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Dates: 10/11/1995 – 05/29/1997

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President Wolfensohn - Briefings Books for Presidents Meetings - Speeches -
Lecture - Paul Hoffman - May 29, 1997 - File Contains Photographs

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WBG Archives

Lecture: Paul Hoffman
(JDW Remarks)

Thursday, May 29, 1997
6:00 - 6:30 p.m.

UN Trusteeship Council
New York

Archive Management for the President's Office

Document Log

Reference # : Archive-01459

12/18

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A. CLASSIFICATION

☐	Meeting Material
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☐	Annual Meetings
☐	Corporate Management
☐	Communications with Staff

☐	Phone Logs
☐	Calendar
☐	Press Clippings/Photos

☐	JDW Transcripts
☐	Social Events
☐	Other

B. SUBJECT: LECTURE: PAUL HOFFMAN // JDW TO MAKE REMARKS // (B) (JDW & ERW)

VENUE: UN - TRUSTEESHIP COUNCIL

CONTACT: ALFREDO SFEIR-YOUNIS @ 212-986-7838 // JULIANA @ 212-968-1410

"DRAFT" PROGRAM:

6:00-6:10 P.M.: SEATING OF GUESTS

6:10-6:13 P.M.: I. KAUL - WELCOME

6:13-6:18 P.M.: ALICE RIDLEY SIDIBE (SINGER)

6:18-6:25 P.M.: J.G. SPETH - WELCOME

6:25-6:30 P.M.: K. ANNAN - WELCOME

6:30-6:33 P.M.: J.G. SPETH - INTRODUCTION

6:33-7:05 P.M.: J. WOLFENSOHN - LECTURE

7:05-7:06 P.M.: J.G. SPETH - AWARD PRESENTATION

7:07-7:29 P.M.: DISCUSSION (Q&A) // Assisted by R. Jolly

7:30 P.M.: J.G. SPETH - CLOSING

(B) ALFREDO SFEIR-YOUNIS // DUE: MONDAY, MAY 26

(B) SPEAKING POINTS - CAROLINE ANSTEY

EXC: CA // ALI (5/19)

Brief Includes Note to Mr. Wolfensohn from Jane Armitage, May 28, 1997,

"Your Visit to New York - Thursday, May 29, 1997" and tabs:

- Agenda
- Outline
- Speech
- Guest List
- Money Matters Institute
- Photos

DATE: 05/29/97

C. VPU

Corporate

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☐	IFC
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D. EXTERNAL PARTNER

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E. COMMENTS:

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The Administrator
United Nations Development Programme

Jim -

Thanks again!

Ans

→ ~~JANE~~ Wang
For Achievements

lecture in N.Y at UN
Paul Hoffman Memorial
lecture
1997



UNITED NATIONS
DEVELOPMENT PROGRAMME



PROGRAMME DES NATIONS UNIES
POUR LE DEVELOPPEMENT

PAUL HOFFMAN LECTURE 1997

“PEOPLE FIRST” ~ JAMES D. WOLFENSOHN

The Administrator of the United Nations Development Programme

cordially invites you to attend the

1997 PAUL HOFFMAN LECTURE

“PEOPLE FIRST”

by

JAMES D. WOLFENSOHN

PRESIDENT OF THE WORLD BANK

Former President & CEO of James D. Wolfensohn, Inc.
Director of the Business Council for Sustainable Development
Chairman of the Institute for Advanced Study at Princeton University
Chairman, Board of Trustees of the John F. Kennedy Center for the Performing Arts

Thursday, 29 May 1997 ~ 18:00-19:30 hours
Trusteeship Council Chamber, United Nations

Security requires this invitation for admittance to UN Secretariat premises



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PAUL HOFFMAN LECTURE

KOFI ANNAN - GUS SPETH

PAUL HOFFMAN - STUDEBAKER

50 ANNIVERSARY MARSHALL PLAN

- EUROPEANS HELP THEMSELVES - BASED ON THE PEOPLE NOT CHARITY

- COMMON PURPOSE - PARTNERSHIP - TRANSATLANTIC ALLIANCE

BUT NOT TWO WORLDS - EUROPE CANNOT EXIST WITHOUT DEVELOPING WORLD

4-7 BILLION OUT OF 5.6 BILLION

8 BILLION IN 30 YEARS

**ECONOMICS - 50% GDP
 40% GROWTH WORLD TRADE
 BY 2010 - 40% OF CONSUMPTION
 18% GDP TODAY - 30% BY 2020
 5-6% GROWTH DOUBLE OECD**

ENVIRONMENT

HEALTH

MIGRATION - 30 MILLION REFUGEES

CIVIC

WARS

DRUGS

FAMINE

SOME IMPROVEMENT - LIFE EXPECTANCY MORE IN 40 YEARS THAN PREVIOUS 4000. EVEN IN S.S.AFRICA INFANT MORTALITY DOWN 30%. LIFE EXPECTANCY UP 8 YEARS.

WITHIN THIS WORLD - PEOPLE - THE SAME

**MALI - MOTHER - UNIVERSITY
UZBEKISTAN - POVERTY BUT CULTURE
INDIAN SLUMS - NOBILITY
PALESTINIAN REFUGEE CAMPS**

**CULTURE, HISTORY
AFRICA - FAMILY VALUES**

RELIGIOUS LEADERS - HINDU
RUINING COMMUNITY

ESSENTIAL MACROECONOMIC PLANS

GOOD GOVERNANCE

1% GDP OF AID - 0.4% GROWTH

DECLINE IN INFANT MORTALITY 0.8%

1980 - 1993 - GREAT VARIETY

OECD 2% GROWTH - LOW INCOME 0.1%

SINGAPORE 1965 - \$3,900 TO \$28,000

S. KOREA \$1,100 \$10,100 - OECD

BUT SOME PER CAPITA INCOMES HAVE HALVED AND ½ POOREST
COUNTRIES HAVE BEEN AT WAR.

BUT REGARDLESS OF OVERALL GROWTH - INEQUITABLE
DISTRIBUTION

- 56% OF POPULATION < 5% INCOME

- 1960 TO 1990 RICHEST 20% GREW 3X POOREST 20%

EXAMPLES: GUINEA BISSAU 1992 - POOREST 20% - 2.1% INCOME
 RICHEST 59%
 GUATEMALA POOREST 10% - 0.6%
 RICHEST 46%
 CHINA URBAN GUANGDONG 9 TIMES
 RURAL GANSU RESIDENT

BUT CAN BE CHANGES IF POLICIES OR POPULATION GROWTH OK

INDIA IN NEXT DECADE - 3% SHARED GROWTH
 WILL HALVE THE POOR
WHEREAS AFRICA WILL TAKE 6%
 AND YOU NEED 10%

REAL CHALLENGE

1.3 BILL < \$ 1
3.0 BILL < \$ 2
140 MILL KIDS - 80 MILL GIRLS - NO SCHOOL
50% LITERACY IN ADULTS - S.S.A. AND SOUTH ASIA

BANK CHANGING TO GET TO PEOPLE

1) EFFECTIVENESS NOT VOLUME

- 2) LISTEN
- 3) COUNTRY - REGION - TOWN SPECIFIC
- 4) CANNOT DO IT ALONE
- 5) PARTNERSHIP - INSTITUTIONAL, PEOPLE
- 6) PROJECTS GEARED TO PEOPLE

* JUDGED BY RESULTS

PROBLEM OF MEASUREMENT

FRAMEWORK

INSTITUTIONAL - 44 BILL
 PRIVATE SECTOR - 244 - HALF TO 5 TIMES
 140 OF 166 < 5%
 75% - 12 COUNTRIES

CIVIL SOCIETY
 GOVERNMENTS

PEOPLE - IN DEVELOPED COUNTRIES
AND DEVELOPING COUNTRIES

OWNERSHIP 121 WATER SUPPLY PROJECTS
 49 COUNTRIES
 8% SUCCESSFUL WITHOUT PARTICIPATION
 65% SUCCESSFUL WITH PARTICIPATION

EXAMPLES EDUCATION - INDIA - NE BRAZIL
 HEALTH - COMMUNITY - INDIA
 SEWERAGE - EGYPT
 MICRO CREDIT

DECENTRALIZATION OF BANK
 - NGO'S - 50 OFFICES

KEY EDUCATION AND HEALTH
 COMMUNICATION
 WOMEN
 ENVIRONMENT - PROTECTION OF OUR PLANET
 SAFETY NETS
 CULTURE - FAMILY - RELIGION - COMMUNITY
 FAVELAS
 PEACE

PAUL HOFFMAN LECTURE

KOFI ANNAN - GUS SPETH

PAUL HOFFMAN - STUDEBAKER

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MICRO CREDIT

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- NGO'S - 50 OFFICES

KEY EDUCATION AND HEALTH
COMMUNICATION
WOMEN
ENVIRONMENT - PROTECTION OF OUR PLANET
SAFETY NETS
CULTURE - FAMILY - RELIGION - COMMUNITY
FAVELAS
PEACE

Foreword

Paul Hoffman was—and still is—an icon for many of us working in development.

First, he was a man of *determination*. From modest beginnings in Illinois more than a century ago, Mr. Hoffman rose from the position of porter in an auto agency to eventually lead one of America's then-most powerful automotive manufacturers, Studebaker. He took on the company during difficult times in American history and breathed new life into it, guiding it to the very top of the industry.

But he was also a man of *foresight*. During World War II, while still at the helm of Studebaker, he knew that the battles would eventually end and that thousands of soldiers would be returning home from Europe and the Pacific. Soldiers would need jobs and a chance to rebuild lives set back by war and the Great Depression. A strong post-War America would depend on a solid economy and a population that had access to opportunity. So Hoffman joined forces with other industrialists to set up a nationwide community-based program to generate jobs for the returning troops through the conversion of military-based industries to civilian purposes. His work contributed to America's amazing post-War economic boom and the smooth transition from war to peace.

Hoffman was *worldly*. By that I mean he had an unmatched world view. He appreciated that America was not an island, that its well-being was linked to the well-being of all parts of the globe.

In response, he accepted the challenge of administering the Marshall Plan. He knew that the war-ravaged countries of Europe and Japan would never see an enduring peace without genuine hope for a better future. Stability abroad required assistance from home. Stability at home required stability abroad. Through his leadership, countries were rebuilt and have become among the world's most prosperous nations.

Perhaps Hoffman's views on this could be summed up in something he said years ago but which is still valid today:

"It is poverty of opportunity rather than just poverty itself which causes so much suffering and discontent. And it is through alleviating poverty of opportunity that development truly becomes a peace-building process."

Hoffman continues to be an inspiration to all of us who either knew him or knew of his work.

In many ways, Hoffman's life is a symbol for—or a reflection of—our world today.

Motivated by his deep personal commitment to the betterment of people at home and abroad and his insights about the world around him, Hoffman did everything in his power to help bring peace to a world rocked by years of war. And by anyone's standards, he succeeded.

Today, we are hoping to see a similar success. Our world is plagued by the chaos brought on by Cold War politics and colonial meddling. We now seek to end that chaos and replace it with peace.

The United Nations is charged with much of the responsibility for bringing calm to our troubled planet, with the responsibility for guiding all countries from war to peace.

With the Cold War over, the United Nations now has that opportunity. But it must not pursue its goal solely through peacekeeping forces and debates in the Security Council. It must pursue it through development.

As Hoffman knew, lasting peace can only be built on a lasting foundation of development. Falling living standards, lack of opportunities and an absence of hope are a recipe for conflict and the disintegration of society. Higher standards of living and a chance for a better tomorrow defuse the rage brought on by a world without opportunity for change.

It is time that the UN reclaim its original mandate to promote global peace through economic and social advancement. It is also time that all countries support the UN in achieving this great goal.

If the UN is to succeed in promoting peace in our post Cold War World, it must become a unified force for development.

I know that Hoffman envisioned a UN not armed with peacekeepers and tanks painted white but one armed with ideas, resources and the ability to guide countries from poverty to prosperity. His legacy are our efforts to bring his vision to reality.

*James Gustave Speth
Administrator, UNDP
11 October 1995*



Paul G. Hoffman

Biography of Paul G. Hoffman

Paul G. Hoffman, appointed Administrator for the United Nations Development Programme (UNDP) in 1966, was a man whose unwavering faith in humanity inspired and shaped his times.

