty reduction, protecting the poor and disadvantaged in the transitional period through social safety nets, and reallocating public expenditures towards priority sectors, such as education and health. Reforms of public enterprises, and financial and public sector management also occupy a bigger place in this phase.

The Long-Term Perspectives Study

To shed some light on the controversy about structural adjustment and to place it in the context of a long-term development agenda, the Bank completed a Long-Term Perspectives Study (LTPS) in 1989. The study was carried out in consultation and collaboration with African policymakers, intellectuals, donors, and other international organizations. It was the first attempt to arrive at a consensus on what needs to be done in Africa to achieve sustainable growth of 4 to 5 percent annually over the next twenty years.

The strategic agenda developed in the Long-Term Perspectives Study put forth the following: (a) structural adjustment programs are no more than a beginning; (b) economic reforms, though necessary, do not fully address long-term constraints; (c) programs must protect budget expenditures on human resource development; (d) the goal of structural adjustment programs should be to achieve sustainable growth.
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macroeconomic balance as well as a transformation of Africa's production structures; and (e) an enabling environment should support the informal sector in generating income and employment.

The differences of views on Long-Term Perspectives Study prescriptions relate to policy instruments rather than to goals. The Bank insists that the roles of price incentives, open and well-functioning markets, a competitive environment, trade liberalization, realistic exchange rates, and the private sector are critical. Those opposed to the Bank's policies believe that markets and prices cannot solve equity questions, and will in fact complicate them, even if the poor have access to assets.

The most important contribution of the study was to address candidly for the first time the issue of governance. The experience with implementation of adjustment programs in Africa confirmed that governance had to be a central concern in promoting growth. To work, adjustment programs require not only technical efficiency, but political commitment by leadership to implement (and, therefore, accept) sweeping reforms. The study recommended that without transparency, accountability, predictability, and rule of law, it would not be possible for African countries to make any tangible progress in sustainable and equitable development.

Helping the Poor

At the onset of the 1990s, the overall framework in which the Bank operated changed. There is no longer any disagreement over the fact that economic growth is necessary for poverty reduction, but concerns have been expressed that the environmental conservation approach, stressed by donor country governments and a large number of NGOs, ignores the inevitable trade off between economic growth for the benefit of the poor and for environmental sustainability.

The debate on adjustment and poverty in Africa has progressed without the benefit of solid empirical data. But experience from other
developing countries suggests that sustained per capita income growth is a necessary condition for sustainable poverty reduction, and the implementation of adjustment policies (including fiscal and monetary restraint) is necessary for the resumption of such growth. Few countries have been able to reduce poverty in the absence of rapid growth—that adjustment policies work against poverty reduction is fallacious. Insofar as these policies create conditions conducive to rapid economic growth of the type that use land and labor—the two factors that most of Africa's poor possess—\textsuperscript{10} the overall effect of adjustment on the poor would be positive.

The pace of adjustment in each country is shaped by an awareness of the dangers of institutional, social, and market damage from overly quick shifts, and the difficulties of obtaining enough external funding (on soft terms) for a long enough period to allow a less compressed time scale. The evidence of increased debilitation, more sluggish responses, and a less favorable external environment than anticipated has led to a steady lengthening of structural adjustment programs.

Overly rapid measures did not succeed in Africa due to factors unique to the region, not because they were inherently wrong. Weak institutional and implementation capacity, deep-rooted structural rigidities in factor markets, an embryonic private sector, underdeveloped capital markets, lack of consultation and consensus among the rulers and the public, and the fear of economic domination by ethnic minorities or foreigners all contributed to dampen program outcomes.

It has taken many years of debate, dialogue, and demonstration from other parts of the world for most African countries to be convinced about the need for structural adjustment. Although a few countries embarked upon limited reforms in the early 1980s, it was not until later in the decade that a majority of countries decided to undertake more wide-ranging adjustment measures. A dozen countries...
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which have implemented sound policies steadfastly and consistently have successfully turned their economies around. But the region's overall results have been less encouraging and the sustainability of reforms remains tenuous. Despite a positive turn around in more than half of the countries in the region, growth rates lag well behind those of adjusting countries elsewhere. Private investment response, needed to sustain economic recovery and growth, has not been adequately forthcoming. Adjustment efforts in the best performing countries remain dependent upon large donor transfers and the movement of international commodity prices. Moreover, policy change has lagged behind rhetoric—implementation has often proved more precarious than planning. Finally, as Rothchild and Chazan argue, "there is a crisis of political authority that is just as severe as the well-known crisis of economic production. These two crises are intimately interrelated, each being both a cause and an effect of the other." 1

