

Remarks to First Conference on Capital Markets Development at the
Subnational Level

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by
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(Mr. Wolfensohn participated by teleconference from Washington, D.C.)

I'm very happy, indeed, to participate at this conference, although I regret very much that I didn't have the pleasure of coming over to be in Spain, but I want to start by expressing my thanks to our partners in the presentation of this very important meeting.

I was anxious to attend and say a few words because it's very clear to me that the issue of financing and development of local strategies is extraordinarily important.

As I looked at the issues which face us on a global basis, everywhere I find a problem in terms of access to funds and in terms of the volume of funds that are needed for appropriate development purposes.

I also see a move towards decentralization of responsibilities, and I see a parallel move also to urbanization, which is evident, certainly, in Latin America and in the Central and European regions. All of this I'm sure has been covered already in the early part of your meetings, but let me just simply add, that from my point of view, as I try and look at the tasks that we face in The World Bank, one of the tasks and the opportunities is to be supportive of this move to decentralization, and to the financing of projects that will be run by decentralized authorities.

This is a development which is, of course, extraordinarily well-known in the United States, where that decentralization has been going on for years, and where there has been financing at a very high level on the basis of local authority credits.

Indeed, at this moment in time, we have 1.3000 billion of outstanding bonds and they're being added to annually at the rate of \$250 billion a year.

These are enormously high numbers and it reminds me of the days at the beginning of the Euro dollar market, when we were talking about offerings of sovereign credits, and comparing them with the United States and saying how small they were. I think 20 years from now, we will look back and say that the comparison between local authority borrowing and the giant size of the American market will have been diminished

substantially, and that there will be a significant move to financing at a local level.

We've already seen 51 such issues in Argentina, in Brazil, and in Colombia, in the last five years, and of course in Eastern Europe we've also seen an increase in those issuances. For a time, we also had issuances from Russia, from the municipalities. In fact 91 bonds were issued in the domestic market and 77 such issuances in the international market. They're on hold at the moment for reasons that we all know, but the direction is very clear.

That means that we need to prepare ourselves in the way in which we set up the issues of governance, the issues of transparency, and the basic framework in which local authorities will operate. It is not different in terms of the advice that I would give, and the work that we would offer to do with municipalities and regional governments than it is with national governments.

There is a need for very good financial planning. There's a need for good project planning. There is a need for evidence of fiscal responsibility and budgetary responsibility.

There's a need for transparency. There's a need for good accounting practices. There's a need for regular reporting. There is a need, in fact, simply to demonstrate that there is a degree of competence in the governments, that would encourage investors to invest.

None of what I've said is of a revolutionary character. It is the nature of what has to be done, if one is to access international markets. And so as we move forward on our plans of working together to meet the enormous needs of local authority financing, what I think is crucial is that we start on the right basis, so that we do not have the problems of rejection by the marketplace, and so that we can enter the market with a level of competence and effective presentation of what we're doing that will allow us to unlock the funds that are needed.

Certainly all the instrumentalities of the Bank are available to be of help, and the private sector, which you were just discussing in your question-and answer session, we have MIGA and have IFC, which are very ready to work on projects, and in the case of the Bank itself, we're surely ready to do so with states, with municipal and local governments, provided we can get the backup from the national authorities.

More and more, we're finding that we're able to do that, and in fact in some countries, the actual distribution of funding-and I speak here particularly, for example, of India-the distribution of national funding which they are taking from the Bank, either in terms of cash or in terms of guarantees, is being competed for by the states and by the local governments as though the states and the local governments were the borrowers.

And so as we see this decentralization and this growth of local government, we're finding that within countries in which the Bank is active, we have a competition amongst the states and local authorities

for those funds which would come from The World Bank but with the support of the central government.

That is another reason of course that as we approach the question of governance, that we're extraordinarily keen to be as helpful as we can in terms of trying to prepare a solid and a transparent base from which local authorities and local instrumentalities are managed, and thereafter, to ensure that we can make transparent and clear presentations to the financial community.

We, as an institution, are really anxious to be helpful. As my colleagues may have told you, we are setting up computer links so that information on development efforts, ranging from agriculture to infrastructure, from governance to judicial systems, all these things we will have available online for all of you. You'll be able to come into us directly on the Internet for help on any areas of governance, and if it's not fully up in terms of the information base, we're prepared, through this, to have a Help Desk available that will be available to give you background information not just on what we think in the Washington headquarters, but to link you with others who have had experience, both good and bad, from which you can profit.

We want to be, in addition to a financial arm, we want to be an institution that you regard as a source of knowledge and information, and our team is ready to be of assistance to you, to every one of you, in terms of the types of projects that you're thinking about. Feel free to come to us long before you have a project outline. Talk to us, come through to us with your questions. If we can answer them, we will, if we cannot, we will tell you, and hopefully, we'll be able to give you the sort of backup and information that you will need.

So we want to be seen as your partners, partners of the central governments, a good partner of course of the Spanish government that has been so helpful in this meeting, partners of the private sector, such as the Banco Santander, partners of the local government authority which are our partners in this effort. But partners to all of you in terms of providing both advice, guidance, and funding that you might wish.

We believe that as we look to the future, it is with you that we will be doing more and more financing, more and more financing directly, more and more financing jointly with the private sector, and it is for that reason that I am particularly happy to be here with my colleagues to extend my support to all of you, and my hopes that we will do many things together in the years ahead.

Thank you very much.