The Evolving Role of the World Bank

The First Half Century
An Overview

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The World Bank
Washington, DC
The World Bank Group

The World Bank Group is a family of multilateral development institutions owned by and accountable to member governments. These governments exercise their ownership function through Boards of Governors on which each member country is represented individually. All the powers vested in the Board of Governors, with a few exceptions, have been delegated to Boards of Executive Directors, who are appointed or elected by member governments. The President of the Bank Group is appointed by the Executive Directors.

The World Bank Group today includes five international organizations:

The International Bank for Reconstruction and Development (IBRD), the original institution in the group, opened its doors for business in 1946. Today, it is the largest source of market-based loans to developing countries and is a major catalyst of similar financing from other sources. It lends to governments or to public or private entities with government guarantees. It is funded mainly through borrowings on the international capital markets.

The International Finance Corporation (IFC) was established in 1956 to support private enterprise in the developing world through the provision and mobilization of loan and equity financing and through its advisory activities relating to, among other things, capital market development and privatization. IFC is also a major catalyst of both local and foreign private investment. Its lending and equity investment activities are based on the principle of taking market risk along with private investors. Under the terms of its Articles of Agreement, it cannot accept government guarantees.

The International Development Association (IDA) was created in 1960 to provide finance on concessional terms to low-income countries that lack creditworthiness for IBRD borrowing. IDA is primarily funded from grants it receives from donors in periodic replenishments.

The International Centre for Settlement of Investment Disputes (ICSID) was added to the World Bank family in 1966 to provide conciliation and arbitration services for disputes between foreign investors and host governments that arise directly out of an investment.

The Multilateral Investment Guarantee Agency (MIGA) was created in 1988 to provide noncommercial investment risk insurance and technical services that help promote investment flows. It also disseminates information on investment opportunities.

As is now common practice, the "World Bank" or simply the "Bank" are used interchangeably to mean both IBRD and IDA. The "World Bank Group" refers to IBRD, IDA, IFC, ICSID, and MIGA.
Foreword

The world has changed dramatically over the last five decades and so has the World Bank. The Fiftieth Anniversary of the World Bank has provided us with an opportunity to reflect on and learn from the Bank’s experience and to apply the lessons to the Bank’s future agenda.

This series of essays is devoted to improving understanding of the evolving role of the World Bank. Each essay analyzes the Bank’s approach to the major development challenges its borrowing countries have faced, starting with the reconstruction and development needs of Europe and Japan in the 1940s and 1950s and ending with the transition of Central and Eastern Europe and the former Soviet Union. One essay examines the evolution of the Bank’s relations with the world’s capital markets as it mobilizes private savings for development. An overview paper provides a picture of the fifty-year period as a whole.

The story that emerges is one of an evolving and learning institution that has built on its successes and its mistakes. The Bank has responded with vigor and energy to the challenges confronting its borrowers. In this process, it has made a significant contribution to the impressive developmental gains recorded in these past fifty years. In responding to those challenges, the Bank itself has changed, learning from its experiences, deepening its understanding of the development process, and recasting its analytical and financial support to help its borrowers better.

The Bank will continue to nurture its tradition of self-evaluation and learning. These essays will, I hope, contribute to a better-informed debate on the Bank’s future role. They complement the recently issued paper, The World Bank Group—Learning from the Past, Embracing the Future, which sets out the future directions for the Bank Group.

Armeane M. Choksi
Vice President, Human Resources Development and Operations Policy, and Chairman of the Bank Group Committee on the 50th Anniversary
With the hardships of the Great Depression and war years still a fresh memory, few people would have predicted in 1944 that the next fifty years would witness the most rapid growth in living standards the world had ever known. Certainly not many of the delegates from forty-four nations who gathered at a conference in Bretton Woods, New Hampshire, were thinking of such a future. They were there to reform a global economic system that had failed miserably during the Depression and, through a process of intergovernmental cooperation, to lay the foundation for a new era of growth with stability. To oversee the birth of this new economic order, the conference established the International Bank for Reconstruction and Development (IBRD) and the International Monetary Fund (IMF). Parallel negotiations in Havana were coordinating the establishment of an International Trade Organization to complement the Bretton Woods institutions. The trade organization never came to fruition, though it survived in truncated form as the General Agreement on Tariffs and Trade (the GATT).

This overview presents the highlights of a series of seven essays on the evolving role of the World Bank and the economic and social performance of developing countries. It examines the challenges the Bank has faced in its first half century and how they have
reshaped the institution, transforming it from an organization established mainly to address postwar reconstruction needs into the world’s largest development agency, focusing on sustainable poverty reduction and growth.

Economic and Social Gains since 1944

The past fifty years have seen dramatic, unprecedented gains for developing countries. Some poor economies—Hong Kong, Singapore, and Taiwan (China)—have become richer than some former colonial powers, such as Portugal and Spain. Per capita income, after growing by a plodding 0.5 percent a year in Asia and Latin America in 1913–50, shot up to 3.3 percent a year during 1950–73 and 3 percent in 1973–89. Only in Africa has progress come in fits and starts, with many setbacks.

Social indicators have improved greatly in developing countries, particularly in the past thirty years, while poverty has declined (most dramatically in East Asia). Between 1960 and 1990:

- Average life expectancy increased by six months each year.
- Infant mortality rates fell from 169 to 69 per 1,000 live births.
- Food production increased 240 percent, much faster than population growth.
- The proportion of people chronically undernourished fell from 36 percent to 20 percent.
- Adult literacy rose from 46 percent (in 1970) to 69 percent.
- The share of households with access to safe water more than doubled, to 70 percent.

While poor data cloud the trends in poverty, evidence suggests that “there has been considerable progress in reducing the incidence of poverty, a more modest reduction in the number of poor, and the achievement of somewhat better living standards for those who have remained in poverty.” The most dramatic gains have come in East Asia. Even as the region’s population
The First Half Century: An Overview

The reasons for the post-war miracle are numerous and varied—expanded international flows of capital, goods, services and technology; development of efficient institutions and human resources; harnessing of entrepreneurship, from small farmers to large industry; higher social spending; better infrastructure; and more investment. In some countries in the 1990s these trends have greatly accelerated, and developing countries have become a major source of growth in the world economy. The World Bank

Figure 1

People's lives have improved dramatically in developing countries

The Evolving Role of the World Bank

Bank was one of many institutions trying to promote these trends, but the lion's share of credit goes to the countries themselves.

Progress has not been unbroken or universal, however. Since 1980, per capita incomes have stagnated or declined in Latin America and Africa. Development, it became clear, was not a one-way street. For many countries in those regions, the 1980s were a lost decade. But for developing countries as a whole, progress continued even during that bleak period for some. Per capita income accelerated from 2.6 percent a year in 1973-80 to 3.4 percent in 1981-93 (for GDP weighted by population). Improved performance in China and India (each more populous than Sub-Saharan Africa and Latin America combined) and rapid growth in East Asia generally more than offset setbacks elsewhere (see Table 1).

