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James D. Wolfensohn
President
The World Bank Group

Address to the
Board of Governors
Washington, D.C.
October 10, 1995



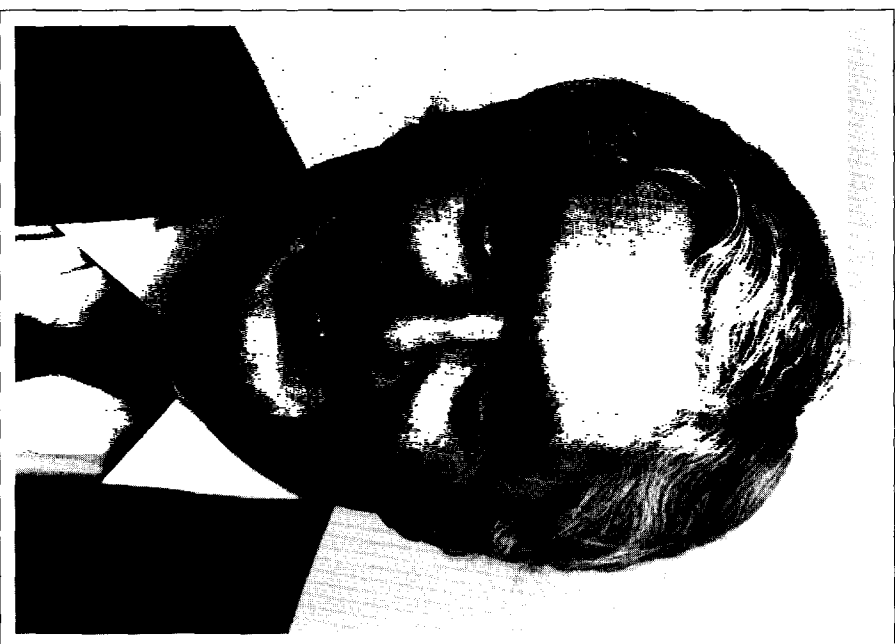
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It gives me great pleasure to welcome you to Washington for these Annual Meetings of the World Bank and the International Monetary Fund—my first as president. I extend a very special welcome to the delegation from Brunei, which today becomes the Bank's 179th member country.

I am greatly honored by my appointment as president of the World Bank Group, and I wish to thank you for the confidence you have shown in electing me to this position. Elaine and I pledge to work hard and, with your help, to make a contribution to the dream that we all share: a better world for our children.

Let me say at the outset that I feel greatly privileged to be working with my friend Michel Camdessus, who is giving me so willingly the benefit of his immense experience.

The Bank Group has a distinguished record of achievement. Since my arrival four months ago, I have visited many countries and projects and have been gratified and encouraged by the strong partnership that exists between us, our clients, and our member governments.

I have learned that development is a tough and complicated business. After fifty years of operation, and with new leadership, now is a good time for the Bank Group to take stock. The world around us has changed, and its expectations from, and demands on, our institution have become ever more complex. I regard this as a difficult period, but one of enormous opportunity.

One thing is clear: we must continue to act—so that poverty will be alleviated, our environment protected, social justice extended, human rights strengthened, and women's rights advanced, all in the cause of a more just and peaceful world. We must ensure that our organization functions at the highest level to achieve these goals.

In embarking on this task, I am very conscious of the sadness we all feel at the tragic loss of my predecessor, Lewis T. Preston. Lew was a great banker and humanitarian. He loved the Bank, and he and Patsy worked hard to improve its effectiveness and enhance its reputation. We are grateful for all that Lew gave to the institution, and we would like Patsy and the family to know that he will always be remembered with affection. In particular, Lew's belief that educating girls is the best investment a country can make is recognized in the Lewis T. Preston Education Program for Girls, recently established in his honor.

What are you expecting from me after my first few months with the Bank? Weighty pronouncements? Massive reorganization plans? Headline news? Instead, I am about to give a progress report, an indication of my approach to my new responsibilities, and some insight into the direction in which I would like to lead the Bank.

