"RESPONDING TO CHANGING GLOBAL NEEDS:
THE ROLE OF MULTILATERAL DEVELOPMENT FINANCE"

Statement
As Prepared for Delivery
By

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Thank you, Archie.

I am very grateful to you for your invitation to address so distinguished a forum as the Foreign Policy Association.

Forty summers ago, with the war in Europe finally at an end, wise men were already working together to launch the reconstruction of the war-ravaged economies of Europe.

The task the Free World faced was intimidating in its scope and complexity, but only the faintest of hearts believed it could not be done.

The challenge we face today is no less formidable. To be sure, we are not called upon to rebuild something of value out of the wreckage and carnage of a global conflict. But the struggle to secure global economic growth and the alleviation of poverty is being waged in an environment every bit as testing and uncertain. And, in the long run, the stakes are every bit as high.

In our increasingly interdependent world, there is no such thing as economic neutrality. No nation can legislate itself into total economic isolation and still hope to reap the rewards, or shelter from the storm of changing global fortunes.

Over the past forty years, multilateral institutions have emerged whose capabilities have been harnessed to the growing demands of economic interdependence. The World Bank is one such institution, and the largest of its kind. In fact, it comprises three institutions: the International Bank for Reconstruction and Development as it is formally known; the International Development Association (IDA), its concessional financing arm; and the International Finance Corporation (IFC), its private sector arm.

Today I want to tell you how we are adapting the Bank's operations to meet the growing demands of our member countries in an ever-changing global economic environment. I invite you to look down the road with me to see what sort of a World Bank is needed in the remaining years of this century, and how we are going to shape it.

If you were to ask me whether the real essence of the task before us could be captured in a single phrase, I would say: yes — to unleash the productive potential of the peoples of the developing nations.
In our efforts to secure sustained non-inflationary economic growth and the progressive alleviation of poverty across the globe, we have to dismantle as well as build. There are obstacles to be removed; obstacles that limit trade and stifle competition; obstacles that suppress incentive and thus the productive potential of individuals; obstacles that impede the flow of much needed capital to the developing nations; obstacles to the more efficient distribution of the fruits of a nation's labors; obstacles to the greater sharing and application of technological innovation and advance.

It sometimes seems that for every foot we lower the wall, we dig a ditch a foot deeper on the far side. That is no way to give free rein to the world's most precious natural resource — the energy and drive of its people. The greatest disservice that the industrial nations can render to the developing nations is to contend that the poor cannot be made more productive, and to see them only as objects of international charity at best or mere sympathy at worst.

It is outrageous that people even dare to accept that the poor must be perpetually poor. To ignore their potential and fail to stimulate it, whether in a poverty-stricken African village or in the low-income neighborhood of an American city, is to opt for a shrinking base of growth and social progress and a broadening base for pervasive poverty and decay.

And it is an option. We do have a choice. We can work together to promote economic and social progress in the developing nations, and thus a more stable world, by helping raise the productivity of these nations. Or we can subordinate the broader good to narrow selfish interests, and beggar our neighbors to the point where all are beggars and there are no good neighbors anymore.

In the forty years of its existence, The World Bank has been guided by the proposition that helping raise productivity is the key to economic and social progress in the Third World. That has been our central mission, and it will continue to be so in the years ahead. But since the mid-1960s we have been increasingly convinced that the development of human resources and institutions is indispensable to rapid expansion of productive capacity. And our experience has reinforced the realization that sustained development requires a greater attention to the distribution of the benefits of growth; hence the increasing concern with employment and the alleviation of poverty.

The severe strains that have surfaced in the world economy in recent years have also focused attention on the need for changes in economic policies and approaches — in both industrialized and developing countries — and this has called for an increased concentration on policy in the Bank's work.
Meanwhile, the developing nations are confronted by exceptional constraints on resources at a time when many of them have managed to climb back onto the growth track from which the global recession had derailed them. The flow of external resources to these nations is declining; that trend must be reversed. The supply of official, long-term development assistance, urgently needed by the poor countries of Sub-Saharan Africa and parts of Asia, is stagnant; it must be revived. Voluntary commercial bank lending to many middle-income countries, especially in Latin America, has been too sharply reduced; it should at least rise from the rock-bottom level of 1984. Protection in both industrial and developing countries is too high and undermines the developing countries' potential for earning, through exports, the foreign exchange on which they so heavily depend; those protectionist pressures must be resisted, and existing trade restraints rolled back in all countries. At the same time, resources available domestically for investment and development are critically scarce in some developing countries, or are simply not being properly mobilized in others.

