STRATEGY FOR THE NINETIES:

SUSTAINABLE DEVELOPMENT TO REDUCE POVERTY

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INTRODUCTION

This is a unique opportunity for all of us. I welcome the effort to bring together the Economic and Social Council (ECOSOC) and key multilateral and trade agencies for an exchange of views on important global developments. This innovation will help greatly to strengthen our collaboration and effectiveness.

I would like to discuss our overall objective: to reduce global poverty and improve people's living standards. My principal focus will be on the three major elements of the strategy required to achieve that objective: promoting sustainable economic growth, investing in people, and protecting the environment. I will also report briefly on the World Bank and its role in implementing the strategy.

OPPORTUNITY FOR SOCIAL AND ECONOMIC ADVANCE

The last two and one-half decades have seen remarkable progress in the developing world. The per capita incomes of the poorest countries have doubled. Life expectancy has risen by ten years. Infant mortality rates have almost been halved. And with increased immunization rates, child death rates have decreased. Roughly half the population of the developing world live in China and India, and they are better off than they were 25 years ago -- the result of an average per capita GNP growth rate of 3.7 percent per annum.

At the same time, however, some 36 developing nations have lower per capita GNP now than they did 25 years ago. Over a billion people continue to live on about a dollar a day. The World Bank's most recent World Development Report estimates that if economic growth is low and recent trends in poverty continue, there could well be 200 million more poor people in the developing world at the turn of the century. Poverty, therefore, remains our most fundamental challenge.

The dramatic political changes of recent years offer the potential to address this challenge more effectively than ever before. Cooperation can replace confrontation. Resources that had been previously used for military or solely political purposes, for example, can be redirected towards reconstruction and development.

There has also been a shift in economic thinking. A consensus is emerging in favor of a "market friendly" approach to development. This is not a question of intervention versus laissez-faire. Experience indicates that competitive markets are the most efficient way of organizing the production and distribution of goods and services. But markets cannot operate in a vacuum. They require a legal and regulatory framework that only governments can provide. A strong government role is also needed to invest in infrastructure and provide essential services to the poor. It is not, therefore, a question of state or market. It is a question of complementarity between the two. The signs are that a better balance is emerging.
These various changes raise the prospect of a new era of social and economic advance. However, it is far from guaranteed. There remain enormous tensions in the international economic situation. The severe drought in Southern Africa, which has put the lives of over 100 million people at risk, is only one indication of the huge development challenge that continues to face Sub-Saharan Africa. The crises facing Eastern Europe and the republics of the former Soviet Union provide another example of the difficulties that lie ahead. And the recent Earth Summit in Rio reminded us of the serious national and global threats posed by environmental degradation.

Short term prospects for the world economy are also a matter of concern. While real interest rates are expected to be lower than the record levels of the past decade, they are still likely to remain high by historical standards and thus hamper developing country growth. Commodity prices are expected to remain weak for at least the next few years, thus sharply limiting the earnings of those countries that rely heavily on exports of primary goods. External finance will probably continue to be scarce. And access to private capital markets remains limited to the relatively small number of developing countries that are creditworthy.

If we are to overcome these obstacles and take advantage of the current opportunity to accelerate development, the international community must act with greater speed and effectiveness than in the past.

ECONOMIC GROWTH AND ADJUSTMENT

The first step is to promote sustained economic growth. Without growth, the resources necessary to reduce poverty and finance development will not be available. Sound policies are required to ensure growth. This means that the developing countries will need to continue their efforts to:

- First, support the climate for enterprise. Governments need to reduce their interventions in industrial and agricultural pricing, create a regulatory and legal environment conducive to entrepreneurship, and focus on ensuring adequate infrastructure and institutions.

- Second, there is a need to further open economies to international trade and investment. This calls for a reduction in non-tariff barriers to trade, substantially lower tariffs, and policies that encourage investment.

- Third, the developing countries need to improve their macroeconomic policies. Fiscal deficits and inflation must be kept in check. Incentives for saving and investment are also essential if domestic resources are to play their part in financing development.

