I thank you very much indeed for the opportunity to be here and I would like to say how proud I am to be delivering the Walter Sterling Surrey Lecture. Mrs. Surrey, you may know that I gave the David Morse Lecture at the Council on Foreign Relations a few months ago and had the pleasure of seeing Mrs. Morse there. Surrey and Morse were quite a duo and I am delighted to be here and speaking in the name of your late husband.

When I looked at the annual report of the National Policy Association, I felt quite at home. This was not only because of your history and the genesis of this organization - which was to bring together the private sector, the trade union movement, and thereafter the rural community and academia as part of the public policy debate - but also because of the commitment this institution has both to market economies and to fundamental values.

In fact, I needed go no further than the front page of your report where you say that although market economies have proved to be the best engines for growth and for producing wealth, they do not always produce ideal distributive results. They also do not automatically respond to non-economic human concerns. NPA focuses on developing strategies that can promote maximum competitiveness while remaining sensitive to human values.

The international development framework about which I am to speak, could do no better than to take a lesson from your own objective here at NPA. There has always been, of course, an international development framework. So what is it that we are talking about at the World Bank in creating such a framework or creating, as we said at first, a new development framework? I should tell you that we immediately retreated from calling it a new development framework because we were told that what we were doing had been done for years; that every idea had been invented by somebody else decades or longer ago.

Our debate about a development framework came up as follows: We have faced, in the last two years, a significant economic crisis. It was somewhat different from earlier crises but also part of the succession of crises in global history. Originating in Asia, it moved very quickly to other parts of the world. It moved as a result of increased technology, globalization, interdependence of markets, so that a problem that originated in Thailand became magnified in Korea and Indonesia. Brazil, Russia, any country that investors had invested in that had some
development risk found itself subject to a withdrawal of funds because investors, wherever they were, felt that if they were losing in Thailand or Korea, the best thing to do was to get their money back home so they were not exposed somewhere.

And, of course, as they brought their money back home, they helped create a crisis somewhere else, because much of the money was short term. You will remember that we reached about $300 billion in 1997 in terms of net transfer of funds from the private sector to the developing world. And by the next year, the net flows diminished by $100 billion. This $100 billion in withdrawals created a pressure on markets, whether they were in Thailand or Korea or other places, that was transmitted around immediately. So that was the first thing.

The debate, as you all know, then focused immediately on what is the fiscal policy of the country; what is the monetary policy of the country; what do we do about stable exchange rates or floating exchange rates; what do we do about budgetary policy; what are the reserves; what is the size of the package coming in. And you will recall the headlines of $17 billion and $42 billion and $58 billion, packages put together for various countries. You will recall that even in recent weeks in relation to Brazil and currently in the case of Russia, the question is about how much money is going to be put together, as though stability can be bought, as though economic and macroeconomic planning, very important as it is, is the answer both to stability and to development. In these headlines and in these questions there are not too many words about the human aspect. There are not too many words about the structure.

And so what we have been thinking about at the Bank is how to acknowledge the great importance of the macroeconomic, fiscal and monetary policy, budgetary policy, exchange rate policy; how to acknowledge that all that is fundamental, but that it is not the whole story. And we have asked ourselves what is the whole story and what are all the elements that you need to think about when you consider development and stability. What were the fundamental causes of the problems that we had in Asia and that we still have in many other countries? And so we started to think: What are the non-financial issues that you need to address in a development strategy?

And we developed a list of those things which to us, in our experience, looked to be as important in terms of a framework as the macroeconomic issues that we are all familiar with. This list was created not as an imposition on countries but as a sort of guide and it began with governance - with good governance, a good regulatory framework, and a desire to rid the country of corruption.

We have learned that if you have good macro policy but you have an ineffective government and a corrupt government, there is not a hell of a lot you can do with the good policies. I could talk about some of the problems we have faced in some African countries, in the former Soviet Union or in some countries in Latin America. I could talk about countries almost anywhere. The issue of corruption is crucial.
I could also talk about countries in the OECD where corrupt practices in many countries until very recently have been deductible for tax purposes. Bribes paid by companies, both in developed and developing countries, have been acknowledged by their governments as a cost of doing business and thus deductible. It is pretty hard to convince developing countries that this practice is inappropriate if European governments are allowing it as a tax deductible expense.