A SENSE OF DIRECTION

To gain a sense of that direction, I have spent about a third of my time in these past four months traveling to our borrowing and lending countries—talking and listening to government leaders, business people, activists in nongovernmental organizations (NGOs), farmers, trade unionists, students, mothers, and children. My wife and I have visited dozens of the projects that the Bank is supporting, and a number of images have stayed with me:

- The woman entrepreneur whom I met in the small town of Katwe, Uganda, converting banana peels into charcoal briquettes and using the proceeds from her sales to improve her community. She had all the pride of the chairwoman of a multinational company as she shared with me her pencil-written records.
- Villagers in the arid province of Gansu, China, to whom a Bank-financed project delivers water through a 50-kilometer system that traverses mountains and valleys. Those villagers are using their own resources—in partnership with government experts—to invest in agriculture, roads, and education for their children.
- Slum dwellers in Port-au-Prince, Haiti, and in Salvador, Brazil, working—with our help—to install clean water and sanitation facilities and thus contribute to their own health and productivity while protecting their environment.

I saw enormous challenges. The monumental power and fragility of the Amazon and the damage done by people in need of land—and in need of hope. Schools in Africa, with ninety children in a class, working ten to a book and two to a pencil. The appalling conditions facing the people of Gaza, where incomes have been stagnant for a decade, yet where investment and job creation must be part of any

lasting peace. The islands of the South Pacific, where our environment is under attack as foreign entities seek to destroy natural forests for profit without any long-term concern for the future of the islanders.

Although my odyssey is not complete, I have learned of the tremendous diversity among the Bank's clientele: dynamic growth in East Asia and parts of Latin America, but not enough growth in much of Africa; the unique challenges of transition in Eastern Europe and the former Soviet Union; and the special needs of states that either are failing or are struggling to be born—from Burundi to Bosnia.

I have learned that the real test of development can be measured not by the bureaucratic approval process but by the smile on a child's face when a project is successful. I have learned of the power of development when people are given the chance to participate in it. Most of all, I have learned that there is nobility and capacity in the people we are trying to assist—and that there is a vital need for the World Bank Group to help with the huge, unfinished development agenda.

The developing countries deserve our support for moral and social reasons. But they also need our support because they represent future growth for us all. And equitable growth means stability for our planet.

If the Bank Group is to be as effective as it can be in contributing to this goal, it must adjust to new conditions. And the key questions guiding change are these: What do you, our members, need from us today, next year, and five years and more from now? Where can we make the crucial difference?

As I attempt to give a sense of my current thinking, let me organize my remarks along the following lines:

- What is the context in which the Bank operates today?
- What is the role of the Bank in development—now, and in the coming years?
- What can the Bank do to achieve its objectives in an effective and accountable manner?
- What immediate and early initiatives are we taking?

THE CONTEXT: A CHANGING WORLD

We are, of course, operating in a context that is vastly different from that of ten or even five years ago. The post–Cold War era has witnessed perhaps the most momentous changes in economic history:

- Country after country has moved away from command-and-control to greater reliance on markets.
- The rapid expansion of trade and technology has accelerated global integration, with the developing countries contributing 75 percent of the growth in world exports in recent years.
- There has been a transformation in private capital flows, which now total three times official development assistance.
- As democracy has swept the world, a host of new players have added their different strengths to the cause of development—in the private sector, among NGOs, in local communities, and in civil society.

All this has raised expectations of development and made the potential for development greater than ever before. Yet the challenges, too, are growing.

We have made good progress on poverty reduction in several areas—in East Asia and some parts of Latin America. But there are still 1.3 billion people living on a dollar a day or less. Adequate sanitation and electricity remain beyond the reach of two-fifths of the world's people.

This shocking poverty is fueled by continuing rapid population growth of more than 80 million people a year, 95 percent of them in the developing countries. And it is

compounded by the threat to biodiversity and the environment, with continued profligate waste in the industrial world and new challenges in the developing world.

Given current population and urban growth rates over the next generation, industrial output and energy use in the developing countries will increase fivefold, carrying a risk of irreversible environmental damage. We must heed the warnings of the Rio Earth Summit and act to protect the world for our children.