Hoffman grew up in the small town of Western Springs, Illinois. Spurred on by his ambition to become a car salesman, he quit the University of Chicago in 1909 to take a job in a Chicago auto agency. There he started out as a porter, but soon moved up to apprentice salesman. He moved to California in 1911 as a salesman for the Studebaker Corporation. His talent became apparent very quickly as he began winning every national sales contest held by Studebaker in those years.

In 1917, Hoffman went into the U.S. Army and attained the rank of artillery lieutenant. After his discharge, he acquired the Studebaker dealership in Los Angeles; and by 1925 he had made his first million. In 1935, he was named President of the Studebaker Corporation, an office he held for 13 years.

Hoffman conceived of the idea of the Committee for Economic Development (CED) in 1940 in order to establish a mutually beneficial relationship between businessmen and economists. As Chairman of the Board of CED, he strove to help American industry plan for a smooth conversion from a war economy to a peace economy.

His involvement in international development began in 1948 with an appointment, by President Truman, as Administrator of the Marshall Plan. Through a co-operative operation, he succeeded in increasing European agricultural production by 20 per cent and raising industrial productivity by 40 per cent over pre-war levels.

Paul Hoffman resigned from his post in 1950 to serve for two years as President of the newly-formed Ford Foundation. During that period the Foundation undertook major new initiatives on both the domestic and the international scene. Hoffman was instrumental in creating the Fund for the Republic, an independent corporation set up by the foundation specifically for work in the fields of civil liberties and civil rights. In 1953, he accepted the invitation to become Chairman of the Board of the Fund, resigning from his post as President of the Ford Foundation.

In 1956 President Eisenhower appointed Hoffman to the United States Delegation to the United Nations. In this capacity, Paul Hoffman turned his attention to the economic needs of developing countries. In 1959 he became Managing Director of the newly formed United Nations Special Fund.

Hoffman insisted from the outset that the Special Fund would assist a project only if the country involved, no matter how poor, also made a contribution. The Special Fund, whose basic principles were later used as the basis for the establishment of the United Nations Development Programme, was a semi-autonomous agency that made pre-investment grants to projects rather than to countries. Hoffman's goal was to achieve a 25 per cent increase in per capita income in the developing world in the course of the 1960's.

On January 1966, Paul Hoffman assumed the post of Administrator of the United Nations Development Programme, the world's largest single source of multilateral pre-investment assistance. He retired from this post early in 1972, leaving a rich legacy to the Programme.

The European Recovery Program

From Harvard to Paris to Washington: Making Marshall's Plan A Reality



When Secretary of State George Marshall presented his idea for a plan that would "help the Europeans help themselves" at Harvard on 5 June 1947, there was already a broad base of support in both the Truman Administration and in Congress. Thus, despite opposition from some who favored a harsh peace for Germany and others who feared that a large foreign aid program would harm the U.S. economy by provoking an inflationary spiral and depleting stocks of essential commodities, the machinery for the Marshall plan was in place by early April 1948.

European Responses to the Marshall Proposals

The European countries reacted quickly and enthusiastically to the Harvard speech. Britain and France were the first to begin bilateral discussions, but were careful not to offend the Soviet Union. The British were less sensitive on this point than were the French; on 19 June 1947, the British Foreign Minister announced that Europe would go ahead with work on the American proposal with or without the Soviets, since speedy action was essential. To smooth possible discord, France subsequently sent a note to the Soviets expressing interest in discussing the proposal with them.

Soon after they met, Britain and France called a Conference of European Economic Cooperation, which convened in Paris on 12 July, 1947. Out of this conference was born the Committee of European Economic Cooperation (CEEC). The Soviet Union was invited to the conference, but declined. The Soviets pressured Czechoslovakia, Poland, and Hungary, also invited, to stay away from the meeting. The 16 countries which attended were Austria, Belgium, Denmark, France, Greece, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Sweden, Switzerland, Turkey, and the UK.

The task of the representatives at the Paris meeting was to estimate their national foreign

exchange needs and come up with an estimate for the cost of a comprehensive aid program to submit to the U.S. The draft CEEC report completed in August estimated that together these countries would have a \$29 billion deficit over four years. This estimate was, however, highly suspect on two counts: statistics on annual production and exports were very poor, even for a single year; and the figures were the result of compromise among countries with different ways of measuring their needs, and which may in some cases have settled higher amounts in order to reach final agreement.

CEEC Country Differences

1. Restriction and controls vs. expansion and freedom: The British excluded nonessential imports from their calculation in accordance with their austerity program. This policy had the effect of restricting the development of European trade. Belgium, on the other hand, advocated freedom from internal and import controls, which encouraged individual enterprise and tended to expand the European economy. The latter, of course, was more in line with what the U.S. leaders wanted to promote.

2. The future of Germany: France was deeply concerned with the consequences of German recovery, fearing a resurgent and recidivist power on its border. This put the French at odds with the Dutch, who were directly dependent on German growth for their own expansion.

Criticism of the CEEC Draft & State Department Conditions

The CEEC report raised concerns in the U.S. that the Europeans were interpreting the American offer as a traditional "charity" program; previous concessional programs were broadly judged to be failures. The State Department thus set out six conditions for CEEC members:

- 1. specific commitments regarding the fulfillment of major production programs*
- 2. immediate steps to ensure internal monetary and financial stability*
- 3. reduction of trade barriers*
- 4. consideration of other sources of dollar credits, such as the International Bank*
- 5. formal recognition of common objectives*
- 6. establishment of an international organization to coordinate the program*

The Europeans responded to many of the American concerns in the final CEEC report of 22 September 1947. The estimated European foreign exchange requirement was reduced to \$22 billion, \$3 billion of which would be drawn from the International Bank. The report also called for the foundation of an Organization for European Economic Cooperation (OEEC), a permanent agency charged with the coordination of the program in Europe.

American Preparation for the Marshall Plan

While the Europeans were working on their programs and objectives, the U.S. government was evaluating the shape, size and feasibility of the plan that it could provide

for European recovery. The State Department directed interdepartmental research on commodity availability in the U.S. and balance of payments problems of foreign exchange-poor European countries. The result was four reports in late 1947 and early 1948:

1. *Department of the Interior (Krug Report):* This report evaluated the adequacy of physical resources that the plan might offer. Special attention was given to commodities in short supply in the U.S. The report concluded that the U.S. economy could withstand the proposed program.
2. *Council of Economic Advisers:* This report studied the effect of the unforeseen export burden on domestic production, consumption, and prices. It concluded that the U.S. had both the industrial and the financial capacity to support a program that amounted to 2-3% of GNP. "The economy had already proved its capacity to support an export surplus in excess of that likely to arise under the aid program, and any general threat to stability in the expanding American system was to be looked for in domestic financial and economic policy rather than in foreign assistance policy." However, inclusion of commodities in short supply could bring inflationary pressure. Rather than suggesting the exclusion of these commodities, the Council called for assiduous coordination of domestic policy and foreign assistance.
3. *Presidentially Appointed Committee (Harriman Committee):* This committee, led by Averell Harriman, included consultants from labor groups and private industry and economists. The report estimated the cost of European recovery at \$5.75 billion the first year and \$12-\$17 billion over four years, but cautioned that such a long-term forecast was likely to be inaccurate. It recommended that general policies and limits for assistance be established at the outset of the program, but that actual allocations of loans and grants should be performed by a new separate government agency, which would work closely with the State Department.
4. *House of Representatives (Herter Committee):* This was the broadest of the four studies. Committee members visited participating countries to study relief needs. Studies were also made of availability of resources for European needs both in the U.S. and elsewhere. The committee recommended measures to protect the American economy as well, and examined the qualifications of different agencies for running the program. It recommended the creation of an Emergency Foreign Reconstruction Authority.

The findings of the various reports were to be presented in full to Congress in January 1948, but conditions in Europe led President Truman to call an emergency session in November. Italy and France were about to run out of dollar reserves, and were beset with strikes and labor unrest. Because both of these countries had relatively strong Communist parties, the Americans feared that their governments could fall to "totalitarian powers." President Truman asked Congress for over \$500 million for European needs up 31 March 1948. He signed an interim aid authorization on 17 December 1947.

A draft bill for the full plan was sent to Congress one day earlier; Truman's deadline for its passage was 1 April 1948. Congress labored to pass the Economic Cooperation Act on 2 April 1948, and Truman signed it the following day. The European Recovery Program (ERP), as the Marshall Plan was formally named, was legislated as Title I under the Economic Cooperation Act. The three ERP goals specified by Congress were:

1. *"the promoting of industrial, agricultural, and cultural production in participating countries;*
2. *furthering the restoration and maintenance of the soundness of European currencies, budgets, and finances; and*
3. *facilitating and stimulating the growth of international trade of the participating countries with one another and with other countries by appropriate measures, including the reduction of barriers which*

hamper trade."

A total of \$27 billion was authorized for the four-year ERP, which was to be terminated on 30 June 1952. The aid provided by the program could be grant or loan. The limit on the loan component was set at \$1 billion of the \$5.3 billion authorized for the first year of the Marshall Plan; Congress would annually appropriate the rest of the funds. The Export-Import Bank was the official lending agency; it administered the approximately 10% of the assistance that was in the form of loans. The ECA, which eventually became USAID, administered the bulk of the assistance.

The American Administrative Structures

The ECA: Dependent and "Debureaucratized"

The Economic Cooperation Act called for the creation of an Economic Cooperation Administration (ECA) to administer the ERP. The ECA was established as a separate agency with equal status to other executive departments. In accordance with the goal of setting up a debureaucratized agency, its charter was temporary, and it was to be small and controllable. It was, as Hadley Arkes has described in his book *Bureaucracy, the Marshall Plan, and the National Interest*, to "progressively divest itself of its functions." The ECA was headquartered in Washington and headed by an appointed Administrator who oversaw evaluations of the needs of participating countries and the progress of their recoveries. Paul Hoffman of Studebaker Corporation was appointed as Administrator on 9 April 1948—the architects of the Plan wanted a business leader to run the ECA.

In defining the authority of the ECA, Congress closely followed the recommendations of a report prepared by the Brookings Institution. But rather than making the Administrator bow to the Secretary of State on all questions of foreign policy, Congress gave both equal rights to object to a proposed action, and equal access to the President as the arbiter of disputes. This did provoke some tension between the two agencies, but weekly lunches meetings for Hoffman and the Undersecretary were useful in smoothing relations. Most disputes were not important enough to require the President's attention; Frederick Lawton of the Budget Bureau was appointed to a position in the White House to arbitrate between State and the ECA, but left after six months having had nothing to do. To further ensure coordination, the ECA Administrator sat on the Cabinet-level National Advisory Council on International Financial and Monetary Problems.

The ECA was first structured to emphasize delivery of essential supplies to Europe. Deputy Administrator Richard Bissell headed divisions specialized in food, industry, trade, procurement, and transportation—not dissimilar from how the European Bank for Reconstruction and Development (EBRD) and World Bank programs for the CIS were conceived. Later the ECA tried to tie U.S. assistance more closely to country recovery policies. A division for program coordination was established. A Special Representative was stationed in Paris to coordinate with the OEEC and with the American country missions, but the Washington office had final authority. The staff in the office assisted the Administrator in policy development and operating regulations, including final review and decision on programs proposed by the participating countries and the OEEC. The Assistant Deputy Director for Programs was responsible for making recommendations on

OEEC proposals to the Administrator. The Director of Operations oversaw the work of the strategic materials, procurement transactions, and transportation divisions.

The ECA financed only dollar trade, when dollars were not available from the International Bank. During its first year of operations, the ECA expected to finance about half of the participating countries' dollar imports, about 5% of total imports. The other 95% would be produced or imported through the nation's own resources (see the counterpart fund, below).

A Dependent Agency

The fact that the ECA was rapidly created, and that it was mandated to self-destruct over four years, almost inevitably made it quite dependent on other established agencies. Even more so because it was to commit large dollar amounts, which made it subject to close supervision. It was overseen by the Comptroller General. The Economic Cooperation Act also provided for the formation of a Joint Committee on Foreign Economic Cooperation—a watchdog committee reporting to Congress, composed of bipartisan members for both Houses.

