The World Bank Group

Learning from the Past,
Embracing the Future

The World Bank Group
Washington, D.C.
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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 Boards 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 comprises 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 public or 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 which 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" will be used interchangeably in this report to mean both IBRD and IDA. The "World Bank Group" refers to IBRD, IFC, IDA, ICSID, and MIGA.
Foreword from the President

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

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

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

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

The Bank Group continues to learn today in a more competitive, market-oriented world where the pace of change—political, economic, and technological—is increasingly rapid. The developing countries, too, are increasingly diverse. The needs of some middle-income nations in East Asia and Latin America—those that have achieved strong growth rates and can attract high levels of private investment—are very different from those of Sub-Saharan Africa, where poverty is increasing and development is still heavily dependent on aid. The needs of the centrally planned economies are different again—to build market systems where there is little private-sector history or capacity.
Fifty years of experience have validated the Bank Group's fundamental objective today: helping borrowers reduce poverty and improve living standards through sustainable growth and investment in people. Meeting that objective in different countries requires customized assistance strategies. Overall, however, five major challenges are crucial to future progress:

— **Pursuing economic reforms** that promote broad-based growth and reduce poverty.

— **Investing in people** through expanded, more effective programs for education, health, nutrition, and family planning—so that the poor can take advantage of the opportunities that growth creates.

— **Protecting the environment** so that growth and poverty reduction can be lasting and benefit tomorrow's generations as well as today's.

— **Stimulating the private sector** so that countries can become more productive and create jobs.

— **Reorienting government** so that the public sector can complement private-sector activity and efficiently undertake essential tasks such as human resource development, environmental protection, provision of social safety nets, and legal and regulatory frameworks.

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

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

— **Selectivity**—identifying, particularly at the country level, the strategic actions through which the Bank Group can help catalyze the maximum potential of its partners as well as maximize its own impact.
— **Partnership**—seeking out alliances with other participants—multilateral, bilateral, governmental, nongovernmental, and private sector.

— **Client orientation**—responding to the real needs of clients and facilitating their participation in the design and implementation of Bank-supported programs.

— **Results orientation**—looking beyond lending commitments and concentrating on maximizing development impact, higher-quality service, increased efficiency, and more accountability for performance.

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

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

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

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

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

Just as the world is changing rapidly, the Bank Group is changing rapidly, too. The momentum for change will help to build an even more efficient, flexible institution—better equipped to serve its member countries in the future and better able to help the world reduce poverty and secure sustainable development.

*Lewis T. Preston*
Fifty Years of Development

In July 1944, delegates from forty-four countries arrived at Bretton Woods, New Hampshire, to shape the institutional structure of the postwar international economy and lay the foundation for the World Bank and International Monetary Fund. What kind of world did they face?

The outcome of World War II was still uncertain. The United States dominated the world economy. The economies of Europe and Japan were in ruins. Africa was still colonial, and much of Asia was emerging from colonialism. In most developing countries, democracy was nonexistent or in its infancy. The Cold War was on the horizon.

Against this background, the delegates at Bretton Woods envisioned a global institution "to assist in the reconstruction and development of territories of members... and the encouragement of the development of productive facilities and resources in less developed countries... thereby assuring in raising productivity, the standard of living and conditions of labor in their territories."

The world has changed dramatically since Bretton Woods. Enormous development progress has been made. The average income per person in the developing world has doubled since 1960. There has been a dramatic expansion in world trade and a worldwide trend toward more open economies. Many developing countries have succeeded in reducing poverty—most dramatically in East Asia. Social development has been remarkable: infant mortality has fallen sharply while literacy and life expectancy have increased substantially.

These achievements, however, are not the whole story. Economic progress has been very uneven across regions and countries. Progress in reducing poverty has been similarly uneven. More than a billion people continue to subsist on less than a dollar a day, mostly in Sub-Saharan Africa and South Asia. Threats to the sustainability of development are on the rise. The total population of the developing world has risen two and a half times to more than 4 billion today. Urbanization is rapidly increasing. Environmental degradation is proceeding at unprecedented rates. In short, sustainable development remains the greatest challenge facing the world.
Poverty is declining in many developing countries


People's lives have improved dramatically in developing countries

While per capita GDP has grown rapidly, performance differs sharply by region.


The World Today

The World Bank Group today operates in a context vastly different from that of fifty years ago. Its approach to development has evolved and been reshaped—by the lessons of experience, new thinking about development, global economic change, and recent political events.