But even with all the progress in the past fifty years, more than 1 billion people still live on one dollar a day or less, and many lack access to safe drinking water, schools, and health

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<td>Middle East and North Africa</td>
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<td>Latin America and the Caribbean</td>
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a. Excluding Eastern Europe and the former Soviet Union.
Environmental degradation threatens the sustainability of development in many areas. Gender bias and urban bias remain serious problems. Much has been achieved. Much remains to be done.

The Role of the Bank

The world has changed tremendously over the past fifty years, and so has the Bank—in its membership, organizational structure, the size of its operations and its development agenda. From 38 members in 1946 to 177 members today, the Bank has expanded to near-universal membership. New affiliates were established to complement the Bank’s work and to address its new priorities. In 1956 the International Finance Corporation was formed to promote the private sector in member countries, and in 1960 the International Development Association (IDA) was established to address the needs of the poorest member countries. As foreign direct investment flows increased in size and importance, the International Centre for Settlement of Investment Disputes (ICSID) was established in 1966 to provide conciliation and arbitration services to foreign investors and host countries, and the Multilateral Investment Guarantee Agency (MIGA) was founded in 1988 to provide noncommercial investment risk insurance to foreign investors. The World Bank had become the World Bank Group (see Box on page ii). But throughout this period of change, the Bank’s two principal roles remained the same: to mobilize financial resources from private savings and public sources and on-lend them for development and to help client countries address the “what” and the “how” of development. The Bank also responds selectively to shareholder requests for regional and global development initiatives (see Figure 2).

The Financial Role

The World Bank was born of the conviction—strongly held by those assembled at Bretton Woods—that the twin disasters of depression and global war could be averted through international cooperation for mutual benefit, open trade, and
full participation in the world economy by all nations. The conference delegates knew as well that open trade and full participation required healthy, functioning economies, recovered from the ravages of war and capable of providing a decent standard of living for all. It was clear then (as it is today) that domestic savings and investment could not do the job alone. For most of the world's developing economies, foreign financial flows—both private and official—would also be required. The World Bank was one of the financial intermediaries established to facilitate these flows.

The Role of the International Bank for Reconstruction and Development. Named formally the International Bank for Reconstruction and Development (IBRD), the institution soon came to be known simply as the World Bank. Yet it is not a bank in any conventional sense. The IBRD accepts no deposits; has only governments as shareholders; lends to members with limited access to capital markets, rather than to its...

The World Bank was established to facilitate foreign financial flows—both private and official.

Figure 2

World Bank Group membership
Number of countries (in June 1994)

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<thead>
<tr>
<th>Year</th>
<th>IBRD</th>
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richest, most creditworthy members; and limits its lending (by charter) to the value of its equity and callable capital—a 100 percent adequacy ratio against a normal banking ratio of 8 percent.

The IBRD was structured to rely on private resources to fund its operations, and to “promote private foreign investment.” Indeed, the IBRD has many of the characteristics of a private sector institution. It is organized as a stock corporation, with voting rights proportional to equity investment. It finances itself in private capital markets, through medium- and long-term bond issues on commercial terms, applying conservative financial policies that have earned and preserved a triple-A bond rating. It insists on disciplined lending, charges market-based rates of interest, and demands prompt payments of interest and principal. It has consistently earned a profit (over $1 billion in fiscal 1994), which its shareholders reinvest or direct to causes appropriate to its mission.

The IBRD has been remarkably effective in its financial intermediation. It borrows in capital markets at fixed rates (for maturities of thirty years and more) only a few hundredths of one percent higher than those paid by its largest government shareholders for their own borrowings. It passes this finance on to its members with a spread of 0.50 percent or less, from which it covers administrative expenses and generates a profit. Such long maturities and low interest rates are available nowhere else to the IBRD’s developing country members—not even to the most creditworthy. Such terms represent a savings to developing countries of at least $3 billion a year (on loans outstanding of more than $100 billion). The IBRD has achieved all this at a total cost to its shareholders of $10.7 billion in paid-in capital.

The Role of the International Development Association. The Bank’s concessional arm, the International Development Association (IDA), is also a financial intermediary. It is funded by grants from richer member countries, which it on-lends to the poorest and least creditworthy members. IDA
funds are replenished every three years. The tenth and most recent IDA replenishment of $18 billion covers the period beginning July 1993. At this level of funding (some $6.5 billion annually), IDA accounts for about 12 percent of all concessional assistance worldwide. These replenishments are supplemented by IDA reflows (repayments) and transfers to IDA from IBRD’s profits. IDA loans are interest free (they are called credits) but carry a service charge of 0.75 percent a year. Until the mid-1980s these loans were repayable over fifty years with a ten-year grace period before payments had to start. Recently, the maturity period was lowered to forty years for the poorest countries and thirty-five years for others.

IDA’s membership and subscriptions (and hence its voting rights) differ from the IBRD’s. But instead of creating a new bureaucracy, the Bank’s shareholders decided that the Bank would carry out IDA’s work, receiving a management fee in compensation. There is no separate IDA staff, an arrangement that promotes the best possible coordination between the soft and hard lending areas and eases a country’s transition from one to the other as country circumstances change. The arrangement also ensures that IDA-financed projects are subject to the same rigorous standards as IBRD-financed projects. The criteria for the allocation of IDA funds are agreed afresh in each replenishment. Current criteria focus on the strength of a country’s efforts to reduce poverty in an environmentally sustainable manner and on its per capita income. There are guidelines on the amount of IDA resources that are made available to Sub-Saharan Africa (45-50 percent) and to blend countries—i.e. countries that are IDA-eligible but also borrow from IBRD—(30-35 percent).

The IDA replenishment process also provides a forum for the IDA donor countries to agree on the general uses of the resources provided. The consensus that poverty reduction is the over-arching objective of IDA has been translated into an increased operational focus on poverty reduction. In the 1990s, IDA has increased lending for basic human resource
development and social services, while emphasizing the importance of country policies in encouraging broad-based growth that increases the productivity and incomes of the poor.

To help ensure that loan funds are put to proper use, the Bank lays down conditions with its loans. Though these conditions are widely perceived as efforts to correct government failure, they are as often designed to correct market failures and imperfections. Because markets do not address income distribution or ensure that the poor receive basic services, the Bank also sees an important role for improved governance. It seeks to strengthen both markets and

In the 1990s, IDA has increased lending for basic human resource development and social services
The Evolving Role of the World Bank

governments in the areas that are most appropriate for each.

The Bank addresses market imperfections in global capital markets and in domestic markets of developing countries. Through its intermediation function the Bank makes funds available to countries on terms to which most countries would otherwise never have access, thereby addressing global market imperfections. The imperfections affecting developing country markets are as different as the countries themselves. Impediments include everything from inadequate roads, telecommunications, credit agencies, electricity, and agricultural extension services to under-developed human resources.