Although its niche of authority in approving ERP allotments went essentially unchallenged (save for some disputes with Paris or the country missions), ECA operations remained dependent on other agencies. First, the ECA architects had other agencies—the Departments of State, Commerce, and the Treasury, as well as the Export-Import Bank and a group of New York bank officials—establish the procedures for handling letters of commitment. Their system confirmed the status of the ECA as their creature. Furthermore, at the end of the first quarter of ECA operations, these other agencies had distributed about one-third of the program expenditures charged to it. This fell somewhat after the ECA got on its feet in 1948.

But the ECA continued to rely on other agencies for special services. The Army was responsible for procurement in occupied areas; the Department of Labor compiled a handbook of labor statistics and manpower analyses; the Department of the Interior studied the availability of U.S. mineral resources; and the Department of Commerce compiled export statistics. Because the Congress had set a ceiling on ECA administrative expenses, the Budget Bureau played an important monitoring role in seeing that these other agencies did not overcharge the ECA account.

One area in which the ECA operated fairly independently was procurement. At the close of the first year of operation, about 84% had gone through private channels, with the other 16% done via the Commodity Credit Corporation, which held surplus agricultural stocks designated for the ERP.

Many have been critical of the ECA's operations beyond the simple authorization of funding, particularly once its Washington staff ballooned to 938 in January 1950. While less than 10% of these people were under the Assistant Administrator for Operations, 522 were billed as administrative staff. The ECA's efforts to perform detailed commodity screening failed, largely because even if an order was not approved under the ERP, the buying country could use its own foreign exchange to purchase the goods. The Washington headquarters thus abandoned this goal and began authorizing procurement in broad commodity categories. According to some, the only "real" operations carried out by

the ECA were technical assistance (now a major component of multilateral development bank assistance) and strategic materials monitoring. The latter operation was actually quite poorly staffed.

Office of the Special Representative

The Office of Special Representative (OSR) was established in Paris to communicate with the OEEC. The individual U.S. country missions reported to the ECA through the OSR. Averell Harriman, Secretary of Commerce at the birth of the ERP, was selected to be the first Special Representative (Pamela Harriman, his wife, is now the U.S. Ambassador to France).

The OSR saw itself more as a theater command with a good amount of leeway for its operations rather than a delegation dependent on Washington for its authority. It successfully insisted on close supervision of the missions, although Washington's preference was to allow them to operate more independently. However, State Department officials made the case that the independence and authority of the OSR attracted competent and motivated people and that the organization was able to establish good relations with the OEEC.

Though it was originally conceived as a 30-40 person staff, by 31 March 1953, the OSR staff had burgeoned to 630 Americans and 825 locals; the Paris office accounted for almost 50% of the administrative costs of the entire European operation. Many of these personnel worked closely with OEEC country representatives in evaluating national statistics, projections of trade and production, and the countries' recovery programs (evident precursors of the OECD), but the OEEC eventually dropped its programming functions because European officials became frustrated with the least common denominator solutions coming out of the OEEC.

Bilateral Agreements and Country Missions

To set up the country missions, 16 bilateral agreements had to be negotiated by the State Department. Draft agreements were submitted to all OEEC countries in late May 1948. They included general political and economic provisions required by the Economic Cooperation Act and specific undertakings to establish counterpart funds and to receive special ECA missions.

Two particular European objections were raised in response to the draft agreements. All European officials objected to the requirement to consult the IMF regarding exchange rates whenever the U.S. thought it necessary, because this would give the U.S. power to push devaluations. Britain and France objected to MFN status for Germany, Japan and other U.S.-occupied areas. Though the underlying reason was probably a prescient fear of competition from Japan and Germany, the objection against granting MFN to Japan was raised on the basis that Japan is not European.

In the end, European countries committed to maintaining and stabilizing confidence in

their currencies and to balancing their national budgets. The MFN clause was also dropped and replaced with a separate protocol. The British withheld MFN from Japan and South Korea; the French only granted it to western zones in Germany, and retained the power to retract it with six month's notice.

By the end of the allotted three-month period for ratification, agreements were signed with all but Turkey, the U.K., and Switzerland (an unlikely candidate for assistance, which eventually dropped its request, but remained an active OEEC participant). The signed agreements provided for:

- 1. The Purpose of the ERP;*
- 2. Assistance and Cooperation;*
- 3. General Undertakings;*
- 4. Guarantees;*
- 5. Local Currencies;*
- 6. Access to Materials;*
- 7. Consultation and Transmittal of Information;*
- 8. Publicity;*
- 9. Missions;*
- 10. Definitions;*
- 11. Entry in Force, Amendment, Duration.*

For Germany, the Bizonal Economic Council was the operating unit. The OEEC originally proposed that all funds provided for Germany would be on a loan basis, with no grant portion; the counterpart fund proposal for Germany was much smaller than for other countries at first, but once French resistance was overcome, a better compromise was reached. Representation of Germany was initially a problem because the ECA wanted a representative from each zone, but General Lucius Clay, the U.S. military governor, refused that idea. Finally it was decided that a sole representative would be based in Frankfurt. When the Federal Republic of Germany (FRG) was established in 1949, a Deputy Chancellor handled Marshall Plan funds.

The Mission Chiefs in each country were second only to the ambassador. The size of the Mission staffs varied, ranging from under ten to about 100. The average was about 30.

The European Administrative Structures

The OEEC

At the second meeting of the CEEC in March 1948, France called for the establishment of

a permanent regional organization to coordinate the European recovery. The organization would also have the longer term working objective of working toward a united Europe. The French wanted a formal organization with an executive board that would be active between larger conference meetings, and an International Secretariat with a Secretary General to coordinate country activities.

The British largely agreed, but wanted a looser consultative organization. They did not want to give the ECA and the new European entity joint executive authority in the distribution of aid and the stimulation of the European economy, but rather wanted the U.S. to work with the European countries on a bilateral basis. As in the long history of debate over the EU, they did not want to compromise national sovereignty.

The result was an April 1948 compromise: the new OEEC was to draw up and implement a joint recovery program to end reliance on outside assistance. The organization would work toward establishing a European Payments Union (EPU) to stabilize the impact of financial fluctuations on intra-European trade and lower reliance on dollar foreign exchange. It was also to move toward reducing trade barriers. The OEEC would review action taken by individual countries and report its findings.

The OEEC had a three-part machinery:

- 1. A Council representing all participating countries;*
- 2. An Executive Committee of seven members elected by the Council to conduct business when it was not in session; and*
- 3. An International Secretariat with a Secretary General.*

Decisions in the OEEC required unanimity of all countries.

The 16 ERP member nations first met under the OEEC mantle in Paris on 15 April 1948 to come to the final determination of their national needs, just before the U.S. Congress passed the appropriations bill. The OEEC concluded that Europe needed Germany as much as Germany needed Europe. The American and British Occupation Zones (the Bizone) were first added to the OEEC; the French zone was included soon thereafter. The new FRG entered the OEEC in the second quarter of the second year of the Plan, on 30 June 1949. Canada and the U.S. later joined as associate members.

The sectoral priorities set by the OEEC were mining, transport, manufacturing, food, housing, clothing and human necessities; these were closely mirrored in the division structure of the ECA. Each country set up a National Office to liaise with the Paris OEEC headquarters and with the American ECA officer for that country.

Initially, in preparing the first allocations, the members seemed truly dedicated to working toward the best European solution, rather than meeting their own national priorities. In the end, however, the OEEC proved to be a rather ineffectual organization, though it did provide needed coordination at the outset. But in the end Washington became cynical about the fairness and accuracy of OEEC allotments, and particularly to the reluctance of the French and others to dedicate a greater share to the German recovery. Even then, British reservations emerged as the major obstacle to efforts toward European integration. The EPU, also resisted by the British, but strongly advocated by the

U.S., was one of the OEEC's better accomplishments.

Operation of the Recovery Program: the Counterpart Fund

The U.S. contributed \$13.3 billion (over \$65 billion today) to the 16 Marshall Plan countries over four years. Most of the program funds were spent on commodities: \$3.5 billion on raw materials; \$3.2 billion on food, feed, and fertilizer; \$1.9 billion on machinery and vehicles; and \$1.6 billion on fuel. A small portion of funds was used for technical assistance visits to the U.S. for European farmers and industrialists. The ECA arranged for transfer of goods in accordance with the allotments established by the OEEC.

To benefit from the program, a European purchaser, with his national unit's approval, requested ECA funds under the Grant Aid Plan. To do this, the purchaser's country submitted a procurement request to the ECA, which evaluated it to see that it was within the country's allotment. Then the ECA issued a letter of commitment to a cooperating bank within the country. The foreign government or a private firm in the recipient country, not the ECA, handled procurement, and the details of goods transfer were handled by those involved in the transaction. This saved the ECA a good deal of administrative expense.

The American supplier was paid for his goods in dollars credited against the appropriated ERP funds. The European recipient paid for the goods in local currency which was then deposited by the government in a counterpart fund. Ninety-five percent of each country's total allotment was designated for the country's use; five percent went toward ECA administrative expenses. The government could spend its share of the funds only after assuring the ECA with a written request that they would be properly used for recovery. Sanctioned uses of ECA funds by governments were debt retirement; promotion of production; reconstruction and rehabilitation; and development of resources for wealth-producing materials.

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DRAFT

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**James D. Wolfensohn
Paul Hoffman Lecture
May 29 1997**

**C. Anstey
5/19/97**

5/23/97

People First

It is a great honor to have been asked to deliver this lecture in memory of Paul Hoffman. Not only was he an extraordinary statesman and humanitarian, but he was a man whose defining life work - be it managing the Marshall Plan or leading UNDP - showed his overriding commitment not to living people's lives for them, but to giving people the tools, the opportunities and the encouragement to help themselves.

As I traveled here today, it struck me that Hoffman and I both came to development from similarly circuitous routes. Hoffman from the Studebaker Corporation; in my own case from investment banking. I do not know what thoughts crossed Paul Hoffman's mind as he first stared at a war torn and ravaged Europe (and thereafter dedicated his life to reconstruction and economic development.) I do know from my own experience that that first encounter with overwhelming human need can be life-changing. I saw it in
xxxxxxxxxxxxxx (JDW please add)

But many people don't see it. Even in 1997, it is possible to live one's life ignorant of the developing world. We wake up, we go to work, we provide for our families and we don't think about it, or if we think about it, it's as an article from National Geographic: foreign, sometimes exotic, sometimes horrifying, but not part of us.

Over the last 2 years, I have traveled to over 50 countries. I have talked to people in villages, slums and parliaments, and I have come to realize that this world is not another world, it's our world. We're linked with this world. We're linked with it because we share the same environment. We're linked with it because we breathe the same air. We're linked with it because our health is dependent on the health in those countries. And we're linked by crime and we're linked by migration and we're linked by war. The developing world is not something we can opt out of.

23 million people are now inflected with AIDS world wide; carbon emissions have grown by nearly 200 million tons since 1990; 30 million men women and children are refugees. These are not developing country issues. These are global issues.

And it's our world not just for social or moral reasons. It's our world for economic reasons. In the years since 1990, 50 % of the growth in GDP has come from developing countries and 40% of the growth in trade. The Bank estimates that by the year 2010 developing countries will consume 40% of all goods and services the world produces. And developing countries will continue to grow at an average rate of 5-6% a year into the next decade, double that of the major industrial countries.

And it's our world not just because of economics but because we make up one humanity with all the collective responsibility that that entails.

Mr. Chairman. I must admit it is a strange and moving experience for me to find myself here in New York - a city I have known and loved so well as an investment banker - talking tonight about development. Now I live in a different city and a different world. It's a world of 4.7 billion people, many of whom live in unimaginable conditions. But what I've learnt most as I've traveled around that world is that in country after country people are the same. They have the same hopes for their children. The same fears about their old age. None of these people want charity. As Paul Hoffman knew so well when he put the European Recovery Program into action, they want a chance. They want to be given the opportunity to help themselves, with dignity and with their own customs and approaches.

If I have taken away one thing from those travels it is that the overall objective of development must be people. People are the means and people are the ends. Not numbers on a bottom line; not calculations of how much in the ledger is red and how much is black - but people. And not just lowering the number of the world's poor who are living on less than \$1 a day; but improving infant mortality rates, literacy rates, freedom from ill health, freedom from violence and crime.