I have been encouraged by the high priority now being given to the environment by more and more developing countries and by their increasing requests for the Bank's assistance in this area. The richer nations, since they are the greatest polluters, must share this burden. Progress is being made—through collaboration on the Global Environment Facility, for instance. But much more remains to be done. Without environmental protection, development can be neither lasting nor equitable. My commitment to the task is unequivocal.

The fundamental problems of equity between rich and poor nations also exist in regions that are growing dynamically. In Latin America the poorest 20 percent of the population receives less than 4 percent of the income and has even less of the assets. In other regions too, the gap between rich and poor is getting worse. The distribution of the benefits of growth presents one of the major challenges to stability in the world today. Social injustice can destroy economic and political advances. This is a challenge that must be addressed by the governments and leaders of the countries with which we work.

We must learn more about the why and the how of income distribution. We must measure progress not only in gross domestic product per capita but also in social and environmental benefit per capita, as we are seeking to do in some of our most recent work. And we must be aware of the close relation between peace and development. We cannot ignore crises such as those in Bosnia, Gaza, and Rwanda and the challenges they present to the world development community.

**The
Challenge
to IDA and
the Need
for a New
Compact**

It strikes me as bitterly ironic that just as we are reaching a consensus on how to address these challenges in our changing world, the threat to development assistance has never been greater. I refer here specifically to the funding crisis facing our concessional affiliate, the International Development Association—IDA.

As you know, IDA's basic constituency is the world's 3 billion poorest people. Ninety percent of IDA's lending goes to countries with per capita incomes below \$600. Using its global experience, IDA advises the poorest countries on their economic reforms. It is the largest investor in their education and environmental programs and in other vital areas, such as helping to combat AIDS.

With the help of IDA-supported projects, in the past several years alone malnutrition among infants was cut by half in 6,000 villages in India. Over 6 million textbooks were distributed to primary schools in Africa. And millions of women and children in Central America received basic nutrition.

In these ways and more, IDA is the backbone of the international effort to help the world's poorest nations help themselves. And yet, despite the record, there is a serious question about the fulfillment of some donor commitments under the tenth replenishment of IDA (IDA-10). Budget cutting by the U.S. Congress has led to delays and perhaps to large reductions in the size of the contribution by IDA's leading donor. And for every dollar cut by the United States, IDA could lose a total of five dollars as other nations reduce their contributions proportionately.

This means that if congressional estimates of a U.S. cut of approximately 50 percent materialize, overall donor contributions to IDA in the coming twelve months could be reduced from \$6 billion to under \$3 billion. Achieving an adequate IDA-11 for the next three years will be extraordinarily difficult if IDA-10 is reduced so drastically. This is not only a threat to IDA; it is a threat to the long-term viability of multilateral financing for development.

As Michel Camdessus has pointed out, if IDA is seriously underfunded, we will be faced with a world of increasingly unstable nations. Some of the ministers here today will have to abandon plans for building human resources, expanding education for girls, increasing the supply of clean water, investing in infrastructure, or moving soldiers out of the barracks and onto small farms. There are so many urgent tasks.

The donor community needs to understand the costs of an underfunded IDA. We must explain that world citizenship has a price and that IDA is central to the whole development process. National budget-cutting exercises in the industrial countries must give due weight to international considerations. Money saved now for domestic purposes will lead to huge costs later. It is in the donors' own self-interest to maintain an adequate level of support.

Obviously, IDA and its partners in government and civil society must be accountable and must be seen to spend scarce resources wisely and well. There must be a compact: in return for the donor community's ensuring that IDA has adequate resources, recipient countries and the Bank must ensure that those resources are used even more effectively. Projects must be well managed, and corruption must be eliminated. In addition, we need to provide better information about the benefits of this important work to donor governments—and to their voters.

**The Problem
of Debt**

In addition to resource constraints, some of the poorer countries face serious problems of overhanging debt. Yes, private capital flows have exploded, but more than 80 percent of these flows has gone to about a dozen countries. Private investment is not yet the answer for the poorer countries.