In the context of these challenges, The World Bank recently embarked on a searching examination of its role. Studies on the general economic outlook for the developing nations led to a set of detailed reviews of the approaches and strategies which the Bank will need to adopt in the years ahead. These reviews have focused on Bank strategies in the adjustment process, its approaches towards investment and long-term development, and its diverse and increasing catalytic functions. The mix of Bank activities will vary from country to country depending upon particular circumstances. But the broader range of instruments that it has been developing to best serve its individual borrowers will tailor assistance to needs even more closely than was possible in the very different environment of the 1960s and 1970s.

Thus we see ourselves in the years ahead well equipped with the know-how and the instruments to assist our developing country members in the adjustment process, in promoting long-term development, and in serving as a catalyst for increased flows of capital and technical assistance, and the mobilization of domestic resources.

The current preoccupation of policy-makers with crisis management is understandable, given the crisis faced by many Sub-Saharan African countries and by a number of middle-income countries still facing debt servicing difficulties. But the Bank, as a long-term development institution, has a responsibility to look beyond current crises and address investment issues and policy and institutional reforms that are crucial to the securing of sustained growth and social progress.
Much of the debate about The World Bank's future has concentrated on the role it should play in the process of adjustment called for by rapidly changing global economic developments. In 1980, realizing the structural origins of the difficulties so many of our borrowers were encountering in coping with the worst recession in forty years, the Bank introduced a new form of lending, the Structural Adjustment Loan. Its primary purpose was to support needed changes in either the structure of production, such as expanding non-traditional exports, or in the structure of resource use, such as making parastatal enterprises more economically efficient. Through a series of loans over a period of years, the aim was to help borrowers adapt their policies, programs and institutions so as to permanently enhance their capacity to avoid or deal with similar crises in the future, while at the same time maintaining a reasonable pace of development. This new instrument was complemented by the Sector Adjustment Loan, of similar purpose, but, as its name implies, focused more narrowly on a specific sector.

These innovations were broadly welcomed, and there was a marked growth in the use of the new instruments. In Fiscal Year 1980 they had constituted less than 4 percent of total World Bank lending. In FY-1984 the share was up to 17 percent. The prospect is that these instruments will continue to play an important role, but its importance will be linked to global economic conditions. If the recovery of the world economy is sustained over the next few years, the share of our lending in the form of structural and sectoral adjustment is likely to stabilize rather than expand.

Meanwhile, our increased emphasis on adjustment lending has in no way diminished the importance we attach to the Bank's traditional strengths in the field of project financing — in project design, in close supervision of project implementation, and in institution building. The Bank's future role must preserve and build upon these traditional strengths, keeping long-term investment as the mainstay of our operations, and keeping our commitment to poverty alleviation as firm as ever.

There is no contradiction here. Quite the contrary. The Bank's support for structural adjustment stems from its concern with promoting sound investment programs and a sustainable development process. Indeed, one of the major lessons of our experience over the past decade or so is that a narrow focus on designing and financing good projects does not by itself assure satisfactory development in countries where there are major weaknesses in policies or institutions.

That is hardly a new insight. But it has added significance today. Policies or institutions making less than efficient use of resources could perhaps be tolerated in the buoyant environment of the 1960s. In today's much less favorable environment, they have proven unsustainable in many countries.
The World Bank has a responsibility to identify policy and institutional impediments to a country's chosen development objectives, and then be ready to assist in dealing with them. Today that is at the very heart of the "country focus" which characterizes World Bank operations. The Bank's plans for assistance, and the operational techniques for delivering it, need to be firmly anchored in the borrowing country's own medium-term development strategy. And these plans should be the subject of a continuing dialogue designed to help us see how we can help the borrowing country achieve its goals.

In our relations with borrowers our primary emphasis is on the progress that can be realistically achieved over the longer term. And where there are conditions for World Bank support, they have a clear bearing on the efficient use of the resources, and do not aim at sudden change. They aim rather at the steady implementation of steps over the medium term which have been agreed in principle.

The link between policy and institutional reform and the Bank's traditional support for investment and poverty alleviation is a central factor in the design of the Bank's future role. So let me now turn to the Bank's traditional activity and consider its place in the years ahead.

There has, in fact, already been something of a change in this area. While the volume of financing of specific investment projects has remained more or less stable, as a share of total World Bank operations it has dropped somewhat as sector operations, both investment and adjustment lending, have increased. The increase in one type of sector operation — support for maintenance and rehabilitation — dates from before the financial crises of recent years. But the acute shortage of funds for critical maintenance activities has accelerated that increase.