A new development paradigm has emerged, one that emphasizes market-friendly approaches and stresses the importance of private sector development, the creation of viable enterprises, and the development of domestic capital markets. It is increasingly recognized today that governments need to do less where markets work well and more where markets alone cannot be relied on. In many countries, there is a confident opening-up to the world economy through trade liberalization and greater receptivity to foreign investment. Privatization and encouragement of business and entrepreneurship have been other key emphases.
At the same time, there is growing recognition of the need for more efficient public sectors directed at human resource development, environmental protection, and other areas where government involvement remains vital. These new orientations in large measure respond to the increasing complexity and interdependence of the global economy. This new global integration is manifested in trade, capital flows, and technological innovation.

The growth in world trade outstripped the growth in gross domestic product (GDP) from 1950 through 1990, tying industrial and developing nations in a complex web of new trading relationships. The developing countries now account for the fastest component of growth in world trade—and trade liberalization agreements under the Uruguay Round could boost the aggregate GDP of developing economies by a further $80 billion a year. But a transition to a more liberalized trading environment also means adjusting to greater competition and coping with the possible erosion of previously protected market shares and with higher imported food prices.

The worldwide integration of financial markets has led to increased volumes of private capital flows. Between 1985–86 and 1992–93, portfolio and direct investment flows into developing countries rose sixfold. But they were concentrated in about twenty countries. Many other countries—mostly low-income and many in Sub-Saharan Africa—still have little access to world capital markets.

Technological innovation and diffusion are accelerating, and the global information revolution is transforming business. These trends increase the speed of product development, reduce the importance of geographic boundaries, and provide an advantage to producers with the best links to markets and the greatest flexibility.

This increasing integration of the global economy ties the fortunes of industrial and developing countries more closely together—and makes it all the more important, therefore, that the policies of the industrial countries should reinforce developing countries’ efforts to become more efficient and competitive.

These trends have led to a sharply differentiated pattern of development. There are at least four groups of countries among the Bank Group’s clients now:

— Many countries (especially in East Asia and Latin America) are prospering in this new global environment. Their trade with the rest of the world is increasing, they have become more sophisticated in economic management, and many are progressively less dependent on official sources of external finance.

— Other countries (mainly in Sub-Saharan Africa) have lagged far behind. For many of them, absolute poverty is increasing, per capita income growth is stagnant, and they risk becoming marginalized from world trading markets and private capital flows. These countries still rely heavily on aid, and some of them also have excessively high debt burdens.
The surge in private capital flows

Their growth has been led by foreign direct and portfolio investment.

They are now twice the level of official development assistance.

They are heavily concentrated in Latin America and East Asia.

Some countries (mainly lower-middle-income countries) occupy a middle ground. Progress for them will depend on continued policy and institutional reforms and a more supportive international environment, including further debt relief and more openness of industrial-country markets to their exports.

The nations of Eastern and Central Europe and the former Soviet Union face special challenges. Although they have abundant human capital, it is in danger of deterioration, and their physical capital stock is obsolescent. In many of them, the profound economic difficulties associated with the transition to market economies endanger not only the environment and social infrastructure but also fundamental social services such as education and health care. These countries are moving from command to market economies in a fluid political and institutional context. While much progress has already been made, the transition will be complex, will take considerably more time than had at first been thought, and will need to be accompanied by measures designed to avoid an increase in poverty. If successful with their reforms, these countries can look forward to the restoration of growth that would contribute to the more dynamic development of the world economy in the twenty-first century.

The increased attention to domestic problems in industrial countries should not diminish concern for development.

Post-Cold War political developments are also transforming the international environment. The expansion of political participation, the surge in nongovernmental organizations, particularly at the grassroots, and the spread of democracy provide unprecedented opportunities for people to have a greater say in the decisions that affect their lives. However, the increasing demands on governments have often exceeded their capacity to meet their people's growing aspirations. Moreover, ethnic strife poses increasingly serious difficulties in a number of regions. Many industrial countries are redirecting energies and financial resources inward to address their own economic and social problems. This raises the possibility of diminished attention to development and, in some cases, reduced aid flows. It calls for renewed emphasis on the vital importance of development assistance—and its effectiveness—needs to be made more strongly to people and parliaments in the industrial countries.

More institutions are now engaged in development through the provision of finance, ideas, and leadership. For example, some of the regional development banks have been recapitalized and are poised to expand their operations. The European Union and Japan are now major sources of finance to countries in transition as well as to the traditional developing countries. Nongovernmental organizations have taken on an increasingly important role. This places a premium on effective partnerships to ensure that the actions of various participants have maximum development impact.
The Bank Group, with nearly universal membership, must be capable of responding to diverse challenges all around the globe.

