

Rethinking Development - Challenges and Opportunities

Remarks at the Tenth Ministerial Meeting of UNCTAD

by

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Bangkok, Thailand, February 16, 2000

Introduction

Mr. Chairman, Your Excellencies, Distinguished Colleagues:

I want to congratulate UNCTAD on its "Plan of Action" document. We share a sense of special urgency on critical issues, such as the integration of developing countries into the globalizing world economy; the concentration of FDI on only a very few developing countries; the reduction of developed country protection and subsidies; concern about implementation issues for developing countries with respect to trade agreements; developing countries special need for agricultural trade liberalization (and I would add, particularly in the case of the least developed countries [LDCs] and the countries covered by the HIPC Initiative); following through on the Marrakech Declarations call for duty-free access for all exports of LDC (again, I'd add HIPC); and the prospects for new commodity risk management arrangements where our two institutions are currently working together in the International Task Force.

I've read with great interest Mr. Ricupero's "Personal Reflections on 'Beyond the Unification of Markets'". One sentence in that document seemed to me to be absolutely central to all our aspirations for the 21st. century. He wrote; "In short, what we should seek is the virtuous integration of developing countries into a more receptive global system, one which will help them to grow in a steady and socially harmonious way.....". I wholeheartedly applaud and share that goal.

I want to thank Rubens Ricupero for inviting me here today. This is the first major meeting of members of the development community at the dawn of a new century. And our topic, "rethinking development", gives us all an opportunity to review where the development enterprise stands. To share our vision of how best to support it in the years to come.

My own sense of this of this vision is built around four main themes.

I. Poverty and the Development Agenda

First, lets "take stock" of where we have been and where we are going on this overall theme.

There are at least three main messages that I would like to discuss around this theme of "Poverty and the Development Agenda".

1. Slow and Uneven Progress on Poverty Reduction: While some progress has been made in reducing poverty, this inching forward has been painfully slow and uneven. Much remains to be done and future prospects do not look bright. These figures call into question the way we have been "doing development" and forces us to "rethink".

Here are some facts and figures on the crisis of poverty still facing the world as we enter the 21st century.

With respect to income poverty, we can see two trends over the past decade. In percentage terms, the picture looks positive. The proportion of the population of developing and transition economies living on less than \$1 a day fell from 28% in 1987 to 24% in 1998. Excluding China, the reduction is rather less from 29% to 26% in those same years. But a growing world population has delivered a stark challenge. The actual number of people living in dire poverty has remained roughly constant, at about 1.2 billion. Excluding China, the number has actually risen, from just under 880 million to over 980 million. In addition, the total number of people living on under \$2 a day is now estimated at nearly 3 billion, approaching half the worlds population.

Regional Differences: And these figures mask substantial regional differences. The East Asia and Pacific region has seen a dramatic decline in both percentage and absolute terms. Including China, the number of people living on under \$1 a day fell from 418 million (or nearly 27 percent) to 278 million (or 15 percent) between 1987 and 1998. Excluding China, on this same indicator, the number of people living on under \$1 per day fell from 114 million (or 24 percent) to 65 million (or 11 percent) from 1987 to 1998. This despite a jump of 10 million between 1996 and 1998, reflecting the East Asia financial crisis.

But virtually all other regions have seen absolute increases. In Sub-Saharan Africa the number of people living below the \$1 a day level has grown over the 1987-98 period from under 220 million to over 290 million -- more than 70 million additional individuals. The increase has also been large in South Asia (48 million) and in the transition economies of Eastern Europe and Central Asia (23 million). Latin America and the Caribbean have seen an absolute increase of 14 million.

Future Prospects: And the prospects for future reduction in the numbers of those living in poverty do not look bright. Recent World Bank estimates, based on a "business as usual" scenario of continuing slow growth and recurring crises, show that by 2008 the same number of people, about 1.2 billion world-wide, may still be living on under \$1 a day. Even under a brighter alternative scenario of smoother and more rapid growth, neither Latin America and the Caribbean nor Sub-Saharan Africa would see much improvement in the numbers of those living in deep poverty. In fact, the numbers would rise in Sub-Saharan Africa by nearly 40 million. Using

the higher \$2 a day yardstick, even under the brighter scenario, the number of poor in Sub-Saharan Africa would grow by over 90 million by 2008.