The world has made tremendous progress in recent decades. Life expectancy has risen more in the last 40 years than in the previous 4,000. Infant mortality has been halved. Even in Sub-Saharan Africa where progress in reducing poverty has been slowest, infant mortality rates have decreased by a third and life expectancy has risen by 8 years.

And yet, despite this progress, 1.3 billion people live in the developing world on less than \$1 a day; 3 billion people live on less than \$2 a day. Every year 45 million children under 5 die avoidable deaths. In Sub-Saharan Africa and South Asia, close to 50% of the region's adults can neither read nor write. In the world's 50 poorest countries, the rate of illiteracy among women is almost double that among men. And across the globe violence and crime are increasing.

There has also been great diversity. Some countries and regions of the world have clearly done much better than others. In the most developed countries incomes have doubled or tripled since 1960. In some developing countries, incomes have increased six, seven or even eight times their 1960 levels. In others incomes are stagnant, and in some developing countries over the last 30 years, average incomes have been halved.

Between 1980 and 1993, while the high income countries experienced 2 percent growth, the low income countries - excluding India and China - grew only .1%, with more than half experiencing negative growth.

Today, low income countries today make up 56% of the world's population but have less than 5% of the world's income. And inequalities between rich and poor countries are

growing. Between 1960 and 1990 the incomes of the richest 20 percent grew 3 times faster than the incomes of the poorest 20%. As a result the share in global incomes of the poorest 20% of the world's population has fallen from 2.3% to 1.4%.

Within countries there has also been great diversity. **[DEC - can I have some examples/figures please]**

In society after society around the world, the needs and preferences of the wealthy are well reflected in policy while the voices of the poor go unheard in the corridors of power. In many countries, voice is distributed as unevenly as income. The poor are not only marginalized; they are condemned to live outside society, with neither their needs, nor often their existence, recognized.

The result is a growing disconnect within societies which erodes social cohesion, and often leads to social collapse. Over the last 10 years more than half of the world's low-income countries have experienced conflict with massive population displacements. Between 1985 and 1995 the number of refugees doubled, reaching over 30 million. And the number of uprooted people rises above 40 million if one includes people who are internally displaced within their own countries.

To be sure, some developing countries have experienced remarkable success. Singapore which in 1965 had a per capita income of \$3,900 and which now has a per capita GDP of more than \$28,000. The Republic of Korea which in 1965 had a per capita income of \$1,100 and which last year was admitted to the OECD with a per capita income of more than \$10,100. Here in our own hemisphere a number of Latin American countries - long plagued by weak and fitful performance - have recently begun to show great promise. But these, unhappily, are exceptions

Let me assure you, I do not mean to minimize the successes that have occurred. My fundamental point is a different one. It's to emphasize that unless we in the development community can be sure that development is reaching the very poorest, we have no right to consider a job well done.

Mr. Chairman, economists have long argued about the relationship between growth and poverty reduction. The bounds of disagreement have narrowed and there is now a fairly general appreciation that none of the poorer countries can hope to reduce poverty in the absence of growth.

But growth itself is not enough. Unless we can ensure that growth is shared across a broad social strata we risk missing the very people we seek to help.

Some of those people clearly can be helped. Look at xxxxxxxx **[DEC: I need some examples of historical growth-sharing where the poorest have been helped.]**

The potential of shared growth is enormous . Take India where we estimate that a rate of broadly shared growth of no more than 3% a year sustained over a decade – something that seems entirely feasible – would halve the number of poor.

But contrast this with a typical country in Sub-Saharan Africa , where even an aggregate growth of 5% a year will not discernibly affect Africa's poverty indicators or its numbers of poor. These are the countries that are the real test of development.

Mr. Chairman, we face that test at a time of enormous global change.

53 years ago when the architects of the World Bank and the International Monetary Fund met at Bretton Woods, we stood on the verge of a bipolar world which would divide countries and regions, but under which development aid would actually fare pretty well. Keeping clients from "going communist" or "turning capitalist" proved a powerful boon to giving.

Fifty three years later the incentives are very different. In the wake of the Cold War, official development assistance --bilateral and multilateral combined – has fallen to its lowest level in almost 50 years.

And other changes are impinging dramatically on development approaches as well. Where once the World Bank was virtually the only player in town, we are now part of a growing universe - Multilateral Development Banks, the UN system, WTO, EU and a growing number of foundations.

We also face a very different political and economic world. Roughly 5 billion people now live in market economies compared with 1 billion a decade ago.

And hand in hand with those economic changes we have also seen the spread of democracy. In 1974 only 39 countries - one in every four - were democratic. Today 117 countries - nearly two in three - use open elections to choose their national leadership. Two-thirds of the adult population in developing countries is now eligible to participate in national elections.

And with democracy has come a whole new role for civil society. Since the late 1980s the number of NGOs operating in parts of Africa and Asia has almost doubled. Poland now has 30,000 registered NGOs. In some OECD countries, operating expenditures in the voluntary or NGO sector now account for almost 4% of GDP.

Globalization, democratization and marketization are changing the nature of the development business.

But perhaps nothing has changed more over the last 7 years than the way in which development is being financed and the increasing trend from public to private sources.

Last year, private capital flows to emerging economies were nearly six times their level in 1990 - up from just \$44 billion then to \$244 billion last year. Private flows are now 5 times official flows; 7 years ago official flows were double private flows.

But the fact remains that a very large group of countries have not yet been able to hook up to the driving dynamics of expanded capital, trade and information flows. Some others are so laggard that they face potential marginalization.

Today, of the \$244 billion in private capital going to developing countries, 75% is going to just 12 countries. 140 of the 166 developing countries receive less than 5% of total capital flows. Over the last three years, Sub Saharan Africa (excluding South Africa) received only about 1% of total private capital flows.

The poorest countries are trapped in a viscous circle where poverty breeds instability and private investors run for cover.

Mr. Chairman: What does that changing world means for our efforts to reach the poor?

Let me be absolutely clear. Given the remarkable transformation of the global setting, I am absolutely convinced that financial and development institutions are not going to be the primary engines of poverty reduction, and neither will governments. This will be done by the private sector. But international institutions and governments have a critical role to play as catalysts. And that means helping to create conditions in developing countries that will encourage sustained inflows of international private capital and equally, if not more importantly, will allow the locals to have the confidence to invest in their own countries.

It's time we change our old habits of thinking that the private sector is somehow bad for the poor while the state sector is good. This isn't a matter of ideology. It's a simple recognition that public-enterprise efforts in isolation have all too often yielded meager or negative results. In many countries public enterprise losses are on the range of 8 -10% of GDP. Too often state spending continues to go into areas with little or no benefit to the poor. We estimate that 25% of African budgets are needed to cover losses from state owned enterprises - which means that 2-3 times more of scarce budgetary resources are spent on state enterprise losses than on health or education. We need to recognize that it's fiscal restraint on funding parastatals which will ultimately free up money to spend on health and education.

We need to find ways to allow governments to divest themselves of activities that the private sector can do better and all of us in the development business need to recognize that macroeconomic reform is an absolute precondition for attracting private capital. It's also a precondition for making aid effective. Recent studies at the Bank show that aid channeled to poor countries with poor performance has no effect. Whereas when channeled to poor countries with good economic policies, 1% of GDP in aid results in an increase in the growth rate of 0.4 percentage points and a decline in infant mortality of

0.8%. We estimate that a reallocation of aid from poor policy countries to good policy countries would raise the growth of poor countries by an estimated one third.

Let's be frank, putting macroeconomic reforms in place sometimes means making very tough trade-offs. Significantly, a whole new generation of African leaders are now beginning to make those pragmatic trade-offs and are putting those economic reforms in place. They deserve our wholehearted support.

For many countries attracting foreign capital and generating domestic savings also means venturing into new territory - establishing legal frameworks for property rights, reforming regulations and the civil service, creating financial systems, building capacity and improving governance. Areas of activity which now rank high on the Bank Group's lending and advisory agenda, but which 20 years ago were almost unknown.

It can also mean offering guarantees - The newest member of the World Bank Group - MIGA - insures foreign direct investment in developing countries against political risks - to date it has outstanding coverage of \$2.3 billion.

Creating a dynamic private sector and attracting foreign capital also means dealing with corruption.

We know that corruption discourages investment and impedes economic growth. But we also know that this is much more than a question of the cost to businessmen of doing business. The greatest victims of petty corruption are almost always the poor. They are the ones who time and again are asked to pay a price they can ill-afford.

Corruption is not just an issue for developing countries. There are those that are corrupted and there are the corruptors. And many corruptors come from developed countries. If we don't want the cancer of corruption to spread in the world we must all stand up to it.

Mr. Chairman, in stressing the critical importance of a dynamic private sector, I certainly do not mean to imply there is little role for government in development. There is indeed a vital role. Motivated as it is by the search for an attractive economic return, the private sector simply won't address basic development needs like health and education. And yet we know that no country has really experienced sustained economic development without such investment.

Better health and education are unambiguously associated with higher wages and an improved ability to innovate. Self-employed women in Guinea with primary education earn 29% more than those with no education. African farmers with 4 years of education - the minimum needed to attain literacy - are more productive than those with no education. In Northeast Brazil, children of mothers who have completed primary school are 2 ½% taller than those of illiterate mothers - an indication of their improved nutrition.

And as we know educating girls has a catalytic effect on almost every aspect of development - lower child and maternal mortality rates, reduced fertility rates, increased educational attainment by daughters and sons, higher productivity and environmental management.

The beauty of education is that it not only empowers the poor, it also reduces income inequality. At the Bank we've undertaken a series of cross-country studies which show that the income share of the bottom 60% of the population is significantly enhanced by having been enrolled in school 15 years earlier.

The grim reality, however, is that globally today 130 million children do not go to primary school - 80 million of them girls, and primary health is as neglected as primary education. Governments spend roughly \$1 per capita on public health, against a minimum requirement of \$4 per capita.

But the state has a further role to play. Investing in the poor and providing jobs helps those who can help themselves. But what about the sick, or the elderly? What about the grandfather in a transition economy such as Russia's, who no longer has a pension because his state owned enterprise has been privatized, the worker who no longer has health coverage, or the mother who no longer has childcare. Governments have a role to play not just in helping people to become productive participants in society, but in supporting those who cannot help themselves, and that includes those whose lives have been turned upside down by economic transition. Safety nets for the sick, for job losers, for the elderly are crucial to the efficient functioning of any society. Public support for reform in the developing countries and in the transition economies simply won't be sustained unless we pay very direct attention to human travail.

Three months ago I was in Russia..... In Russia today life expectancy for men has fallen by xx %; coronary disease and xxx have increased by xxx. That's an incredible human toll to pay for change.

I can tell you one comes away from such exposure with a certainty that helping people is much more than a matter of stabilizing macroeconomic policy and balancing budgets. It's also making sure that programs take account of purely human concerns. We can draw up perfect macroeconomic plans, but if we can't actually deliver benefits to the people, we must ask ourselves what it is we're accomplishing.

Significantly 90% of what the Bank is doing in Russia today is for social underpinning. We have two \$500 million loans for Russia and the Ukraine to finance retraining and social underpinning while the coal sector is being restructured. And what applies in the transition economies also applies when we recommend privatization to developing countries. In all cases we need to recognize that we can't have economic development without social development.

Significantly, a growing number of private companies are beginning to recognize that fact too. Not because of any charitable impulse on their part but because they know that the social agenda is good business; that without it you risk social collapse. And we in the Bank have a whole new agenda in front of us in capitalizing on this new recognition and working with the private sector on issues of corporate responsibility: trying to make sure that the private sector adheres to environmental standards for example.

But be it investing in people, creating jobs, or protecting the vulnerable, success will depend critically on how we implement policies. In September 1947, six months into his job as President of the World Bank. John J. McCloy was asked to help sell the Marshall Plan - which Paul Hoffman then went on to implement - to the US Congress. McCloy put his finger on a central element - outside assistance, he said, was vital, but ultimately the answer to Europe's problems must be determined by Europeans themselves.

We knew it then when we talked about postwar European reconstruction. We somehow forgot it when we turned our attention to the developing world. Today, we need to relearn it.

And that means that we can't be in the business of imposing programs devised in Washington, Geneva, or New York which bear no affinity to local conditions, or cultures. And neither can we be in the business of looking at economic bottom lines with no regard for local communities or local buy-in.