Before World War II credit-worthiness alone determined a country’s access to market lending. For enterprise loans, banks did some rudimentary project appraisal, but they relied mainly on collateral and credit standing to ensure repayment. The World Bank devised a new lending paradigm by welding together the fragmentary concepts of project appraisal (to make sure the schemes it financed would be profitable enough to generate returns to repay the loan); competitive procurement procedures (to ensure the lowest project costs); the monitoring of the end-use of funds (to ensure that the money was not diverted); loan supervision (to see that the project progressed as envisaged and to make mid-course corrections if necessary); and, beginning in the 1970s, evaluation after a project was completed (to see how well it worked and to learn lessons for future lending). All these elements improved the quality of lending, strengthened the chances of success, and built up the expertise of borrowing institutions in developing countries.

In addition to its own resources the Bank helps catalyze resources from other sources: official bilateral and multilateral institutions, regional development banks, nongovernmental aid agencies, official export credit agencies, and the private sector. Roughly, for every dollar the Bank puts in, it mobilizes an additional
dollar from such “cofinancing.” Through more active use of Bank guarantees, greater efforts are being made to attract private-sector cofinancing, which helps borrowers gain access to syndicated commercial bank loans and international capital markets. These direct cofinancing efforts are supplemented by aid-coordination groups for selected countries. The Bank currently chairs some forty consultative groups aimed at coordinating donor response to country needs.

The Advisory Role

In addition to lending and cofinancing, the Bank takes advantage of its wealth of experience to help its members improve their policies, ideas, and expertise. Over time this role has increased in importance relative to the financing role. It takes four forms:

- The Bank engages in intensive policy dialogue with all its borrowers on policies that influence the outcome of investments it finances and on the overall macroeconomic environment, incentive structure, public expenditure policies, and institutional context that determines a country’s economic performance. This dialogue is informed by regular and thorough analysis of economic and sectoral issues that is undertaken in close collaboration with borrowers. Frequently, it is the Bank’s contribution to shaping its borrowers’ policies, rather than the financing it provides, that has the stronger impact on the country’s overall performance over the long term. Bank endorsement of borrower policies also catalyzes other funding for that country and thus plays an important role in supporting the country's development objectives. Examples of how well this process works range from Japan in the 1950s and Korea in the 1960s to China, Ghana, and Indonesia in the 1980s and Argentina, Mexico, and Poland in the 1990s.

- The Bank promotes the use of best practices in project preparation, technology choice, organizational structure, procurement practices, monitoring, and supervision. This helps update and transfer the best available expertise in a continuing stream to recipients.
The Evolving Role of the World Bank

• To upgrade skills and to create new institutions or strengthen existing ones, the Bank has lent extensively for technical assistance, training, and institution building. The Economic Development Institute (EDI) of the Bank was established in 1956 to train developing country personnel, who then become trainers and institution builders at home. EDI now runs about 150 courses annually for 4,400 participants.

• As a development practitioner, the Bank has a rich body of experience about what works in development, which it continually refines through research, publications, and seminars. Drawing on its own cross-country experience of fifty years in development and the analytical skills of its staff, seasoned by operational experience in the field, the Bank produces a formidable research output. Its many publications have elucidated the lessons of development—what works and what does not. Its World Development Report is perhaps the most widely read annual economic report.

A Regional and Global Role

In addition to its principal financial and advisory roles, the Bank has addressed specific problems of regional or worldwide import. These endeavors include the conquest of river blindness in West Africa, the amassing and dissemination of information on agricultural technologies through the Consultative Group for International Agricultural Research, and the funding of environmental projects of global importance through the Global Environment Facility (see Box 1).

The Evolution of the Bank

As new challenges to sustainable growth and the equitable distribution of the benefits of growth emerged over the past fifty years, the Bank adjusted its strategies to respond to those challenges. The Bank began as a financier of post-war reconstruction in Europe in the 1940s; shifted to conservative lending for what were considered “bankable” projects in the early 1950s; became a full-blown development agency in the 1960s, broadening its
**Box 1 Beyond National Frontiers**

While most of the Bank's work is specific to the countries to which it lends, some of its endeavors span countries and even continents.

**River Blindness.** One of the Bank's most successful partnerships with other institutions and governments has been in the conquest of river blindness (onchocerciasis) in West Africa. This parasitic disease caused by the bite of blackflies that breed in rivers, causes severe rashes, eye lesions, and ultimately blindness. In the mid-1980s it was estimated that 8.5 million people (mostly in West Africa but also in the Middle East and Latin America) were exposed to river blindness, of whom 17.7 million were infected and 340,000 blinded. In collaboration with other development agencies, the Bank helped to plan and finance an eradication strategy. The program devised mechanisms for detecting breeding grounds of blackflies and destroying them. Six types of pesticide were used in rotation to prevent resistance from developing in insects and to minimize pollution risks. The program has been so successful that river blindness has virtually disappeared from West Africa.

**Agricultural Research.** The Green Revolution was made possible by new varieties of wheat and rice developed at the International Center for Maize and Wheat Improvement (CIMMYT) in Mexico and the International Rice Research Institute. To help sustain and spread the Green Revolution the world over, the Bank took the lead in organizing the Consultative Group for International Agricultural Research, a multidonor group that supports sixteen international agricultural research centers in addition to the two pioneering ones. Since 1971 the CGIAR has mobilized over $1 billion for research and helped millions of farmers increase their yields. It has been the most important single developer of agricultural technologies in the tropics.

**Environmental Activities.** The Global Environment Facility (GEF), a partnership between the Bank, the United Nations Development Programme, and the United Nations Environment Programme, is funded by industrial countries in three-year tranches. It provides grants and concessional loans for environmental projects of global importance. The GEF focuses on four global problems: the greenhouse effect, biodiversity, ozone depletion, and pollution of international waters. The Bank is the GEF's executing agency. The grants cover the difference between the cost of the global projects and other projects that the implementing country might have taken up in the absence of global concerns. A council with sixteen developing countries, fourteen industrial countries, and two countries in economic transition chooses projects to be financed. The GEF committed around $400 million for more than 100 projects in the pilot phase 1991–94, and its coffers have now been replenished by $2 billion for the next three years.
The Evolving Role of the World Bank

sectoral coverage to the “soft” sectors and lending to poor countries on concessional terms through a soft-loan affiliate; focused on improving living conditions for the poor in the 1970s; shifted its attention to policy reforms to improve the prospects for development in the 1980s; and recognizing the range and depth of its activities, and drawing on the lessons it had learned from its past experience, it embraced in the 1990s a broad-based development strategy aimed at helping countries reduce poverty and increase living standards, by combining attention to sound economic policies, human resources development, and environmental sustainability.

