LEADERSHIP FOR TODAY'S DEVELOPMENT CHALLENGES

It is a pleasure to be with you this evening. The Hudson Institute has long been distinguished for its efforts to look beyond today's anxieties to tomorrow's promise. As your guest, I will try to follow your example.

Tonight, I want to explore ways in which a healthy mixture of hope and realism can be applied to some of the critical challenges facing the developing world. And in that context, I want to discuss the leadership role of the World Bank in the global effort to secure development and alleviate poverty.

Leadership involves risks and it involves costs. The World Bank recognizes that its initiatives must be creative and aggressive if they are to be effective in today's uncertain economic environment. It recognizes, as well, that its effectiveness depends in no small measure on the available resources. The World Bank is ready and able to assume the burdens of leadership, counting on its member nations for their full and realistic support.

It is timely to talk of leadership and the challenges of development. We are meeting on the eve of the Venice Summit, which will address the abundant economic difficulties of our time. Also, the World Bank is in the midst of a reorganization designed to make easier its leadership role for the future.

I will outline for you some of the Bank's adaptive history prior to this reorganization. Then I want to touch briefly on some of the issues the Bank must deal with if it is to lead in the future.

But first let me stress to you how important it is that the challenges of development be confronted within a global economic environment that fosters growth. I am not about to make a speech about the characteristics of the economic environment. I share Alfred Marshall's belief that, "Every short sentence about economics is inherently false."

The Venice Summit is convening when world economic growth is sluggish, when tensions between nations are strong over issues such as trade, exchange rates and investments and when the outlook is so uncertain. The goal at the Summit must be nothing less than to initiate a sense of cooperation that can promote sustained, non-inflationary growth.
We hope that from this Summit there emerges determination by the statesmen to enter into concerted action that ensures long-term international cooperation. We particularly need a fresh spirit of cooperation in those major economic activities that tie nations closely together: trade, finance and development.

With such cooperation, prompting new initiatives, the World Bank will be prepared to move forward with detailed and effective policies and actions.

Let me briefly tell you about some of the history of the World Bank to set in context for you the Bank of today and the reasons for confidence about the Bank of tomorrow.

For more than four decades, the World Bank has been in the development business. This year marks the 40th anniversary of the Marshall Plan. The Bank’s first mission was to assist with the reconstruction of Europe. Then we turned to the developing nations and the need to invest in infrastructure. Dams, roads, ports, bridges, specialized financial agencies, railroads -- these were the yearly grist of the Bank’s development business.

The Bank was good at what it did. Many developing countries, including Japan, were the beneficiaries of the Bank’s work. Our project skills multiplied.

As agricultural production issues, especially food production in Asia, became a world concern, the Bank expanded its capability to identify, prepare, appraise and supervise loans that would expand national food resources. The Bank’s focus on poverty strengthened. It accumulated an expertise in many different fields, ranging from population and education to rural development.

The reorganization of the World Bank in 1972, managed by then President Robert McNamara, strengthened the institution’s project capabilities and its poverty alleviation thrust.

In recent years the Bank has had to face additional challenges. The uncertainties of world economic trends have posed new problems for development. Once again, new leadership was needed.

During the late 1970s and early 1980s, increasing numbers of developing nations sought support and guidance in their efforts to restructure their economies so that economic growth could reduce the relative burden of their debts.

The Bank responded by starting loans for structural adjustment, by placing more emphasis on broad issues of macroeconomic and sectoral...
policy. The rush of events overtook the process of building the Bank's capacity to be a truly effective instrument in leading both client and creditor countries to a full understanding of how economic restructuring needs could be most effectively met. Time was needed for the Bank to develop its skills, to acquire the necessary human talent and to evolve realistic policies. But time was in short supply.