Project after project has shown that in schooling, irrigation, forestry, water supply, involving communities is a key to success. In a study of 121 water supply projects in 49 countries, we found that only 8% of those that did not involve participation by beneficiaries were successful, as compared with almost two-thirds that did involve the participation of local communities. And those findings can be replicated across a whole number of sectors. We have to listen and learn and to work with local communities and civil society. And the Bank is doing precisely that. We're currently decentralizing to the field, and including stakeholder participation in project design and implementation. Two years ago we had two Bank staff whose job it was to liaise with NGOs and civil society. Today we have more than 50.

But let's be frank, greater community participation also involves a changed attitude on the part of a number of developing country governments.

Increasingly, we also need to take account of people not just as individuals but as social groups - the invisible bonds of family, trust, religion and community which bind societies together. Attempts at development which shear these ties leaving nothing in their place are bound to fail.

Mr. Chairman: I have talked about the new development agenda of encouraging private investment. I have talked about ways we need to raise the value of labor through health and education. I have talked about the overriding need to make sure that while we

privatize and balance budgets we factor in safety nets so that we don't end up hurting those we aim to help. And overarching all these, I have talked about the need to put people at the center of the development process.

But Mr. Chairman, in the world of 1997, none of us can do this alone.

I spoke earlier of the range of new actors - not just the MDBs, and the UN System, but foundations, the private sector, civil society and of course governments. Only through partnership among these groups will we be able to tackle the enormous challenges we face.

Many of those partnerships are already beginning to take root and grow: Public-private partnerships to combat riverblindness; Bank/UN partnerships to tackle the enormous problem of AIDS, government-Bank partnerships to build African capacity.

Through partnerships built on each of our comparative advantages we can all begin to leverage our efforts. And let me stress that at the Bank we are prepared to lead, or follow or be in the middle. To put our name on it, or to be anonymous. The important thing is to get the job done.

But in order to get the job done we need to make sure that in everything we do we are geared to development effectiveness. If we are going to get support and stay in business, we better make sure that what we are doing is useful, sustainable and effective.

You may say that's obvious. But the fact is that most of the development institutions in the world haven't operated on the basis of development effectiveness - partly because it's very hard to judge effectiveness. What does it mean to make an effective program for children in school? Is a statistic that we get more girls to come to school for 2 or 3 years an adequate measure of our effectiveness in girls education? Clearly it isn't.

You can go into rural areas and improve crop yields by planting seeds farther apart and getting corn that is twice as high. But it's not success if you can't store it, if you can't get it to market, or if you have a monopolistic system of pricing.

As we enter the 21st century all of us, at the Bank, in the UN system, in governments and in NGOs have to address the issue of what is effectiveness in the development business. We all talk about poverty reduction and sustainability, but if we are really to make a difference for the 4.7 billion people - who will be 8 billion in 30 years time - we need to make sure that we can actually deliver results on the ground in a meaningful way.

And that means more than raising GDP per capita, Mr. Chairman. It means improving quality of life in all its dimensions. It means bringing people into society who, to all intents and purposes, have never been allowed to live there before. And it means doing these things not simply as a means of maximizing output, but as ends in themselves.

Mr. Chairman, let me conclude where I started - with people.

Two months ago, I was visiting Brazil and I went into one of the favelas for two or three hours. I went to the top of the favela where we have a community project putting in water, and sewerage. And the reception I got was enormous. And as I walked around people kept coming up to me with little pieces of paper in their hand showing that they could spend and pay the 8 cruzeiros a month that was necessary for their water and for their sewerage.

And I watched this until one of my Brazilian friends said, what they're showing you is not that they've got credit, it's that this is the first time in their lives that they've had a piece of paper which recognizes their existence. This is the first time they've had their name on an official notice with an address. This is the first time that they're in society.

It took not a long time to sink in but I tell you when I came down the mountain I recognized that the task that we're engaged in is a truly remarkable task. I'm very proud to have been in that favela and I'm very proud to be working in favelas and farms and villages around the world.

The World Bank
Washington, D.C. 20433
U.S.A.

JANE ARMITAGE
Director
External Affairs

May 28, 1997

Mr. James D. Wolfensohn

Jim:

Your Visit to New York - Thursday, May 29, 1997

Your visit to the UN for the Hoffman Lecture will include four associated events:

5:15 - 5:45 p.m. Informal Press Briefing. (Conference Room A).
6:00 - 7:30 p.m. Hoffman Lecture. (Trusteeship Council Chamber)
7:30 - 8:15 p.m. Reception at the United Nations. (West Terrace Dining room)
8:30 p.m. Dinner hosted by the Money Matters Institute. (Sky Club, 200 Park Avenue)

You should arrive at the United Nations Delegates Entrance (Southeast corner of First Avenue and 45th Street) at 5:00 p.m. You will be met there by UNDP staff (UNDP is the organizer of the Hoffman Lecture) and Alfredo Sfeir-Younis, the Bank's Special Representative to the UN. Passes have been arranged for you and Mrs. Wolfensohn. Mark Malloch Brown arrives in New York at 4:00 p.m. and will join you as soon as he can get in from the airport.

Press Conference:

The press conference is a traditional prelude to the Hoffman Lecture. Its purpose is to preview the remarks you will make, and not to engage in an open-ended discussion of Bank and/or UN issues. Barbara Frances, Deputy Director of the UN's Department of Public Information, will moderate the Q & A. All journalists accredited to the United Nations have been invited, and UNDP anticipates a turnout of approximately 15-25 journalists. UNDP will provide a list of confirmed participants tomorrow.

Hoffman Lecture:

A detailed schedule for the Lecture program is attached. You will speak for 30 minutes following introductory remarks by Kofi Annan, Gus Speth, and Inge Kaul,

Director of the Office of Development Studies at UNDP. Mr. Speth and Richard Jolly, Special Adviser to the Administrator, will moderate the 20-minute discussion period.

Reception:

The reception, for approximately 175 guests, will be held in the West Terrace Dining Room two flights up from the Trusteeship Council Chamber. The Secretary-General has indicated that he plans to attend this event as well.

Mark will introduce two people who have specially asked to meet with you: **Ambassador Vladimir Galuska** (Czech Republic), President of the UN Economic and Social Council (ECOSOC) and; **Mr. Pierre Cornillon**, Secretary General of the Inter-Parliamentary Union (IPU).

- Ambassador Galuska assumed the presidency of ECOSOC in early-May and will preside over the Council's substantive session in Geneva, 30 June-25 July. Jean-Francois Rischard will represent the Bank in your place during the one-day policy dialogue between ECOSOC ministers and the heads of the IMF, UNCTAD, WTO and the Bank. This meeting will give you the opportunity to take note of issues on the ECOSOC agenda, to let him know that you regret that your schedule does not permit you to attend, and to wish him a successful and productive term as president.
- Pierre Cornillon was elected Secretary General of the IPU in 1987. He met with Mark, Matt McHugh, and Armeane Choksi in August 1996 to discuss issues of mutual interest, including the potential for joint Bank-IPU training programs of parliamentarians in countries with fragile democratic institutions. Mr. Cornillon is an energetic proponent of the IPU's status as the oldest parliamentary union and one that is composed of institutions, not individual legislators. Mr. Cornillon's visit to the UN coincides accidentally with your own and, as he had requested a private meeting with you some time ago, this permits you a few minutes to get acquainted. You need not feel obliged to commit to another personal meeting.

Dinner:

Money Matters Institute -- of which the World Bank is a member -- is sponsoring a dinner for 50 guests at the Sky Club, 200 Park Avenue. A brief description of the Institute is attached. Cars have been arranged to transport you and other guests from the United Nations to the dinner. They will be waiting at the front entrance to the United Nations.

It would be much appreciated if you would speak for 5-10 minutes about the changes you are making at the Bank, particularly as they relate to the private sector. The Grameen Bank, represented by its Managing Director, Khalid Shams, also will be honored by Money Matters that evening. Mr. Shams will be seated at your table.



Jane Armitage
Acting Vice President

Attachments

JGrayson/New York Office (212-986-8247)/jsg

PAUL G. HOFFMAN LECTURE SERIES

presented by

MR. JAMES D. WOLFENSOHN
President of the World Bank

AGENDA FOR 29 MAY 1997

LECTURE **Trusteeship Council Chamber**

6:00 - 6:10 p.m.	Seating of Guests
6:10 - 6:13 p.m.	WELCOME Inge Kaul, Director, UNDP/ODS
6:13 - 6:18 p.m.	OPENING Alice Ridley Sidibe (singer)
6:18 - 6:25 p.m.	WELCOME James Gustave Speth, Administrator, UNDP
6:25 - 6:30 p.m.	WELCOME Kofi Annan, Secretary-General, UN
6:30 - 6:33 p.m.	INTRODUCTION James Gustave Speth, Administrator, UNDP
6:33 - 7:05 p.m.	LECTURE James D. Wolfensohn
7:05 - 7:06 p.m.	AWARD PRESENTATION James Gustave Speth, Administrator, UNDP
7:07 - 7:29 p.m.	DISCUSSION (Questions/Answers) James Gustave Speth/Richard Jolly, Moderators
7:30 p.m.	CLOSING James Gustave Speth, Administrator, UNDP

RECEPTION
West Terrace Dining Room
7:30 - 8:15 p.m.

James D. Wolfensohn
Paul Hoffman Lecture
May 29 1997

C. Anstey
5/28/97

People First

It is a great honor to have been asked to deliver this lecture in memory of Paul Hoffman. Not only was he an extraordinary statesman and humanitarian, but he was a man whose defining life work - be it managing the Marshall Plan or leading UNDP - showed his overriding commitment not to living people's lives for them, but to giving people the tools, the opportunities and the encouragement to help themselves.

As I traveled here today, it struck me that Hoffman and I both came to development from similarly circuitous routes. Hoffman from the Studebaker Corporation; in my own case from investment banking. I do not know what thoughts crossed Paul Hoffman's mind as he first stared at a war torn and ravaged Europe (and thereafter dedicated his life to reconstruction and economic development.) I do know from my own experience that that first encounter with overwhelming human need can be life-changing. I saw it in
xxxxxxxxxxxxxx (JDW please add)

But many people don't see it. Even in 1997, it is possible to live one's life ignorant of the developing world. We wake up, we go to work, we provide for our families and we don't think about it, or if we think about it, it's as an article from National Geographic: foreign, sometimes exotic, sometimes horrifying, but not part of us.

Over the last 2 years, I have traveled to over 50 countries. I have talked to people in villages, slums and parliaments, and I have come to realize that this world is not another world, it's our world. We're linked with this world. We're linked with it because we share the same environment. We're linked with it because we breathe the same air. We're linked with it because our health is dependent on the health in those countries. And we're linked by crime and we're linked by migration and we're linked by war. The developing world is not something we can opt out of.

23 million people are now inflected with AIDS world wide; carbon emissions have grown by nearly 200 million tons since 1990; 30 million men women and children are refugees. These are not developing country issues. These are global issues.

And it's our world not just for social or moral reasons. It's our world for economic reasons. In the years since 1990, 50 % of the growth in GDP has come from developing countries and 40% of the growth in trade. The Bank estimates that by the year 2010 developing countries will consume 40% of all goods and services the world produces. And developing countries will continue to grow at an average rate of 5-6% a year into the next decade, double that of the major industrial countries.

And it's our world not just because of economics but because we make up one humanity with all the collective responsibility that that entails.

Mr. Chairman. I must admit it is a strange and moving experience for me to find myself here in New York - a city I have known and loved so well as an investment banker - talking tonight about development. Now I live in a different city and a different world. It's a world of 4.7 billion people, many of whom live in unimaginable conditions. But what I've learnt most as I've traveled around that world is that in country after country people are the same. They have the same hopes for their children. The same fears about their old age. None of these people want charity. As Paul Hoffman knew so well when he put the European Recovery Program into action, they want a chance. They want to be given the opportunity to help themselves, with dignity and with their own customs and approaches.

If I have taken away one thing from those travels it is that the overall objective of development must be people. People are the means and people are the ends. Not numbers on a bottom line; not calculations of how much in the ledger is red and how much is black - but people. And not just lowering the number of the world's poor who are living on less than \$1 a day; but improving infant mortality rates, literacy rates, freedom from ill health, freedom from violence and crime.