The Bank’s evolution was influenced by new challenges such as the Indian food crisis of the 1960s and the debt crisis of the 1980s and by changes in global economic trends. The 1950s were a time of generally strong growth and high commodity prices, and capital investment (especially in infrastructure) was seen as the prime mover of development. In the 1960s and 1970s state-led development and import-substitution policies held sway, joined in the 1970s by a growing awareness of the need for agricultural development and for a sharing of the gains of development with the poor. The often misguided state-led investment boom of the 1960s and 1970s came home to roost as the debt crisis of the 1980s. Attention shifted from the volume of investment to the quality of policies and the need for reforms. The impact on the poor both of the failure to reform as well as of the reforms themselves refocused attention on issues of poverty. Coming in with the 1990s was a sharp increase in private capital flows, recovery of growth in Latin America and parts of Africa, and the emergence of new political and economic regimes in Eastern Europe and the former Soviet Union.

Development thinking the world over was undergoing transformation. The evolution in the Bank’s thinking reflected its own experience and that of others and the improved understanding over time of what contributes to successful economic development. The Bank, never isolated from the currents of
the time, made the same mis-
takes as its borrowers and other
development agencies. Above
all, it was influenced strongly
by its borrowers, both through
their successes and their fail-
ures. The borrowers influenced
what the Bank did by making
new demands on it and by
challenging it to respond, con-
stantly expanding its horizons.

In this continuous process of
learning, the Bank’s emphasis
shifted over time from individ-
ual projects to the policies,
strategies, and institutions that
help projects succeed. The
changes in perspective were
both large and small: from an
emphasis on the volume of
investment to the productivity
of investment; from physical
capital to human capital; from
infrastructure and industry to
developing poor rural areas;
from a belief that the benefits
of economic growth would
trickle down to the poor to an
appreciation that reducing
poverty also requires extra
measures directed to the poor;
from a top-down to a bottom-
up approach to projects that
emphasize beneficiary partici-
pation, client-orientation, and
preferences determined by mar-
kets; from state-led industrial-
ization to the fostering of
dynamic private enterprise; and
from the exploitation of natural
resources to ensuring sustain-
able development (see Box 2).

This evolution of the Bank is
described below, in six phases.
Each new phase heavily
overlapped the phase that
preceded it. The categorization
is intended to highlight
emphases rather than exclusive
preoccupations. Though the
Bank today is unrecognizably
different from the Bank of the
1950s, there are important con-
tinuities that have provided
strength to the institution
during this constant process
of change (see Figure 4).

A Reconstruction Bank:
1947-48

Bretton Woods conference
participants were concerned
foremost with post-war
reconstruction, but they also
saw the need for long-term
development of poorer coun-
tries. The Bank’s first loan, for
reconstruction, was to France
in 1947 for $250 million,
which in real terms remains the
Bank’s largest single loan.
The Evolving Role of the World Bank

Box 2. How Sectoral Policies Evolved

As significant as the major shifts in the Bank’s strategy over the past fifty years has been the evolution of its lending policies in different sectors. Consider three examples.

Agriculture. Most Bank lending in the 1950s went to big irrigation schemes, in keeping with the prevailing emphasis on infrastructure. Some loans were made in the early 1960s for plantation crops that looked commercially attractive. Then came India’s food crisis, which focused attention on the need to improve foodgrain productivity and introduce new technologies. So the Bank began lending for agricultural research and extension, rural credit, market development, and the production of high-yielding seeds and fertilizers. In the 1970s, as the Bank turned its energies to alleviating poverty, activities emphasized integrated rural development programs—the bulk of the poor live in rural areas—directing services and inputs to smaller farmers and agricultural processors, and financing rural social services. However, by the 1980s it was apparent that faulty policies distorted incentives for farmers and seriously affected production in many countries. So the Bank shifted to sectoral adjustment loans that financed agricultural policy reforms.

In the 1990s greater attention is being paid to the environmental problems arising from earlier agricultural development—waterlogging, salinized soils, excessive use of pesticides, water shortages caused by subsidized supplies, and the social problems arising from the displacement of people by large dams. The Bank is also directing rural services and extension to women, who in many countries (especially in Africa) manage most crops. From its inception the Bank’s overarching aim has been to raise productivity and incomes, and that goal has not changed. But Bank-supported agricultural projects in the 1990s differ radically from those in the 1960s, when there was little concern for policy frameworks, poverty alleviation, environmental protection, gender bias, or the privatization of inputs and services.

Education. Recognizing the critical linkage between the development of human resources and economic development, the Bank began lending for education in 1963. In that decade, the Bank’s support for education focused on the construction and equipping of physical facilities and on producing high-level skills to meet manpower requirements. Over the years, the early emphasis on “bricks and mortar” and other education “hardware” has given way to increased support for teacher training, curriculum development, materials provision and the like, in an effort to enhance the learning achievement of students and generally raise education quality. Support for broad-based institutional development and policy reform in the sector, including strategies to target girls and women, the poor and disadvantaged populations, has increased over time. Moreover, basic education trebled between the late 1980s and the early 1990s. Overall, the volume of lending for education has risen steadily over time, now standing at close to $2 billion per year, or about 8 percent of total Bank lending, as compared with $0.6 billion, or 4 percent, only a decade ago. The Bank is now the single largest source of external funding for education.

Transport. The Bank’s earliest loans went to finance the reconstruction of damaged networks in Europe and Japan. When that phase ended, it supported transport facilities that aided international and domestic trade, such as major highways, ports, and airports. During the 1970s the Bank redirected transport lending to areas with a high incidence of poverty. In rural areas projects were financed to build roads to improve the supply of agricultural inputs and the marketing of output and to facilitate the provision of social services. In urban areas, transport loans provided bus services to slum-dwellers. In the 1980s the Bank turned its attention to road maintenance, which had been sorely neglected, and to improving managerial capacities in borrowing countries. It also supported the liberalization and privatization of bus transport. The Bank has come a long way since the 1950s and now stresses improving productivity and customer satisfaction rather than big new projects.
(worth $2.44 billion at current prices). Other loans followed to the Netherlands, Denmark, and Luxembourg, totaling $247 million. Under its articles the Bank was expected to finance productive projects. But it immediately displayed the flexibility that was to mark its operations for the next fifty years, by giving loans to these countries for reconstruction rather than tying them to specific projects.

For the Bank these initial loans helped establish its presence on international capital markets. They also set Bank policies in a number of areas, policies that apply to this day:

- Interest rates: IBRD established the principle that interest rates must be related to borrowing costs. It also decided to apply the same rate for all loans granted at any given time, regardless of the borrower’s creditworthiness. This principle underlined the nature of the institution: a financial cooperative that treated all its borrowing members equally.

