Address
to the
Board of Governors
by
Lewis T. Preston

President
The World Bank Group

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Introduction

Mr. Chairman, Governors, Ladies and Gentlemen: On behalf of the World Bank, welcome to the 1992 Annual Meetings. A special welcome to all the new member countries that have joined since our meeting in Bangkok. As we begin working with our new members, and as our activities with existing members expand, we remain dedicated to our central mission: reducing poverty. By our progress in helping to reduce poverty, the Bank’s performance as a development institution should be measured.

Emerging Results

The last year has seen real development progress but also real cause for concern. In South Asia, the outlook has brightened. India has taken important first steps to open its economy—the task now is to maintain the pace of reform.

Many countries in Sub-Saharan Africa have undertaken significant economic reforms. They can look forward to good results—if they stay the course. An enormous challenge remains. This is evident from events as diverse as the drought in Southern Africa and the tragedy in Somalia. But a foundation for enduring progress is at last being laid.

Many Latin American countries are emerging with healthy economies after a decade of debt crisis and painful adjustment. Capital is flowing in, attracted by a flourishing private sector. Governments can now focus more directly on the fundamental tasks of reducing poverty and restoring infrastructure.

Most of the nations of East Asia continue to prosper. Many countries are growing so rapidly that living standards could double within a decade. We now have more than a dozen years of experience with economic reform in China—and the results have been impressive. China’s GDP is two-and-a-half times greater than in 1978—the year reforms began—and the proportion of people living in poverty has been drastically reduced. The East Asian
experience illustrates what sound development strategies can accomplish.

The potential for development in the rest of this century, and into the next, is great. There is widespread agreement on economic fundamentals: the importance of macroeconomic stability; competitive markets; private ownership; and a well-defined role for government. But we have not yet taken advantage of the great promise offered by the post-Cold War era.

Output for the world economy in 1991 was one of the slowest in any year since the Second World War. Trade barriers are on the rise in much of the industrialized world while aid flows are stagnant. Average living standards in the developing world have declined for three years in a row. What should be done to reverse this situation?

The market for developing country exports—their main engine of growth—must expand. Rapid recovery from the current downturn in the industrialized countries would increase developing country exports by nearly $50 billion a year—almost equal to the annual aid they receive. The completion of a successful Uruguay Round would be an important further spur to growth.

Continued policy reform in developing countries is also essential. Reform is difficult and takes time to show results. Doubt and disillusion can set in, as pain often precedes gain. But history documents the benefits of perseverance. Sound policies, backed by appropriate investments, can transform societies over time. In the last generation, the per-capita incomes of the poorest countries have doubled; life expectancy has risen by ten years; and infant mortality rates have been almost halved. To maintain the momentum of reform in this generation, we must focus on two critical challenges highlighted by events of the past year:

- first, the challenge of promoting environmentally sustainable development for poverty reduction; and
The Earth Summit in Rio reaffirmed the close connection between poverty reduction and environmental protection. Almost all of the 3 million children who die each year because of unsanitary water live in poverty. High lead levels depress children's intellectual abilities in the slums of major cities, such as Bangkok and Mexico City, and hundreds of millions of poor people are exposed to large quantities of indoor soot and smoke every day. Poor farmers are often forced to shorten fallow periods and deplete their soils in order to feed their families while poor families in rural areas often resort to cutting down forests. Poor countries usually do not have sufficient resources to maintain adequate environmental standards. In short, the most serious environmental problems hit the poor hardest. Helping the poor requires improving their environment. Equally, protecting the environment requires growth and poverty reduction.

But sustainable development is achievable. As a first step, we must all be more sensitive to the impact of our activities on the environment. We must assess environmental costs and benefits, engage in local consultation, and seek broad participation in all development projects. There are sometimes trade-offs between environmental and other values. But many of the measures most effective in reducing poverty also produce environmental gains. Economic growth, which is central to poverty reduction, creates the means to improve the environment. As countries grow, sanitary conditions improve, farmers are able to increase their productivity, and air pollution levels usually decline.

Reducing subsidies—on energy, water and logging—helps to promote growth and preserve natural resources. Open trade and investment policies boost prosperity and can encourage the transfer
of cleaner technologies. Giving poor farmers property rights raises their productivity and reduces their incentive to deplete soils.

Investing in people is also critical. Accelerating the provision of education and health services—as well as clean air, water and sanitation—helps to reduce poverty and protect the environment. Supporting the role of women in development is especially important. Educating girls, for example, may be the highest-return investment in the developing world.

