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WORLD BANK GROUP

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL FINANCE CORPORATION
INTERNATIONAL DEVELOPMENT ASSOCIATION
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Address by **JAMES D. WOLFENSOHN**,
to the Boards of Governors of the World Bank Group,
at the Joint Annual Discussion

THE CHALLENGE OF INCLUSION

I. Introduction

Mr. Chairman, Governors, Ladies and Gentlemen:

I am very pleased to welcome you to these Annual Meetings of the World Bank Group and the International Monetary Fund. I am also delighted to be in Hong Kong. This beautiful and bustling city which I have visited regularly for forty years, exemplifies the openness, dynamism, and optimism of so much of Asia today. And so does our meeting here in this magnificent conference center where everything has been done impeccably. I would like to express my thanks to our hosts, the Government of China.

China's success has been truly remarkable. Less than a generation ago, eight in ten Chinese eked out an existence by tilling the soil for less than a dollar a day. One adult in three could neither read nor write. Since then, 200 million people have been lifted out of absolute poverty and illiteracy has fallen to less than one in ten. China is our largest borrower, one of our most valued shareholders and home to more than a quarter of our clients. I am delighted that our partnership continues to strengthen.

Mr. Chairman, this is the third time that I address you as President of the World Bank Group — the third time I have the opportunity to express my deep gratitude to my friend Michel Camdessus, whose collaboration over the last 2-1/2 years has been so invaluable to me. We work ever more closely together and I continue to benefit from his great experience and judgement.

From the beginning, one of my priorities has been to take the pulse of development firsthand. I have now visited almost 60 countries. I have met with governments, parliamentarians, and the private sector. I have talked with national and international NGOs on subjects ranging from women's issues to the environment, from health to the impact of macroeconomic reform.

Wherever I go, I continue to be impressed by the people we serve — by their strength, their energy and their enterprise — even in the most abject conditions. By the hundreds of thousands disadvantaged by war, by the millions of children without families condemned to live on the streets, by the disabled shut out from any kind of social support. By the plight of the poorest.

Today our clients number 4.7 billion people in over 100 countries. Three billion live under two dollars a day. A billion three hundred million live on under one dollar a day. One hundred million go hungry every day; 150 million never even get the chance to go to school.

But whether they live on the plains or in the valleys, whether they live in slums or isolated villages, whether they speak hindi, swahili, or uzbek. They have one thing in common: They do not want charity. They want a chance. They do not want solutions imposed from without. They want the opportunity to build from within. They do not want my culture or yours. They want their own. They want a future enriched by the inheritance of their past.

I have learned that people are the same wherever they are — here in this room and across the world. We all want the best for our children and our families. We all want peace and economic and physical security. We all want to live in a supportive community. We all want personal dignity.

This was vividly brought home to me six months ago when I visited a large water and sanitation project which the Bank is supporting in the favelas in Brazil. The project, which is now self-sustaining, brings together the local community, the private sector, and NGOs.

With my host, the Vice Governor of the State of Rio, I went from one makeshift home to the next, talking with the women who live there and who used to carry the water on their shoulders from the bottom of the hillside, to their dwellings at the top. One after the other, they proudly showed me their running water and flushed their toilets and told me how the project had transformed their lives.

And as I walked around, more and more of the women came up to me displaying pieces of paper showing charges and receipts for 5 or 7 cruzeiros a month. I watched and listened to this until the Vice Governor, said, “What they’re showing you, Jim, is that this is the first time in their lives that their name and address have appeared on an official notice. This is the first time their existence has been officially recognized. This is the first time that they have been included in society. With that receipt they can get credit to purchase goods, with that receipt they have recognition and hope.”

As I walked back down the hill from that favela, I realized that this is what the challenge of development is all about — inclusion. Bringing people into society who have never been part of it before. This is why the World Bank Group exists. This is why we are all here today. To help make it happen for people.

II. The State of Development *Circa* 1997

Where are we in terms of “making it happen” in 1997? In many ways, this is the *best of times* for developing countries: Output grew last year by 5.6 percent — the highest rate in 20 years. Foreign direct investment exceeded \$100 billion — the most ever; private capital flows now total \$245 billion — five times Official Development Assistance. And developing countries are projected to enjoy continued strong growth over the next 10 years.

Social indicators are also improving. Life expectancy has risen more in the last 40 years than in the previous 4,000. And freedom is blossoming. Today nearly two in three countries use open elections to choose their national leadership and five billion people live in a market economy — up from 1 billion, ten years ago.