Mobilizing Resources

The Bank's experience with external donor assistance to adjustment programs revealed several weaknesses and a widening gap between the demand for these resources by the recipient countries and the fragmented and inadequate donor supply. The Bank therefore took the lead and established one of the most successful mechanisms for mobilizing external resources and coordinating of aid flows to African countries that are implementing sound economic policies and undergoing economic reforms. Since 1987, when the Special Program of Assistance for Africa (SPA) was launched, the Bank has played a leading role in securing adequate financial resources for low-income, debt-distressed countries. The Special Program of Assistance for Africa was established and has grown on the basis that it would help provide not only the additional financial resources needed but that, through strengthened aid coordination, it would add to the quality and hence the effectiveness of lending. The
program's conceptual framework included the following:

- Donor consultation on the design of adjustment programs at an early stage and more opportunity to participate in Bank missions.

- Preservation of the distinct identity of individual donors and their financial support.

- Greater attention to the social dimensions of adjustment, building on the initiatives the Bank took jointly with the UNDP, the AfDB, and bilateral donors.

- Closer collaboration between the Bank and the IMF, in particular through the formulation of policy framework papers.

- An appropriate balance between structural adjustment and sector adjustment programs.

- Sustainability of regular investment lending programs, along with adjustment programs.

- Firm criteria on country eligibility for participation in the SPA program with some flexibility at the margin.

The enthusiastic support for the SPA initiative can be gauged by the fact that, over six years, two phases of this program covering twenty-seven countries have been completed. New concessional resources totaling $9.2 billion have been disbursed by bilateral and multilateral donors other than IDA and IMF. There is hardly a significant donor to Africa today that operates outside this forum.

Considering the growing fragmentation of bilateral assistance for project and sectoral purposes, the SPA extended its coordination and monitoring to sectoral development lending while launching the third phase. Donors expect that this tool will improve the efficiency of sectoral lending to African countries.

In addition to the Special Program of Assistance for Africa, the Bank organizes and chairs Consultative Group
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Different approaches ... have all lacked one essential ingredient: they have not incorporated the central feature of building indigenous capacities—skills, knowledge, and institutions.

meetings for several countries in Africa. Eleven such meetings took place in FY1994. The scope of these groups has evolved over time to offer greater opportunities for exchange of views and consultations on overall country strategy and the direction in which each country is moving.

Building Capacity

Recent Bank studies have shown an erratic, intermittent course of policy reform implementation in most African countries. The reasons for this uninspiring record are twofold. In countries where the governance apparatus is dominated by the interests of the privileged groups which benefit from current policy distortions, the political commitment to bring about fundamental changes is lacking. On the other hand, there is a small group of countries where governance issues do not loom large, and where the leadership is genuinely interested in implementing reforms. In these countries, the bureaucracy and many domestic institutions lack the capacity to identify relevant options, analyze consequences, make appropriate choices, and follow those chosen. The continued substitution of expatriate personnel for local thinking and implementation produces short-term "blips" that satisfy the sponsoring donors, but a long-lasting change in policies or institutions is rare. Any move towards sustainable economic growth will depend on each country building technological capabilities and competence in overall economic management.

The different approaches applied in Africa by both donors and recipient countries have all lacked one essential ingredient: they have not incorporated the central feature of building indigenous capacities—skills, knowledge, and institutions. Experience shows that despite political ups and downs, the more successful countries in other parts of the world have managed to invest consistently in human capital and institutions. As a result, they have been able to exercise more control over economic events and greater autonomy in economic decisionmaking.
Africa has been treated differently and suffered as a result. External technical assistance to Africa, mainly in the form of long-term expatriate advisers and resident consultants, has increased by 50 percent since the mid-1980s and now stands at around US$4 billion a year. About 100,000 expatriate technical advisers work in Africa today, while an equal number of African professionals have emigrated elsewhere. Excessive reliance on external technical assistance, coupled with the "brain drain," has impaired the nurturing of local African expertise. Typically, externally funded projects, including the Bank’s, have been prepared by expatriate consultants or firms, appraised by the Bank or donor staff, operated with the help of long-term expatriate staff, and supervised, monitored, and evaluated by Bank or donor staff. The project-executing agencies were established independent of the government's normal procedures, budgetary controls, and supervision. This, of course, expedited the fulfillment of project objectives in the time-frame laid out by the donors, but the lack of local ownership of the project and, most important, the absence of domestic capacity to manage projects after the donors had withdrawn resulted in many failures. Thus, the Bank has had to rethink its approach to the project cycle, consider ways to involve the recipient countries in the whole cycle, and minimize the use of long-term expatriate experts by relying more on domestic expertise, and strengthening that expertise through training.