Population policies are also linked to poverty reduction and environmental protection. Each year, the world's population grows by about 100 million people. The population of some of the world's poorest countries will double within two decades. Experience in East Asia and elsewhere confirms that income growth—coupled with an emphasis on human resource development—can reduce fertility, poverty, and environmental damage.

The World Bank's investment in education, health, nutrition and family planning has steadily increased over the last decade. Commitments have risen from an annual average of US$635 million to more than US$3 billion today and they are projected to increase by a further 50 percent over the next three years.

There are many measures that both spur growth and improve the environment. There are also investments that, while not yielding direct productivity benefits, are necessary to protect the environment. In the global environmental debate, however, not enough attention has been given to those issues—dirty water, inadequate sanitation, pollution—that cause illness and death on a huge scale.

Ours must be a people-first environmentalism. In pursuit of this strategy, the Bank's investment in water and sanitation is projected to increase by 75 percent over the next five years. Our lending for agricultural services and pollution abatement will also expand. And our support for national environmental action plans helps to ensure concentration on problems that have the greatest impact on human welfare.
There are also, of course, formidable global environmental problems. These include the loss of habitats and species, damage to the oceans, and global warming. As citizens of the world, we have a major stake in their solution.

The Earth Summit strongly endorsed the role of the Global Environment Facility (GEF) as the principal financial mechanism for addressing these global issues. The GEF has demonstrated its ability to mobilize additional resources, and a number of projects are already underway. We must support its replenishment when its pilot phase ends in late 1993.

The Transition Economies

There is no more important task facing humanity than poverty reduction and sustainable development. But there is another challenge that has recently emerged and to which I would now like to turn: the transition of the formerly centrally-planned economies.

There are almost 30 countries struggling to overcome the political, ethnic and economic difficulties associated with transformation. The world's stake in their success is enormous. The evolution of stable, open, market-based economies in Eastern Europe and Central Asia would permit savings of hundreds of billions of dollars in worldwide defense spending. The integration into the global economy of areas in which more than 400 million people live will create increased trade, investment, and prosperity for all.

We now have nearly three years of experience with reform in Eastern Europe. The circumstances have been extremely difficult. Just as they were reforming their economies, these nations were hit by the collapse of the Soviet economic system. It is the loss of nearly half their trade with the former Soviet Union—and not their reforms—that has been a major factor contributing to economic decline in Eastern Europe.

Even under these difficult circumstances, there are signs of progress. Prices have been freed, food lines eliminated, and
inflation contained. In Poland, exports to market economies have risen by more than 50 percent. Hungary has witnessed the emergence of 60,000 new businesses. And the rule of law in ordering economic life has been restored by establishing property rights and permitting the enforcement of contracts. A long road lies ahead, but these countries are now on the right track.

An even longer and tougher road faces the 15 states that were once the Soviet Union. Already, the breakdown of the old economic system has reduced output by more than 25 percent. Historically, these states have had less exposure to market systems than the Eastern European countries; they have been more closed to trade; and they lack effective institutions that can respond to the new economic frameworks. Nevertheless, if the difficulties of transition can be overcome, there is tremendous potential. These 15 new nations produce a third of all the world’s doctorates in science and engineering. They have a highly educated workforce. Many of them are well endowed with natural resources. The transition can succeed.

Stabilization is a prerequisite. But adjustment means more than austerity. The macroeconomic framework will prove unsustainable without fundamental structural reform. This is difficult to implement and takes a long time to achieve. But the effort must start immediately.

Structural reform aimed at the creation of a viable private sector is the key to long-term growth.

• First, small businesses need to be encouraged because they offer the best hope for the future. A beginning has been made. Lithuania, for example, has privatized about 80 percent of its small businesses, and with the help of the IFC, small enterprises in Nizhny Novgorod have been privatized. The process needs to be expanded and accelerated.

• Second, large state enterprises should be restructured and, wherever possible, privatized. A mass enterprise restructuring
and privatization program is about to be launched in Russia. Thousands of state-owned enterprises will be transformed into joint stock companies. The ultimate aim is to transfer ownership to workers, managers and the general public. Inevitably, this type of radical restructuring will involve dislocations. To ensure the sustainability of reform, adequate social safety nets must be in place. The Bank is already working on this issue with Russia and with the Baltic and Central Asian states.

- Third, the productive potential of key sectors needs to be unlocked. Oil and agriculture are especially critical. The petroleum sector could attract high levels of foreign investment—if clear property rights and price incentives were established. A competitive agricultural sector would help to increase the availability of food and ease foreign exchange constraints. The Bank is supporting reforms in both sectors.

