

WALTER STERLING SURREY MEMORIAL SERIES

Creating an International Development Framework



James D. Wolfensohn

NATIONAL POLICY ASSOCIATION

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Creating an International Development Framework

James D. Wolfensohn
President, The World Bank Group

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NATIONAL POLICY ASSOCIATION

Creating an International Development Framework

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Walter Sterling Surrey Memorial Series

THROUGHOUT HIS LIFE, WALTER STERLING SURREY, former Chair of NPA's Board of Trustees, worked tirelessly to promote international trade and commerce, particularly among nations with different cultural, economic, and political systems. He maintained that an open, competitive international trading system leads to greater understanding and mutual respect among countries and that lasting world peace can be achieved only after such understanding and respect are established.

Mr. Surrey, a prominent Washington, D.C., attorney, was associated with the National Policy Association, then known as the National Planning Association, for almost 40 years. He became a member of NPA's International Committee in the early 1950s. He joined NPA's Committee on Changing International Realities (now the Global Economic Council) when it was established in 1975 and remained actively involved until his death in 1989. He was elected to NPA's Board of Trustees in 1965 and served as its Chair from 1977 until 1989.

After Mr. Surrey's death, NPA, with the aid of the Surrey family, established the Walter Sterling Surrey Fund for International Cooperation. The purpose of the Fund, which has sponsored the Surrey lecture and monograph series, is to expand NPA's research in international economic, social, and political policies. Previous Surrey publications have examined the impact of trade blocs on developed and developing economies; the growth of emerging markets; how capital markets are changing international growth; the role of international regimes and agreements in promoting development; and changes in the former Soviet Republics and eastern Europe.

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About the Author



James D. Wolfensohn is the World Bank Group's ninth President, with a long career as an international investment banker and a parallel involvement in development issues and the global environment. Since becoming President in June 1995, he has formed new strategic partnerships between the Bank and the governments it serves, the private sector, civil society, regional development banks, and the United Nations. To improve the Bank's effectiveness in fighting poverty and to meet the needs of a rapidly changing global economy, Mr. Wolfensohn has launched a major reform program in the Bank, "The Strategic Compact." The goal of the Compact is to build a more agile, knowledge-based institution that can share its experience and know-how with clients and partners across the globe.

Born in Australia and now a naturalized U.S. citizen, Mr. Wolfensohn holds B.A. and L.L.B. degrees from the University of Sydney and an M.B.A. from the Harvard Graduate School of Business.

Foreword



FOR SEVERAL YEARS, THE NATIONAL POLICY ASSOCIATION has been examining the complex and ever-changing factors that influence global development. Through a series of breakfast seminars and regional symposia, publications, Web site postings, and the annual Walter Sterling Surrey Memorial Lecture and monograph, NPA has encouraged dialogue among public and private sector representatives on the U.S. role in fostering international development.

Over the past decade, private sector investment in emerging markets has greatly outpaced public sector flows to the developing world. NPA has chosen to address this changing relationship through several sponsored events under its USAID-funded 1998/99 project, "Globalization and Foreign Assistance: An Economic and Social Agenda." With its cosponsors, the National Alliance of Business and the International Union of Bricklayers and Allied Craftworkers, NPA explored labor and business perspectives on international development at its symposium in Cleveland, Ohio, on June 8, 1999. Symposium participants concluded that the private sector on its own cannot transform the world's poorest economies into vibrant emerging markets. U.S. and other bilateral aid as well as assistance from multilateral institutions are also needed to ensure development.

James D. Wolfensohn, President of the World Bank, addressed this theme in the Surrey Memorial Lecture in Washington, D.C., on April 7, 1999. This monograph presents excerpts of his talk along with selected text from his January 1999 "Proposal for a Comprehensive Development Framework." The World Bank's framework for international development, Mr. Wolfensohn emphasizes, includes the institutions of civil society that must be established to achieve stability and sustainable development. These human elements, he argues, share equal importance with the fiscal and monetary requirements for effective development. He calls for a development partnership in which recipient countries and aid providers collaborate to establish common goals. If successful, this strategy will provide a genuine opportunity for spreading the benefits of the globalized economy to people throughout the world.