In 1991, the Bank, together with the UNDP and the African Development Bank, established the African Capacity Building Foundation to help African countries with institution building and the training of their nationals. This initiative will need to be supplemented by the greater emphasis now being placed on human resource development and the redirection of external technical assistance. The Bank's own technical assistance program is being revamped and the existing mode of delivery is being replaced. The "training and visit" system of agricultural extension, for example, uses local institutions and expertise,
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has a continuous training and
skill upgrading program for
extension workers, and is
closely linked with agriculture
research institutions. Reliance
on outside experts is minimal,
sporadic, targeted at specific
skills not locally available, and
accompanied by steps to ensure
that these skills are transferred
to local institutions.

There is not as yet widespread
agreement about the need to
modify the traditional
approach of external technical
assistance. The Bank is work-
ing with other donors in this
difficult area, but the results
are not yet encouraging.

Lessons from past experience
in Africa and successful models
elsewhere suggest that a
flexible, evolving, and
comprehensive approach, in
which African participation is
enhanced and given the leader-
ship role, is the only viable
means of sustaining domestic
capacity building efforts.

Unfinished Agenda

The most daunting challenge
facing African countries is to
reduce the incidence and depth
of poverty. The Long-Term
Perspectives Study’s agenda is
still valid, but whether it can be
implemented on a sustainable
basis is uncertain. What instru-
ments can be applied to
achieve the objectives? What
are the respective roles of the
state and the private sector?

How can external donors and
the international community
support the Long-Term
Perspectives Study’s agenda?
And what is the role of the
Bank in advancing it?

At present, the outlook is
uncertain. Even in countries
with sound policy reforms,
economic growth is inadequate
to make a serious dent on
poverty. Most countries are
still suffering from a conflu-
ence of poverty, malnutrition,
high population growth,
unemployment, and deteriorat-
ing social indicators. For them,
the resumption of growth is
the first and foremost task.

The scenarios for Africa’s
growth performance at an
aggregate level mask the great
variety among subregions as
well as among individual
countries. Constraints and
challenges vary by country, and
the real issue is whether the
twenty-six larger economies that appear less vulnerable to natural and man-made disasters can accelerate overall growth.

Promising events in the newly democratic South Africa are too recent to provide an accurate assessment of its impact on the Southern Africa subregion. But if South Africa's leadership continues to follow a path of prudent and rational economic management, it will provide a greater impetus to neighboring countries already pursuing serious economic reforms. The prospects for the Southern African countries look better now than they appeared in the last decade.

The quality of economic policies and institutions in the Eastern Africa subregion has also improved in the past few years. The liberalization and deregulation of economies, convertibility of currency, and enhanced incentives to the agriculture sector have laid the foundation for stronger growth. The gains can be accelerated if the existing reforms are consolidated, pending reforms are implemented, and a more open and participatory approach is adopted in decisionmaking.

The decision to change the parity of the CFA exchange rate has removed one of the major blocks to the revival of the thirteen countries in the zone. But the outcomes from this policy change are likely to vary. While most countries in the zone should not find it difficult to reverse their economic decline, the outlook for others is less certain. Much depends upon the intensity and the tenacity with which they are able to hold the line and put in place complementary measures to stimulate the economy.

A group of countries in the Western Africa region consisting of Ghana, Guinea, Sierra Leone, Mauritania, and The Gambia has also displayed economic performance standards that augur well for the future. Ghana illustrates the importance of sustaining consistency of purpose over the long-term. Although Ghana's performance has not always been timely and aggressive, particularly in pursuing liberalization and supporting the private sector, the government has stuck to the policies adopted.
liberalization and supporting the private sector, the government has stuck to the policies adopted, and in terms of results, this is proving to be more important than spurts of virtue, followed by massive lapses.

The remaining countries in the region are faced with uncertain prospects for a variety of reasons. Nigeria, the most populous country in Africa, demonstrated in the late 1980s that it can generate high rates of growth if it puts its house in order. But political instability in the country since 1992 makes it difficult to guess which path the country will travel.