Just as the world has changed, so too has the Bank—in organizational structure, membership, lending and nonlending activities, quality of work, and overall approach to development.

New affiliates were added to accommodate shifting development priorities—the International Finance Corporation (IFC) in 1956, the International Development Association (IDA) in 1960, the International Centre for Settlement of Investment Disputes (ICSID) in 1965, and the Multilateral Investment Guarantee Agency (MIGA) in 1988. As a result, the World Bank has become the World Bank Group.

Membership in the Bank Group has become almost universal, which places a unique responsibility on the institution. It must be capable of responding to diverse challenges all around the globe. With over 120 nationalities represented on its staff (as against 20 in 1951), it is well placed to respond to this diversity.

The Bank’s lending volumes rose sharply over its first thirty-five years but have leveled off (in real terms) since the early 1980s. The more or less constant level of lending since then is attributable to a number of factors, including distorted policy environments that limit credit-worthiness in some borrowers and increased access to private capital in others. The regional development banks have also increased their lending capacity in many countries.

Until 1980, the Bank made loans almost exclusively for discrete investment projects (such as roads, dams, and ports). Responding to the balance-of-payments crises facing many developing countries following the sharp deterioration in their terms of trade in the late 1970s, it began a program of adjustment lending to support changes in economic policy. In addition to its direct lending, the Bank has played an

Membership in the Bank Group has become nearly universal

![Graph showing membership growth](source: World Bank Group)
Bank lending grew rapidly over the first four decades


As did IFC
Investments

And MIGA liabilities
since 1990

Note: Data shown are annual average net investments and include: net loans; guarantees, swaps, and standby arrangements; and equity and quasi-equity investments. Source: World Bank Group.
important role as a catalyst of resources from others and as a coordinator of resource flows.

IFC has also seen a rapid increase in its investments and a diversification of its instruments. It has broadened its activities from financing manufacturing, mining, and domestic capital market operations to establishing funds designed to stimulate international equity flows, infrastructure investments, and privatization. From an initial focus on "greenfield" and expansion projects, IFC now focuses more extensively on financial and strategic restructuring of private companies facing more liberal trading environments. The creation of MIGA in 1988 added a new instrument for facilitating the Bank Group's support of the private sector by insuring against non-commercial investment risk and providing technical services to host governments and foreign investors.

In 1975 an operations evaluation department (OED) was established within the Bank to conduct independent, systematic, and comprehensive assessments of its lending operations—to learn from experience and to ensure improvements in the quality and effectiveness of assistance. OED studies show that the large majority of Bank-financed operations have been effective.

Beyond finance, the Bank Group has played an increasing variety of advisory roles based on its work on countries' economies and their key sectors. Through its sharing of "best-practice" lessons from development experiences and its research, it has contributed in important ways to building the capacity for development. In 1955, the Bank established, with the help of the Ford and Rockefeller Foundations, the Economic Development Institute (EDI) in Washington, a staff college to train government officials in developing countries in economic management. EDI has since evolved from an institution offering one course a year for 50 or so participants to one with some 150 activities in fiscal 1994, most of them in developing countries and involving about 4,400 participants. EDI was founded on the premise that investments in training people and in ideas were as important as other forms of investment. That philosophy still pervades the Institute.

The Bank's approach to development has changed over time as new challenges have emerged and lessons have been learned. The early focus on discrete projects evolved into a more comprehensive attention to policies, strategies, and institutions that define the context and influence the success of projects. The early belief that the benefits of growth would trickle down to the poor led to an appreciation that
poverty reduction also requires measures targeted to the poorest and most vulnerable groups. The emphasis on the public sector gave way in the 1980s to a development strategy increasingly emphasizing the role of the private sector.

One notable feature of the Bank Group's evolution has been its ability to adapt to new development challenges in different countries, regions, and sectors. The Bank began by helping with the reconstruction of postwar Europe and Japan. Since then, working with its member countries and other partners, it has contributed to the promotion of growth and poverty reduction in East Asia, the increase in food production in South Asia, and the resolution of the debt crisis in Latin America. The Bank Group has also helped with the provision of finance and economic advice to newly independent nations—for example, in building infrastructure and institutions and in meeting the needs of a large number of countries in Sub-Saharan Africa. More recently, the Bank Group has begun to assist with economic transition in Eastern and Central Europe and the nations of the former Soviet Union.

One respect in which the Bank Group has not changed is its nonpolitical mandate. Its charters prohibit it from being influenced in its decisions by political considerations or from interfering in the political affairs of a member. These injunctions have withstood the test of time and enabled it to base its decisions on sound technical and economic criteria.