We know that there is no universal solution to the problem of overhanging debt. A case-by-case approach is necessary. With current instruments, we are already providing

resources to help the majority of indebted countries meet their needs for both debt service and repayment. But for a small number of countries, the debt overhang remains just too great. And as it grows, new lending becomes less effective.

Roughly a quarter of the poorest countries' debt is owed to multilateral institutions. We must, therefore, review the options for addressing the problem of the countries that cannot escape from their debt overhang. You all know that the Bank and the IMF are studying the issue. Together, we expect to make some recommendations to our Boards and to bring our conclusions before the Development Committee at the spring meetings. The issue is difficult, and the options are many. But we believe that the problem merits serious attention and deserves a clear indication of what the Bank and the Fund can recommend.

Let me repeat: the crucial need to free up more resources—whether by reducing multilateral debt or by replenishing IDA—must be matched by the track record and by the commitment of the recipients to sound policies and effective, transparent implementation. This must be our compact.

THE ROLE OF THE BANK IN DEVELOPMENT

What is the Bank's role in this compact, now and in the future? As you know, the Bank has evolved throughout its history, from an agency for postwar reconstruction fifty years ago to a global development institution today. Recently I visited Japan, where evidence of the Bank's assistance is manifest—as it is in over two dozen other countries that have “graduated” from requiring our help.

As the needs of our members have changed, the Bank has changed to meet them. The Bank Group of institutions is one result. I have already talked about the crucial importance of IDA. But there is more to the Bank Group than IDA. And there is more to the Bank Group's work than just lending.

There is the International Bank for Reconstruction and Development—IBRD—whose original genius remains as valid, if not more valid, today as five decades ago: to borrow on the financial markets in order to fund long-term development through loans to governments; to use its guarantee power to mobilize additional private capital; and to transfer the lessons of development experience across countries. Like my predecessors, I am committed to sustaining IBRD's triple-A status as a borrower—because that is the bedrock of our effectiveness, allowing us to play our triple role as lender, adviser, and partner to our clients whose projects we assist.

There is the International Finance Corporation (IFC), which last year made loan and equity commitments of close to \$3 billion to help develop the private sector in sixty-seven countries. For every dollar the IFC invested, six additional dollars were leveraged from other sources. But this is far from being the only measure of the IFC's effectiveness. The range of its services is growing dramatically, from advice

on capital market development in Viet Nam to assistance with the privatization of agriculture in Russia. And it continues to push ahead on “frontier” issues of private finance: support for small businesses in Africa, or establishing a biodiversity fund for Latin America. Looking to the future, I believe the IFC can extend its reach—and expand its development impact.

There is also the Multilateral Investment Guarantee Agency (MIGA), founded in 1988, whose goal is to stimulate private investment by insuring against noncommercial risk. In six short years of operation, MIGA has leveraged total investment of close to \$9 billion in thirty-six countries. The only constraint on its doing more is its very conservative capital and gearing ratio, which I would hope to take up with our shareholders at a future point.

IBRD, IDA, the IFC, and MIGA are seeking to develop new products and instruments so that we can maximize the benefits for our clients. We have demonstrated our flexibility in a number of dramatic ways during this past year, from helping to strengthen Mexico’s financial sector during the peso crisis to assisting with the creation of a new microfinance program for the world’s poorest. To be even more responsive to our clients’ diverse needs, however, we need to strengthen our organization along “group” lines—to take advantage of our collective services and experience. And that is one of my priorities.

From our past experience, we have found in country after country that sound economic policies are essential for stimulating growth, creating jobs, and helping the poor. We have learned that investing in people, particularly through education programs, is the principal engine of social and economic progress. We have seen the power

of the contribution of women, as the main agents for change in their families and communities. We know that infrastructure—power, transport, and telecommunications—is essential, and we will continue to support it as appropriate. At the same time, we have realized how critical it is to protect the earth's fragile environment—our land, our forests, our water. And we recognize the great present dangers of drugs and organized crime.

