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PEOPLE AND
DEVELOPMENT

James D. Wolfensohn

President

The World Bank Group

Address to the
Board of Governors
Washington, D.C.

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I am delighted to welcome you to these Annual Meetings of the World Bank and the International Monetary Fund (IMF). I would like to thank the chairman for his support for our efforts, and I would also like to express my deep appreciation to Michel Camdessus, who has helped me so much this year with his experience, his advice, and, above all, his friendship.

Like Michel, I extend an especially warm welcome to Bosnia-Herzegovina, our 180th member country. During my visit to Sarajevo last April I saw the magnitude of the challenge facing the country, and I was profoundly moved by the courage and hope of its people. Working with them and with all our partners, the Bank has already begun to help with the massive task of reconstruction. Elaine and I join with everyone here in offering our heartfelt best wishes to the citizens of Bosnia-Herzegovina for peace and happiness in the years to come.

I have visited over forty countries in these past sixteen months. I have met with governments, businesses, and nongovernmental groups. But it is the people — the poor and disadvantaged — who have made the biggest impression on me. I have learned that they do not want charity; they want opportunity. They do not want to be lectured to; they want to be listened to. They want partnership. Like all of us, they want a better life for themselves and for their children. What I have seen in country after country is that when they are given a chance, the results are truly remarkable.

I have also been struck by the critical importance of history and culture. We must build on local tradition, not disrupt it. We must encourage the young to respect their heritage. And we must accord dignity to the individual. I believe

that without respect for cultural continuity and for social institutions, there can be no true development.

Let me express my gratitude to the groups represented here in this room, whether donor or recipient, private business, foundation, or nongovernmental organization (NGO). I feel privileged to have become a member of this great community. And I believe that by strengthening our partnership even more, we can offer the people we serve better opportunities and more hope for the future.

Working together is in everyone's interest. There are not two worlds, rich and poor; there is one. We are linked in so many ways. Simple economics gives the industrial countries reason enough to assist the developing countries — which, with their 4.5 billion people, are the markets of tomorrow. But rich and poor countries are also linked by a host of challenges that have no respect for national borders: migration, disease, environmental degradation, famine, terrorism, and war.

More positively, we are linked by a common humanity, and we are united in a historic undertaking to improve the human condition. We must get this message across to our leaders and to voters so that we can maintain and strengthen our common effort.

THE PAST YEAR: A PROGRESS REPORT

When we met last year, I set out six immediate priorities:

- Bringing the eleventh replenishment of the International Development Association (IDA) to a successful conclusion
- Addressing the debt problems of the poorest countries
- Building and expanding partnerships
- Accelerating private sector development
- Doing more to help in postconflict situations
- Creating a “results culture” within the Bank Group.

Thanks to your support, to tremendous help from our Executive Directors, and to a great deal of effort from our management and staff, I have significant progress to report.

Funding IDA First, I pledged that we would do all in our power to ensure sufficient funding for IDA. The agreement reached last spring should enable IDA to lend close to \$22 billion over the next three years — a remarkable achievement under the circumstances. Yet that agreement is fragile. It depends crucially on donors’ understanding of each other’s individual positions on the replenishment and, of course, on commitments being honored as speedily as possible. Beyond this, we must all intensify our efforts to ensure IDA’s long-term future, remembering always that it is the lifeline for 3 billion people living in the world’s poorest countries.

The Debt Problem

Second, last year I promised that we would work closely with our other partners to address the problem of unsustainable debt in the poorest countries. As Michel Camdessus has noted, after a year of hard work and much debate the Bank and the IMF together have developed a proposal that is flexible, comprehensive, and responsive to debtors and creditors alike. At the Development Committee meeting yesterday, ministers gave their strong endorsement to this proposal. Now, presuming fair burden sharing with other donors, we are ready to move ahead with debt relief operations in select countries. I extend my thanks to everyone who has helped in this effort, which I believe will prove to be a major breakthrough in the fight against poverty.

Building Partnerships

Third, I said we would build stronger partnerships. This past year I met with the leaders of the other multilateral banks to explore better coordination of our programs. We have expanded our links with the United Nations and its agencies, with the World Trade Organization, and with the European Union. We have forged new relationships with the major foundations and with both international and local NGOs. We are building partnerships on gender issues, the environment, the social impact of economic reforms, the private sector, and other priority areas. We are also deepening partnerships with our shareholders and trying to benefit more from the successful development experience of our "graduates," such as Singapore. Above all, we are strengthening partnerships with our clients — for example, through the innovative program for capacity building in Africa, prepared and recommended by the African governors at these meetings.