The Bank Group recognizes, however, that political stability and good governance are essential for sound economic management. Within its mandate, it supports the efforts of borrowing members to improve their public sector management, their economic and financial accountability, their legal systems, and their transparency. It also recognizes that the full enjoyment of human freedoms is diminished by widespread poverty, illiteracy, malnutrition, and hunger, and it contributes to the advancement of human welfare through its support for borrowing countries' efforts to reduce poverty and improve living standards.

Development is a difficult and risky endeavor. Like all those engaged in that endeavor, the Bank Group has made its share of mistakes. On balance, however, it has made a significant contribution to the progress that has taken place since Bretton Woods.
Key Development Challenges

While the Bank Group's approaches and instruments have evolved to meet emerg- ing challenges, its fundamen- tal objectives as set out in the charters of its institutions remain valid. Within these broad objectives, it will help borrowers reduce poverty and improve living standards by promoting sustainable growth and investments in people.

No country has reduced poverty without sustained economic growth—especially growth that makes wide- spread and efficient use of the poor's major asset: their labor. Growth requires increased investment, both domestic and foreign, both public and private. Investment, in turn, calls for increased domestic resource mobilization.

Two broad categories of investment are essential for growth. One is investment in people through education, health, nutrition, and family planning services—as well as safety nets to protect vulnerable groups. The other is investment in physical capital, especially infrastructure, where the needs are very large but where greater attention also needs to be paid to the efficient provision of services.

Beyond these essential ele- ments, experience has shown that for poverty reduction to be lasting, it must be environ- mentally sustainable. The most common environmental problems hit the poor the hardest. The positive links between economic growth, poverty reduction, and envi- ronmental sustainability are captured in the concept of sustainable development.

The lessons of develop- ment also point to the complementarity between the public and private sectors. Public-private partnerships in the financing of infrastructure, for example, have consider- able promise. While there is increasing recognition of the private sector as an engine of development, strengthened public sector institutions and management are essential in shaping sound macroeco- nomic policy, establishing the rules for efficient markets, and designing and implement- ing economic reforms, human resource development, and environmental protection.

These considerations suggest five major develop- ment challenges over the medium to long term:

— Pursuing economic reforms to enhance growth and reduce poverty

— Investing in people

— Protecting the environment

— Stimulating the private sector

— Reorienting government.

In helping developing countries to meet these challenges, the Bank Group will bring to bear the key lessons from its first fifty years. Of these, none is more important than the lesson that the clients’ ownership and commitment are crucial to the success of the projects and programs that it helps countries undertake.

No country has reduced poverty without sustained economic growth.
Pursuing Economic Reforms

Developing countries are attempting to accelerate and deepen policy and institutional reforms to enhance growth, improve living standards, and reduce poverty.

In the early 1980s, it became apparent that policy reform in the face of external shocks would require financial support. The Bank responded with adjustment lending, which provides temporary balance-of-payments support while economic reforms are being undertaken. Many countries, especially in East Asia and Latin America, have now successfully moved beyond the adjustment phase, while others are still struggling to put in place effective programs.

Experience indicates that adjustment involves deeper and more complex policy reforms—and that it takes longer—than was anticipated a decade ago. A broader policy framework is necessary for sustainable growth and poverty reduction. Experience also indicates that future policy reform must be based on a much clearer understanding of the constraining institutional features in different countries—including the capabilities of the civil service, the legal and regulatory framework, and more generally the quality of governance.

The Bank's future work in helping countries pursue economic reforms will be geared closely to the adjustment phases in which different borrowers find themselves. Where countries have successfully completed macro-economic stabilization and the first phase of adjustment reforms, the Bank will assist them primarily through investment lending with a "second generation" of reforms to consolidate achievements. What is required will vary from country to country, but the menu will include strengthening government ministries (especially for social services), reforming the civil service, improving legal and regulatory frameworks, developing capital markets, strengthening tax administration, and supporting fiscal decentralization. Promoting human resource development and protecting the environment will continue to be emphasized.

Some common elements will define the Bank's future work in assisting the reform process:

- Helping governments to monitor and address the social and environmental impact of policy reforms and assisting with the provision of social safety nets to mitigate the transitional costs of adjustment.

- Developing new approaches to improve the structure, management, and incentives of the civil service and public enterprises.

- Strengthening the Bank's understanding of the institutional, political, and cultural context for policy reform.

- Playing a more active role in analyzing and advising clients on the nature and impact of international linkages (including capital flows, migration, and market access) and trends in the external environment facing developing countries.