Marilyn Zuckerman, NPA Vice President and Project Director
Juliette Schindler, Project Coordinator

Creating an International Development Framework

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James D. Wolfensohn

I AM EXTREMELY PROUD TO DELIVER the Walter Sterling Surrey Memorial Lecture. I feel quite at home addressing the National Policy Association. This is not only because of the genesis and history of NPA—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 of this institution to both market economies and fundamental values. NPA recognizes that although market economies have proved to be the best engines of growth in producing wealth, they do not always produce ideal distributive results. They also do not automatically respond to noneconomic human concerns. NPA therefore focuses on developing strategies that can promote maximum competitiveness while remaining sensitive to human values. This same objective is the driving force behind the international development framework that is the topic of my talk.

BACKGROUND OF THE “NEW” INTERNATIONAL DEVELOPMENT FRAMEWORK

There has always been, of course, an international development framework. So when we at the World Bank began talking about creating a “new” development framework, we immediately retreated from calling it new because we were told that this had been done for years, that our ideas had been invented by others decades ago.

Our debate about a development framework came up as follows: We have faced, in the past 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, and interdependence of markets, so that a problem that originated in Thailand became magnified in South Korea and Indonesia. Brazil, Russia, or 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.

However, by bringing their money home, investors helped create a crisis elsewhere because much of the money was short term. In 1997, net transfers of funds from the private sector to the developing world amounted to about \$300 billion. By 1998, net flows had diminished to \$200 billion. This \$100 billion in withdrawals created pressure on markets, whether in Thailand, Korea, or elsewhere, that was immediately transmitted around the world.

The debate about the crisis countries began by focusing immediately on questions of fiscal, monetary, and budgetary policies and how the problems could be corrected. What should be done about stable and floating exchange rates? What were each country's reserves? What should be the size of the package? You will recall the headlines of \$17 billion, \$42 billion, and \$58 billion packages put together for various countries. Even in the case of Brazil and currently in the case of Russia, the main issue continues to be the monetary value of the package, as though stability can be bought, as though economic and macroeconomic planning (albeit very important) is the answer to both stability and development. In the headlines about these events and in the questions asked, not much was said about the human aspect or about the social and structural aspects.

We at the Bank have been considering how to acknowledge the fundamental importance of all macroeconomic policies—monetary, fiscal, budgetary, and exchange rate—in promoting economic growth and stable economies, yet demonstrate that they do not constitute the whole story. We have been examining the full range of elements that need to be considered as crucial to development and stability. We have also been attempting to assess the fundamental causes of the problems that existed in Asia and that still exist in many countries. These considerations led to the question: What are the nonfinancial issues that need to be addressed in a development strategy?

This thinking resulted in the development of a concept that can be viewed as a balance sheet with two sides. On one side is the macroeconomic presentation, which includes all the financial and economic analyses at the core of the current appraisal system. There is a clear need, however, for a second side to the balance sheet that reflects an analytical framework which presents the structural, social, and human aspects and addresses the fundamental long-term issues of societal development. Whether the image is one of a balance sheet, two sides of a coin, or two parts of a duet, the key is that the two parts must be considered together.

COMPONENTS OF THE DEVELOPMENT FRAMEWORK

We developed a list of the elements that, in the Bank's experience, are as important in terms of a framework as the familiar macroeconomic measures. This list was created not to be imposed on countries, but to be a kind of guide. It begins with governance—good governance, an effective regulatory framework, and a desire to eliminate corruption.

This first component recognizes that good macroeconomic policies cannot be implemented if the government is ineffective or corrupt. A country must have an educated and well-organized government. This requires capacity building, an open legislative and transparent regulatory system, properly trained and remunerated officials, and an absolute commitment to clean government.

The issue of eliminating corruption is crucial. Corruption is not limited to specific regions, but is a global issue, as evidenced by the problems in some African countries, in the former Soviet Union, and in parts of Latin America. There are also countries in the Organization for Economic Cooperation and Development (OECD) where corrupt practices have until recently been tax deductible. Bribes paid by companies in both developed and developing countries have been acknowledged by some OECD governments as a cost of doing business and thus deductible. It has been difficult to convince developing countries that this practice is inappropriate if European governments have been allowing it as a tax deductible expense. So, corruption is an issue that is not limited to developing countries, but is a general problem.