Private Sector Development Fourth, we have stepped up our efforts to promote private sector development and to rationalize the Bank Group's activities with the private sector:

- The Bank is working with governments to help them improve the policies and the legal, tax, and judicial systems that are crucial for encouraging investment. We have strengthened our outreach to corporations, helping them to assess and implement projects in our client countries. We have also heard one of the messages coming through loud and clear at these meetings: that we should strengthen our guarantee program. I am pleased to report that the International Bank for Reconstruction and Development (IBRD) has forty-three confirmed and probable projects in its guarantee pipeline — most of them awaiting government action or investor decisions for the next step. And we are actively looking at how we can expand this program even further.

- The International Finance Corporation (IFC), which is celebrating its fortieth anniversary, has had a record year, leveraging more than \$19 billion in support of projects worldwide. Since its founding in 1956 it has provided financing to nearly 2,000 companies in 125 countries. As you know, the IFC often works in countries where few other financial institutions are willing to go, and in the coming year it will extend its reach to sixteen nations where it has never worked before, and where the investment climate is the toughest.

- The Multilateral Investment Guarantee Agency (MIGA) also continues to exceed our original expectations. Its guarantees have catalyzed foreign direct investments now totaling an estimated \$15 billion, and its on-line marketing and information service, IPANet, offers data and analysis on the business climate in more than ninety countries. Given the rapid growth in demand for MIGA's services, our Board will soon be discussing my recommendation for a capital increase for MIGA.

We have established a Private Sector Development Group to pull together the catalytic strengths of our three institutions and to make them more easily accessible to our private sector partners. In addition, the Bank and the IFC have initiated joint country strategies to help ensure that our activities reinforce each other and stay clearly focused on development impact.

**Postconflict
Assistance**

Fifth, we have organized ourselves for postconflict work and have made great strides in improving our programs. In Bosnia-Herzegovina fourteen projects are being implemented, with Bank Group financing of over \$325 million. In Gaza and the West Bank our joint efforts are yielding results and have contributed to the creation of 22,000 new jobs. In Haiti we are working with a coalition of donors to help sustain peace and build economic opportunity for the poor. We are also working in Angola and Lebanon to assist with employment and reconstruction. More broadly, we will soon be presenting to the Board a policy paper aimed at strengthening our support for postconflict recovery.

A “Results Culture”

Sixth, I pledged last year to build a “results culture” at the Bank — and this effort is showing tangible progress. I am extraordinarily grateful to my colleagues in the management team for their advice and support, without which none of our achievements would have been possible.

We have stressed that we will measure our performance not by dollars lent or projects approved but by our development impact — results on the ground. I cannot overstate the importance of this change. By putting quality ahead of quantity, we have fundamentally changed the incentives that guide our staff. Backed by tougher quality assurance for our work and enhanced accountability, this will result in major improvements in project design. We also have raised country portfolio issues to a higher level of attention with our clients; I myself have discussed these issues with the authorities in Russia, Brazil, and other countries. And we have launched a major review of country portfolios with the highest concentrations of risky projects.

We are increasing our country focus through much stronger client involvement in our assistance strategies and by locating some of our country directors in our borrowing countries. We are paying greater attention to our clients’ needs, with customized advisory services and important new products such as the single-currency loan, which allows our clients to borrow at an effective 50 basis points above the AAA rate. And we are speeding up our procedures.

We are also improving our professional expertise through the creation of sectoral “networks” among our staff, the first of which has been established in the area of human development. We are strengthening our management capacity through a substantial executive education program, as well as an exchange program with a broad range of private and public institutions. And we are investing more in our staff, by, among other things, doubling skills training this year. In all these areas, we are choosing our best women and men, who reflect our rich geographic diversity, to build a Bank that can work most effectively with women and men all over the world.

While we still have a long way to go, I believe we have made real progress toward changing the course of the institution. We now have a committed and talented team — staff and management — working to improve the Bank Group and to prepare it for the next century. There is excitement and empowerment; there is challenge and innovation. We will succeed with some initiatives, and we will fail with others. But our institution is on the move.

THE STRATEGIC AGENDA

Together, we have accomplished a great deal over the past twelve months. But it is just the beginning — the down payment on the bigger task that lies ahead. Together, we need to look toward the challenges facing us in the new millennium.