The Need to Rethink: These figures call into question the ways in which the world has been doing development, making all the more urgent the "rethinking" that this Conference has challenged us to undertake. Poverty remains intractable despite economic growth in many countries. This partly reflects the problem of income inequality within countries. Income inequality in turn reflects inequality of opportunity. What is the cause? At least in part, the still tragically unmet need for equitable and inclusive investment in human capital investment in people through better education and health care and for wider access to the infrastructure and capital needed to broaden the basis of opportunity. And finally, there is a two-way relationship between poverty and growth. Rapid growth is a necessary (but not a sufficient) condition for poverty reduction, but persistent poverty and inequality can reduce growth rates.

2. Broadening and Integrating the Mandate: As the previous poverty numbers suggest, the way external agencies, including my own, have historically conceived and supported the development process has been inadequately coordinated. Instead, I believe that successful development requires a steadily broadening and properly integrated development mandate.

This reflects a parallel broadening of our understanding of what it takes to achieve successful development.

Initially, the focus was mainly on supporting investment in physical infrastructure to promote the growth of industry and agriculture. Later, an expanded vision of the nature of the development process led to the inclusion of support for human capital development in the strategic mix. New concerns arose about the consequences for human wellbeing of untrammelled population growth accompanied by slow economic growth, and of environmental degradation. More recently, the importance of an appropriate policy and institutional environment, and of the role of gender, participation and inclusion for sustainable and humane development, have come to the fore.

So the picture is one of an expanding mandate, both for countries and their development partners. This has been a positive trend. It has increasingly recognized the multifaceted nature of the development process. But the overall development impact of new efforts across a widening spectrum of activities has too often been less than the sum of the parts. Conflicts have sometimes emerged between different elements of the mandate. For example, between pursuit of economic growth on the one hand and social welfare or protection of the physical environment on the other. And we still have far to go before the world community can claim victory in the most critical contest in the development arena the fight against poverty.

3. Capacity Building and Country Ownership: We have learned the critical importance of the capacity of developing countries to help themselves -- to own, frame, and implement development strategies and to get

appropriate support from external partners. I truly believe that those who are closest to the problem are those best able to frame the solutions.

II. Rethinking the Approach

Against this background, we in the Bank have been "rethinking development" in order to establish a more effective development effort in terms of real results on the ground. Our aim is to support our member countries in bringing the various elements of their development strategies into a coherent whole that would enhance their combined impact.

There are at least two main messages that I would like to put forth around this theme of "Rethinking the Approach".

1. A Comprehensive Vision and Framework: Our new framework is a holistic and integrated approach to development strategies and programs that highlights the interdependence of all aspects of development strategysocial, structural, human, institutional, environmental, economic and financial. I call this new approach the "Comprehensive Development Framework" (CDF).

This is hardly a new concept in principle. Any good development project manager knows that building new schools can be a substantially wasted effort without roads to get the children to school, or basic health care that lets children actually attend school full-time, or a socio-economic environment that encourages parents to believe that its worth sending children to school rather than using them as unpaid household labor.

What the CDF is intended to do is to make explicit these kinds of linkages within a coherent overall strategic framework.

Key Features of the CDF: The CDF has a number of other important features it is holistic, country-owned, partner-based, results-oriented and long-term based. Most critically, the CDF is country-owned. Development goals and the timing and sequencing of programs to realize them are determined by the country, in line with its unique needs and capabilities. It is partnership-based. Goals, programs and implementation plans are built up on the basis of consultations among government, civil society, the private sector and other stakeholders, along with external development partners. And it is based on a long-term vision of the development process, over a ten to twenty year time horizon. This vision is focused on results. It sets out the links between overall aims and practical action to make progress towards them. It takes account of the international development goals. But it also specifies time-bound country goals by which to assess progress. And finally, the CDF treats social and structural issues equally with macroeconomic and financial issues, so that the former are not overshadowed by the latter, as has sometimes been the case in the past.

All these features are intended to build sustained, consensual national support for a comprehensive national development effort. They also provide a framework for a more effective, because better coordinated,

role for external partners based on what each can do best to support the countrys goals.