For the Bank these initial loans helped establish its presence on international capital markets and set Bank policies in a number of areas

Figure 4
Lending by sector
Percentage of World Bank Lending

<table>
<thead>
<tr>
<th>Year</th>
<th>Agriculture</th>
<th>Basic Infrastructure</th>
<th>Industry &amp; Finance</th>
<th>Human Resources</th>
<th>Other Infrastructure</th>
<th>Unclassified Multi-sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>1947-59</td>
<td>60-69</td>
<td>70-79</td>
<td>80-89</td>
<td>90-93</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Basic Infrastructure includes energy, telecommunications, transportation, and power. Industry and Finance includes tourism and mining. Other Infrastructure includes urbanization, water and sanitation, and environment. Human Resources includes education, public security, social services, and population, health, and nutrition.
The Evolving Role of the World Bank

- Supervision: As required by its Articles of Agreement, the Bank made arrangements to ensure that the proceeds of its loans would be used for the purposes for which they were granted. For the first loan to France, the Bank established an office in Paris, to supervise the project.

- Negative pledge: The Bank decided not to seek specific security for its loans (other than the government guarantee required under its Articles of Agreement) but rather to rely on the borrowing government’s undertaking not to pledge its assets to secure international debt in a way that gives any external lender preference over another.

It soon became clear, however, that the Bank could meet only a fraction of Europe’s reconstruction needs. Its efforts were dwarfed by U.S. assistance under the Marshall Plan, which disbursed $13 billion from 1948 onward. European countries had huge balance of payments deficits (mainly with the United States) as well as war-time controls on trade and financial flows. So they needed not only reconstruction but structural adjustment as well. Marshall Aid was accompanied by policy conditions—the recipients were supposed to cut their fiscal deficits, open up their economies to foreign investment and trade, create a European Payments Union to facilitate multilateral clearing, and make their currencies convertible. Some European countries found these conditions unpalatable, but agreed to them because of their urgent need for dollars. The conditions, however, were not seriously enforced, and most recipients liberalized their economies much later than the United States had envisaged. As for the Bank, it shifted gears and turned its attention to the long-term financing needs of Europe and Japan as well as the developing countries.

A Conservative Lender: 1948–58

The Bank made its first loan to a developing country (to Chile) in 1948. Loans soon followed to Mexico, Brazil, India, and Yugoslavia. The Bank was still a financial fledgling in the 1940s and early 1950s.
needed to convince financial markets that it could deliver. It needed to highlight the soundness of its clients, as well as their projects. Many Bank loans in the early 1950s went to middle-income countries (including those of southern Europe), and significant sums went to Australia and Japan. Much of the lending focused on basic infrastructure. As the success of its operations became apparent, financial markets lent the Bank increasing sums and finally in 1959 gave it top credit rating.

Even in these early days the Bank saw itself as promoting economic development. The 1950–51 Annual Report made it clear that “the Bank does not conceive of itself merely as a source of funds for a few isolated projects, but is prepared to take an active and continuing interest in the overall development problems of a member country.” And, even at that early stage the importance of its advisory role was becoming evident: “Increasingly, however, the Bank is called upon to provide advice or assistance without reference to any immediate financial operation. In large part, these requests for assistance show a growing appreciation of the need for establishing long-term development programs.”

An important part of the Bank’s evolution in this phase was its relationship with Japan, which in the initial post-war years was under allied occupation and depended heavily on U.S. finance and goods. Japan became a member in 1952, and the Bank quickly took over from the U.S. Export-Import Bank as Japan’s main financier and economic adviser. The World Bank justified its lending to a country as industrialized as Japan in part on the basis of Japan’s potential to become a financial and trading power within Asia, which would act as an engine of growth for the region. This belief proved well grounded.

Japan was wary of foreign advice and economic linkages, however. It initially resisted Bank loan conditions, such as international competitive bidding for projects and charging appropriate prices for...
The Evolving Role of the World Bank

electricity. Japan resisted the Bank's efforts to lend for agriculture, believing that this was not an appropriate area for foreign borrowing. Such differences were ironed out through a constructive policy dialogue that helped shape Japan's evolution, including its cautious opening up to the world. The Bank helped Japan launch its first bond issue in the U.S. market in 1959. Japan influenced the Bank as well. It wanted the Bank to finance the local costs of projects, not just their import content as had been Bank practice. The Bank eventually agreed, setting the stage for large-scale financing of local costs in poor countries in the coming decades.

By the end of the 1950s it had become clear that recovery in Europe and Japan was proceeding apace. Since it was not the Bank's business to substitute for private funds, those industrial countries would soon cease to be Bank clients, having demonstrated their capacity to borrow directly from world markets. It was also clear that developing countries, with their limited abilities to borrow on the near-commercial terms that IBRD offered, could not easily step into their place. An internal Bank assessment in 1956 had shown that countries like India and Pakistan were having trouble servicing even the limited debt they had accumulated. The Bank had to evolve in a new direction if it were to respond to the needs of the poorer developing countries.

A Development Agency: 1958–68

India's foreign exchange crisis in 1958 marked a turning point for the Bank. The United States and other donors formed an Aid India Consortium, with the Bank as coordinator, to make annual aid pledges. India persuaded the donors that concessional finance could help the economies of developing countries take off, just as Marshall Aid had helped the economies of Europe and Japan. The analogy turned out to be overdrawn, but it influenced the Bank's evolution as a development agency. By 1958 the financial markets were willing to go along with the much greater development orientation in the Bank's
lending patterns. The creation in 1960 of the International Development Association as a soft-lending arm of the Bank helped this process. The Aid Consortia for India and Pakistan were precursors to the Consultative Groups that the Bank now chairs for some forty countries, to provide a forum for coordination of donor lending and policies in support of the recipient country’s development strategy.

A significant development in this phase was the Bank’s growing relationship with Korea and Taiwan (China), which showed how rapidly poor economies could grow rich if they followed the right strategy. Planning and state-led growth were the fashion during this period, and the Bank supported five-year plans in many countries. Korea and Taiwan (China) demonstrated that the important part of planning was not capturing the commanding heights of the economy for the public sector but stressing education, paying attention to rural development, adopting an outward-orientation in trade, creating conditions in which dynamic entrepreneurs could prosper, and building strong institutions. This lesson was not absorbed immediately by other countries or the Bank: during the 1960s and most of the 1970s increasing investment levels were still considered the main force for development.9

This perception was buttressed by rapid economic growth in the 1960s in Latin America, fueled by state-led import-substituting industrialization strategies. The region accounted for more than a third of all Bank lending in the 1960s, mainly for electricity and transport. This expansion of infrastructure aided rapid growth in many countries, particularly Brazil. Some two-thirds of Bank resources in the 1960s were devoted to basic infrastructure and over one-fourth of Bank resources went to Latin America. It became apparent in later decades that some of this state-led growth was unsustainable, reflecting faulty economic policies. Some Latin American countries and Turkey experienced debt problems even in the 1960s, leading to debt-rescheduling agreements, an early harbinger of things to come.
The Evolving Role of the World Bank