For me, the big lesson from a review of our history and from my travels is that there is no single solution. I have seen how interlinked are the pieces of the development puzzle. Our programs have to be part of a comprehensive development strategy that is rooted in a country's individual needs. It is in this context that our experience can be critically important to our clients.

Let me take one example which I saw in a village in Mali. There, an IDA-supported agricultural project has helped farmers increase their yields. Still, they need storage capacity and transport to market. They need a marketplace that is fair and a distribution system that is not monopolistic. They need access to credit and training in how to run their own small businesses. Beyond this, they need a legal system to protect their rights, assistance in setting up facilities for education and health, and a stable economic and political climate.

The government of Mali understands all this. But each part of the puzzle poses different problems and imposes different demands on capacities—both financial and managerial.

What I have seen has brought home to me the complexity of development and the benefits that can be realized when all the pieces fall into place.

Learning from others' experience is one of the keys. The Bank Group, because it is global, is uniquely placed to assist with the networking of development experience: agricultural extension from India to Uganda; private pension funds from Chile to the Czech Republic; macro-economic lessons from Malaysia to Ghana.

The ideas are legion. The lesson is straightforward: advice is as important as money. And one of the Bank's greatest strengths is that our advice is independent. Governments trust us.

Looking to the future, I see the Bank Group's central role as helping to bring all this together in a systemic approach to development: the ideas, the financing, the people—and a knowledge of all these components and of what it takes to build a successful development program. There is an extraordinary opportunity for this institution to leverage its unique capacity to integrate development and make it truly sustainable.

GREATER EFFECTIVENESS AND ACCOUNTABILITY

Although we have had notable successes in the past, the Bank's senior management and I agree that we can be even more effective in the future by sharpening our focus on the issues we are tackling and by judging our performance according to impact in the field. Of course, orderly process in the consideration of projects is critical. But results are what matter. I believe we can strengthen the rigor of both our analysis and our implementation. We must be prepared to be held accountable—and to reward our colleagues by the tests of the marketplace.

This will help us, in turn, to be more effective in achieving our basic mission: to reduce poverty and improve the quality of people's lives. You have heard me say that we can judge development impact by the smile on a child's face. We must organize ourselves—whether it be in our private sector work, including that of the IFC and MIGA, or in our activities on environment and human development—to deliver on that smile.

We must also acknowledge that we operate in the new world I have tried to describe—with new clients and new demands. Some of our clients have access to new alternative sources of money and advice. We think this is terrific. Our job is to make sure that we complement these alternatives—and stay relevant.

To do that, we have to change the way we do business. We must focus on our clients and results and break the armlock that, I sense, bureaucracy has placed on this institution. If we do that, then we will create a more profound change than any structural reorganization. I am talking here of liberating the talent and commitment of our wonderful staff—and harnessing that directly to development. In short, creating a results culture.

Let me outline some of my early thinking on how to get there:

- Externally, we can and must build stronger partnerships.
- Internally, we can and must be a center of excellence.

The Power of Partnerships

From my experience in the private sector, I know the power of partnerships. This was reaffirmed during my recent travels.

On the Loess Plateau of China I saw peasants working with government specialists, as well as with the Bank, to protect this immense part of the global commons. I saw partnerships too, in Chiapas, Mexico, where history has cruelly denied many people the chance of an adequate life. Working with the federal and provincial authorities, the Inter-American Development Bank, the private sector, research institutes, and NGOs, we are making a new effort to alleviate poverty and relieve social tensions. In the West Bank and Gaza I saw our expanding involvement with the United Nations and the European Union in helping to build the bridge between peace and development.

I know that the Bank is already an experienced partner. But I believe we can go much further. And we can start by working more closely with our shareholders and donors. Here, our Executive Directors play an indispensable role.

We must also deepen our collaboration—as we have begun to do—with the UN system, the IMF, and the World Trade Organization. We can expand our cooperation with the private sector, which plays an increasingly important role in development. And we can do much more to reach out to NGOs and civil society. Let me also pay tribute to the regional development banks with which we work, and to their leaders who have given me so much advice and help.