- Supporting regional cooperation and integration initiatives that enhance broader participation of developing countries in the global economy.

Adjustment involves deeper and more complex policy reforms and takes longer than was anticipated a decade ago.
Investing in People

Investment in people implies striving to reach the point where human capital limitations no longer restrain growth or keep people in absolute poverty. Equipping the poor to take advantage of the expanding opportunities that accompany growth is vital. This requires extending better education, health, nutrition, and family planning to the poor and fostering early childhood development.

It is intolerable that, as the world approaches the twenty-first century, hundreds of millions of people still lack minimally acceptable levels of education, health, and nutrition—and have no access to modern ways of controlling the size of their families. Bank lending for human resource development has already increased sharply (from an average of about 5 percent of total lending in the early 1980s to more than 17 percent in fiscal 1994). The Bank has intensified its support for effective primary services (for example, basic education and health) where the impact on poverty reduction is greatest. Women in development is an increasing focus. Almost half of all Bank operations now include components aimed at reducing the barriers to women's economic participation. In health, special emphasis has been placed on reproductive and maternal health services. Special efforts have also been made to improve women's access to credit. Nonlending activities in the social sectors are also increasing—in-depth assessments of poverty by country, for example. Public expenditure reviews assess the volume and allocation of social sector spending by governments.

Lending for human resource development has risen dramatically

<table>
<thead>
<tr>
<th>Year</th>
<th>Education</th>
<th>Population, Health, Nutrition</th>
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<td>904</td>
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<td>904</td>
<td>904</td>
</tr>
<tr>
<td>1990-93</td>
<td>1200</td>
<td>904</td>
</tr>
</tbody>
</table>

In its future work, the Bank will:

— Continue to increase its total lending devoted to investments in people.

— Continue to emphasize the basics among its poorer borrowers—assisting countries to increase access to quality primary schooling, particularly for girls, and to provide a core package of cost-effective public health and clinical services.

— Give special attention and intensified emphasis to early childhood development, including immunizations, provision of vitamins and other nutritional supplements, and preschool educational programs. The Bank will work with its key partners in this program.

— Pursue a comprehensive, integrated approach to population policy emphasizing both the demand for and supply of family planning services, women’s health (including reproductive health), and women’s education.

— Further increase operations designed to remove barriers to women’s participation in economic development.

— Work with all borrowers and partners in a joint effort to help its clients attain within the next generation: universal primary education of good quality, access to a minimum package of cost-effective health care, and elimination of malnutrition.

*It is intolerable that hundreds of millions of people still lack minimally acceptable levels of education, health, and nutrition.*
Protecting the Environment

The needs and aspirations of growing populations must be reconciled with the constraints of the natural world.

Over the next thirty-five years, the gross national product of developing countries is projected to grow fivefold. Environmental pollution and natural resource degradation will rise proportionately unless sound policies and strong institutions are put in place. Urban areas will pose especially difficult challenges because some 90 percent of the projected population increase of 3.7 billion is expected to be there.

In recent years, the Bank has increased its environmental program substantially. There are now more than 100 Bank-supported environmental projects in fifty countries representing a commitment of $5 billion and total investments of more than $13 billion. The Bank also has accepted a major responsibility—jointly with the United Nations Development Programme (UNDP) and the United Nations Environment Programme (UNEP)—for tackling global environmental issues. The Global Environment Facility (GEF), created in 1991, already has endorsed 115 projects representing about $730 million. Intense efforts have also been made to assist low-income countries prepare environmental action plans, which now exist for some seventy-seven countries. All Bank Group projects are subject to stringent environmental standards.

The Bank's future environmental initiatives will be guided by an increased awareness of and sensitivity to the social and ecological dimensions of development—and their relationship to economic and technical factors. These initiatives will be integrated into its country assistance strategies aimed at helping borrowers pursue sustainable development.

The Bank will:

— Continue to assist borrowing countries to prepare, update, and implement national environmental strategies and action plans.

— Collaborate with UNEP and other UN agencies and scientific organizations in helping to improve data on water and air pollution, soil loss, deforestation, depletion of the ozone layer, and emission of greenhouse gases.

— Continue to play a leading role in mobilizing resources for innovative agricultural research that can increase agricultural production while protecting the environment. One way the Bank will pursue this goal is through on-going participation in the Consultative Group on International Agricultural Research.

— Help countries institute sound management of their water resources.

— Promote innovative and participatory processes in urban management, assisting cities to formulate environmental management strategies and helping to mobilize the financial resources needed for their implementation.

— Intensify its efforts as a GEF implementing agency to help developing countries, especially low-income countries, meet the incremental costs of global environmental protection.