At all income levels, the pursuit of growth in the face of severe macroeconomic imbalances cannot be sustained. Economic policy reform and adjustment programs are required to address these imbalances and establish the conditions for growth and long-term development. Experience indicates that countries which adjust promptly are the most successful.
Korea, Indonesia and Thailand, for example, adjusted quickly to external shocks -- and have achieved substantial social and economic gains. Other countries, such as Chile, Mexico, Argentina and Morocco, with heavy debt burdens and more severe structural imbalances, took longer to adjust -- but they also have made significant progress.

The low-income countries have generally adjusted more slowly. The problems of their distorted economic policies have been compounded by weak institutional and human capacities, low private sector involvement and decaying infrastructure.

Even in some of the poorest countries of Africa, however, there have been gains. Ghana achieved an average annual growth rate of 5 percent between 1986-91. Uganda and Tanzania are more recent examples where adjustment has helped to restore growth after a decade or more of decline. As a group, the Sub-Saharan nations participating in the Special Program of Assistance (SPA) -- which helps support adjustment in the poorest African countries -- grew nearly twice as fast as non-SPA countries during the period 1988-90.

Adjustment remains an extremely difficult process. We have all learned from experience and adjustment programs have evolved considerably. For example, the "second generation" programs of recent years go well beyond issues of stabilization and fiscal balance. There is more concentration on sectoral policies which underpin the macroeconomic framework, and more attention to the pacing of reforms. The complementarity between financing for adjustment and investment is emphasized, with particular focus on stimulating the private sector response.

The impact of adjustment on the poor has been another area of concern. In the medium- to long-term, economic restructuring is essential to help the poor by providing an improved environment for productivity and increased earnings. In the short run, however, many of the poor can be negatively affected by policies aimed at reducing subsidies and rationalizing public expenditures. During the transition period, therefore, adjustment programs must include specific measures to protect them.

Since the mid-1980s, increased attention has been given to the protection of vulnerable groups during adjustment. For example, the Social Dimensions of Adjustment Program for Africa was introduced in 1988. Social funds and action programs have also been put in place -- in Bolivia, Ghana, Pakistan and Uganda, for instance. Moreover, adjustment programs are now being increasingly focused on supporting a pattern of growth that promotes poverty reduction.

INVESTING IN PEOPLE

Growth, by itself, is not sufficient to achieve sustainable development and poverty reduction. Investment in human capital, in people, is of equal importance -- and that must be the second component of the overall poverty-reduction strategy. There is now a widely shared view on the centrality of human development. Indeed, this is an issue on which the World Bank and the UN agencies are working closely together.
To promote human resource development effectively, policies need to be pursued which encourage the productive use of the poor's main asset -- their labor. The right kinds of incentives, institutions, infrastructure and technology need to be supported in order to provide economic opportunity for the poor. Secondly, the provision of basic social services to the poor must be ensured. Access to primary health care, family planning, nutrition, and primary education is especially important. These two elements -- policies and social services -- are mutually reinforcing. One without the other is not sufficient.

In some countries, such as Brazil and Pakistan, growth has raised the incomes of the poor, but social services have received too little attention. As a result, mortality among children remains high and primary school enrollment low. Some other countries, by contrast, have long stressed the provision of social services, but economic growth has been too slow. In Sri Lanka, for example, primary enrollment and under-5 mortality rates are exceptionally good, but the potential for raising the incomes of the poor was thwarted by the lack of economic opportunity.

Progress has been greatest in the countries that have promoted both growth and social services. Indonesia, Malaysia and Thailand, for example, have achieved substantial reductions in poverty along with rapid improvements in nutrition, under-5 mortality, and primary enrollment.

Even in the most successful cases, however, large numbers of poor people -- the sick, the old, those who live in resource-poor regions, and others -- will continue to experience severe deprivation. A comprehensive approach, therefore, also calls for well-designed social safety nets.