The world has made tremendous progress in recent decades. Life expectancy has risen more in the last 40 years than in the previous 4,000. Infant mortality has been halved. Even in Sub-Saharan Africa where progress in reducing poverty has been slowest, infant mortality rates have decreased by a third and life expectancy has risen by 8 years.

And yet, despite this progress, 1.3 billion people live in the developing world on less than \$1 a day; 3 billion people live on less than \$2 a day. Every year 45 million children under 5 die avoidable deaths. In Sub-Saharan Africa and South Asia, close to 50% of the region's adults can neither read nor write. In the world's 50 poorest countries, the rate of illiteracy among women is almost double that among men. And across the globe violence and crime are increasing.

There has also been great diversity. Some countries and regions of the world have clearly done much better than others. In the most developed countries incomes have doubled or tripled since 1960. In some developing countries, incomes have increased six, seven or even eight times their 1960 levels. In others incomes are stagnant, and in some developing countries over the last 30 years, average incomes have been halved.

Between 1980 and 1993, while the high income countries experienced 2 percent growth, the low income countries - excluding India and China - grew only .1%, with more than half experiencing negative growth.

Today, low income countries today make up 56% of the world's population but have less than 5% of the world's income. And inequalities between rich and poor countries are

growing. Between 1960 and 1990 the incomes of the richest 20 percent grew 3 times faster than the incomes of the poorest 20%. As a result the share in global incomes of the poorest 20% of the world's population has fallen from 2.3% to 1.4%.

Within countries there has also been great diversity. In China, an urban resident in Guangdong province has an average annual income 9 times greater than a rural resident in Gansu; in Guinea-Bissau in 1991 the poorest 20% of the population had 2.1% of total consumption, the richest 20% of the population had 59%. Or take Guatemala, where the poorest 10% of the population had only 0.6% of total income, while the richest 10% had 46%.

In society after society around the world, the needs and preferences of the wealthy are well reflected in policy while the voices of the poor go unheard in the corridors of power. In many countries, voice is distributed as unevenly as income. The poor are not only marginalized; they are condemned to live outside society, with neither their needs, nor often their existence, recognized.

The result is a growing disconnect within societies which erodes social cohesion, and often leads to social collapse. Over the last 10 years more than half of the world's low-income countries have experienced conflict with massive population displacements. Between 1985 and 1995 the number of refugees doubled, reaching over 30 million. And the number of uprooted people rises above 40 million if one includes people who are internally displaced within their own countries.

To be sure, some developing countries have experienced remarkable success. Singapore which in 1965 had a per capita income of \$3,900 and which now has a per capita GDP of more than \$28,000. The Republic of Korea which in 1965 had a per capita income of \$1,100 and which last year was admitted to the OECD with a per capita income of more than \$10,100. Here in our own hemisphere a number of Latin American countries - long plagued by weak and fitful performance - have recently begun to show great promise. But these, unhappily, are exceptions

Let me assure you, I do not mean to minimize the successes that have occurred. My fundamental point is a different one. It's to emphasize that unless we in the development community can be sure that development is reaching the very poorest, we have no right to consider a job well done.

Mr. Chairman, economists have long argued about the relationship between growth and poverty reduction. The bounds of disagreement have narrowed and there is now a fairly general appreciation that none of the poorer countries can hope to reduce poverty in the absence of growth.

But growth itself is not enough. Unless we can ensure that growth is shared across a broad social strata we risk missing the very people we seek to help.

Some of those people clearly can be helped. Look at Indonesia where per capita consumption increased from \$140 in 1970 to \$310 in 1993, and the poverty rate dropped from 58% to 8%.

?
The potential of shared growth is enormous. Take India where we estimate that a rate of broadly shared growth of no more than 3% a year sustained over a decade – something that seems entirely feasible – would halve the number of poor.

Population growth?
But contrast this with a typical country in Sub-Saharan Africa, where a growth rate of 3% a year will not discernibly affect Africa's poverty indicators or its numbers of poor, but where it would take a growth rate of at least 6% sustained over 10 years to halve the number of poor. These are the countries that are the real test of development.

Mr. Chairman, we face that test at a time of enormous global change.

53 years ago when the architects of the World Bank and the International Monetary Fund met at Bretton Woods, we stood on the verge of a bipolar world which would divide countries and regions, but under which development aid would actually fare pretty well. Keeping clients from "going communist" or "turning capitalist" proved a powerful boon to giving.

Fifty three years later the incentives are very different. In the wake of the Cold War, official development assistance --bilateral and multilateral combined – has fallen to its lowest level in almost 50 years.

And other changes are impinging dramatically on development approaches as well. Where once the World Bank was virtually the only player in town, we are now part of a growing universe - Multilateral Development Banks, the UN system, WTO, EU and a growing number of foundations.

We also face a very different political and economic world. Roughly 5 billion people now live in market economies compared with 1 billion a decade ago.

And hand in hand with those economic changes we have also seen the spread of democracy. In 1974 only 39 countries - one in every four - were democratic. Today 117 countries - nearly two in three - use open elections to choose their national leadership. Two-thirds of the adult population in developing countries is now eligible to participate in national elections.

And with democracy has come a whole new role for civil society. Since the late 1980s the number of NGOs operating in parts of Africa and Asia has almost doubled. Poland now has 30,000 registered NGOs. In some OECD countries, operating expenditures in the voluntary or NGO sector now account for almost 4% of GDP.

What are Official flows?

Globalization, democratization and marketization are changing the nature of the development business.

But perhaps nothing has changed more over the last 7 years than the way in which development is being financed and the increasing trend from public to private sources.

Last year, private capital flows to emerging economies were nearly six times their level in 1990 - up from just \$44 billion then to \$244 billion last year. Private flows are now 5 times official flows; 7 years ago official flows were double private flows.

But the fact remains that a very large group of countries have not yet been able to hook up to the driving dynamics of expanded capital, trade and information flows. Some others are so laggard that they face potential marginalization.

Today, of the \$244 billion in private capital going to developing countries, 75% is going to just 12 countries. 140 of the 166 developing countries receive less than 5% of total capital flows. Over the last three years, Sub Saharan Africa (excluding South Africa) received only about 1% of total private capital flows.

The poorest countries are trapped in a viscous circle where poverty breeds instability and private investors run for cover.

Mr. Chairman: What does that changing world means for our efforts to reach the poor?

Let me be absolutely clear. Given the remarkable transformation of the global setting, I am absolutely convinced that financial and development institutions are not going to be the primary engines of poverty reduction, and neither will governments. This will be done by the private sector. But international institutions and governments have a critical role to play as catalysts. And that means helping to create conditions in developing countries that will encourage sustained inflows of international private capital and equally, if not more importantly, will allow the locals to have the confidence to invest in their own countries.

It's time we change our old habits of thinking that the private sector is somehow bad for the poor while the state sector is good. This isn't a matter of ideology. It's a simple recognition that public-enterprise efforts in isolation have all too often yielded meager or negative results. In many countries public enterprise losses are on the range of 8 -10% of GDP. Too often state spending continues to go into areas with little or no benefit to the poor. We estimate that 25% of African budgets are needed to cover losses from state owned enterprises - which means that 2-3 times more of scarce budgetary resources are spent on state enterprise losses than on health or education. We need to recognize that it's fiscal restraint on funding parastatals which will ultimately free up money to spend on health and education.

We need to find ways to allow governments to divest themselves of activities that the private sector can do better and all of us in the development business need to recognize that macroeconomic reform is an absolute precondition for attracting private capital. It's also a precondition for making aid effective. Recent studies at the Bank show that aid channeled to poor countries with poor performance has no effect. Whereas when channeled to poor countries with good economic policies, 1% of GDP in aid results in an increase in the growth rate of 0.4 percentage points and a decline in infant mortality of 0.8%. We estimate that a reallocation of aid from poor policy countries to good policy countries would raise the growth of poor countries by an estimated one third.

Let's be frank, putting macroeconomic reforms in place sometimes means making very tough trade-offs. Significantly, a whole new generation of African leaders are now beginning to make those pragmatic trade-offs and are putting those economic reforms in place. They deserve our wholehearted support.

For many countries attracting foreign capital and generating domestic savings also means venturing into new territory - establishing legal frameworks for property rights, reforming regulations and the civil service, creating financial systems, building capacity and improving governance. Areas of activity which now rank high on the Bank Group's lending and advisory agenda, but which 20 years ago were almost unknown.

It can also mean offering guarantees - The newest member of the World Bank Group - MIGA - insures foreign direct investment in developing countries against political risks - to date it has outstanding coverage of \$2.3 billion.

Creating a dynamic private sector and attracting foreign capital also means dealing with corruption.

We know that corruption discourages investment and impedes economic growth. But we also know that this is much more than a question of the cost to businessmen of doing business. The greatest victims of petty corruption are almost always the poor. They are the ones who time and again are asked to pay a price they can ill-afford.

Corruption is not just an issue for developing countries. There are those that are corrupted and there are the corruptors. And many corruptors come from developed countries. If we don't want the cancer of corruption to spread in the world we must all stand up to it.

Mr. Chairman, in stressing the critical importance of a dynamic private sector, I certainly do not mean to imply there is little role for government in development. There is indeed a vital role. Motivated as it is by the search for an attractive economic return, the private sector simply won't address basic development needs like health and education. And yet we know that no country has really experienced sustained economic development without such investment.

Better health and education are unambiguously associated with higher wages and an improved ability to innovate. Self-employed women in Guinea with primary education earn 29% more than those with no education. African farmers with 4 years of education - the minimum needed to attain literacy - are more productive than those with no education. In Northeast Brazil, children of mothers who have completed primary school are 2 ½% taller than those of illiterate mothers - an indication of their improved nutrition.

And as we know educating girls has a catalytic effect on almost every aspect of development - lower child and maternal mortality rates, reduced fertility rates, increased educational attainment by daughters and sons, higher productivity and environmental management.

The beauty of education is that it not only empowers the poor, it also reduces income inequality. At the Bank we've undertaken a series of cross-country studies which show that the income share of the bottom 60% of the population is significantly enhanced by having been enrolled in school 15 years earlier.

The grim reality, however, is that globally today 130 million children do not go to primary school - 80 million of them girls, and primary health is as neglected as primary education. Governments spend roughly \$1 per capita on public health, against a minimum requirement of \$4 per capita.

But the state has a further role to play. Investing in the poor and providing jobs helps those who can help themselves. But what about the sick, or the elderly? What about the grandfather in a transition economy such as Russia's, who no longer has a pension because his state owned enterprise has been privatized, the worker who no longer has health coverage, or the mother who no longer has childcare. Governments have a role to play not just in helping people to become productive participants in society, but in supporting those who cannot help themselves, and that includes those whose lives have been turned upside down by economic transition. Safety nets for the sick, for job losers, for the elderly are crucial to the efficient functioning of any society. Public support for reform in the developing countries and in the transition economies simply won't be sustained unless we pay very direct attention to human travail.

Three months ago I was in Russia. In Russia today life expectancy for men is lower now than it was 30 years ago, (in the ten years since 1986 life expectancy for men has fallen by 5 years). Coronary disease is increasing; so is alcoholism. That's an incredible human toll to pay for change.

I can tell you one comes away from such exposure with a certainty that helping people is much more than a matter of stabilizing macroeconomic policy and balancing budgets. It's also making sure that programs take account of purely human concerns. We can draw up perfect macroeconomic plans, but if we can't actually deliver benefits to the people, we must ask ourselves what it is we're accomplishing.

Significantly 90% of what the Bank is doing in Russia today is for social underpinning. We have two \$500 million loans for Russia and the Ukraine to finance retraining and social underpinning while the coal sector is being restructured. And what applies in the transition economies also applies when we recommend privatization to developing countries. In all cases we need to recognize that we can't have economic development without social development.

*Private
anyone* || Significantly, a growing number of private companies are beginning to recognize that fact too - not because of any charitable impulse on their part but because they know that the social agenda is good business; that without it you risk social collapse. And we in the Bank have a whole new agenda in front of us in capitalizing on this new recognition and working with the private sector on issues of corporate responsibility: trying to make sure that the private sector adheres to environmental standards for example.