The 1982 annual meetings of the World Bank and the International Monetary Fund in Toronto were dominated by the Mexican debt crisis. Urgent actions were needed, and the hope was that the crisis at hand involved essentially a cash-flow difficulty, not a long-term problem of economic structural change. The IMF was the logical institution to take the lead, since, as you know, it handles short-term crisis management in the global financial system.

The apparent liquidity problems of developing nations demanded that the Fund move with speed in many countries. The Bank also acted with a special assistance program, although this was a relatively modest contribution. At the same time, the Bank was building up its expertise, to make adjustment lending more central to its overall activities and to place expert staff in positions which allowed an accelerated pace of non-project lending in support of economic reform.

It became increasingly clear that the problems confronting many developing nations were not deficiencies of short-term cash flow, but of a longer-term and more fundamental nature. For this reason, the necessary response extended beyond the scope and timeframe of the IMF. In short, stabilization by the IMF was still necessary, but more was needed.

So the call came once again for the World Bank to take the lead. The Bank has responded, as is shown by the details of our work from low-income Africa, to Morocco, to Latin America and to the Philippines. We know we are capable of doing more and the international community is now calling upon us to do just that.

When I became the President of the Bank last July, the widespread perception among the Bank's shareholders and its own staff was that the institution was not adequately prepared for the leadership demanded of it by the debt crisis. Much had been done to modify the project-oriented organizational structure established in 1972. However, additional change was needed to ensure that the Bank could maintain its traditional investment lending and still respond flexibly to the new demands of country-by-country adjustment lending.

These activities had to be performed by the Bank within the context of the existing array of lending and credit instruments that have served the institution so well over the years. It was clear to me that the Bank's organization had to adapt to the new demands made upon it in a
manner that retained its traditional strengths in technical assistance, infrastructure development and poverty alleviation.

The reorganization of the Bank currently being implemented must be seen against this background of an institution evolving in response to the leadership calls made by its shareholders. Borrowers wanted more responsiveness; lenders wanted more efficiency. Both were justified in their expectations.

We have been playing an increasing role in the debt crisis and we are now capable of playing a still more central role. But we do not look at the resolution of debt difficulties as an end in itself. It is essential that the debt problem be kept in perspective -- it is a major obstacle that must be cleared from the development path to ensure progress in developing countries in agriculture, health, education, transportation, sanitation, resource management, population growth, the role of women, and many other vitally important sectors.

This was a prime consideration in the decisions that shaped the Bank's reorganization. Those decisions resulted from a top-to-bottom internal review of the institution that was accomplished in just three months by teams of senior staff.

The reorganization involves new systems for more directly responding to the special country needs of borrowers, for tailoring policy proposals and lending plans to changing country situations, for decentralizing and delegating more responsibility to staff to stimulate activity, accountability and fast action. The reorganization will enable the Bank to use its resources more productively. It positions the Bank to be a more dynamic leader.

To lead demands that one enjoy the confidence of one's supporters. The Bank cannot lead without the help of its shareholders. Those shareholders saw the need for the Bank to play an increasingly central role in the debt crisis, while maintaining its traditional strengths.

In short, this reorganization is a necessary step in the Bank's effort to ensure the trust of its shareholders. Without that trust, the Bank cannot hope to lead in the resolution of tomorrow's development difficulties.

Let me now talk about the way ahead in confronting the challenges of development. In the coming weeks, I will elaborate on this in several speeches, culminating in my address to our next annual meeting in late September. Tonight I just want to touch on some of the key themes.
Today's development challenges demand common, concerted efforts by creditors, borrowers and international institutions. The Bank has outstanding technical assistance expertise to counsel creditors and borrowers alike, and it has the political credibility to win a sympathetic hearing for its advice. The Bank can serve as a catalyst for development -- as a leader that can bring the diverse parties together to determine joint action. We have done this in Africa, in Asia and in Latin America in recent years. Our shareholders now expect more, and the global situation requires it.