To maintain necessary investment in human resource development, particularly during times of economic crisis, additional resources are required. The issue, however, is not simply one of additional funding, but of better allocation and targeting. For recipient countries, this means a rigorous focus on priorities within public expenditure programs.

A sensitive issue in this context is that of military expenditures. In the developing countries in general, military outlays quintupled, in constant dollars, between 1960 and 1988. This was twice the rate of per capita income and almost equal to total expenditures for health and education. Military expenditures, therefore, would seem a prime target for reallocation to more productive purposes. This is also true, of course, for the industrial countries. It has been estimated, for example, that a 10 percent cut in defense spending by the NATO countries could finance a doubling of aid.

The issue, however, is not only aid additionality, but also better targeting and increased effectiveness. Data for 1988, for example, reveal that only 1.5 percent of total aid went to primary health care. Only 1.35 percent went to population programs. More than 95 percent of aid for education went to secondary and higher levels of education rather than primary education -- which is of greatest benefit to the poor.
One important way of making human resource development expenditures more effective would be to greatly increase the involvement of women. There is a proven correlation between a mother's education and the general health and well-being of her family. In addition, higher levels of female education result in increased family planning and lower fertility. Women also account for at least half the food produced in the developing world and for one-third of the wage labor force. Their access to education and training is likely to raise productivity in all sectors. In short, promoting the role of women is key to maximizing investment in people.

PROTECTING THE ENVIRONMENT

Let me now turn to the third part of the strategy to achieve sustainable growth and reduce poverty: environmental protection. The major message from the Earth Summit is that without environmental protection, lasting development is impossible. Conversely, without development, resources will be inadequate for needed investments -- and environmental protection will fail. We must capitalize upon the many positive links between promoting income growth, reducing poverty and protecting the environment.

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

- removing subsidies that encourage excessive use of fossil fuels, irrigation water, pesticides and excessive logging;
- clarifying rights to manage and own forests, fisheries and land;
- stepping up the provision of sanitation, clean water, education, and agricultural research and extension;
- taking steps to empower, educate, and involve local communities, indigenous people and women, so that they can participate in the decisions and investments that affect their long-term interests;
- taking measures to slow the population growth rate which is placing unsustainable pressure on natural resource use.

During the period 1990-2030 global population is likely to grow by 3.7 billion. Ninety percent of this increase will occur in developing countries. Over the next four decades, Sub-Saharan Africa's population is expected to triple, from 500 million to 1.5 billion; Asia's will grow from 3.1 billion to 5.1 billion; and Latin America's from 450 million to 750 million. This rapid rate of population growth is exacerbating poverty and environmental degradation.
The poor are both victims and agents of environmental damage. Because they lack resources and technology, desperate farmers resort to cultivating erosion-prone hillsides and moving into tropical forest areas where crop yields on cleared fields usually drop sharply after just a few years. Poor families often have no choice but to "mine" natural capital through, for example, excessive cutting of trees for firewood and failure to replace soil nutrients. Agricultural stagnation in Sub-Saharan Africa is a particularly clear example of the mutually reinforcing nexus of poverty, population and environmental damage.

Inadequate sanitation affects one-third of the world's population. Some one billion people lack access to safe drinking water. And 1.3 billion live with soot and smoke through indoor pollution. These are environmental issues which affect vast numbers of poor people every day. They demand urgent attention.

This raises the question of responsibilities and resources. The industrial countries have primary responsibility for addressing global environmental issues -- caused in large part by them. The richer countries must also solve their own environmental problems. Furthermore, the industrial countries are developing the technology to protect the environment through better resource management. By sharing this knowledge with developing countries -- and backing it with the necessary financial support -- they can help developing countries meet their environmental challenges while speeding development.

International institutions must also play a leading role both in helping developing countries implement comprehensive national environmental action plans, and in mobilizing support to address global environmental issues. At the Earth Summit, support was expressed for the following:

- First, the proposal to add an "earth increment" to IDA-10 -- the tenth replenishment of the International Development Association, the World Bank's concessional lending affiliate. This increment would be additional to the resources needed to maintain the level of funding for IDA-9 in real terms and it would be used to address national environmental issues. This subject is under review by the IDA donors.