The second necessary element on the list is an effective legal and judicial system. Without the protection of human and property rights and a comprehensive framework of laws, equitable develop-

ment is not possible. For example, the lack of an effective bankruptcy law in Korea, Thailand, and Indonesia made it impossible for the World Bank to help with their reconstruction. In fact, reconstruction is still impossible in some of these countries, notwithstanding the existence of a law on the books, because there are virtually no lawyers, no legal history, and no judges with recognized jurisdiction. This led the World Bank to realize that a legal system is effective only when there is a viable justice system. In the absence of both a legal system and a justice system, distributive justice and equity remain unprotected.

The third component of the international development framework is financial supervision and control at every level—including banks, financial institutions, capital markets, leasing and investment companies, and insurance and pension plans. In some of the countries referred to here—Korea, Thailand, Indonesia, and Russia—it was clear that the lack of control and supervision of the banking system was the most distorting factor and had the most immediate, direct impact on the poor. Accordingly, to ensure a well-functioning and stable financial system, governments must establish an internationally accepted and effective supervisory system. Capital markets should also be developed and strengthened as resources allow.

The fourth requirement is a social safety net and a viable social structure. Privatization of the large state enterprises in the former Soviet Union left half the workforce unemployed and thus without health benefits, child care, and pensions. When no programs were instituted to replace the social safety net that these enterprises had provided, a socially dispossessed group was created that generated enormous political pressure—and properly so—because they had been robbed of what they had, and nothing else was put in place.

A social safety net is crucial in all developing countries. It does not have to be an American-style social system; it can be a familial system or a tribal system. However, some type of system is needed to care for those who are unemployed, disadvantaged, and disabled, for those affected by natural disasters and war, and for the elderly and children. Social programs should also address the weakening of the fabric that holds society together, a weakening that can occur in the process of development when traditional institutions and relationships are undermined. Effective development must help reestablish a sense of community and knit all of society together. Social programs depend heavily on available

budgets, but they are critical to the long-term peace and stability of any country and must rank high on the agenda.

At the Bank, we decided to consider these four elements at the same time that we considered fiscal and monetary policy; it was clear that it is impossible to deal with development solely on the basis of figures. In the United States, good governance, a legal system, a system of justice, and a social safety net are implicit. But in developing countries, where this is not the case, finance or the provision of funding alone does not ensure social stability. Thus, before implementing fiscal and monetary policies, it is necessary to put in place a parallel structure on which to build an economic program.

FURTHER REQUIREMENTS FOR DEVELOPMENT

We realized that, in addition to these four fundamental elements, other factors are necessary to bring about effective long-term development. First, education and knowledge are vital. Education must begin with universal primary education for girls and boys equally, as well as construction of schools, modern curricula geared to the new technological age and the real needs of the emerging local market, and effective teacher training and supervision. Also, developments in science, technology, and knowledge transfer offer a unique possibility for developing countries to catch up with more technologically advanced societies.

I recently visited villages in the Côte d'Ivoire, looking at the issue of cocoa and coffee production. There, 2.5 million farmers have been taken advantage of for years by intermediaries who have paid them a fixed price for their crops and then obtained a much higher price on the international market.

In a rural village where I had been made a chief, I stood with my brother chiefs in my black hat and beautiful robe addressing this issue. They said "Come to the office," where two young Ivoirians were sitting at computers. One showed me how the coffee and the cocoa were weighed. The other demonstrated the progress that has been made as a result of a joint venture between the Bank and a Canadian nongovernmental organization (NGO). Through a link to a Reuters service via the Internet, the Ivoirians can get minute-by-minute prices from Chicago, Paris, and London. They then inform the farmers of these prices, providing information that enables the farmers to get fair payment for their crops.

I went back to the chiefs, most of whom did not have a formal education, and we talked about hedging, swapping, and Chicago futures. In my 100-year-old costume, I had leapt forward 100 years with the knowledge that was being conveyed to the village. This type of transfer of knowledge, and of course education, with equal emphasis on female education, is fundamental to development.

Perhaps obvious but parallel issues are health, population, and sustainable development, including the environment and culture.

Governments must ensure the provision of health services for adults and the elderly at communal and local levels, as well as services for family health care and family planning. These services can come from a variety of sources, both public and private.