Major investments in infrastructure can be jeopardized if rather modest sums are not spent on maintenance. And as has been pointed out in the Bank's series of reports on Sub-Saharan Africa, donors have often preferred to finance additions to capacity rather than the mainly local and recurrent costs needed to maintain existing capacity. To help meet this problem, the Bank is responding with its traditional combination of finance and institution building. This increased emphasis on striking an appropriate balance between new investment and the maintenance of existing capacity will be a continuing feature of our activities.
Another reason for the rapid growth in sector lending has been the growing capability of domestic institutions in borrowing countries, which we ourselves have helped to build. The fact that much of the Bank's lending to the transport sector, for example, now takes the form of sector loans owes a great deal to the institution-building aspects of previous Bank operations. Many countries in Asia and Latin America now have strong domestic institutions through whom assistance can be efficiently channelled to the particular sector. This kind of partnership in promoting development will play an increasing role in our operations.

In Africa, on the other hand, the Bank's future investment lending in many countries will need to continue to take into account the weaknesses of domestic institutions. The results of institutional failure are widely evident: roads and irrigation canals deteriorating through lack of maintenance; huge cost overruns on public works because of delays and weak project management; production and marketing goals unmet because of inefficient distribution systems. These institutional failures are adversely affecting also education, health, agricultural extension and transport services, and thus the mobilization of human resources. While such failures are prominent in Africa, they are not confined to that continent. We are having to confront them in countries throughout the developing world.

The reform of public sector enterprises is another form of institutional strengthening which will feature prominently in our operations in the years ahead. Governments around the world are determined to increase the efficiency of such enterprises or, where appropriate and feasible, to place responsibility for their functions in private hands. The Government of Tanzania, for one, has just announced its intention to privatize sisal plantations which it had nationalized eighteen years ago. The Bank has already intensified its research into public enterprise efficiency and will seek to build upon its extensive experience of such issues as cost-recovery and managerial strengthening.

Sector management, already a significant ingredient in Bank operations in many countries, is expected to become increasingly important. Faced with acute resource shortages, many governments want help in developing more selective investment strategies and in devising the institutional means to ensure that the strategies are correctly carried out. Hence the increase in World Bank staff resources being devoted to public sector investment reviews.

As we consider The World Bank's future role, it seems clear to us that given the trade and capital flow prospects likely to be allowed our borrowers by the industrial countries over the next several years, many of the borrowers will probably achieve acceptable rates of growth and development only on this condition: that they manage to obtain greater returns from the limited investments they do undertake by increasing the efficiency of resource use through policy and institutional changes.
The preoccupation of the policy-makers with immediate pressures tends to remove the focus from a number of longer-term development issues on which action is no less urgently required. As a development institution, The World Bank has a special duty to draw attention to them.

Population growth is one of the most important of these issues. While loans for population and related health purposes remain a small part of overall World Bank lending, analysis in this area has been a major feature of the Bank's work on global issues — most notably in last year's World Development Report. We have announced our intention to at least double population and related health lending over the next few years. We will be strengthening the emphasis already placed on support for earlier and broader educational opportunities for women and for a widening of their employment options.

Our continuing commitment to progress in the alleviation of poverty generates our concern with the distribution of the benefits of growth. Experience has shown that targetted investment alone cannot effectively reduce absolute poverty if policies are biased against the small farmer or in favor of capital-intensive manufacturing. Nor, under those circumstances, can targetted investment effectively create jobs for the landless poor or for the underemployed urban populations.

On the other hand, policy and institutional reform alone cannot do the job either. A combined approach is required. For example, a small farmer needs a setting in which his returns are not eroded by low price ceilings that favor the urban consumer, or by an over-valued exchange rate. But the farmer also needs targetted investment programs that assure timely credit and sufficient support services and inputs. Of course we recognize the very real costs that are imposed on the poorest members of society when subsidies are cut, user charges raised, and other painful adjustments made. And we recognize in any case that subsidies can sometimes benefit the better-off more than the poor. The Bank therefore works with borrowing governments to design cost-recovery programs and reforms in subsidy arrangements that take account of the country's social and political situation.

The role envisaged for The World Bank in support of investment and poverty alleviation is an evolutionary one. It will not abruptly change the composition of World Bank lending by sector which we have known in recent years. Agriculture and rural development will account for the largest share (about one-third) of World Bank operations, and remain the number one sectoral priority.

The overriding consideration, however, in fashioning the Bank's future role, is not sectoral. It is rather the need for World Bank lending to be increasingly oriented toward dealing with the very constraints that hinder the country in realizing its long-term development objectives.
As I said at the outset, we have to unleash the productivity of the people by removing the obstacles on the path to growth.

The Bank's future role in helping to remove those constraints through the direct provision of finance and other services needs to be seen as part of the much larger overall effort to meet the developing countries' needs in capital and technical assistance. To make its maximum effective contribution, the Bank has to structure its operations so as to complement and -- to the extent possible -- exercise a constructive influence on these other flows of assistance. This is its catalytic role.