- Secondly, there was the call to expand the Global Environment Facility - a joint program managed by the UNDP, the United Nations Environment Programme (UNEP), and the World Bank. This is a unique collaborative effort, drawing upon the strengths of its government and non-governmental participants. The GEF began as a pilot program, but it can now -- in a restructured form -- be the main mechanism for the international community to address global environmental issues.

THE BANK AND POVERTY REDUCTION

I would now like to turn to the World Bank's role in promoting sustainable development and reducing poverty. Bank/IDA lending of about $22 billion a year supports our member countries in their economic reform efforts
and with investment in virtually all major areas of development. All of the Bank's lending and advisory work, however, is focused on achieving our fundamental objective of helping our borrowers reduce poverty -- and that is the standard by which we judge our performance as a development institution.

Bank policies in this area have recently been strengthened significantly. For example, detailed, policy-oriented poverty assessments in the Bank's client countries have been initiated and all key borrowers will be covered by 1994. These assessments will help to measure the magnitude of a country's poverty problems; a government's commitment to addressing them; and the Bank's impact in helping to reduce them. Specific country programs will be designed accordingly. The volume of Bank lending to a country will be responsive to the strength of a government's efforts to reduce poverty.

As you know, the Bank has long been committed to poverty reduction. But these new approaches, and particularly the performance measures, will enable us to better achieve our goal -- by focusing on policies which promote a pattern of growth and poverty reduction; and by setting indicative targets for poverty reduction as reflected by key social indicators such as child mortality and malnutrition.

In our dialogue with borrowers, we are encouraging policies that increase opportunities for the poor and help them to participate in growth including:

- economy-wide and sectoral policies that stimulate rural development and urban employment;
- policies to increase the access of the poor to land, credit, public infrastructure and services.

We are supporting these policies through adjustment lending, and through finance for infrastructure, agriculture and industry.

The social sectors are particularly important in the fight against poverty. We have thus increased our economic and sector work in these areas as a base for expanded lending in the years ahead. For IDA -- whose resources go to the countries where over 80 percent of the world's poor live -- the proportion of population, health and nutrition (PHN) lending rose from 4.5 percent in fiscal year 1989, to 14.6 percent in fiscal year 1991. For IBRD and IDA combined, lending for PHN grew from 2.6 percent in fiscal year 1989, to over US$1.5 billion or 6.9 percent in fiscal year 1991.

The Bank remains the largest single external source of funding for education in developing countries. IDA lending for education increased from 9.1 percent in fiscal year 1989 to 11.7 percent in fiscal year 1991. For both IBRD and IDA combined, lending expanded from 4.5 per cent in fiscal year 1989 to 9.9 percent, or over US$2.2 billion, in fiscal year 1991. Our lending for water supply and sanitation has also increased from 3.7 percent in fiscal year 1989 to 5.4 percent in fiscal year 1991.
In addition, the Bank has increased its lending for specific environmental purposes. Forty per cent of our projects approved last year have such components. We are also expanding our work in energy conservation, reforestation and other areas where urgent action is required. And Bank-supported projects now include an environmental assessment.

Supporting an Enabling Environment

The Bank's assistance strategies are tailored to individual country circumstances. Two issues, however, are particularly important in helping create an enabling environment for growth and poverty reduction in all countries.

One of these issues is debt. Bank-supported reform programs are an important underpinning for international initiatives to increase debt relief via the Paris and London Clubs. Mexico, the Philippines, Venezuela, Uruguay, Costa Rica and Nigeria have benefitted from the Bank's extension of financing and/or negative pledge waivers as part of commercial debt reduction operations. In addition, IDA's Debt Reduction Facility -- specifically for the low-income countries -- has helped ease the commercial debt burdens of Mozambique and Niger. Operations for Bolivia, Guyana and Uganda are under preparation.