Piloting the CDF: There are currently thirteen pilots for the CDF. The pilot program is a process of learning-by-doing with respect to CDF principles and practice. Each countrys experience is unique. Some already have a clearly articulated long term vision and a medium term policy framework. Others have developed or are still developing them. Country ownership and consensus require capacity- and partnership-building in some cases. Partnerships with external supporters require cooperation among those external supporters. Here we have been working with our colleagues in the IMF, the UN system, the multilateral development banks, bilateral donors and NGOs. Working to support the CDF process. Working to lay the foundations for an appropriate division of labor that will support different elements of country strategies and programs.

I wont pretend that the process has always been easy. Problems have emerged, for example with the capacity-building, time and culture change required to build genuine country ownership and working partnerships -- including partnerships with civil society and the private sector. But the pilot process is well on track for completion later this year. It will provide a solid basis for extending the CDF approach in an increasing number of developing countries, including the poorest (three of which are in the 13-country pilot program).

2. A Sharper Poverty Focus: Our process of rethinking development has also led the Bank, in partnership with the IMF, to begin intensive work on a new, sharply focused approach to supporting our member countries poverty reduction strategies. A sharper more concerted attack on poverty is needed more urgently than ever. These strategies are the operational expression of CDF principles.

We have started to work with selected countries on what we have called "Poverty Reduction Strategy Papers" (PRSPs). The PRSP is a specific, operational expression of the CDF. It emphasizes country ownership, participatory strategy design based on in-country partnerships and engaging external partners, both in the strategic dialogue and in support for strategy implementation. It includes a costed set of poverty reduction actions consistent with an appropriate macroeconomic framework, an implementation timeframe of at least three years, and a set of concrete outcome indicators for monitoring progress. It recognizes that income poverty is a critical, but far from the only, handicap afflicting the poor, and that fighting poverty requires a long-term and multidimensional approach, in which GDP growth is a necessary but not a sufficient condition for sustained poverty reduction.

Initially, we plan to encourage and support the development of PRSPs in countries that are close to their Heavily Indebted Poor Countries (HIPC) Initiative decision points, or that are receiving Fund assistance under the Poverty Reduction and Growth Facility (PRGF). Eventually, the PRSP approach would extend to all IDA countries. We recognize the complexity of creating a participatory, country-owned poverty strategy. We understand that it is often complicated by the absence of good data. But I want to be frank: the old approaches to poverty reduction havent

yielded big enough results. A sharper, more concerted attack on poverty is needed more urgently than ever. We owe the poor of the world nothing less than our total, united effort. We have consulted extensively with other donors, the UN family and NGOs on the PRSP concept. I look forward to discussing it further at this meeting.

III. The Global Trading System and the Development Agenda

Rethinking development needs also to take into account the new challenges represented by our globalizing world. I need not remind this audience about how globalization is transforming the world economy. Instead, I want to focus on what can be done to help developing countries especially the poorest and those most burdened by debt to make the most of the opportunities offered by the world trading system as it has evolved in recent years.

There are at least four main messages that I would like to discuss around this theme of the "Global Trading System and the Development Agenda"

1. Globalization: Globalization is here to stay. Thus, the challenge to us all is to harness the positive aspects of globalization in the cause of development and poverty reduction, and to offset its less positive aspects for those adversely affected. Our watchword must be "globalization with a human face". Globalization that is inclusive. Globalization that promotes social equity and works for the poor.

Before getting into specifics, let me say that I recognize the concerns expressed by many about the overall globalization process. These concerns are real, and can affect the daily lives of millions. They must be addressed, and I shall say a little more about this in a moment or two. But we need to be realistic on one point. We can't turn back the clock on globalization. The technological advances that have fueled it can't be uninvented, and restrictions on, for example, unimpeded access to information and communications technology will ultimately be self-defeating for those who try to impose them.

2. Inclusive Trade Expansion: Trade expansion is a key component of globalization, but only a few countries have so far benefited. If we care about the poorest developing countries, a special focus is needed on agricultural trade liberalization. In addition, liberalizing market access for HIPC countries is an essential complement to debt relief.