Thanks to IDA, lending also increased substantially to India and Pakistan. India suffered a major food crisis in the mid-1960s. It had neglected agriculture in the 1950s and early 1960s, financing industrialization through policies that pulled resources out of agriculture. In consequence, India became dependent on food aid, primarily from the United States, even in years of bumper crops. When two successive droughts hit India in 1965 and 1966, food aid rose to 10 percent of global wheat trade, making some experts despair of India's viability. But even before the twin droughts India had started experimenting with high-yielding varieties. Provoked by stop-go United States food aid policies, the Indian authorities began to give high-priority to reviving India's agriculture. The Bank and other donors played an important role in helping to finance and shape the technological breakthrough in agriculture that followed (and came to be known as the "Green Revolution"). New policies were needed along with additional finance, and India accepted the need for new technology, prices that reflected resource costs, and public investment in rural infrastructure. The Green Revolution spread to other countries, its dispersal encouraged by financial and technical support from the Bank. India's experience also demonstrated that industrialization was not an easy route to prosperity and that to stave off hunger and deprivation, attention to rural development was critical—an insight that helped shape the next phase of the Bank's evolution.

An Advocate for the Poor: 1968–80

Under the Presidency of Robert McNamara (1968–81) the Bank was transformed in many ways. IBRD and IDA lending rose tenfold, from under $1 billion in 1968 to over $12 billion in 1981 (at current prices), a nearly fourfold increase in total commitments in real terms. As important as the increase in lending was the increase in attention to poverty alleviation and human resource development.

The Green Revolution spread to other countries, its dispersal encouraged by financial and technical support from the Bank.
The Bank had from the beginning considered poverty reduction to be an essential part of development. What has changed are its views about the best way to achieve that goal. Initially, the Bank had relied on general economic improvement, to reach the poor indirectly. But Bank studies in the 1970s revealed that hundreds of millions of people in developing countries lived in poverty, lacking such basic facilities as safe drinking water, schools or health clinics. These conditions stifled productivity and kept earning capacity low, setting in motion a self-perpetuating cycle of poverty transmitted from one generation to the next. Poverty was concentrated in rural areas and could be traced to insufficient investment in agriculture and social sectors like education and health. During this period the Bank focused on absolute poverty, affecting 40 percent of people in developing countries, and switched its emphasis to projects designed to reach the poor directly. The Bank greatly expanded its lending for rural areas, especially for agriculture, from which the poor derive most of their income. Lending for agriculture and rural development soared from $1.3 billion in the 1960s to $14.8 billion in the 1970s, more than doubling its share of Bank lending to nearly 28 percent. Lending for human resources development went from $244 million in the 1960s to $2.9 billion in the 1970s (from 2.3 to 5.4 percent of Bank lending). For the first time the Bank began to view rising population as a major development issue but stressed that population could not be controlled without first paying attention to health and education. The Bank also sharply expanded lending for urban development, water, and sanitation. Meanwhile, the share of basic infrastructure fell from 65 percent of Bank lending in the 1960s to 37 percent in the 1970s.

The strong push on the agricultural front had a high payoff in South and Southeast Asia. In the 1970s the Bank helped India finance rural electrification for tubewells, the training and visit system in agricultural extension, agricultural research, rural credit,
rural roads, and facilities for storage and transportation. It helped demonstrate that small farmers could grow high-yielding varieties as efficiently as large farmers, if given appropriate support. This experience brought to light two important lessons that government and development agencies had overlooked in the 1960s: that small farmers constitute a vast untapped potential for agricultural development and that over-taxing agriculture to finance industrialization is a mistake. The Bank support to India, Pakistan, Indonesia, three of the four most populous countries in the world today, helped in their transformation from large importers of foodgrains in the late 1960s to dynamic agricultural producers in the developing world today. Because the spread of the Green Revolution and the rural infrastructure that accompanied it was largely confined to irrigated technologies, its impact in Africa and other rainfed agricultural regions was limited, but in the populous regions of Asia it had a profound impact on poverty.

A Policy Reformer: 1980–90

By the end of the 1970s it was becoming clear that the policy and institutional environment in which projects were implemented was a major determinant of the performance of the Bank’s growing project portfolio. Even in countries where faulty policies distorted incentives and discouraged efficiency, the Bank continued to expand lending for new projects, believing that these would at least help improve conditions for the poor and counteract some of the negative effects of bad policies. Then a 1981 Bank study, popularly called the Berg Report, concluded from a review of internal and external factors affecting Africa’s performance that policy-induced distortions were so severe in many countries that projects could not be expected to succeed no matter how well designed. Policy reform was a prime need, and not just in Africa.

The Debt Crisis. The two oil price shocks of the late 1970s brought home that lesson anew. The first price shock of
1973 dealt a devastating blow to oil-importing countries. As these countries' trade imbalances grew, the Bretton Woods institutions were anxious to relieve human distress by recycling petrodollars, while commercial banks, flush with funds, were eager to direct them toward countries in need. Between 1970 and 1980 public and publically guaranteed debt to developing countries soared from $46 billion to $410 billion. Not enough attention was paid to the possibility that in financing trade deficits, international lenders were underwriting poor investments and policies that could lead to debt problems down the road. By the time of the second oil shock in 1980, the lesson had taken hold. At the World Bank–IMF meeting that year, President McNamara argued that the problem could not be tackled simply by recycling petrodollars. Structural adjustment was necessary in many borrower countries. In any case, rising interest rates and falling commodity prices soon made such recycling prohibitively expensive for borrowers.

Soon, the drop in oil demand hit oil exporters, who had borrowed large sums in anticipation of an unending boom, and the debt crisis exploded in 1982. Problems were most severe in Latin America, which accounted for 37 percent of developing country debt in 1980. Africa was also hit hard. Mexico was the first country in the 1980s unable to service its debt, and others followed in a cascade. Inflows of private capital, which had accounted for three-fifths of the increase in officially held debt stock in the 1970s, plummeted. The debt crisis was a calamity not only for borrowers, but also for the lending banks. The threat of an international banking collapse loomed, reminiscent to many of the beginning of the Great Depression.

The need of the hour was for emergency balance of payments support from the IMF and the World Bank and debt rescheduling by commercial banks and bilateral donors. It was evident that the IMF alone could not provide sufficient resources and that debtors needed long-term finance and structural
adjustment policies that would make their economies more efficient and outward looking. So the Bank adapted the low-conditionality program loans it had made to a few key countries in the 1960s and 1970s to current conditions—and started making structural adjustment loans tied to policy reform. These loans were intended to be fast-disbursing, to meet the immediate cash needs of borrowers while paving the way for longer-term reform. Support for structural and sectoral adjustment lending became a major feature of Bank lending in the 1980s, although it accounted for less than one-fifth of Bank lending on average between 1980 and 1994. Lending for human resources and the environment also began to accelerate in this period, reflecting other needs and concerns.