To be a good partner, we must be ready to listen to criticism and respond to constructive comment. There is no place for arrogance in the development business. I want to have a Bank that is open and ready to learn from others and that holds itself accountable. In that context, I regard our independent Inspection Panel as a valuable asset.

We must listen as we formulate our plans of action. Our friends are a great help. We cannot be fully effective, however, if our critics will not listen to us before they assess our positions and actions. Unconstructive and vitriolic criticism from outside does not help the people we are trying so hard to assist, and it creates a climate of resistance inside the Bank.

Everywhere I have traveled, I have met with representatives of the NGO community and civil society. We are really interdependent. But we must build mutual trust. I am committed to this endeavor.

Of all our partnerships, we must remember that the most important are those with the governments to which we lend—and the people whom they serve. It is a point worth repeating: we must get closer to our clients. This will mean continuing to strengthen our field presence while maintaining a very strong base at the center. At the same time, we must be mindful that the projects we finance are not World Bank projects—they are Chinese, Haitian, or Malawian projects. It is for the Bank to support them and advise on them. But it is for the countries to own them and be responsible for them.

Our commitment can only work with your commitment. Partnership is the key.

Excellence

Let me turn from the Bank's search for new partnerships to the search for excellence.

As I see it, there has been too much emphasis on lending volume and not enough on results on the ground; too much focus on economic reports and not enough on the effectiveness of the policy dialogue. Sometimes we have thought that solutions to our clients' problems lay in Washington rather than in the field. Making development impact the measure against which we want to be judged—and to judge ourselves—is my most important task.

As a step toward this goal, we must review our personnel and reward policies and invest more time and money in education and training for management and staff. I know that we have a long history of facilitating learning for our clients. Last year alone, our Economic Development Institute reached 7,000 people from 137 countries through its seminars and programs—and a multiple of that number through its training of trainers.

But much, much more can and will be done to create an internal learning culture—through exchange of best practices and through expanded training in educational institutions and businesses throughout the world. It is also my intention to increase opportunities to enrich our culture inside the Bank through more appointments to management and staff from outside the Bank on both a permanent and a medium-term basis.

We will accept nothing less than absolute standards of excellence. We wish to be the best in our business. Continual renewal of skills and constant focus on the needs of our clients will enable us to meet those standards.

OUR IMMEDIATE INITIATIVES

I have spoken of four main themes:

- The need for a new compact to ensure that resources are sufficient to meet the needs of the world's poorest people—and to ensure that those resources are used with maximum efficiency
- The need to take an integrated approach to development, bringing together its different strands to ensure sustainability
- The need for the Bank Group to strengthen and expand its partnerships, both global and local
- The need for us to develop further our institutional culture—to focus on excellence and results.

If that is the general direction, here are some of my immediate priorities for the coming months:

First, I will do everything in my power to ensure that IDA's funding is sufficient to meet the essential needs of its recipients—and to prevent an irretrievable setback to the global effort to reduce poverty. I ask for your exceptional help in that effort—in both IDA-10 and the planning for IDA-11.

Second, we will work with the IMF and others to help resolve the issue of multilateral debt for the most highly indebted, poorest countries.

Third, we will accelerate and deepen the effort to work with existing and new partners—with specific measures for reaching out to the private sector, NGOs, and civil society.

Fourth, we will launch the process of institutional change.

Fifth, we will enhance our work with clients to attract private and public investment in high-quality projects. This will include capacity-building initiatives for governments, the strengthening of legal and accounting systems and property rights, the marketing of opportunities, and the assurance to investors that they will have no nasty surprises in carrying out their plans.

Sixth, we must anticipate and organize for postconflict economic development programs, when war is replaced by peace.

I see the Bank itself, fundamentally, as a partnership—because it belongs to the world, to all of us. We who work here offer you our hard work and commitment. In return, we need your support.

Once again, let me say how proud I am to head the Bank Group and how much I appreciate the opportunity to contribute to the dream that we all share—of a better, more peaceful and more just world.

Together, we can make it a reality.

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