Trade expansion has been one of the most dynamic features of the globalization process in recent years. Global trade grew at an average rate of 6.5 percent a year between 1990 and 1997 more than three times as fast as global GDP growth (2 percent a year). Developing countries have played a major role in trade expansion. They now account for about one-third of global goods exports, and nearly one-quarter of services exports. And the exports of developing countries as a group now increasingly consist of manufactured goods accounting for over 70 percent of their total exports. Meanwhile, so-called South-South trade among developing countries has also been growing from about one-third of their total merchandise exports in 1990 to over 40 percent by the end of the decade.

If its well structured and sequenced, trade liberalization can be an engine of development and poverty reduction. Export opportunities and import competition, and the doors liberalization opens for productive domestic-foreign partnerships, create positive incentives. Incentives to reduce prices to consumers, raise producers productivity, and increase the stock of knowledge on which successful economic expansion and poverty reduction increasingly depend.

Rapid and Weak Integrators: But the momentum for trade expansion and broader integration into the global economy has been uneven there are those who have integrated rapidly and those who have been left behind. The "rapid integrators" among the developing countries have mainly been those that are already better-off. And Bank analysis that divided 93 developing countries into rapid, moderate, and slow or weak integrators has shown that only 23 of them have been rapid integrators.

The picture is especially disheartening for the poorest countries. Only one low income country among the group of 48 Least Developed Countries (LDCs) as defined by the United Nations was a rapid integrator, and only seven LDCs were moderate integrators. All the remaining 20 LDCs in the sample were slow or weak integrators. We cannot be unmoved by this trend. If trade expansion is to be the positive force it can be in the wider development and poverty reduction agenda, the poorest countries must be able to participate more fully in its benefits.

Agricultural Trade Liberalization: If we care about the poorest developing countries, a special focus is needed on agricultural trade liberalization. They depend far more heavily than the better-off developing countries on agriculture for their GDP and exports.

Agriculture accounts for 35 percent of LDCsGDP, compared to 17 percent for lower middle income countries and 8 percent for upper middle income developing countries. LDCsshare of food exports in total exports is nearly twice the level for lower middle income countries. Their share of non-food agricultural exports in total exports is nearly four times the level for lower middle income developing countries.

As I said in my remarks at the WTO meeting in Seattle, it makes no sense to exhort poor countries to compete and pay their way in the world while we simultaneously deny them the means to do so, by restricting their market access in areas such as agriculture where they have a comparative advantage. But this is precisely the effect of the current structure of developed country agricultural protection, including export and producer subsidies as well as import tariffs.

Again, some facts and figures. Currently, developed countries impose protection on agricultural imports from developing countries at average rates nearly five times higher than protection on manufactured imports (15.1 percent compared to 3.4 percent). Developing countriesprotection against other developing countries is even higheraveraging over 18 percent. The structure of agricultural protection helps to explain why the growth of agricultural trade has lagged far behind that of

manufacturing trade--about 2 percent a year between the mid-1980s and the mid-1990s, compared to about 6 percent a year.

Liberalization and Debt Relief: Here is a case where bold, imaginative action by the international community is needed. In Seattle, I called for completely free market access, not just for agricultural products, but for all exports of the LDCs. Today, I call for the same treatment to be applied to the countries eligible for debt relief under the HIPC Initiative.

Most HIPC countries (29 out of 40) are LDCs. Not surprisingly, the HIPC group faces trade problems very similar to those of the LDC group. Very few HIPC countries are well integrated into global markets (just one rapid integrator, only 10 moderate integrators). Like the LDCs, HIPC countries have a very low ratio of exports to GDP (24 % for LDCs, 27 % for HIPCs). And agriculture accounts for the same high share of output for both groups 35 %.

But most importantly, common sense and equity alike tell us that liberalizing market access for HIPC countries is an essential complement to debt relief. Debt relief without market access runs the risk of crippling HIPC countries' efforts to "grow out of the box", to create the resources they need to attack poverty, to improve social welfare and equity.

Globalization and Inequality: As I mentioned earlier, we also need to take seriously the reality that globalization in general, and trade liberalization specifically, can at least initially create losers as well as winners in national economies. Attention to the social agenda, notably including provision of well-functioning social safety nets, along with retraining and transitional arrangements, to help those adversely affected is both a human and a political economy priority.