- Fourth, if private enterprise is to succeed, inter-state trade restrictions will need to be removed. Whatever currency arrangements ensue, there must be a reliable payments mechanism, and the process of exchange must continue. The Fund and the Bank can help with advice and technical assistance.

These are four priority areas. But there is one other that demands the international community’s immediate attention: nuclear safety. Unsafe nuclear plants in the countries of the former Soviet Union and Eastern Europe pose grave dangers. The World Bank endorses the call for urgent action. The International Atomic Energy Agency and the European Bank for Reconstruction and Development are taking the lead in identifying immediate steps to be taken—providing technical assistance and financing for safety upgrading and decommissioning. The World Bank is taking the lead in energy sector studies and has begun discussions with five countries that have unsafe nuclear plants. These studies will help identify conventional generating capacity for the power now supplied by unsafe nuclear plants.

The costs of upgrading nuclear safety and providing replacement capacity are large. They will require joint action once the
magnitudes are better defined. Clearly, adequate financing is critical in all these various areas.

Some time ago I announced that the Bank's own support for the 15 states could total US$2.5 billion this year, increasing to between US$4 to 5 billion a year by 1995. Those projections are on track. As I have said before, however, the multilateral agencies alone cannot meet the huge financing requirements. Industrial country governments will need to increase their assistance—albeit a small fraction of what they have spent historically on military expenditures. This assistance must be coordinated and targeted on real priorities. The Consultative Group mechanism has successfully achieved this for many developing countries. And several of the new nations have now asked the Bank to chair Consultative Groups on their behalf. Donor reaction has been encouraging—and the Bank is pleased to be leading the effort.

Private investment, ultimately, is the key to success in the 15 new nations. But private investment will come forward on the scale required only when a conducive climate has been created. Key to this are internal legislative reform and the establishment of proper regulatory systems. But the speed and scale of external assistance are also critical factors.

IFC, MIGA and IDA

A healthy and growing private sector is, of course, central to development in every part of the world. Last year, gross private capital flows to the developing countries were over US$100 billion, much higher than the levels of the late 1980s. Through support for policy reforms and investment, the Bank Group has contributed to this positive trend. The work of IFC and MIGA has been rapidly expanding. With its capital increase in place, IFC's investments increased by 15 percent last year. The Corporation leveraged total financing of US$12 billion for private-sector projects in the developing world. MIGA also significantly increased its invest-
ment insurance coverage. Ninety-two countries are now members of MIGA. This indicates the desire, and the need, for private flows in the developing countries.

But poor countries depend heavily on concessional resources. Donor budgets are tight. Events of the past week create further uncertainties and pressures. The international community must not turn its back on the poor. Over the past three decades, IDA has become the centerpiece of the global effort to reduce poverty. There are at least nine new countries eligible for IDA resources. And existing recipients need to tackle additional issues of importance to us all—efforts to protect the environment, for example.

World leaders at the Earth Summit expressed strong support for an earth increment for IDA-10. But despite IDA's proven record and the proven increasing needs, the Tenth Replenishment is not yet secure. To allow IDA to meet the challenges before us, a real increase over IDA-9 is vital.

**Improving Implementation**

All of us involved in development need to evaluate our performance constantly. We have to use resources as effectively as possible and to ensure results. Effective implementation of projects and programs is imperative. Within the Bank, we have been examining our own performance with a view to improving implementation. I urge all our partners to do the same. We need to learn from our mistakes, build upon our successes, and, always, listen to each other.

We began this fiscal year with more than 1,800 Bank/IDA-supported projects in our portfolio. These represent a commitment volume of more than US$140 billion. Of that amount, however, about US$65 billion remains undisbursed. Working together, surely, we can make effective use of these already existing resources—and achieve the development impact that we all want.
Conclusion

Mr. Chairman, Ladies and Gentlemen, let me leave you with a final thought. The Cold War is the third global war to have ended this century. After the First World War, governments had trouble managing their domestic economies. They turned inwards and made no systematic effort to help rebuild the defeated nations. The Depression and World War Two followed.

After the Second World War, the pattern was different. Nations pursued growth-oriented domestic policies, pursued cooperative external policies, and helped rebuild the countries devastated by war. In addition, the Bretton Woods institutions were established to help promote growth and development. Two generations of social and economic advance resulted. Now the Cold War is over. Domestic economic problems preoccupy angry electorates, trade frictions are growing, and the economies of the former Soviet Union, and of the world's poorest nations, are declining. This is a critical moment in history. The spirit of Bretton Woods must prevail.