*have
today* || But be it investing in people, creating jobs, or protecting the vulnerable, success will depend critically on how we implement policies. In September 1947, six months into his job as President of the World Bank. John J. McCloy was asked to help sell the Marshall Plan - which Paul Hoffman then went on to implement - to the US Congress. McCloy put his finger on a central element - outside assistance, he said, was vital, but ultimately the answer to Europe's problems must be determined by Europeans themselves.

We knew it then when we talked about postwar European reconstruction. We somehow forgot it when we turned our attention to the developing world. Today, we need to relearn it.

And that means that we can't be in the business of imposing programs devised in Washington, Geneva, or New York which bear no affinity to local conditions, or cultures. And neither can we be in the business of looking at economic bottom lines with no regard for local communities or local buy-in.

Project after project has shown that in schooling, irrigation, forestry, water supply, involving communities is a key to success. In a study of 121 water supply projects in 49 countries, we found that only 8% of those that did not involve participation by beneficiaries were successful, as compared with almost two-thirds that did involve the participation of local communities. And those findings can be replicated across a whole number of sectors. We have to listen and learn and to work with local communities and civil society. And the Bank is doing precisely that. We're currently decentralizing to the field, and including stakeholder participation in project design and implementation. Two years ago we had two Bank staff whose job it was to liaise with NGOs and civil society. Today we have more than 50.

But let's be frank, greater community participation also involves a changed attitude on the part of a number of developing country governments.

Increasingly, we also need to take account of people not just as individuals but as social groups - the invisible bonds of family, trust, religion and community which bind societies together. Attempts at development which shear these ties leaving nothing in their place are bound to fail.

Mr. Chairman: I have talked about the new development agenda of encouraging private investment. I have talked about ways we need to raise the value of labor through health and education. I have talked about the overriding need to make sure that while we privatize and balance budgets we factor in safety nets so that we don't end up hurting those we aim to help. And overarching all these, I have talked about the need to put people at the center of the development process.

But Mr. Chairman, in the world of 1997, none of us can do this alone.

I spoke earlier of the range of new actors - not just the MDBs, and the UN System, but foundations, the private sector, civil society and of course governments. Only through partnership among these groups will we be able to tackle the enormous challenges we face.

Many of those partnerships are already beginning to take root and grow: Public-private partnerships to combat riverblindness; Bank/UN partnerships to tackle the enormous problem of AIDS, government-Bank partnerships to build African capacity.

Through partnerships built on each of our comparative advantages we can all begin to leverage our efforts. And let me stress that at the Bank we are prepared to lead, or follow or be in the middle. To put our name on it, or to be anonymous. The important thing is to get the job done.

But in order to get the job done we need to make sure that in everything we do we are geared to development effectiveness. If we are going to get support and stay in business, we better make sure that what we are doing is useful, sustainable and effective.

You may say that's obvious. But the fact is that most of the development institutions in the world haven't operated on the basis of development effectiveness - partly because it's very hard to judge effectiveness. What does it mean to make an effective program for children in school? Is a statistic that we get more girls to come to school for 2 or 3 years an adequate measure of our effectiveness in girls education? Clearly it isn't.

You can go into rural areas and improve crop yields by planting seeds farther apart and getting corn that is twice as high. But it's not success if you can't store it, if you can't get it to market, or if you have a monopolistic system of pricing.

As we enter the 21st century all of us, at the Bank, in the UN system, in governments and in NGOs have to address the issue of what is effectiveness in the development business. We all talk about poverty reduction and sustainability, but if we are really to make a

difference for the 4.7 billion people - who will be 8 billion in 30 years time -we need to make sure that we can actually deliver results on the ground in a meaningful way.

And that means more than raising GDP per capita, Mr. Chairman. It means improving quality of life in all its dimensions. It means bringing people into society who, to all intents and purposes, have never been allowed to live there before. And it means doing these things not simply as a means of maximizing output, but as ends in themselves.

Mr. Chairman, let me conclude where I started - with people.

Two months ago, I was visiting Brazil and I went into one of the favelas for two or three hours. I went to the top of the favela where we have a community project putting in water, and sewerage. And the reception I got was enormous. And as I walked around people kept coming up to me with little pieces of paper in their hand showing that they could spend and pay the 8 cruzeiros a month that was necessary for their water and for their sewerage.

And I watched this until one of my Brazilian friends said, what they're showing you is not that they've got credit, it's that this is the first time in their lives that they've had a piece of paper which recognizes their existence. This is the first time they've had their name on an official notice with an address. This is the first time that they're in society.

It took not a long time to sink in but I tell you when I came down the mountain I recognized that the task that we're engaged in is a truly remarkable task. I'm very proud to have been in that favela and I'm very proud to be working in favelas and farms and villages around the world.

Money Matters Institute Dinner
in Honor of
James D. Wolfensohn, President, The World Bank

Institute Members

Gregory F. Ahern, Senior Vice President, State Street Corporation, Boston
Peter Aldrich, Chairman, AEW International, Boston
Thomas Cochran, President, MBIA & Associates International Consulting, Armonk
Richard Frank, Managing Director, The World Bank Group, Washington, DC
Roderick Gow, Chairman, Amrop International, New York
Inge Kaul, Director, Office of Development Studies, UNDP, New York
Samer Khanachet, President, United Gulf Management, Boston
Edward Madden, Vice Chairman, Fidelity Management Trust, Boston
Khalid Shams, Deputy Managing Director, Grameen Bank, Dhaka

Guests

Caroline Anstey, Assistant to the President, The World Bank, Washington DC
Jose Antonio Diaz, Managing Director, Banco Santander Investment, New York
Mary Ellen Barton, London
Robert Beckwitt, Vice President, Asset Management Division, Goldman Sachs & Co., New York
Jan Beta-Bohrer, New York
Richard Butler, Ambassador, Australian Mission to the United Nations, New York
Barbara Evans Butler, New York
William Chui, Director, Hong Kong Trade Development Council, New York
Linda Descano, Vice President, Environmental Affairs, Salomon Brothers
Debra Descoux, Vice President, MBIA Insurance Corporation, Armonk
Hani Findakly, CEO, Potomac-Babson Associates, New York
John Fogarty, New York
Judy Grayson, Counsellor, The World Bank, New York
Hannah Grove, Director of Marketing, World Times Inc., Boston
Alfredo Jefferson, Deputy Chief, Regional Bureau for Latin America & the Caribbean, UNDP, New York
Richard Jolly, Special Advisor the the Administrator, UNDP, New York
Alan Kaufman, Partner, Jones, Day, Reavis & Pogue, New York
James Kavanagh, New York
Ranjana Kumar, Senior Vice President, Bank of India, New York
John Langmore, Director, Social Policy and Development, UNDP, New York
Axel Leblois, Chairman, World Times, Inc., Boston
Michael Maguire, Managing Director, MBIA-AMBAC International, Armonk
Mark Malloch Brown, Vice President, External Affairs, The World Bank, Washington, DC
Senator Jose Luis Medina, State of Nayarit, Tepic
Mrs Jose Luis Medina, Tepic
Frank Mirkow, Manager, Emerging Markets Division, Arthur Andersen, Washington DC
Thomas Mullins, Director, Harvard Islamic Finance Information Program, Cambridge
Michel Perez, Senior Vice President, First National Bank of Chicago, New York
Barbara Samuels, President, Samuels & Associates, New York
Alfredo Sfeir-Younis, Special Representative to the United Nations, The World Bank, New York
Crocker Snow, Jr., President & Editor in Chief, World Times Inc., Boston

James Gustave Speth, Administrator, United Nations Development Programme,
New York
Mahbub Ul Haq, President, Human Development Center, Islamabad
James Walsh, Managing Director & COO, Societe Generale Securities Corporation,
New York
Anders Wijkman, Assistant Administrator & Director Bureau for Policy and
Programme Support, UNDP, New York
Elaine Wolfensohn, Washington, DC
Sara Wolfensohn, New York
Fernando Zumbado, Director, Regional Bureau for Latin America and the
Caribbean, UNDP, New York



MONEY MATTERS INSTITUTE

"to inspire a continuing dialogue among leaders of financial services, international institutions and policy makers in developing countries to foster the most realistic role for private capital in the financing of genuine sustainable development, and to generate the requisite supporting data about the emerging economies to facilitate this role"

The need for fresh, constructive dialogue between sources of private capital and policy makers in developing countries was central to a World Times International Inquiry in Copenhagen, March 1995.

Entitled "Money Matters: Financing Social Development in the 21st Century," the Inquiry took place in the aftermath of the collapse of the Mexican peso and subsequent dislocations for Mexicans and money managers alike. The meeting revolved around bridging the gap between the fiduciary imperatives of private investments and the growing appetite for private development in financing emerging economies. Seventy-five public officials from the UN system and developing countries as well as senior executives in private financial firms participated and encouraged the continuation of the initiative.

Thus, the Money Matters Institute was established to provide a forum for an exchange of experience and innovative thinking regarding sustainable economic development. The Money Matters Working Committee has determined the following to be priorities for the Institute:

- **Yearly Symposium** - An annual Money Matters International Inquiry on the most timely and topical aspects of the subject, organized by World Times in association with the UNDP.
- **Best Practice** - Inventory of the most effective policy steps taken by central banks, stock Exchanges and/or individual countries to attract and retain international private capital.
- **Regional/Country Seminars** - Periodic seminars focusing on regionally significant dimensions of cross-border money flows.
- **Advanced Research** - Expanding and refining the variables in the World Times Wealth of Nations Triangle Index, including data from the most reliable public and private sources and regression analysis to determine the relative importance of each of the variables used.

The Money Matters Institute is administered by World Times, Inc. The Institute is supported by three-year grants from its underwriting members to meet the goals of the Working Committee, which is comprised of senior individuals from the supporting organizations listed above and which sets the Institute's agenda and priorities. Institute members are entitled to participate and invite guests to all Institute-related events, advanced access to data and information generated by the Institute, and participation on the Working Committee.

MONEY MATTERS INSTITUTE MEMBERS:

AEW International • Amrop International • Banque Nationale de Paris • Fidelity Investments • Kuwait Investment Projects Company, K.S.C. • MBIA & Associates--International Consulting • State Street Corporation • United Nations Development Programme • The World Bank Group

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*“To inspire a continuing dialogue
among leaders of financial services,
international institutions and policy
makers in developing countries to foster
the most realistic role for private
capital in the financing of genuine
sustainable development.”*

*A dinner honoring
James D. Wolfensohn*

Money Matters Institute Members

AEW International
Amrop International
Banque Nationale de Paris
Fidelity Investments
Kuwait Investment Projects Company, K.S.C.
MBIA & Associates—International Consulting
State Street Corporation
United Nations Development Programme
The World Bank Group

The Money Matters Institute

was established in 1996 concurrent with an ongoing World Times International Inquiry series entitled, "Money Matters: Financing Social Development in the 21st Century." The Institute is administered by World Times, Inc. and is supported by three-year grants from its underwriting members to meet the goals of a Working Committee comprised of senior individuals from the members of the Institute.

World Times

publishes *TheWorldPaper*, a monthly international affairs publication distributed in twenty-four countries and five languages presenting local views on global issues, and conceptualizes and organizes conferences on key global themes around the world.

*The Money Matters Institute
requests the pleasure of your company
for a dinner in honor of*

*James D. Wolfensohn
President, The World Bank*

*Thursday, May 29, 1997
at 8:30 pm*

*The Sky Club
200 Park Avenue
Park & 45th Streets, New York*

RSVP by May 19 to:
Hannah Grove, World Times, Inc.
Tel: 617-439-5400; Fax: 617-439-5415

Business attire



World Times, Inc.
210 World Trade Center
Boston, Massachusetts 02210



World Times

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In association with:

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Amrop International

Banque Nationale de Paris

Fidelity Investments

Kuwait Investment Projects Company K.S.C.

MBIA & Associates--International Consulting

State Street Corporation

United Nations Development Programme

The World Bank Group

Background

The need for fresh, constructive dialogue between sources of private capital and policy makers in developing countries was identified during a World Times International Inquiry in Copenhagen in March of 1995.

The Inquiry took place in the aftermath of the collapse of the Mexican peso and subsequent dislocations for Mexicans and money managers alike. Entitled "Money Matters: Financing Social Development in the 21st Century", the Inquiry, organized by World Times, was sponsored by State Street Corporation and Fidelity Investments in association with the United Nations Development Programme.