Private Sector Development is another issue central to long-term development. Bank-supported adjustment programs and a rapidly growing proportion of investment operations are focused on stimulating entrepreneurial activities. Typically, two out of every three Bank operations now include private-sector components. In addition, the Bank's affiliates -- the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) have specific mandates to promote private investment in the developing countries.

IFC's recently approved capital increase will enable it to continue to help its member countries to develop private sector growth and build efficient capital markets. This is being achieved by investing in specific enterprises and financial institutions; advising governments on the framework for modern financial systems; and stimulating foreign portfolio investment in developing country stock markets. The Corporation is also giving priority to assisting governments with privatization programs.

MIGA too, is making solid progress. Its membership now includes 82 countries, with 33 additional countries now in the process of completing their membership requirements. The number of guarantees underwritten has risen rapidly (20 last year involving US$1.3 billion in direct investment) and new applications for coverage are coming in at an encouraging rate. MIGA has also been providing a number of countries with promotional and advisory services to facilitate inflows of foreign investment.

Attention to the Poorest Regions

Consistent with our objective to reduce poverty, the Bank Group continues to give special focus to the poorest regions. Sub-Saharan Africa,
for example, as one of the regions facing the most severe development problems, receives special attention from the Bank and, particularly, IDA. The Bank and IDA lent almost US$4 billion last year to the region and a series of initiatives -- encompassing the environment, the social dimensions of adjustment, capacity building in policy analysis and management, and education -- are currently underway.

The Special Program of Assistance (SPA) -- spearheaded by the Bank and in which all the major donors to Sub-Saharan Africa participate -- has become the major vehicle for channelling adjustment assistance to the poorest, most heavily indebted countries of the region. Between 1988 and 1990, about US$18 billion -- in concessional resources and debt relief -- was mobilized under the first phase of the SPA. This is expected to increase under the ongoing second phase. In addition to the SPA and other initiatives, the Bank is strongly supporting the UN's leadership in combating the severe drought which afflicts large parts of Southern Africa.

South Asia, where half of the world's poor live, is another region receiving special attention from the Bank. Bank/IDA lending to South Asia last year totalled US$3 billion. Given the pervasiveness of poverty, the Bank's assistance program there stresses both short and long-term measures to address the needs of the poor.

Some examples of recent Bank Group operations aimed at reaching the poor are: a population and health program in Nepal; expanded family planning services, safe motherhood and nutrition programs in India; a basic education program in Pakistan; and the rehabilitation of water-supply systems and low-cost sanitation in Bangladesh. In India, the Bank's first AIDS prevention and control project was approved earlier this year. In addition, the Bank supported India's new economic reform program with a US$500 million adjustment operation.

Membership of the Former Soviet Republics

As you know, the countries of the former Soviet Union are also embarking on adjustment. Indeed, developments of the last year have moved the Bank and the International Monetary Fund (IMF) closer to becoming truly "global" institutions. By the time of our next Annual Meeting in September, it is hoped that the 15 republics of the former Soviet Union will be full-fledged members of the Bretton Woods institutions. This will bring the World Bank's membership to over 170 countries.

The membership of the former Soviet states poses an unprecedented challenge. The issues involved in the political and economic transition these countries are undergoing is both complex and diverse. Russia, for example, with its substantial industrial base, has a relatively high income level, and will probably be a contributor to IDA. By contrast, the primarily agriculture-based Central Asian republics have high population growth rates and low per capita income levels -- and some of them may be IDA recipients. While all of the republics are facing economic crisis, the situation of each one is unique. Each requires special attention and a distinct assistance strategy.
The key issue for all of them, however, is the need for comprehensive structural and sectoral reforms. The World Bank is ready to support these reforms with technical advice and financing -- in the form of rehabilitation loans and investments in specific sectors. We are preparing a lending program for all of the republics which could total US$2.5 billion over the next 12 months. By fiscal year 1995, our annual lending program could reach US$4-5 billion. All of this is contingent, of course, on the internal momentum of reform being maintained.