Let me be specific. The development crisis in low-income Africa represents a test of leadership. The Venice Summit has an opportunity here. I hope the Summit partners will grasp that opportunity, providing political support for actions in which the World Bank can lead.

In Africa most of the debt is official or multilateral. Official creditors need to push ahead with debt relief plans for the poorest African countries. If the World Bank affiliate, the International Development Association, is strongly supported and fully funded, it has the experience, the organizational strength and the determination to move with speed on this front. Supporting IDA assists more than the poorest nations. It assists all nations.

With encouragement from the Venice leaders, we could develop debt relief proposals for low-income Africa -- where so much of the credit is from official institutions -- by the time of our annual meeting in the Fall. We are ready to move forward with consultative group meetings that bring creditors and borrowers together, that forge economic adjustment programs and agreements on the resources needed to support such programs. More than 20 African countries are asking for help in adjusting their economies. We will advise them in appropriate economic reforms of their choosing and in the provision of the resources needed to make them effective.

The leaders in Venice should not ignore the real financial gap that looms large for many of Africa's countries. Nor should there be any lack of realism about the scale of human suffering in this area, following a decade of declining per capita incomes. Increased basic technical assistance and infrastructure development work must supplement appropriate programs of economic policy change for which the World Bank is the most effective architect.

Our shareholders, recognizing their obligations and the costs involved, should look to the Bank for leadership in assisting the nations of Africa. Their support is essential if we are to play the leadership role that we have the skills to perform and that the African nations demand.

Similarly, in the heavily indebted middle-income countries, the Bank is ready to be an innovative leader in debt management negotiations.
We are not preoccupied with financial engineering, but we recognize the urgency of clearing the roadblock of debt service from the path of development. Here, with appropriate policy support, growth can come more quickly.

The Bank’s response must seek to strengthen both the international financial system and the individual nations that it directly assists.

Here, again, the Bank’s approaches must be specific on a country-by-country basis. Any other course would be ineffective. Each country is unique, both in terms of its history and culture and in terms of its economic difficulties and development prospects. If the Bank’s leadership is to reflect its responsibility to both the individual member country and to the world community at large, then the Bank must tailor its counsel to match the economic problems and opportunities confronted by each nation. A labor-intensive task, its undertaking is the essence of Bank leadership in meeting the global debt crisis.

As we look to the need for closer cooperation between creditors and borrowers, it is important that the commercial banks recognize that they have too much at stake in terms of their own long-term business self-interest not to be active participants. They must be constructive partners in the search for growth and development, willing to maintain their relative risk burden in exchange for more promising economic policy action.

I recognize that leadership must be realistic about the immediate prospects for an expansion in voluntary commercial bank lending. This realism demands that institutions like ours play an even more vigorous role in intermediating debt-servicing solutions. The Bank does not intend to stand on the sidelines. We will design debt-equity swap operations together with our affiliate, the International Finance Corporation. We will lead in seeking new approaches to direct private investment promotion in developing nations through the IFC and our new Multilateral Investment Guarantee Agency -- MIGA. There is great interest in other exciting approaches to financial intermediation in which the Bank can play a creative role.

The Bank’s shareholders must fully recognize the risks and burdens involved in the expansion of the Bank’s leadership. As I said earlier, leadership has its costs. In the weeks and few months ahead, these issues will come clearly to the fore and there will be public discussion of the nature of the resources needed.

The World Bank has evolved, and today it is better equipped to carry out a widening array of development roles. Our missions, development and poverty alleviation, have always been clear and they are unchanged today.
We will be swift, effective and creative in fulfilling these missions. We will work for a genuine team effort between institutions and nations to assist both the developing and the developed worlds to achieve new growth based on resumed confidence and reformed policies.

I am confident that our role will be a growing one, responsive to tomorrow's needs. The World's poor are not alone, and those who want to reduce their suffering are not helpless. If we didn't have a World Bank, we'd have to invent one. Fortunately, we're ready to proceed.

Thank you.