There are now more than 100 Bank-supported environmental projects in fifty countries representing a commitment of $5 billion and total investments of more than $13 billion.
Stimulating the Private Sector

Developing countries are increasingly realizing the potential of the private sector to promote investment, stimulate growth, and create jobs. Doing so will enable their economies to become nimble, more responsive, and better able to compete in today's fast-moving global markets.

In recent years, the Bank Group has implemented a substantially increased program of activities to enhance the role of the private sector in development. The IBRD, IDA, IFC, and MIGA have strengthened their coordination and collaborative efforts to maximize the synergies among their various activities and will continue to do so.

IFC's work has changed greatly in both volume and orientation. Its own investments rose sharply from $609 million in fiscal 1985 to an estimated $2.4 billion in the current fiscal year. Given its relatively small size, IFC has traditionally focused on maximizing other private investments in projects in which it invests. The total ratio of project capital costs to IFC financing has been as high as about 7:1, having risen from about 5:1 in the mid-1980s. Thus, IFC's expected new investment approvals of $2.4 billion in fiscal 1994 will support new private investment decisions in projects with a total estimated capital cost of about $16-17 billion. From being essentially a fixed-rate lender of long-term funds and a direct equity investor ten years ago, IFC now provides a range of variable-rate loans and both equity and quasi-equity instruments, and has introduced risk-management instruments.

The Bank Group has implemented a substantially increased program of activities to enhance the role of the private sector in development.

For every dollar that IFC has invested in the last five years private financiers and investors have come in with an additional six dollars.

**Total project costs $62.7 billion**

**IFC net investments $9.3 billion**

**1990-94 Totals**
MIGA's membership is growing steadily and its insurance portfolio now exceeds $1 billion. Its Board recently approved a substantial increase in its guarantee authority and a streamlining of some of its operational regulations to expedite the issuance of contracts to investors.

All members of the Bank Group have increased their support for legal, institutional, regulatory, and financial reforms that would improve the environment for private business. Private sector assessments, which help the Bank Group and client governments gain a clearer view of the business environment, have been undertaken in twenty-five countries. Support for privatization of public enterprises has also taken on increasing importance.

The Bank Group is well placed to employ a wide range of instruments for stimulating the private sector. The main thrust of its efforts will be, first, to create a more supportive operating environment for private business and, second, to catalyze funding for private enterprises and public-private partnerships, especially in support of long-term investments in infrastructure. Toward these ends, the Bank Group will:

— Continue to lend directly to the private sector through IFC. IFC’s own investment activity is expected to grow at 12 percent a year to reach more than $4 billion by fiscal 1999. Investments in infrastructure and development of domestic capital markets will become areas of even greater focus. IFC will also help restructure private corporations to enable them to compete effectively in the new global economy, further stimulate portfolio investment by promoting pooled investment vehicles such as “country funds,” and help emerging markets gain further access to international capital.

— Explore further avenues for use of its guarantee authority. With a portfolio of more than 100 contracts, MIGA is poised for rapid growth of its investment insurance program. The Bank is considering increased use of its guarantee authority selectively.

The Bank Group will help to create a more supportive environment for business and to catalyze funding for private ventures.
— Strengthen the domestic financial sector by supporting the development of domestic bond markets, housing banks, leasing companies, venture capital funds, pension funds, and other institutional investors.

— Step up support for bank restructuring and, as banks become commercially oriented and financially sound, increase lending to them to provide long-term debt financing to private investors.

— Help countries tap into global technology by working to remove the restrictions on its transfer and building links to the main agents of technological change.

— Continue to support the privatization of public enterprises, with particular attention to social costs and ensuring that the business environment after privatization is a competitive one.

— Develop expanded and innovative ways of assisting small- and medium-scale entrepreneurs through, for example, the Bank’s dialogue with borrowers on systemic policy and institutional issues that affect this sector and IFC’s support for the development of domestic capital markets.
Reorienting Government

Governments throughout much of the developing world are attempting to reorient themselves so they can more effectively do their core jobs: establishing and enforcing the “rules of the game” so that markets can work efficiently and, at the same time, ensuring broad access to key services, such as health, education, and public safety, and protecting the environment. The challenge is to assist in restructuring the public sector in such a way as to effect a new synergy between a leaner and more efficient government and a revitalized private sector.