Thus the trade agenda, properly conceived, is converging with the wider development agenda--the multifaceted, interrelated array of policies, programs and actions envisaged by the CDF. And trade liberalization needs to be seen, not as an end in itself, but as a means towards achieving wider development objectives, including the goal of poverty reduction as envisaged in PRSPs.

3. Helping the Poorest: We very much believe in growth as a key to poverty reduction. We also believe in sound micro and macro economic policies. But trade liberalization alone is not a panacea for growth and poverty reduction. If liberalization is to deliver its potential benefits, governments need to take, and external partners need to support, a range of complementary action in areas such as infrastructure upgrading, governance and institutional reform, and social investment in, e.g., education and health care. Also, social safety nets, -- along with retraining and transitional arrangements are required to help those adversely affected. And if we are to be serious about poverty reduction, special efforts will be needed to support the poorest countries in these areas.

Again, some numbers help make the point. The LDCs (who include most of the HIPCs) are far behind the "rapid integrator" developing countries (RIs) with respect to endowments critical for effective participation in global markets. In the case of trade supporting physical infrastructure, for example, their proportion of paved roads is 20 percent (RIs, 54 percent); electric power production is only 136 kwh/person (RIs, 2164); and telephone main lines per 1,000 population average 11 (RIs, 187). Small wonder that so few are well integrated into the global economy.

LDCs fare equally badly with respect to basic indicators for education, health and good governance. On average, LDCs gross primary school enrollment rates are 87% for males and 69% for girls (RIs, 103 percent and 100 percent); literacy rates are 51 percent (RIs, 83 percent); life expectancy is 52 years (RIs, 70 years), the infant mortality rate is 93 per 1,000 live births (RIs, 27); the ICRG "corruption index" is 2 on an 0-6 rating where lower is worse (RIs, 3.5); the "bureaucratic quality" index is 0.8 on an 0-4 index where lower is worse (RIs, 2.7).

The point of all these numbers is clear; if trade liberalization is to yield solid benefits for the poorest developing countries, it must be accompanied by very substantial improvements in key elements of the wider development agenda.

Here if there ever was one is a set of priorities where the international community needs to help the poorest countries to help themselves.

Equally, however, it would be wrong to conclude that LDCs should concentrate simply on these other aspects to the exclusion of trade liberalization because without the incentive liberalization provides, good development indicators in other areas may not translate into rapid, export-led growth. The lesson: "everything is connected", again as the CDF tries to make explicit.

4. Improving the "Rules of the Game": In order to have a balanced and inclusive world trade system, we need to pay special attention to developing countries current problems with the design and implementation of the rules of the game in international trade.

Developing country membership in the World Trade Organization has risen rapidly in recent years. 110 of them are now members. But membership does not equate with influence. Many developing countries have limited or non-existent representation in Geneva. A case in point: 19 of the 42 African WTO members have zero representation. Many other developing countries lack the technical capacity to negotiate meaningfully. Too often, the rules of the game are set by the rich and the better-prepared developing countries. And where the rules have already been set for example in the case of customs valuation procedures--they have often been based on developed country models, which can be inappropriate and prohibitively expensive for poor countries. In fact many WTO signatories have been unable to comply with agreements negotiated under the Uruguay round.

I know that Mike Moore and his colleagues are highly sensitive to this issue, and are taking steps to remedy it. But if we are to have a balanced and inclusive world trading system that attracts the adherence

of developing countries, much needs to be done to enhance these countries' capacity to participate in the rule-making process. To move away from the "one size fits all" approach to the rules themselves. To ensure that their implementation does not place unreasonable financial and technical burdens on those least able to bear them.

IV. The Partnership Imperative

Mr. Chairman, I have tried to elaborate on key aspects of "rethinking development" in my own institution, on the unfinished agenda in the crucial area of poverty reduction, and on the need to bring more developing countries, especially the poorest, into a world trading system that better represents their needs and interests. But I do not wish to leave the impression that we in the World Bank think we have all the answers, let alone the capacity to deal alone with the various issues that I have raised.

There is at least one main message that I wish to impart on the issue of partnerships.