There is also much good news regionally: Reform programs in Eastern European and Central Asian countries continue to advance, and prospects for accession to the European Union now look promising for several countries in the region. There is real progress in Sub-Saharan Africa, with new leadership and better economic policies. 4.5 percent GDP growth in 1996, up from 2% two years ago.

In the Middle East and North Africa, despite political problems, efforts continue to boost regional trade and investment, improve competitiveness, and expand economic opportunity. In Latin America — countries have emerged from the tequila crisis, with their earlier gains against hyperinflation fully intact.

In East Asia, despite recent turbulence in financial markets, we still expect long-term growth and poverty reduction to be strong. And in South Asia, home to 35 percent of the developing world's poor, growth rates over the past several years have approached 6 percent.

This all adds up to much to celebrate; but there is also much to lament. Yes the glass is half full, but it is also half empty. Too many people are not enjoying the fruits of success.

Here in East Asia where, despite the “miracle”, inequities between rural and urban areas and between the skilled and the unskilled are becoming more widespread. In the countries of the Former Soviet Union, where the old and the unemployed have become more vulnerable amidst the turbulence caused by the transition from command to market economies.

In parts of Latin America, where problems of land-ownership, crime, drug-related violence, unequal access to education and health care, and enormous disparities in income hinder progress and threaten stability. And in many of the world's poorest countries, where population growth continues to run ahead of economic growth, eroding living standards.

And the deeper tragedy is that the glass is almost totally empty for too many. Indeed, for too many, it is the *worst of times*, as huge disparities persist across and within countries.

In too many countries, the poorest 10 percent of the population have less than one percent of the income, while the richest 20 percent enjoy over half. In too many countries, girls are still only half as likely as boys to go to school. In too many countries, children are impaired from birth because of malnutrition,

inadequate health care, and little or no access to early childhood development programs. In too many countries, ethnic minorities face discrimination and fear for their lives at the hands of ethnic majorities.

Mr. Chairman, what we are seeing in the world today is the tragedy of exclusion.

III. The Challenge Ahead

Our goal must be to reduce these disparities across and within countries, to bring more and more people into the economic mainstream, to promote equitable access to the benefits of development regardless of nationality, race or gender. This — the Challenge of Inclusion — is the key development challenge of our time.

You and I and all of us in this room — the privileged of the developing and the developed world — can choose to ignore it. We can focus only on the successes. We can live with a little more crime, a few more wars, air which is a little bit dirtier. We can insulate ourselves from whole sections of the world for whom crisis is real and daily but which to the rest of us is largely invisible.

But we must recognize that we are living with a time bomb and unless we take action now, it could explode in our children's faces.

If we do not act, in 30 years the inequities will be greater. With population growing at 80 million a year, instead of 3 billion living on under \$2 a day, it could be as high as 5 billion. In 30 years, the quality of our environment will be worse. Instead of 4 percent of tropical forests lost since Rio, it could be 24 percent.

In 30 years, the number of conflicts may be higher. Already we live in a world which last year alone saw 26 inter-state wars and 23 million refugees. One does not have to spend long in Bosnia, or Gaza or the lakes district in Africa to know that without economic hope we will not have peace. Without equity we will not have global stability. Without a better sense of social justice our cities will not be safe and our societies will not be stable. Without inclusion, too many of us will be condemned to live separate, armed and frightened lives.

Whether you broach it from the social or the economic or the moral perspective, this is a challenge we cannot afford to ignore. There are not two worlds, there is one world. We breathe the same air. We degrade the same environment. We share the same financial system. We have the same health problems. AIDS is not a problem that stops at borders. Crime does not stop at borders. Drugs do not stop at borders. Terrorism, war and famine do not stop at borders.

And economics is fundamentally changing the relationships between the rich and the poor nations. Over the next 25 years, growth in China, India, Indonesia, Brazil and Russia will likely redraw the economic map of the world, as the share

in global output of the developing and transition economies doubles. Today these countries represent 50% of the world population but only 8% of the GDP. Their share in world trade is a quarter the European Union's. By the year 2020, their share in world trade could be 50% more than Europe's.

We share the same world and we share the same challenge. The fight against poverty is the fight for peace, security, and growth for us all.

How then do we proceed? This much we know: No country has been successful in reducing poverty, without sustained economic growth. Those countries that have been most successful -- including most notably many here in East Asia -- have also invested heavily in their people, have put in place the right policy fundamentals, and have not discriminated against their rural sectors. The results have been dramatic: large private capital inflows, rapid growth, and substantial poverty reduction.