It is a role which manifests itself in a number of areas. Official aid coordination is one. A main element of the Bank's Joint Program of Action for Sub-Saharan Africa is more effective use of scarce external assistance through improved donor coordination. The Bank has a catalytic role to play there, strengthening the nine African country aid coordination groups that we already chair, and organizing additional such groups. In all of them we shall be seeking to ensure that firm donor commitments are made to match the specific development undertakings and reform programs of the country.

We shall also be playing an increasing catalytic role in collaborating with export credit agencies. We have been engaged in co-financing on a relatively small scale with these agencies for more than two decades. The primary objective of an export credit agency is, of course, to promote the exports of its own country, and this objective may be at variance with development objectives. As part of its general effort, therefore, to improve the quality of resource flows to low-income countries, the Bank is prepared to assist governments receiving export credits in strengthening their investment review mechanisms, to ensure that the projects financed by export credits really are consistent with the country's development priorities and capacities. And we shall explore with export credit agencies ways in which their operations can be more supportive of development efforts.

Turning from official flows to private flows, the Bank has a clear catalytic role to play vis-à-vis commercial bank lending. We have some useful experience in co-financing with commercial banks, and we are now considering the possibilities of a broader role for the Bank in supporting the flow of new commercial lending into sectors or for uses that have high priority.

While still in its pilot phase, there is little doubt that the co-financing program based on our new instrument, known as the "B" loan, can stimulate the flow of capital into countries on better terms and in larger volumes than would otherwise be available. On the broader issues of monitoring and encouraging the flow of new commercial lending, we stand ready to help.
Another key aspect of our expanding catalytic role is the encouragement of more private direct investment. That type of investment can and should be in increasing demand over the next several years, not as a substitute for other forms of capital but rather as an essential complement to them. Today, an increasing number of governments are looking for assistance from The World Bank and the IFC in obtaining the maximum advantage from direct private investment.

Both The World Bank and the IFC have long sought to encourage such investment, both directly and indirectly; directly through the IFC's role as a packager of foreign and domestic capital, and technological and managerial know-how, and through certain specific World Bank-assisted projects. Indirectly, encouragement has been provided through the financing of investments in physical infrastructure and human resource development, and through structural adjustment loans, all of which help create a private sector environment and policy framework more conducive to direct private investment.

An important new initiative of The World Bank to encourage the flow of foreign investment to developing countries is the proposed Multilateral Investment Guarantee Agency (MIGA). This new agency would guarantee against non-commercial risk, complementing those national and regional investment guarantee agencies which already exist. Much of its business would be coverage against the risk of currency situations that keep foreign investors from repatriating profits. But it would also provide coverage against the risks of political violence and expropriation. Consultations with potential signatories to such an agreement indicate growing support for the proposed agency, and a draft convention is to be discussed shortly by the Bank's Executive Directors.

Foreign private investment is critically important to the developing countries, and needs greater encouragement. And as I have said before, and will say again here today: the presence and value of an indigenous private sector in developing countries need far better recognition. The private sector's role in development has been too little explored and its dynamics too little understood. And while recognizing the crucial importance of the role of the public sector in development, it seems to me that the far greater emphasis laid by aid organizations, both bilateral and multilateral, on promoting the public sector than on promoting the private sector has been an emphasis misplaced. Aid agencies ought to be taking, and must take, a more balanced approach. And this will certainly be reflected in the future role of The World Bank.
In conclusion, let me stress that the rationale for World Bank operations in any country is not to transfer a pre-determined volume of resources over a period of time. Rather it is to promote sustainable development through a combination of financial and non-financial services. The evolution of what we call the Bank's "operational product" in the directions I have outlined today will reinforce this linkage.

The Bank's ability to adopt a long-term perspective in providing assistance to borrowers is vital. The problems which we typically have to address require a series of operations that act in a cumulative manner and proceed at a politically realistic pace. One cannot "jump start" a developing economy. We have to be able to respond with support that can be sustained over a number of years, whether it be for our low-income or medium-income member countries. And a productive, forward-looking relationship with our borrowers depends on their being confident that we will be there with the help they need.

To be effective and credible as a lender, therefore, — and this applies to IDA as well as to IBRD — the Bank must be sure that it will always be able to commit funds on a scale commensurate with the level of support needed for an agreed assistance strategy. Otherwise its effectiveness in promoting adjustment, growth and development will be impaired. And that may affect the government's own commitment to a strategy.

Looking down the road, I believe that The World Bank has a very effective role to play in helping these countries secure sustained growth and social progress.

The agenda ahead of us is a full one, and our future role in helping the adjustment and long-term development process will make heavy demands on our energy and ingenuity. And it will demand sustained support from the international community.

I believe you recognize the interest of this country — of all industrial countries — in seeing that this great cooperative effort to bring the developing nations to a better standard of life does not fail.

Thank you.