In recent years, the bulk of the Bank’s involvement in institutional development has been in public sector management. It has helped borrowers strengthen public financial management and tax administration, and it has supported decentralization. Civil service reforms have increasingly focused on capacity building and the management of human resources in the public sector. Newer concerns have related to strengthening financial and economic accountability, improving delivery of essential services, and increasing the transparency of government budgets and procurement systems. Issues of governance are also now part of the policy dialogue in many countries. Military expenditure issues are addressed during the Bank’s public expenditure reviews, where the focus is on ensuring that social and economic priorities are not crowded out by other budgetary items.

The Bank is increasingly aware that the sustainability of economic reforms depends on strengthened and better-managed public institutions and, more generally, on good governance. Accordingly, it will:

— Work in partnership with countries and other agencies to support institutional development and capacity building.

— Place greater emphasis on the legal framework for development—judicial, civil service, and public enterprise reforms.

— Continue to make systematic efforts to help its borrowers improve governance by increasing the accountability and transparency of their public sectors.

The sustainability of economic reforms requires strengthened public institutions and good governance.
Guiding Principles for the Future

To assist developing countries to meet these challenges, the Bank Group will continue to build upon its two main roles: financial—by continuing to mobilize and invest substantial resources for development and helping to catalyze additional resource flows from both private and public sources; and advisory—by distilling and disseminating its own cross-country experience and helping to connect clients with the best-available knowledge from other sources. It will continue to perform these roles primarily at the country level. It will, however, respond—as in the past—to shareholder requests to help address strategic development issues of a regional or global nature.

The combination of its financial and advisory roles gives the Bank Group its comparative advantage. But the emphasis accorded to each will vary according to different country needs and circumstances. For example, in the high-growth, middle-income countries that have increasing access to the international capital markets, the financial role is likely to become less important than the advisory role. More countries are likely to "graduate" from needing the Bank Group's money—one important indicator of development success which should be welcomed and encouraged. In the low-income nations, by contrast, large levels of financing as well as technical advice will remain essential.

The scale and complexity of the Bank Group's development agenda, the diversity and near-universality of its membership, and the more competitive environment it faces mean that it must carry out its activities in a significantly different context. In positioning itself to confront these realities, to avoid spreading itself too thin, and to give greater focus to all its activities, the Bank Group will follow six guiding principles. It will:

— **Increase the selectivity of its activities**

— **Strengthen its partnerships with others**

— **Emphasize client orientation**

— **Increase results orientation**

— **Ensure cost effectiveness**

— **Maintain strong commitment to financial integrity.**
Selectivity

The Bank Group will bring increased selectivity to all its activities, particularly at the country level.

Given the diverse requirements of its nearly universal membership, the Bank Group will necessarily pursue the broad development agenda set out above. However, it will not attempt—and should not be expected—to pursue all aspects of this agenda in each of its borrowing countries. Instead, it will, in close consultation with its borrowers and other partners, identify the strategic activities where its involvement in support of market-oriented economic structures is likely to make the most impact. In so doing, the Bank Group will strive to maximize the contributions of others, including the private sector.

Partnership

The Bank Group will seek to build strategic alliances with its partners in the international development community, drawing on the special expertise and comparative advantage of each organization for the greater benefit of its borrowers.

The Bank Group will work in partnership with borrowing governments and institutions to increase local involvement in the design, preparation, and supervision of activities it finances, as well as in its economic and social analysis. It will continue to work closely with bilateral development agencies in support of the development agenda of its borrowers.

In addition, the Bank Group will continue to pursue a mutually supportive relationship with the IMF and will work closely with the new World Trade Organization, when it is established. The Bank Group will increase its close collaboration with the regional development banks, including mutual exchanges of economic and technical work, enhanced cofinancing, and an appropriate division of labor. It will work more closely with agencies of the United Nations family to improve coordination. It will deepen its partnerships with nongovernmental organizations. It will also continue to cooperate with private investors and market institutions in promoting viable corporations in borrowing countries, increasing capital flows to developing countries, and enhancing domestic capital markets.

Partnership will often take the form of cofinancing and enable the Bank Group to leverage its resources with substantial additional resource flows from private and bilateral official sources.
**Client Orientation**

*The Bank Group will put greater emphasis on being responsive to the needs of borrowing countries.*

The Bank will tailor its country assistance programs to the highly differentiated needs of each of its borrowing countries and strive harder to bring its worldwide experience to bear on specific country issues.

Client orientation also means working harder to ensure that borrowers are strongly committed to the projects and programs the Bank supports and that those affected by them have participated in their design and implementation. This will imply a reduced role for the Bank over time in the preparation of Bank-financed projects, increased flexibility in the project cycle to adjust for borrowers’ changing perceptions and needs, and Bank assistance to borrowers to enhance their capacities to prepare and implement projects and programs. Client orientation also, of course, implies listening more to borrowers and other relevant parties—and learning from them.