So corruption is not an issue that is limited to Africa or to anywhere specific. It is a general problem.

The second thing you need, not surprisingly, is a legal system. In the case of Korea, Thailand, and Indonesia, there was no effective bankruptcy law. It was impossible for us to do effective reconstruction - in fact it still is in some of those countries, notwithstanding the existence of the law on the books, because you do not have lawyers, you do not have a legal history, you do not have judges with recognized jurisdiction. So it takes a little time, and that led us to think that a legal system is only effective when you have a justice system that works.

If you do not have a legal system and a justice system, it is very, very hard to deal with the question of equity, the issue of distributive justice. Distributive justice is protected by a justice system and by a legal system. So that was the second point.

The third point was that you need financial supervision and control, at the level of banks, at the level of financial markets, at the level of capital markets, at the level of leasing, agricultural banks, the whole thing. It was very clear in the three countries of which I have spoken - Korea, Thailand, and Indonesia, and the same is true of Russia - that the absence of control and supervision of the banking system is the most distorting factor. And it has the most immediate and direct impact on the poor.

So before we get to implementing our fiscal and monetary policy, you really need, in parallel, to put in place a structure or a framework on which you can build your economic program.

And the fourth thing you need is a social safety net and a social structure that works. It is one thing to come up with programs for privatization in the former Soviet Union. But you need to acknowledge that those companies that had too many people working for them also provided pensions and kindergartens and health benefits. And if you do not and you do nothing to replace these implicit social safety nets and you fire half the workforce, you have a socially dispossessed group that does what it has done in Russia, which is to create enormous political pressure - and properly so - because they have been robbed of what they had and nothing else was put in place.

So the social system is absolutely crucial. It is crucial in all developing countries. It does not have to be an American-style social system. It can be a familial system. It can be a tribal system. But you need something to take care of those who are not employed, of the aged,
of children, the disabled. You must have some sort of system for the social aspect.

So we decided that we should think about these four things at the same time as we considered fiscal and monetary policy. If you consider the proposition that you can deal with development on the basis of the figures alone - if you just think about it for a minute - it becomes very clear that this is impossible. It is something which is implicit for us, living in the United States, because we have all those things. We do have a justice system in place. We do have a legal system. We do have governance. We do have social safety nets. But in countries that do not, where you are trying to bring about development, pure finance or the provision of funding does not assure social stability.

And then we looked a bit beyond these four fundamental elements and asked what was needed to bring about effective long-term development. And we started with education. Education and knowledge is crucial. It is the thing that can help us jump the gap.

I was recently in the Côte d'Ivoire, visiting villages and looking at the issue of cocoa and coffee. You have 2.5 million farmers and they have been ripped off for years by intermediaries who have come and paid them a fixed price, and then taken a very much larger price on the international market.

I was in the jungles and the clearings and then went to a village where I was happily made a chief and now in my black hat and my beautiful robe and gold around my neck - mock gold, I want to be clear for tax purposes, not real gold. And there I stood wearing a 100-year-old costume with my brother chiefs, addressing this question, and they said, "Come to the office". And in the office, there were two young Ivorians sitting at computers, and one of them showed me how they weighed in the coffee and the cocoa and the other young Ivorian was linked to Internet, to a Reuters service which we had organized, which gives them daily prices - in fact, minute-to-minute prices - from Chicago, Paris, and London. And this guy with cellular telephone gets these prices out to the farmers.

I then went back to my chiefs, most of whom had not had an education, and we talked about hedging and we talked about swapping and Chicago futures and all this sort of thing. In my 100-year-old costume I had leapt 100 years with the knowledge that was being conveyed to this place. This was a joint venture between the Bank and a Canadian NGO.

This sort of transfer of knowledge and of course education - and in that, equal education for girls - is absolutely fundamental. And perhaps obvious but parallel needs are water and sanitation, transportation, communications and other forms of audio and visual communications, power, a system for environmental control and for cultural continuity which is so very important to maintain the culture of these countries.

And a rural strategy: you have to have an appropriate rural strategy, which is not just agricultural. It is the capacity to develop in a rural area the systemic systems that allow for both growth and for trading and for industry.
And an urban strategy. As we face the challenge in the next 15 years of 24 megacities, 20 of them in the developing world, each with 10 million people or more, an urban strategy is imperative. And then a private sector strategy.