1. Partnerships: We need to work with others on issues and solutions. This means partnerships within countries; partnerships between countries and their external supporters; and partnerships among these external supporters themselves.

I hope that I have shown clearly, especially in the context of the CDF and PRSP programs, that we place tremendous emphasis on the need for a partnership approach to development issues and their resolution. In my speech to the Annual Meetings of the Bank and the IMF last year, I called for "Coalitions for Change", expanded partnerships across the board to address the challenges of development in a new century. I stressed then, and I stress again today, that this partnership approach needs to be comprehensive in nature. As with the CDF and PRSPs, this means partnerships within countries that bring together national stakeholders (including representatives of the poor) to create mutual trust and a shared vision of needs and aspirations. It means partnerships between countries and their external supporters in the United Nations system, the multilateral and bilateral donor community, and international NGOs and private businesses. And it means partnerships among these external supporters themselves, so that each does what it does best and we avoid duplication of effort in a world of limited resources for development.

I could give many examples of the partnership approach in action. But in today's context, let me say just a few words about some elements of the evolving partnership between the World Bank and UNCTAD. In addition to our longstanding cooperation on issues of debt and trade information, our affiliate the Multilateral Investment Guarantee Agency (MIGA) and UNCTAD are working together on two important initiatives, on environmental matters and on investment promotion. We expect to work closely together on the preparatory work for the Third UN Conference on Least Developed Countries, to be held next year. And UNCTAD and the Bank are partners in two areas of special relevance to the balanced and productive integration of developing countries into the world trading system -- the Integrated Framework for Trade and Development in the Least Developed Countries and

the International Task Force on Commodity Risk Management in Developing Countries.

These partnerships between our two agencies and others with UN family members, other multilateral and bilateral agencies, and NGOs are the wave of the future. We all need increasingly to bring together our combined capacities to help those who most need our assistance and expertise which in turn needs to reflect our memberships experience and deepening partnerships with them.

Global Problems and Global Solutions: Globalization properly conceived means much more than market integration; it also means requires working together towards agreed solutions to global problems. And these solutions need to be developed in a cooperative and transparent way that explicitly includes the priorities of the poorest countries and their peoples.

More generally, I believe that an increasingly inclusive approach to development issues in general and to poverty reduction and trade expansion in particular must be the foundation stone of all our work in an increasingly interdependent 21st century world.

Conclusion

Mr. Chairman, at a meeting held in February 2000, it is tempting to speak of "rethinking development" in terms of "new approaches for a new century". But I would put the point differently. We need new approaches, we need to rethink development, because we have yet to solve old problems above all that of the yawning gulf between the haves and the have-nots of the world, a gulf that has the potential to endanger our childrens prospects for living peaceful, secure and productive lives.

I have outlined some of the core elements of a vision, based on experience, of how we might better address enduring problems of development and poverty reduction. This vision is firmly and genuinely country-owned. It rejects top-down development devised behind closed doors in Washington (or even in national capitals in member countries). It is holistic and comprehensive, taking account of the interrelationships among the different elements of development strategies. It is based on inclusion and participation, bringing together civil society, local communities, NGOs, the private sector and the poor themselves. Bringing them together in order to foster trust and sustainability. It combines a long term perspective with a sharp focus on getting early results on the ground. It recognizes that globalization and trade expansion are good for growth, but that we must pay careful attention to the social effects of the transition to participation in international markets. It acknowledges that trade expansion alone is not a panacea, but needs to be seen as a component of a wider development and poverty reduction strategy a strategy that must foster better human capital, infrastructure and institutions if it is to pay off. And finally it crucially involves comprehensive partnerships and coalitions for change.

I realize that this is an ambitious vision. But we must work to realize it if we are to go forward together into a new century in which the long

pent up aspirations of the poor of the earth are to have the chance for fulfillment that they deserve. Technology and its consequences are increasingly linking us together into one world. But this "one world" cannot remain split along a fault line that separates the lives and aspirations of the rich and the poor. Technological progress alone will not bridge the divide. Rather, our sense of common humanity must be the shared bond and the driving force that makes us also increasingly of one mind, and part of one united endeavor, in the development enterprise that we all serve.

Thank you very much.