**Results Orientation**

*The Bank Group will further increase its emphasis on development impact—to strengthen implementation of the projects and programs it finances and thereby achieve better results “on the ground.”*

The Bank will help countries to enhance their capacity to implement projects and programs, since the responsibility for successful implementation primarily rests with borrowing countries. Actions are already being taken to improve results in Bank-financed operations by focusing more on the performance of the project portfolio—and more will be done. Key elements include moving the management of projects to center stage in the country dialogue, improving the quality of operations entering the portfolio pipeline, simplifying project design, and restructuring operations where necessary.

A key requirement for strengthening results is to encourage greater participation in the design and implementation of Bank Group-supported projects and programs by the people who are most affected by them. Toward this end, the Bank Group will do more to experiment with and introduce new approaches in participatory development, to identify practices that can be applied widely in its operations, and to promote systematic use of approaches that work. The eventual aim must be to enhance the participation of the poor in the design and implementation of Bank-financed projects and programs.

Greater accountability for results is also imperative. The Bank recently expanded its policy on information disclosure to make available more information at all key stages of the project cycle and to publish its environmental assessments and country economic and sector papers. The establishment this year of the Bank’s Inspection Panel gives affected parties the opportunity to invoke its system of accountability for the proper implementation of its operational policies and procedures.
Cost Effectiveness

The Bank Group will ensure that all its activities meet the test of efficiency and cost effectiveness.

Cost effectiveness implies further efforts to contain costs, enhance efficiency, reduce paper flow, improve coordination, simplify business processes, contract out certain activities and drop others that are now obsolete or ineffective, and restructure internal incentives to emphasize quality. The watchwords are: better, faster, and cheaper.

Financial Integrity

To keep delivering the best terms to its clients, the Bank Group will maintain its high standing in the financial markets.

The Bank Group will continue to combine its high credit rating with its financial intermediation role. IBRD and IFC raise substantial sums of money in world capital markets on the best terms. Their high standing in capital markets comes in part from shareholder guarantees, but for the most part it has been earned by prudent financial management. With relatively low volumes of paid-in capital, the IBRD is able to greatly leverage its funding for development. To ensure continued strong support from its shareholders, the Bank Group will conduct its business in a manner that allows for full transparency and accountability to them—and, through them, to other key groups interested in and affected by its activities.
Managing Institutional Change

Applying these guiding principles in the Bank Group’s daily work in the future will require further changes in the way it conducts its business. Recent organizational changes have begun to strengthen internal capacities in human resource development, environmentally sustainable development, and financial and private sector development. They have also improved the Bank’s ability to respond to new challenges in the countries in transition from centrally planned to market-oriented economies.

Important changes are also occurring in the Bank Group’s institutional culture—toward greater concern for quality in project portfolio performance, more support for innovation and cost consciousness, a more proactive approach to the external dialogue with those interested in and affected by its activities, and further efforts to address the mix of staff skills. A reform of budgetary processes and cost accounting has taken place, and a simplification of business practices is under way.

More will be done. There is a continuing examination of how further efficiency gains can be made. For example, the Bank Group is looking at whether some tasks currently undertaken at headquarters might be performed more effectively in the field, taking advantage of opportunities offered by new technology; modifying personnel policies to respond more quickly to the shifting needs of clients; and further budgetary rationalization that would reduce overhead costs, including a selective but deliberate move out of those activities that others are better placed to perform.

The consistent application of the six guiding principles and the new emphasis on efficiency, cost effectiveness, and results mark the beginning of fundamental changes in the Bank Group’s way of conducting business. The objective is clear: an institution that is leaner, more agile, more focused on priorities, and more responsive to changing client needs.

The Bank Group will continue to grow, but it will not measure its growth by the amount it lends. Rather, the key criteria will be the quality and efficiency of its services, the effectiveness of the projects and programs it supports, and the depth and quality of the partnerships it develops with its borrowers and its partners in the international development community.
A Call to Partnership

Fifty years of development experience have provided valuable lessons for the future. Those lessons, combined with rapid global change, imply that the Bank Group's role in helping to address the unfinished development agenda will change. This document suggests some directions for that change. But one fundamental point endures: the Bank Group is a development institution with a long-term partnership with virtually every developing country; a wealth of cross-country experience, and a product mix that combines finance, policy advice, and in-depth research. It is committed to draw on this capacity and its fifty-year association with development in helping its borrowers reduce poverty and improve the human condition. The Bank Group calls on its partners to work with it in meeting the challenges of the twenty-first century.