The message for countries is clear: educate your people, ensure their health, give them voice and justice, financial systems that work, and sound economic policies, and they will respond and they will save and they will attract the investment, both domestic and foreign, that is needed to raise living standards and fuel development.

But another message is also emerging from recent developments. We have seen in recent months how financial markets are demanding more information disclosure, and how they are making swift judgments about the quality and sustainability of government policies based on that information. We have seen that without sound organization and supervision a financial system can falter, with the poor hurt most. We have seen how corruption flourishes in the dark, how it prevents growth and social equity, and how it creates the basis for social and political instability.

We must recognize this link between good economic performance and open governance. Irrespective of political systems, public decisions must be brought right out into the sunshine of public scrutiny. Not simply to please the markets but to build the broad social consensus without which even the best-conceived economic strategies will ultimately fail.

IV. The Development Community

Mr. Chairman, how can we in the broader development community be most effective in helping with the enormous task ahead?

It is clear that the scale of the challenge is simply too great to be handled by any single one of us. Nor will we get the job done if we work at cross purposes or pursue rivalries that should have been laid to rest long since. Name calling between civil society and multilateral development institutions must stop. We

should encourage criticism. But we should also recognize that we share a common goal and we need each other.

Partnership, I am convinced, must be a cornerstone of our efforts. And it must rest on four pillars.

First and foremost, the government and the people of developing countries must be in the driver's seat — exercising choice and setting their own objectives for themselves. Development requires much too much sustained political will to be externally imposed. It can *not* be donor-driven.

But what we as a development community can do is help countries by providing financing, yes; but even more important, by providing knowledge and lessons learned about the challenges and how to address them.

We must learn to let go. We must accept that the projects we fund are not donor projects or World Bank projects — they are Costa Rican projects, or Bangladeshi projects, or Chinese projects. And, development projects and programs must be fully owned by *local* stakeholders if they are to succeed. We must listen to those stakeholders.

Second, our partnerships must be inclusive — involving bilaterals and multilaterals, the UN, the European Union, regional organizations, the WTO, labor organizations, NGOs, foundations, and the private sector. With each of us playing to our respective strengths, we can leverage up the entire development effort.

Third, we should offer our assistance to all countries in need. But we must be selective in how we use our resources. There is no escaping the hard fact: More people will be lifted out of poverty if we concentrate our assistance on countries with good policies than if we allocate it irrespective of the policies pursued. Recent studies confirm what we already knew intuitively — that in a good policy environment, development assistance improves growth prospects and social conditions; but in a poor policy environment, it can actually retard progress, by reducing the need for change and by creating dependency.

I want to be very clear on this point: I am not espousing some Darwinian theory of development, whereby we discard the unfit by the wayside. Quite the contrary. Our goal is to support the fit, and to help make the unfit fit. This is all about inclusion.

In Africa, for example, a new generation of leaders deserves our strongest possible support for the tough decisions they are taking; they have vast needs and a growing capacity to use donor funds well in addressing them. We must be there for them. It is an economic and a moral imperative.

However, where aid cannot be effective because of bad policy, or corruption or weak governance, we need to think of new ways of helping the people. Not the old technical-assistance approaches of the past that relied too heavily on foreign consultants. But helping countries help themselves: by building their own capacity to design and implement their own development.

Finally, all of us in the development community must look at our strategies anew.

We need that quantum leap that will allow us to make a real dent in poverty. We need to scale up, to think beyond individual donor-financed projects to larger country-led national strategies, and beyond that to regional strategies and systemic reform.

We need approaches that can be replicated and customized to local circumstances. Not one agricultural project here or one group of schools there. But rural and educational country strategies that can help the Oaxaca's and the Chiapas' of this world as well as the Mexico Cities.

We need to hit hard on the key pressure points for change —social and human development, rural and environmental development, and financial and private sector development.

And we need to remember that educating girls, and supporting opportunities for women - health, education and employment - are crucial to balanced development.

In the struggle for inclusion, this all adds up to a changed bottom line for the development community. We must think results — about how to get the biggest development return from our scarce resources. We must think sustainability — about how to have enduring development impact. We must think equity — about how to include the disadvantaged. We must focus not on the easy projects, but on the difficult — in Northeast Brazil, in the Gangetic Plain in India, and in the horn of Africa. Projects there will be riskier, yes. But success will be worth all the more in terms of including more people in the benefits of development -- and giving more people the chance of a better life.