The importance of external debt as a cause of the Latin American crisis has been exaggerated. Much of the debt was induced by high interest rates and sharp exchange rate fluctuations that were the outcome of policies in industrial countries. And much of it was brought about by a failure of borrowers to invest their loans wisely; indeed, many loans went to finance the expansion of inefficient public enterprises and to insulate consumers from high energy prices. That is why Bank support for reform in Latin America focused on the underlying causes of the debt crisis, while helping member countries restructure their external debt.

In Latin America countries had firm control of the design and implementation of their reform programs. The Bank’s contribution consisted mostly of analysis, advice, and financing to ease the pain of adjustment. The fundamental themes of reform have been reducing the size of the state and its interventions in the economy, restructuring public finances, liberalizing prices and controls, reducing the bias against exporting, and increasing the reliance on the private sector. These reforms are now beginning to pay off, as evidenced by the decline in the ratios of public expenditures to GDP, a shift in the composition of public spending toward the social
sectors, the success of privatization programs, and the sharp drop in external tariff levels. The resumption of large volumes of private capital flows to Latin America, such as foreign direct investment and portfolio flows, signifies the gradual return of confidence and the end of the debt crisis.

Unlike the case in Latin America, in Sub-Saharan Africa the debt crisis occurred primarily in low-income countries with weak institutions, low human resource development, and an underdeveloped private sector. Structural adjustment loans and credits were again the main mechanism for meeting balance of payments needs and supporting economic reforms. As in Latin America the debt crisis was symptomatic of a larger crisis in economic management. But the record of implementation of adjustment policies has been mixed. Although the response of private investment has been slow, countries that have consistently implemented sound policies have witnessed a positive turnaround in GDP, agriculture, exports, and industry. In many countries, domestic price controls have been replaced by market-driven prices; governments are getting out of the business of setting exchange rates, interest rates, and producer prices. Nontraditional exports are beginning to appear. So, too, are active stock exchanges. Incentives for agriculture have improved, and there is some evidence that the rural poor have benefited. This progress, however, is confined to only half of the twenty-six largest economies, with particularly impressive results in Ghana and more recently in Uganda. With the devaluation of the CFA franc, prospects for the CFA zone countries have improved considerably, however. But other countries, which have suffered from natural and man-made disasters or the small size of their economies, have been largely left out. The number of Africans in poverty rose in the 1980s, more often because of the failure to adjust but sometimes because adjustment policies in early programs did not pay sufficient attention to the impact on the poor.

A STRONG PERFORMANCE IN ASIA. Despite the debt crisis the 1980s brought as much good
The most sensational performance of all in the 1980s came from China. India, Indonesia, Korea, Malaysia, Pakistan, and Thailand were among those countries that had needed special assistance from the IMF and the Bank to overcome the second oil shock and its aftermath. Yet they not only recovered but grew rapidly. The enormous difference in the performance of Asia, which accounts for two-thirds of the population of the developing world, and Africa and Latin America showed that a country's internal policies mattered much more than external conditions. Superior performance in Asia, particularly in East Asia, was due to several factors. Important among them were better macroeconomic management, a mutually supportive relationship between the state and the private sector, better sectoral policies, more outward-looking policies, greater institutional capacity to deal with change, and greater diversification of exports.

Even during a difficult time of adjustment to external shocks—including reductions in public expenditure and comprehensive tax, trade, and financial reforms—Indonesia continued to reduce poverty in both relative and absolute terms. This was possible because of the government's emphasis on improving the agricultural sector on which the livelihood of most people, especially the poor, depended. It was also due to Indonesia's emphasis in the mid-1980s on a labor-intensive, outward-oriented industrialization strategy, and on the large investments in human resources made throughout the decade. Between 1978 and 1987, primary school enrollment among the poorest 40 percent rose from 78 percent to 90 percent, and lower secondary enrollment rose from 42 to 65 percent.

The most sensational performance of all in the 1980s came from China. In little more than a decade, it transformed itself from a centrally planned economy to a dynamic, market-oriented one, whose burgeoning exports gave it a massive trade surplus with the United States by the early 1990s. When China started its transition it had little idea of
The First Half Century: An Overview

how to go about it and was eager to absorb lessons from abroad. It used the World Bank as its main sounding board for changes in policy and organizational structures, and a highly productive policy dialogue ensued. The Bank trained many Chinese personnel at the EDI and translated its economic policy research into Chinese. Its role was far more important in the realm of ideas than in finance. China adapted Bank advice to its own ends and succeeded in pushing GDP growth into double digits. It proved that rapid growth need not be limited to small countries like Singapore—good policies work everywhere.

That many Asian countries fared so well in the same external context that plunged Latin America and Africa into crisis led to introspection within the Bank in the late 1980s. Three successive World Development Reports from 1990 to 1992 addressed different aspects of this internal learning. World Development Report 1990 focused on poverty, exploring why some countries, mostly in Asia, had been so much more successful than others in reducing poverty. World Development Report 1991 revisited the main lessons of development, noting in particular that success came to countries where there was a healthy relationship between the government and the private sector and where governments provided a regulatory and incentive framework that was outward oriented and conducive to private savings and investment. World Development Report 1992 focused on an area of increasing concern to the World Bank in the 1980s, the deteriorating state of the global environment, and explored the link among poverty reduction, growth, and the environment. (The key lessons drawn from this process of introspection are summarized in Box 3.) The Bank took away from this process a renewed commitment to the goal of poverty reduction and improved living standards and a recognition of the need for a sharpened focus on human resources development and on growth that is environmentally sustainable and driven by a healthy private sector.

That many Asian countries fared so well in the same external context that plunged Latin America and Africa into crisis led to introspection within the Bank in the late 1980s.
This renewed commitment reflected a further evolution in the Bank's approach to poverty reduction. The Bank of the 1990s is addressing poverty in a more holistic manner (see Box 3) and through a more strategic, country-focused approach relying on a comprehensive analysis in the form of in-depth and increasingly participatory poverty assessments. Twenty years after the first push towards poverty reduction, there is more data on poverty and better ways of identifying the poor, targeting them, and monitoring the impact of Bank policies and projects. The macro-micro linkages in the Bank's current approach enable a better integration of poverty issues within country assistance strategies. The increased emphasis on participation and environmental management adds to both the complexity and richness of the agenda as well as to its quality.

Toward a Holistic Approach: The 1990s

In many respects, as the Bank entered the 1990s the challenges facing its borrowers remained the same as they had
ever been. More than a billion people lived in acute poverty. Rapid population growth and economic expansion were contributing to pressures on the environment. And in many countries the institutional infrastructure was an impediment rather than a mechanism for addressing these problems adequately. At the same time, the context in which the Bank operates was becoming more complex, more challenging, and changing rapidly.