Angola, Zaire, Sudan, Liberia, Somalia, Rwanda, and others are still mired in the quagmire of civil unrest, ethnic strife, and devastated physical infrastructure. It will take some time for these countries to achieve a semblance of order and security and revive the rudiments of institutions.

In spite of such differences in the prospects for various groups of countries, the response to four challenges will affect the prospects of all of Africa:

- How rapidly they are able to contain population growth rates. Current rates of over 3 percent per year are eating away much of the gains in GDP and constraining access to social services and basic amenities. Measures to limit population growth rates would help.

- How to diversify economies from dependence upon single or few commodities while managing the consequences of commodity price fluctuations in world markets. This will smooth income and consumption trends and avoid the volatility in foreign exchange markets.

- How to increase productivity in the agriculture sector so as to achieve food security and regain the lost market share in international trade. The link between a productivity increase across the sector and the incomes of small-holder farm households provides a powerful mechanism for alleviating poverty.
• How to establish economic policies and practices that enable the private sector in these countries to be competitive in regional and world export markets.

In order to address the constraints and the challenges faced by Africa, the Bank's role in the coming decades is to help African member countries advance the implementation of economic reforms, domestic capacity building, including human resource development, and governance improvement, with a redefinition of the role of the state. Determining the relationship in Africa between poverty alleviation and sustainable growth, and economic policy reforms via good governance, capacity building, and structural adjustment programs is a complex but critical task.

The lessons from successful developing countries and Africa's own past reveal an unresolved debate around the respective roles of state and market. The central issue is one of redirecting and redefining the role of the state in development. There is often a gap between the need for the state to act and its ability to do so, given prevailing fiscal difficulties, limited administrative capacity, and poor credibility.

Expanding domestic capacity, including an enabling environment for the private sector, would help to reinforce the Bank's quest for development effectiveness in Africa, and specifically for improving the implementation and results of Bank-assisted projects. The Bank's African portfolio has not met with great success relative to other regions, and various reviews have pointed to the connection between fiscal fragility and weak institutional infrastructure as a dominant cause. The Bank's current African agenda, having evolved gradually through the past decade, places great emphasis on domestic capacity building and improved governance as the building blocks for enduring changes in Africa's economic policies and institutions.

Africa is a continent endowed with a large untapped potential of natural resources—oil,
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If the younger generation in Africa chooses to equip itself to equal and compete with the rest of the developing world... the living standards of most of its people will improve and Africa will join the ranks of the emerging regions of the world.

minerals, and metals—fertile soils, and a population that is full of energy, vigor, and ingenuity. The recent expansion of its informal sector in response to economic incentives attests to this vitality. Due to the preponderance of small-holder agriculture in most African countries, income and asset distribution is more equitable than in Latin America or South Asia, and this makes the task of achieving shared growth more manageable under a right set of policies. The gap between the best practice technological frontier and the actual practices in Africa can also be transformed into a source of rapid growth.

The future of Africa will be largely determined by Africans themselves. If the younger generation in Africa chooses to equip itself to equal and compete with the rest of the developing world through productivity and technological gains, the living standards of most of its people will improve and Africa will join the ranks of the emerging regions of the world. On the other hand, if failed policies and the tendency to insulate Africa from competition and technological assimilation, protecting and preserving inefficient modes of production and consumption, and blaming the rest of the world for the economic ills continue, Africa will be marginalized. The World Bank and donor community should assist the efforts of those African leaders and countries intent on developing indigenous capacity to manage their economies in an open, participatory, and competitive way and thus help lift 250 million people out of poverty while preserving the environment.
Notes


2. (a) *World Bank Adjustment in Africa: Reforms, Results and the Road Ahead* (Washington, Oxford University Press 1994)


5. Throughout this analysis, it is assumed that there is a positive relationship between import levels and GDP growth; otherwise, the analysis would be untenable.

6. The SDA program was launched in November 1987 with funding provided by the World Bank, the United Nations Development Program, the African Development Bank, and several bilateral and multilateral agencies. The SDA program focused on setting up poverty monitoring systems (through the collection of household data) and supporting social action programs and social funds to alleviate short-term poverty caused by adjustment. The SDA program was merged in 1992 into a broader effort of alleviating poverty in African countries under the sponsorship of the Special Program of Assistance for Africa.


9. The concept of governance was further developed and elaborated in other Bank studies and presented in a paper to the Board in 1991 (See *Governance and Development*, World Bank, 1992).

10. More than 80 percent of Africa's poor live in rural areas.


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