V. The World Bank Group

How is the Bank Group responding to the Challenge of Inclusion?

Last year, I said that if the Group were to be more effective, it needed to change — to get closer to our clients' real needs, to focus on quality, and to be more accountable for the results of our work. This year, I want to tell you that it is happening. The Bank is not only changing, but the need for change is now fully accepted.

I know — and you know — that the Bank has tried to change before. But there has never been this level of commitment and consensus. We are building on the mission statement articulated by my predecessor, Lew Preston, whose untimely death made it impossible for him to implement his plans.

Earlier this year, we launched an action program — the Strategic Compact — to renew our values and commitment to development, and to improve the Bank's effectiveness.

I believe the Compact is historic. Not because there is agreement on every paragraph of the document; but because staff, management and shareholders -- with terrific support from our Executive Directors --are now united on the future direction of the institution.

And while we still have a long way to go, and while change is painful -- and some people are undoubtedly feeling that pain -- implementation is well underway.

I really believe that this time we can succeed. And we will succeed because of our truly remarkable and dedicated staff. I do not believe a better development team exists, nor one with more experience in fighting poverty.

But the Compact is not primarily about our organization and internal change, it is about our *clients* and meeting their needs more effectively. To take this beyond rhetoric, we have decentralized aggressively to the field. By the end of this month, 18 of our 48 Country Directors with decision-making authority will be based in the countries they serve — compared with only 3 last year.

We have speeded up our response time and introduced new products such as the Single Currency Loan and loans for innovative projects of \$5 million or less that can be implemented very quickly.

Working with Michel and our colleagues in the IMF -- as well as with many other partners -- we have prepared debt reduction packages worth about \$5 billion, for 6 heavily indebted countries under the HIPC Initiative. Not bad for an effort that did not even have a name 18 months ago. And we are moving speedily ahead to help other HIPC countries.

The New Bank is committed to *quality*.

We have put in place reinvigorated country management teams, with 150 new managers selected over the last six months -- and rigorous training and professional development programs have been introduced for all staff. IFC has also made major changes in management and is decentralizing to the field.

We have improved the quality of our portfolio, and, as a result, our disbursements reached a record level last year of \$20 billion.

And the quality of *all* our work is being enhanced by the progress we have made toward becoming a “Knowledge Bank”. We have created Networks to share knowledge across all regions and all major sectors of development. Our Economic Development Institute, is playing a leading role in this area. Last June, in Toronto, working with the Canadian Government and many other sponsors, EDI brought together participants from over 100 countries, for the first Global Knowledge conference.

My goal is to make the World Bank the first port of call when people need knowledge on development. By the year 2000, we will have in place a global communications system with computer links, video-conferencing and interactive classrooms, affording our clients all around the world full access to our information bases - the end of geography as we at the Bank have known it.

We are also promoting increased *accountability* throughout the Bank Group:

We have developed a corporate scorecard to measure our performance. We are closely monitoring compliance with our policies and continuing to work to improve the inspection process by making it more transparent and effective. And we are designing new personnel policies that explicitly link staff performance to pay and promotion.

We are also emphasizing accountability in the dialogue with our clients. Last year I highlighted the importance of tackling the cancer of corruption: Since then we have issued new guidelines to staff for how to deal with corruption -- including ensuring that our own processes meet the highest standards of transparency and propriety. We have also begun working with a first half-dozen of our member countries to develop anti-corruption programs.

My bottom line on corruption is simple: If a government is unwilling to take action despite the fact that the country’s development objectives are undermined by corruption, then the Bank Group *must* curtail its level of support to that country. Corruption, by definition, is exclusive: it promotes the interests of the few over the many. We must fight it wherever we find it.

But key to meeting the challenge of inclusion is making sure not only that we do things right but that we do the right things. Earlier I mentioned the strategic pressure points of change. Let me say a few words about what we are doing in each of these areas.

First, human and social development. We are mainstreaming social issues — including support for the important role of indigenous culture — into our country assistance strategies, so we can better reach ethnic minorities, households headed by women, and other excluded groups.

We are participating in programs designed by local communities to address pervasive needs -- such as the EDUCO basic literacy program in El Salvador and the District Primary Education Program in India -- and these programs are being replicated by other countries.

We are increasing our support for capacity-building -- particularly the comprehensive program initiated by the African countries last year

Second, sustainable development: In the rural sector, which is home to more than 70 percent of the world's poor, we have completed a major rethinking of our strategy. Lending is now up after many years of decline, supporting innovative programs such as the new market-based approach to land reform in Brazil.