There has been rapid integration in the global economy, with the growth in trade outpacing growth in GDP. Developing countries are leading this trend: they account for the fastest component of the growth in trade. Private capital flows to these countries have more than recovered from the precipitous decline following the debt crisis and are now at record levels. These flows are projected to reach $113 billion for 1993, over three-fifths consisting of foreign direct investments ($56 billion) and portfolio equity investments ($13 billion). This is three times the level at the end of the

For development to be sustainable, the environmental basis of production must be protected. Fortunately, many policies that encourage growth also protect the environment. These include removing subsidies that encourage excessive use of fossil fuels, irrigation, electricity, pesticides, and logging; clarifying rights to manage forests, fisheries, and land; and providing sanitation and drinking water to poor areas. Appropriate pricing and property rights are not enough in some cases, where strong institutions and clear rules are needed to guard against degradation. Local participation can be of major assistance.

Rapid development requires good governance. Experience has shown that how power is exercised for economic and social development is extremely important. Efficient legal and administrative structures, clear rules for economic actors and enforcement of contracts, speed and transparency in decision-making, and high standards of financial and political accountability are needed.

Participation is essential for economic development. Participation in project design and execution by beneficiaries can improve outcomes. Projects that give beneficiary communities a sense of ownership and a stake in their outcome elicit grass-roots support that protects projects from erosion by vested interests. Decentralization of power from capitals to local communities yields positive results.

Investing in women is of vital importance to the economy, to households, and to children. The education of girls has a long-term impact on the productivity of women in the workplace and on fertility and infant and child mortality. Economic returns to education are often higher for women than for men.

If reforms are to succeed and take root, they must be “owned” by politicians and technocrats, who must believe in their efficacy and direct their design. Experience shows that reforms work where the Bank supports local technocracies that are committed to the reforms and are able to tailor the new policies to local conditions. The borrower’s commitment is the single most important factor explaining success in Bank project outcome.
The Evolving Role of the World Bank

1980s and reflects the increasing integration of global financial markets. Implementation of the Uruguay Round agreements will keep these trends on an upward path.

There have been equally dramatic political developments, with the spread of democracy, the expansion of political participation, and the surge in nongovernmental organizations. The most dramatic change, of course, has been the collapse of the former Soviet Union, which has contributed to the globalization of the Bank’s membership.

The complexion and composition of the groups of countries that make up the Bank Group’s clients have changed as well. There are now four. Many countries are prospering in the new global environment, and these include the most populous countries in the developing world (China and India), other countries in East Asia, and Latin America. These countries will progressively rely less on official development finance. At the other extreme are many countries, mostly in Africa, that have lagged behind. For them poverty is increasing, and they risk being excluded from full participation in global markets and the benefits that brings. In the middle are the countries that require further policy and institutional reforms and a more supportive international environment to join the ranks of the first group. Then, there are the nations of Eastern Europe and the former Soviet Union. They have abundant human capital but face obsolete and deteriorating physical capital and have seen massive declines in output. These countries are moving from command to market economies in a fluid political and institutional context. If successful in their reforms, they can look forward to restored growth that would be a massive stimulus to the global economy. There are early signs of hope (notably in Poland and the Czech Republic), but the journey for many may be long and difficult.

To address this new context, the Bank outlined its development agenda in a recent paper,
The World Bank Group: Learning from the Past, Embracing the Future. The Bank’s fundamental objectives, as set out by its founders fifty years ago, remain valid today. Within these broad objectives, the World Bank is attempting to position itself to help its borrowers meet the challenges of the twenty-first century. New vice presidencies have been created to strengthen internal capacity to meet emerging new challenges:

- A vice presidency for Human Resources and Operations Policy, to support a major emphasis on poverty reduction and human resource development.

- A vice presidency for the Environment and Sustainable Development, to bring a clearer focus on sustainability issues in all aspects of the Bank’s work.

- A vice presidency for Finance and Private Sector Development, to enhance support for growth and private sector development and financial sector reform.

- A vice presidency for Europe and Central Asia, to assist new member countries of the former Soviet Union and Central and Eastern Europe in their transition to market-based economies.

In addition, important changes are occurring in the Bank Group’s institutional culture. There is now greater concern for quality in the performance of the project portfolio, more support for innovation and cost consciousness, and more transparency and openness in external dialogue.

**Five Development Challenges**

The Bank Group has renewed its commitment to help borrowers reduce poverty and improve living standards by promoting sustainable growth and investing in people. The paper *Learning from the Past, Embracing the Future* identifies five major development challenges facing the Bank Group’s clients and on which the Bank will focus in the coming years:

- Pursuing economic reforms to enhance growth and reduce poverty

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*The Bank's fundamental objectives, as set out by its founders fifty years ago, remain valid today*
The Evolving Role of the World Bank

• Investing in people
• Protecting the environment
• Stimulating the private sector
• Reorienting government.

The five challenges are all closely linked and reflect the Bank’s more holistic approach to development in its sixth phase of evolution toward a truly global development agency.

Six Guiding Principles The agenda is large, and the Bank Group must be agile and responsive while avoiding the danger of stretching itself too thin. Six guiding principles have been adopted:

• Selectivity—identifying actions that will help most in improving a client’s potential and the Bank’s impact.

• Partnership—seeking alliances with other development agencies (governments, international agencies, non-governmental organizations, private sector investors) to maximize the effectiveness of development assistance.

• Client-orientation—responding to the needs of clients and facilitating their participation in the design and implementation of Bank-supported programs.

• Results-orientation—looking beyond lending volume to maximizing development impact and improving service quality and efficiency.

• Cost-effectiveness—ensuring that scarce resources are spent wisely.

• Financial integrity—maintaining the Bank’s high standing in financial markets to ensure that it can provide finance on the best possible terms to members.

The Unfinished Agenda

The rapid changes in the global environment are bound to influence the Bank’s future just as they have done in the past. Many successful countries in Asia may soon stop borrowing from the Bank, just as European members did in the 1950s. The regional development banks, the European Union, and Japan are
increasingly influential and financially important players on the development scene. Many borrowers are developing their own analytical skills and using the resources of other agencies, official and unofficial.

This increased competition offers new opportunities for the Bank to become even more responsive to the needs of its clients, demonstrating the flexibility that has helped it remain a relevant institution over time. Fifty years of evolution have already achieved a great deal, but much unfinished business remains. And history shows that new challenges relentlessly follow old. History also shows that the Bank has successfully changed with the times to serve its members better. It is doing so again to help them eradicate poverty and ensure sustainable development.
Notes


4. A growth rate for all developing countries can be calculated by weighting, individual country growth rates by each country's income or population. Weighting by income does not distinguish between a dollar accruing to a more populous and poorer country and one accruing to a less populous and richer country. Population-weighted indices measure the change in income of a typical individual, treating the income growth of each person equally. For a discussion of this issue, see *Global Economic Projects and the Developing Countries*, World Bank, 1994, page 6.


8. Caroline Doggart, ibid.


15. Vinod Thomas and Peter Stephens, ibid.


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