Whether that is the right list or not, it gives you a sense that there are fundamental things which address human needs without which you cannot have stability, notwithstanding good economic and fiscal planning. You cannot have one without the other, but you must focus also on the human element. And as we considered our list we thought, too, about how the world has changed since we started. It is no longer a world of cold war. It is a world now also in which business, which was so important in your genesis, has moved in the last ten years from $40 billion a year in terms of net transfers to over $300 billion last year and this year maybe $230 billion.

And in 1990, when private flows were at $40 billion, overseas development assistance was just under $60 billion, one and a half times the size of the private sector flows. Today - or in 1997, to make it even more dramatic, in the year of the $300 billion going from the private sector, official assistance was $39 billion. So from being one and a half times the size, it is now one-seventh the size of private sector flows.

And the other development has been that of civil society, be it the trade union movement or foundations or NGOs addressing particular issues. With freedom you get an eruption of civil involvement. You do not have many NGOs in a dictatorial state unless they are organized by the government. But if you have the sense and the transparency that allows NGOs to be constructively involved, then you have the opportunity of engaging that group in very effective ways for development.

The other thing that has changed is that the Bank and the Fund are no longer the only people in the game of official development assistance, which we were 50 years ago. You now have bilateral institutions, multilateral institutions, you have regional banks, you have the UN system, you have the European Union, you have a plethora of development specialists, very often falling all over each other in the field.

So the second part of what we are doing is suggesting that under the leadership of the governments - they must be the dominant power in deciding the development agenda - we should seek to reconcile and coordinate what we are all doing in an organized manner.

And so we put all these thoughts on paper in a thing called the Comprehensive Development Framework. And I have to tell you that in the last three months, the response has been amazing, from the UN, from the regional banks, from the bilateral. Nobody is admitting that it is new and we are not caring whether it is new, but everybody is recognizing that if we do not do something to change the way we have operated, the inevitable march of poverty will continue.

We have a billion, three hundred million people in the world today that live under $1 a day, which is the commonly accepted definition of
poverty. It is not by any means a complete definition. In fact, there are many ways of looking at poverty. But it is a shorthand. And the targets of the Development Assistance Committee are to reduce the incidence of poverty by half by the year 2015. But if GDP growth continues at current rates, it is unlikely this goal will be met globally.

And we are degrading our environment. We are losing forests at the rate of an acre a second. We are losing biodiversity at an absolutely alarming rate. And if you just look at the ozone layer, you have to say that our environmental achievements are not great.

But I think all of us have come to recognize that with declining overseas development assistance and with a lack of cohesion between the financial, the structural, and social, and, dare I say, the human element, there is a need for a new coming together. We need to balance the financial with the structural, with the social, with the objectives that I have described. And we have to bring together, as you have brought together here, not just a single dialogue between the Bank and the government or the Fund and the government, but really a national consensus between the government, the providers of funds internationally, the private sector, and civil society in all its forms.

We have now taken ten countries in which we are trying out this approach and we must have another 20 countries that would like to start with us right away, because it just makes sense. We are going to give it a shot for the next 12 months and see how it goes. We are fully aware of the political difficulties, but at least we are starting with governments that want to do it. In Africa, we have Uganda and the Côte d'Ivoire. In Bolivia, they have already done their national survey and agreed on their objectives.

Each country adds or modulates the list of objectives that I gave you. In the case of Bolivia, they are deeply concerned with a movement away from dependence on drugs and drug dealing to a more orthodox industry. And in each country it is different.

But what I want to leave you with is that the issues which you are addressing here in the National Policy Association, the issues of bringing together different sectors of society to try and influence policy are exactly what we are trying to do in a more organized way internationally. And we are trying to encourage governments abroad to have these national meetings and national consensus building so that there can be ownership locally. And we are also trying to extend the range of things that you have done in your own six committees to issues which are not a financial consideration but are parallel considerations of equal and contemporaneous importance, meaning the legal, justice, education, financial supervision and control, rural policy, the urban strategy, and then the fundamentals of education, health, water, power, and so on.

It is an extensive agenda, but one which we think has considerable promise and which we are giving a shot, and that is why I wanted to talk to you about this comprehensive framework today and salute you for having done it in this country.
Thank you so much.