The sheer growth in population is a critical issue that must be addressed in various ways depending on belief and culture. Unless population growth is brought under control, the less developed countries face a losing battle, with most scarce savings being used simply to forestall a decline in standards of living. While the percentage of those living in poverty has declined in many countries in recent years, global population growth has been so rapid that the absolute number of individuals in poverty has continued to increase. In addition, major problems of disease, ranging from tuberculosis and malaria to AIDS, are not adequately addressed in all too many countries. Not only can health be a human issue of great proportions, it can also be a barrier to equitable development and to growth.

Let me turn to the key physical needs of development. With 1.5 billion people in the developing world lacking access to clean water, 2 billion without sewerage, and an increasing demand for water from industry and agriculture, an effective method of distribution, delivery, finding, and saving water is fundamental. Also fundamental is a strategy for sewerage because waste pollutes water supplies and affects health in a dramatic way.

Energy is a major issue. Two billion people without access to power resort to the use of wood and fossil fuels, resulting in breathing problems and other health issues. The burning of wood and fossil fuels also has a significant environmental impact and is a major concern for private investors who require an effective, reliable, and appropriately priced source of power.

Many leaders have told me that an adequate road system is the starting point for development. Rural and urban roads make possible trade and services, provision of health care, and getting

children to school. Trunk roads are essential to link rural, urban, and regional areas. Rail and air transportation systems are also key to growth and connect countries to regional and international markets.

Access to telecommunications for trade, information, and education is also essential to development in the next century. Without appropriate telecommunications, whether telephone or e-mail, computers or wind-up radios without batteries, poverty will not be eradicated, and equity and opportunity will not be provided. Without access to modern communications, the disparity between rich and poor will increase, and growth will be restrained.

Environmental controls are another necessary element for successful development. The world is losing forests at the rate of one acre per second. Biodiversity is also being lost at an alarming rate. Environmental achievements in protecting the ozone layer have not been great. The continuing degradation of important natural resources, such as forestry and aquifers, represents a silent crisis that will be difficult to reverse. Volumes have been written on the impact of environmental degradation, so let me simply flag the issue as a vital element in any assessment of the health of a society.

Last, I believe that no true national development can occur without preserving a people's history and culture, particularly in the new, globalized environment where there is pressure for "sameness" in all countries. Culture can be justified on the grounds of tourism, industry, and employment, but it must also be seen as an essential element in preserving and enhancing national pride and spirit.

SECTORAL DEVELOPMENT STRATEGIES

There are also three specific groupings of strategic issues that require special attention. Each of these strategies builds on the issues already discussed, but because of their importance and distinct nature, they are worth examining separately.

First, because the largest concentration of the poor in most countries is in rural areas, it is important for governments to establish a coherent rural strategy. New crops and agricultural extension programs are not sufficient if there is no provision for trading, microcredit, storage, transportation, and nonmonopolistic outlets. In addition, there must be technical assistance to farmers and converters of agricultural produce. Governments need to de-

velop integrated solutions to rural development that allow for growth as well as trade and industry.

Countries likewise need an urban strategy. The extent of the special problems of urban management will become evident in the next 15 years with the projected growth of 24 megacities, 20 in the developing world and each with 10 million or more people. Governments must have an urban strategy that differs from their overall national strategy to the extent that concentrations of population cause unique problems. Urban planning and appropriate action will be crucial in the next millennium.

Third, a private sector strategy is needed. A vibrant private sector requires crucial elements of structural policy to be in place. These include trade policy, tax policies, competition and regulatory policies, and corporate governance. Conditions must be created for a climate of investor confidence, with appropriate laws, transparent regulations, and predictable taxes. Whether the issue is protection of property rights or fair and equitable labor practices, governments must provide certainty to the investor about the "rules of the game." The private sector is key to economic growth.

CHANGES IN THE WORLD OF DEVELOPMENT

Whether or not the above is the right list, it incorporates fundamental elements that address human needs without which there can be no stability, notwithstanding good economic and fiscal planning. It is impossible to have one without the other. In considering this list, we at the Bank thought, too, about how the world has changed since we began. It is no longer a world of cold war. It is now a world in which business, so important to NPA's genesis, has surged ahead of government in financial flows to the developing world. In 1990, when private net transfers to developing countries were \$40 billion, official development assistance was about \$60 billion, one and one-half times the size of the private sector transfers. In 1997, private sector transfers totaled \$300 billion, and official development assistance was \$39 billion, approximately one-eighth the size of the private sector flows.