Crucial Importance of IDA

I would like to take this opportunity to emphasize that the Bank’s work in the republics of the former Soviet Union will not be at the expense of the world’s poorest countries whose needs are expanding. A number of developing countries have experienced declining per capita income and can no longer afford to rely exclusively on market-based financing. There are also some countries, such as Angola, Ethiopia and Vietnam, which are recovering from war or civil strife and desperately require concessional assistance for their reconstruction efforts. Maintaining the value of IDA is critical if these expanding needs are to be met.

Thus, the tenth replenishment of IDA, now being considered, must be at least equivalent in real terms to IDA-9. In today’s environment of budgetary austerity, we do not underestimate the effort required to reach that objective. Even a replenishment at this level, however, would mean that IDA would be able to accommodate the needs of new and newly eligible members only at the expense of other borrowers.

This would be an unacceptable response to the efforts of these countries to adjust and put themselves on a path of sustainable growth. Shortage of resources would also be a disincentive for low-income countries embarked upon ambitious poverty-reduction programs.

Moreover, the poor countries are making a major effort to integrate environmental concerns into their development policies. Under IDA-9, all the Association’s borrowers are designing national environmental action plans. If these efforts are to be sustained, there is, as mentioned above, the need for an "earth increment". I hope we can count on the support of everyone here in achieving it.

NEED FOR ENHANCED INTERNATIONAL COOPERATION

This leads to the issue of the need for enhanced international cooperation to help the developing countries achieve sustainable development and reduce poverty. The stagnation in the real volume of total concessional assistance is -- as mentioned in the context of IDA -- of serious concern. But aid is not the only issue.

The industrial countries must also ensure that their own macroeconomic policies promote an external environment conducive to growth in the developing countries. Steady growth accompanied by low interest rates and stable
currencies would transform the climate for development in the rest of the world.

Improving developing country access to OECD markets is also vital. Indeed, trade may well be the single most important industrial country policy issue affecting the developing countries. A truly successful completion of the Uruguay Round is crucial. A 50 percent reduction in the trade barriers of the European Community, the United States and Japan would increase developing country exports by over $50 billion in 1991 prices. Conversely, if trade barriers are not reduced, it will be difficult for the developing countries to implement their adjustment programs and pursue growth-oriented policies. The irony in the current situation is that as developing countries are moving toward more open trade regimes, their OECD partners are tending to move in the opposite direction. It is important that this situation be remedied.

For some countries, further debt relief is imperative. Between 1985 and 1990, various arrangements reduced the outstanding debt of developing countries by about US$90 billion. Investment rates, however, have not yet recovered. This is partly because debt servicing continues to absorb a large share of developing countries' export earnings, and the debt overhang adversely affects their investment climate. To break this vicious circle, additional debt and debt-service reduction measures are needed.

CONCLUSION: BANK - UN COLLABORATION

The industrial countries and the developing countries have mutual responsibilities in the global effort to achieve sustainable growth and reduce poverty. We know what needs to be done. Now is the time to do it: we must focus on implementation.

The World Bank is determined to work even more closely with our partners in this endeavor. Our relationship with the UN agencies is particularly important. Our ties are already deep. I have referred to our collaboration on human development, on drought relief in Southern Africa, and the Global Environment Facility. I could also mention our partnership with the UN agencies on river blindness and capacity building in Africa; our combined work on water and sanitation all over the world; and our joint efforts to combat AIDS. In fact, in almost every sphere of development, the Bank and the UN agencies are in close collaboration.

In this context, I fully share the Secretary General's views, stated in the foreword to his report on "Enhancing International Cooperation", that there remains considerable potential for "positive synergy" between the sectoral agencies of the United Nations and the Bretton Woods institutions. We must tap this potential aggressively, as we work together to achieve our shared objective: sustainable development and poverty reduction. Your deliberations at the Economic and Social Council later this week on this subject will be an extremely useful step toward helping us meet our goal.