Last year I suggested four major themes, which have evolved but which remain valid for the coming year and beyond:

- Forging a new compact between donors, investors, and recipients to ensure that resources are sufficient to meet the needs of the world's poorest people — and that those resources are used efficiently and transparently
- Taking a broader, more integrated approach to development, to ensure sustainability
- Strengthening and expanding partnerships, both global and local
- Continuing to pursue change in the Bank's culture, with a focus on excellence and results.

The New Compact

I have already mentioned IDA and the debt initiative and their critical role in catalyzing resources for development. We also need to attract more private flows to the poor countries. And then we need to work on the second part of the compact: to ensure that all resources are used efficiently.

In 1995 private flows to developing countries exceeded \$170 billion — three times official flows, and four times what they were just five years ago. However, 75 percent

of these flows went to just twelve countries. About fifty countries, most of them very poor, received virtually no private inflows.

Our new world of open markets raises the stakes for developing countries. Investment is linked to good policies and good governance — liberal trade regimes and high savings rates, combined with sound legal and judicial systems. Simply put, capital goes to those countries that get the fundamentals right. And we are working with our clients on those fundamentals.

Strong financial systems are key. But there are pervasive problems with prudential regulations and their enforcement. About one in five developing countries faces a banking crisis. Unproductive public expenditures and uncollected taxes are a further huge drag on these economies. That is why the Bank Group — working with the IMF — is increasing our capacity to help our clients strengthen their financial sectors and reform their expenditure programs.

If the new compact is to succeed, we must tackle the issue of economic and financial efficiency. But we also need to address transparency, accountability, and institutional capacity. And let's not mince words: we need to deal with the cancer of corruption.

In country after country, it is the people who are demanding action on this issue. They know that corruption diverts resources from the poor to the rich, increases the cost of running businesses, distorts public expenditures, and deters foreign investors. They also know that it erodes the constituency for aid programs and humanitarian relief. And we all know that it is a major barrier to sound and equitable development.

Corruption is a problem that all countries have to confront. Solutions, however, can only be home-grown. National leaders need to take a stand. Civil society plays a key role as well. Working with our partners, the Bank Group will help any of our member countries to implement national programs that discourage corrupt practices. And we will support international efforts to fight corruption and to establish voluntary standards of behavior for corporations and investors in the industrial world.

The Bank Group cannot intervene in the political affairs of our member countries. But we can give advice, encouragement, and support to governments that wish to fight corruption — and it is these governments that will, over time, attract the larger volume of investment. Let me emphasize that the Bank Group will not tolerate corruption in the programs that we support, and we are taking steps to ensure that our own activities continue to meet the highest standards of probity.

**The New
Paradigm**

The second element of our strategy is the need for a broader, more integrated approach to development — a new paradigm, if you will.

Poverty reduction remains at the heart of everything we do. But the magnitude and complexity of the task are daunting. This was brought home to me time and time again in my travels as I met and talked with people — whether the coal miners of Ukraine, the Moslem women's groups of North Africa, the unemployed of Tucumán in Argentina, or the fishermen of the Aral Sea.

Reducing poverty clearly involves the interplay of a number of issues: macroeconomic policy, private sector development, environmental sustainability, and investments in human capital, especially girls' education and early childhood development. All these elements are important.

But let's face it, at the end of the day, people make policies and projects work. Social, cultural, and institutional factors are key to success and sustainability. In the Balochistan Province of Pakistan, for example, where female enrollment rates have traditionally been among the lowest in the world, local communities and parents worked together through a Bank-supported project to design culturally sensitive schools and curricula. The result is that Balochistani parents are now sending their little girls to school.

This is even more true at the policy level. We are all familiar with the record of the East Asian countries. But it was those countries' strong institutions and social cohesion that enabled them to consistently choose sound macroeconomic policies, promote rural development, and make large investments in basic education and health. And the result was rapid growth and poverty reduction.

Without the social underpinnings, it is difficult for economic development to succeed — and virtually impossible for it to be sustained. We see this in countries that are mired in poverty, where economic growth is fragile, where population is rising rapidly, where children are not going to school and, even more tragically, are dying from diseases we know how to prevent or cure. On a more extreme scale,

we see it where the social fabric is torn and conflict has broken out. I referred to the horror in Bosnia. But just last year there were some fifty major in-country conflicts worldwide. Over the past decade more than half of the world's poorest countries have experienced conflict.