Another significant shift has been the rise in importance of institutions of civil society, be it the trade union movement, foundations, or NGOs. With freedom comes an eruption of civil involvement. A dictatorial state does not have many NGOs unless the government has organized them. But when freedom and transparency allow NGOs to be constructively involved, governments have

the opportunity of effectively engaging these groups in development efforts.

Another change in the past 50 years is that the World Bank and the International Monetary Fund (IMF) are no longer the only participants in official development assistance. Bilateral institutions, multilateral institutions, regional banks, the United Nations (UN) system, the European Union, and numerous development specialists are now involved in development assistance, often undertaking similar projects and programs in the same country. It is important that the activities of these various participants be reconciled and coordinated in an organized manner under the leadership of local governments, who must be the dominant power in deciding the development agenda.

THE WORLD BANK'S COMPREHENSIVE DEVELOPMENT FRAMEWORK

The various concepts discussed here comprise the Comprehensive Development Framework of the World Bank. The initial response from the UN, regional banks, and bilateral and multilateral organizations has been amazing. They are not saying that the concept is new, nor do we care whether it is new. However, it is generally recognized that if something is not done to change the way that development assistance is provided, the continuation of poverty is inevitable.

More than 1 billion people worldwide currently live on an income of less than \$1 a day, the commonly accepted definition of poverty. The target of the Development Assistance Committee of the OECD is to reduce the incidence of poverty by one-half by the year 2015. However, if developing countries' gross domestic product growth continues at current rates, it is unlikely that this goal will be met globally.

Recognition of the need to cooperate seems to be growing in the face of declining overseas development assistance and the lack of cohesion among financial, structural, social, and, dare I say, human elements. These elements need to be balanced to reduce poverty and to achieve stability. To do so will require not just a single dialogue between the World Bank and the country's government or between the IMF and the government, but a truly national dialogue and consensus among the government, the international providers of funds, the private sector, and civil society in all forms.

The World Bank is initiating this approach in 10 countries, including Uganda, the Côte d'Ivoire, and Bolivia, over a 12-month period, with an additional 20 countries eager to take part as soon as possible. Each country can add to or modulate the list of objectives depending on its particular situation. For example, Bolivia is deeply concerned about moving away from a dependence on drugs and drug dealing to a more orthodox industrial base. There are political difficulties, but we are beginning with governments that want to participate and are confident that success lies ahead.

* * * *

I would like to conclude by reiterating that the issues the National Policy Association is addressing—bringing together different sectors of society to try and influence policy—are exactly what the World Bank and others are attempting to address in an organized way internationally. We are encouraging governments abroad to have national meetings and to build national consensus so that there can be local ownership. We are also trying to extend the range of what NPA does in its committees to issues that are not limited to financial considerations, but include parallel considerations of equal and contemporaneous importance—the legal and judicial systems, financial supervision and control, rural and urban policies, a private sector strategy, and the fundamentals of education, health, water, and energy.

This is an extensive agenda, but one that we think has considerable promise. This is why I wanted to talk to you at NPA about our comprehensive framework and to salute you for the work you have done for the past 65 years.

National Policy Association

The National Policy Association was founded in 1934 by distinguished business and labor leaders who believed that the private sector should actively participate in the formulation of public policy. Since its foundation, NPA's goal has been to seek common ground on effective and innovative strategies that address a range of cutting-edge issues of vital significance to the security and prosperity of America.

NPA is one of the nation's principal nonpartisan, nonprofit organizations conducting informed dialogue and independent research on major economic and social problems facing the United States. NPA brings together influential leaders from business, labor, agriculture, and academia in policy committees that provide a broad-based arena where members hear differing viewpoints, gain new insights, and recommend strategies for resolving issues of mutual concern and national importance.

NPA-sponsored research addresses fundamental questions related to strengthening U.S. competitiveness and productivity in a context of justice, equity, and basic human values. Through research and other projects, NPA develops pragmatic solutions to the structural and technological changes impacting an increasingly interdependent world. Topical publications, seminars, and conferences help disseminate the conclusions and recommendations of NPA's work.

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