We are also supporting our clients' efforts to address the brown environmental issues -- clean water and adequate sanitation -- that are so often neglected but are so important for the quality of the poor's everyday lives.

And through the Global Environment Facility, the Global Carbon Initiative, and a new partnership with the World Wildlife Fund to protect the world's forests, we are continuing to advance the global environmental agenda.

Third, the private sector. We are capitalizing on the synergies between the Bank, IFC, and MIGA and coordinating our activities under a single client-focused service "window".

Across the Bank Group, we are building up our work on regulatory, legal and judicial reform designed to help create environments that will attract foreign and domestic private capital. We are using IBRD guarantees to help support policy changes and mitigate risk, and we are expanding IDA's product line to help poor countries develop their private sectors and become full participants in the global economy.

Meanwhile, IFC is working in 110 countries, and in more sectors, employing more financial products than ever before. Last year, saw \$6.7 billion in new approvals in 276 projects. It's Extending the Reach Program is targeting 33 countries and regions that have received very little private sector investment. Again, the goal is clear: to bring more and more marginalized economies into the global marketplace.

MIGA too is playing an active and enhanced role. Last year it issued a record 70 guarantee contracts for projects in 25 developing countries, including 11 countries where it has not worked before. I am delighted that yesterday the Development Committee agreed to an increase in MIGA's capital that will allow it to continue to grow.

And my fourth "pressure point" is the financial sector - brought sharply into focus by recent events in this region. Here too, we are scaling-up our work in

coordination with the IMF and the regional development banks for the simple reason that when the financial sector fails, it is the poor who suffer most. It is the poor who pay the highest price when investment and access to credit dries up, when workers are laid off, when budgets and services are cut back to cover losses.

But success in the financial sector requires much more than the announcement of new policies or financial packages pulled together when crisis hits. This is why we are expanding our capacity for banking and financial system restructuring, not just for the middle income countries, but taking on the larger task of financial sector development in low-income countries.

For those countries, home to the world's three billion poorest people, IDA remains the key instrument for addressing the Challenge of Inclusion. I will be coming back to you in due course to seek your support for the IDA12 replenishment.

VI. Conclusion

Mr. Chairman, I believe we have made considerable progress in putting our own house in order in preparation for the challenges of the new millennium. 1997 has been a year of significant achievement.

We must push ahead with this process. We must make sure that we deliver next year's work program, that we strengthen the project pipeline and increase the resources going directly to the front-line. And we must implement our recently completed cost effectiveness review.

But the time has also come to get back to the dream. The dream of inclusive development.

We stand at a unique moment in history when we have a chance to make that dream a reality.

Today we have unprecedented consensus on the policies that need to be put in place for sustainable and poverty reducing growth. Today we have clear and unambiguous evidence of the economic and social linkages between the developing and the industrialized worlds. Today we face a future where unless we take action our children will be condemned to live in a degrading environment and a less secure world. All we need today is the determination to focus on tomorrow and the courage to do it now.

Mr. Chairman, as a development community we face a critical choice.

We can continue business as usual, focusing on a project here, a project there, all too often running behind the poverty curve. We can continue making

international agreements that we ignore. We can continue engaging in turf battles, competing for the moral high ground.

Or we can decide to make a real difference.

But to do that we need to raise our sights. We need to forge partnerships to maximize our leverage and our use of scarce resources. And, we need to scale up our efforts and hit hard on those areas where our development impact can be greatest.

We at the Bank Group are ready to do our part. But we cannot succeed alone. Only if we work together will we make a dent. Only if we collectively change our attitude will we make that quantum leap. Only if in board rooms and ministries and city squares across the globe we begin to recognize that ultimately we will not have sustainable prosperity unless we have inclusion, will we make it happen.

Let me end where I began: in that favela in Brazil: What I saw in the faces of the women there I have also seen on the faces of women in India showing me passbooks for savings accounts. I have seen it on the faces of rural cave dwellers in China being offered new productive land. I have seen it on the faces of villagers in Uganda, able for the first time to send their children to school because of the private profit they can now make through rural extension schemes.

The look in these peoples eyes is not a look of hopelessness. It's a look of pride, of self-esteem, of inclusion. These are people who have a sense of themselves, who have a sense of tradition, who have a sense of family. All they need is a chance.

Each one of us in this room must take personal responsibility for making sure they get that chance. We can do it. For the sake of our children we must do it. Working together we will do it.