The lesson is clear: for economic advance, you need social advance — and without social development, economic development cannot take root. For the Bank, this means that we need to make sure that the programs and projects we support have adequate social foundations:

- By designing more participatory country strategies and programs — reflecting discussions not only with governments but also with community groups, NGOs, and private businesses
- By putting more emphasis on social, cultural, and institutional issues, and their interplay with economic issues, in our project and analytical work
- By learning more about how the changing dynamics between public institutions, markets, and civil society affect social and economic development.

I see this as a critical challenge — in fact, the critical challenge before us. But if we can succeed in broadening our approach in this way, I believe it will have a tremendous payoff in helping our clients achieve truly sustainable development.

**The New
Knowledge
Partnership**

We have made good headway in building partnerships over the past year. But today I want to focus on a specific form of partnership that will take on special importance as we enter the new millennium — a partnership for creating and sharing knowledge and making it a major driver of development.

Development knowledge is part of the “global commons”: it belongs to everyone, and everyone should benefit from it. But a global partnership is required to cultivate and disseminate it. The Bank Group’s relationships with governments and institutions all over the world, and our unique reservoir of development experience across sectors and countries, position us to play a leading role in this new global knowledge partnership.

We have been in the business of researching and disseminating the lessons of development for a long time. But the revolution in information technology increases the potential value of these efforts by vastly extending their reach. To capture this potential, we need to invest in the necessary systems, in Washington and worldwide, that will enhance our ability to gather development information and experience and share it with our clients. We need to become, in effect, the Knowledge Bank:

- By networking — pooling our wealth of cross-country experience, capturing the best global thinking and expertise on a given issue, and making it easily accessible to our clients and partners

- By expanding the role of our Economic Development Institute, which already reaches thousands through its learning programs and is well on its way to reaching millions by harnessing teleconferencing, television, and the Internet
- By pioneering new partnerships that connect our clients with global centers of knowledge and investment. One example is our World Wide Web site, which is accessed 1.5 million times per month. Another is the Information and Development Fund, through which the Bank and our partners help the poorest countries realize the potential of information technology.

Let me stress one other point. The global knowledge partnership is not about machines; it is about people. The challenge is to harness the technology to link people together and to leverage the impact of technology on development. That means both accumulating the right kind of knowledge and helping our clients build the capacity to use it.

**The New
Bank**

The fourth and final item on our strategic agenda is the Bank itself and the task of building a culture based on results, accountability, and excellence.

To get the biggest bang from our scarce resources, we must be absolutely tough-minded. Sometimes, in the past, we set overambitious targets and committed ourselves to objectives that were simply not realistic. That must change. We have to promise only what we can deliver — and then

deliver what we promise. This new culture of realism and results is fundamental to the changes at the Bank to which I referred earlier:

- Getting closer to our clients
- Developing new products customized to our clients' needs
- Ensuring that our products are of top quality.

To be successful, we will need new skills and new ways of working together. We need to continue the effort to invest more in our staff, to keep them at the cutting edge in their field. And we need also to become much better at working with others — tapping knowledge sources around the world to bring the very best expertise to our clients.

We have started down the road to revitalizing our institution. It will not be done overnight, and it will require some special investment up front. As part of the effort, we are taking a fresh look at our finances and at our fee and cost structure. We must be able to make more flexible, and better, decisions on how we use our resources.

We have before us a real opportunity to invest in the future. With your support, I am confident we can build a new Bank — a more responsive, focused institution, dedicated to learning and excellence, serving the needs of our entire membership, and reinvented to face the challenges of the twenty-first century.

CONCLUSION

I have spoken of a strategic agenda that will carry us forward to the next millennium. But we can only meet it through partnership. And that leads me back to where I began today, with my visit to Sarajevo. I met there with religious leaders — Catholic, Moslem, Orthodox, and Jewish. And I was struck by the fact that each of them spoke not of hatred, but of the need to work together and to look to the future.

One of them, a Moslem leader, told me how he had lost his wife and two daughters to a single shell, on a single day of fighting, as they went to the market to buy some water. And yet, as I sat with him on a carpet in his mosque, he spoke of the meaning of the Koran — and of forgiveness. “We have to work together,” he told me. “It’s our only hope.”

Working together is a challenge for us all and a responsibility for our world: working together for social justice, for economic opportunity, for human well-being — and for history.

We are all here because we share the dream of a better world. To achieve it, we have to work together.