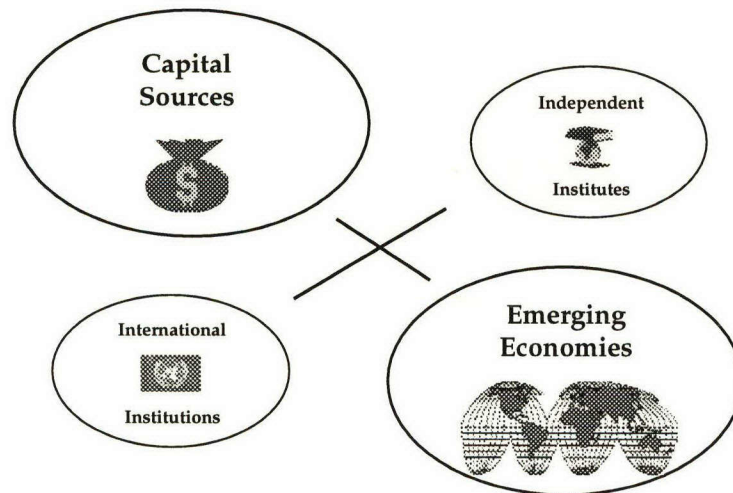
The two-day session revolved around bridging the gap between the fiduciary imperatives of private investments and the growing appetite for private development in financing emerging economies. Seventy-five senior executives in private financial firms and public officials from the UN system and developing countries participated, and encouraged continuation of the initiative.

In a post-Inquiry letter to the President of the World Bank, James Wolfensohn, Marshall Carter, Chairman of State Street Corporation, stated:

"The basic issue is whether global pension funds, totaling US \$7 trillion and global mutual fund assets of US \$4.3 trillion, can assist in growing developing economies through financially sound investments. What has to be done within the developing economies to attract these investments, and what are the expectations vis-a-vis return, stability, securities structures, social and economic development of the "pooled asset" and investment management industry? These are the key questions we are addressing -- I think we can find answers."

Working Committee

The Institute engages different and distinct interest groups in the evolving dynamic of money flows from capital sources to developing countries.



Following the Copenhagen conference, a Money Matters working committee representing these interest groups was formed to build on the initial dialogue. The committee recommended the establishment of a Money Matters Institute administered by World Times with the following purpose:

"to inspire a continuing dialogue among leaders of financial services, international institutions and policy makers in developing countries to foster the most realistic role for private capital in the financing of genuine sustainable development, and to generate requisite supporting data about the emerging economies to facilitate this role."

Members of the committee are:

Prince Moulay Hicham Benabdallah El Alaoui, Prince of Morocco, Rabat
The grandson of the late King Mohammed V, Prince Moulay Hicham has pursued business interests inside and outside of Morocco and independent initiatives around global humanitarian and social issues.

Peter Aldrich, Chairman and CEO, AEW International, Boston
Founder and Co-Chairman of Aldrich Eastman Waltch, one of the oldest and largest independent real estate investment advisors in the United States, Mr. Aldrich is also the founder of the Pension Real Estate Association and a member and Director of the National Bureau of Economic Research.

(cont'd)

Stephen Callahan, Audit Partner, Arthur Andersen, Boston

A fourteen year veteran of Arthur Andersen, Mr. Callahan has served a wide range of financial market clients, advising financial institutions that are establishing trading operations and lecturing on operational and accounting issues facing asset management companies.

Thomas Cochran, President, MBIA & Associates--International Consulting, New York. Presently developing legal frameworks, institutional structures and other tools for fostering sound credit cultures in emerging economies at MBIA & Associates, Mr. Cochran has previously held positions of Executive Vice President of the Institute of Public Administration and Senior Vice President at Lehman Brothers.

Marshall Carter, Chairman and CEO, State Street Corporation, Boston. A member of the executive committee of CEDEL, the Luxembourg-based international securities clearing organization, Mr. Carter previously served with the State Department and the Agency for International Development in the Sinai Peninsula, Guatemala, Italy, and Mali.

Richard Frank, Managing Director, The World Bank, Washington, DC
Mr. Frank has been with The World Bank since 1970. He held the position of Division Chief for agricultural project lending, then moved to the IFC as Director of Finance. In addition to Managing Director, Mr. Frank is also currently Chairman of the Private Sector Development Group and Chairman of the Bank's Finance Committee.

Roderick Gow, Chairman, Americas Region, Amrop International, New York
Before joining Amrop in 1995, Mr. Gow held senior management positions with Russell Reynolds Associates, Inc., GKR Group, and Barclays Bank. Mr. Gow is also an Associate of the Chartered Institute of Bankers and the Board Director of the British-American Chamber of Commerce.

Andrew Hilton, Director, Centre for Financial Innovation, London
Founder of the CSFI, an institution devoted to new thinking about the international finance sector that is sponsored by leading financial institutions, Mr. Hilton is a former project officer at the World Bank.

Inge Kaul, Director, Office of Development Studies, UNDP, New York
Co-author of the UNDP's Human Development Reports since 1990, Dr. Kaul has served as a member of the Executive Office of the Under-Secretary General for International Economic and Social Affairs.

Samer Khanachet, President, United Gulf Management, Boston
Mr. Khanachet is involved in developing and implementing a worldwide investment strategy for the Kuwait Investments Project Company - the parent company to the US-based United Gulf Management Inc. with over \$800 million in assets.

(cont'd)

José Luis Medina, Senator, Mexico City

Member of the Mexican Senate and active in negotiations with the World Bank and IMF on behalf of the Government of Mexico, Senator Medina is currently involved in the creation of the new "afores" financial instrument for pension fund privatization.

Rozali Bin Mohamed Ali, Executive Director, Commerce Asset, Kuala Lumpur
Former assistant-director general at the Institute of Strategic and International Studies (ISIS) Malaysia, Dr. Rozali has varied experience in both the public and private sectors, with specific emphasis on public policy analysis.

Sixto Roxas, Chairman, SKR Advisors, Manila

An investment banker in Manila and principal in the firm SKR Managers devoted to rural development, Mr. Roxas is the former chairman of BanCom and American Express International. During President Aquino's term, he served as economic advisor to the government of the Philippines.

Roger Servison, Managing Director and Executive Vice President, Fidelity Investments, Boston. Having joined Fidelity in 1976, Mr. Servison is currently responsible for new product and market development as well as overall corporate strategy and policy. Mr. Servison was previously co-Founder and Chairman of Tax Man, Inc., and is a graduate of Harvard Business School.

Crocker Snow, Jr., President & Editor in Chief, World Times, Inc., Boston
Former national and foreign editor for the Boston Globe, Mr. Snow is a vice president of the International Development Conference, a board member of the American Institute for Public Service and chairman of the American International School.

Laurent Treca, Executive Vice President, Banque Nationale Paris, Paris
Director of the emerging markets group in the international division of Banque Nationale de Paris, Mr. Treca previously was head of operational management for BANEXI which handles fund management, acquisition financing, corporate advisory services and mergers and acquisitions. Under his management BANEXI became the leading French financial advisor.

*Additional members will be added as the Institute evolves.

Activities

A number of Money Matters initiatives have been undertaken at the recommendation of the Working Committee. These include:

- A regional Money Matters Inquiry in Kuala Lumpur November 28-29, 1995, **"Dressing up for Foreign Capital."** Sponsored by The Commerce Group in association with the United Nations Development Programme (UNDP) and the Institute of Strategic and International Studies. (Appendix A)
- The Second Annual "Money Matters" International Inquiry in Boston March 21 and 22, **"The Role of Private Finance in Fostering Sustainable Development."** Sponsored by State Street Bank and Trust Company and Arthur Andersen & Company, in association with the UNDP. (Appendix B)
- A regional Money Matters Inquiry in Tunis, March 28 and 29, **"Persuading Private Capital to Bank on Small Business."** Sponsored by Prince Moulay Hicham Benabdallah El Alaoui in association with the UNDP and the Tunisian Institute of Strategic Studies. (Appendix C)
- A third regional conference, **"Portfolio Financing: A Cure or a Curse?"** in Santiago, November 7 & 8, in association with the UNDP.
- A fourth regional conference, **"Private Capital Accelerating African Development"** in Harare, March 10 & 11 in association with the UNDP.
- The Third Annual "Money Matters" International Inquiry in Tokyo, April 22 & 23, **"The Private Sector Cause and Effect on Development Finance."** Sponsored by State Street Corporation and Fidelity Investments, in association with the UNDP and with media sponsor *The Weekly Toyo Keizai*.
- A World Times **"Wealth of Nations Triangle Index"** was first published in March, 1996 rating thirty-three emerging economies in combined economic, social environment and information exchange terms. A total of seventy-five variables were factored to provide a transparent and holistic measure of countries for the benefit of portfolio managers in Western money centers. (Appendix D) The Index is updated every six months.

Priorities

The Money Matters Working Committee has identified the following priorities for future attention, and will select the most suitable and realistic to pursue:

- **Yearly Symposium** - An annual "Money Matters" International Inquiry on the most timely and topical aspects of the subject, organized by World Times in association with the UNDP at an appropriate international locale.
- **Best Practice** - Inventory of most effective policy steps taken by Central Banks, Stock Exchanges and/or individual companies in developing countries to attract and retain international private capital. A retreat for Institute members and key finance ministers is planned for September 27 and 28, in Washington DC.
- **Advanced Research** - Expanding and refining the variables in the "Wealth of Nations Index," including data from the most reliable private and public sources and regression analysis to determine the relative importance of each of the variables utilized.
- **Regional/Country Seminars** - Periodic seminars focusing on regionally significant dimensions of cross-border money flows.
- **"Money Matters for Private/Public Partnerships"** - A volume of collected essays by Working Committee members, covering sustainable development, the role of ratings agencies, micro credit, managing private capital flows and "best practice", co-edited by Inge Kaul and Crocker Snow .
- **Web Site** - Creation of a home page on the World Wide Web to present "Money Matters Institute" data, with hyper-links to the web sites of partner organizations involved in the program.

Money Matters Institute Member Profiles

AEW International - AEW International sponsors real estate venture capital, merchant banking and fiduciary service companies in countries outside the United States and Canada. The company seeks direct investment in emerging or converting economies and currently has operating companies in Russia, Mexico and Italy.

Amrop International - A global executive search firm based on the merger of Lamalie Associates and Amrop International, a partnership of 57 firms in 36 countries, Amrop International's client list includes a number of international financial institutions.

Banque Nationale de Paris - France's fourth-largest banking organization, BNP is one of Europe's most active and diversified banks, with operations in 76 countries. BNP has the 11th largest market capitalization in France, as listed on the Paris Stock Exchange, with total assets last year of 1,509,026 billion FRF (301,805,200 US).

Fidelity Investments - America's leading mutual fund manager and the country's second largest discount broker, Fidelity manages over \$500 billion in assets for over five million clients. Its discount brokerage firm handles over 3% of the total NYSE trading volume. Fidelity also provides professional investment management services to individuals and institutions throughout Europe and Asia.

Kuwait Investment Projects Company K.S.C. (KIPCO) - An investment holding company traded on the Kuwait Stock Exchange, KIPCO's resources are concentrated in banking, industry, media, and real estate throughout the Gulf and the Middle East. KIPCO is supported by service companies in Boston and London which look after regional investments.

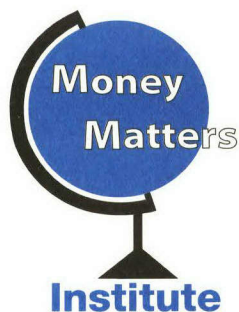
MBIA & Associates--International Consulting - A subsidiary of MBIA Inc., MBIA & Associates applies its parent company's vast experience in insuring infrastructure, asset-backed and other fixed-income securities to assist in developing legal frameworks and institutional structures to encourage sound credit cultures in emerging economies for clients ranging from NGOs to governments to private sector firms.

(cont'd)

State Street Corporation - With over \$3.0 trillion in assets under custody and more than \$300 billion in assets under management, State Street is a leading servicer of institutional investors and manager of financial assets worldwide. The Bank currently does business in 72 countries and has offices in 14 states in the United States. State Street was founded in 1792 in Boston and has approximately 12,500 employees worldwide.

United Nations Development Programme - (UNDP), headquartered in New York, is the world's largest multilateral source of grant technical assistance. With an annual budget of \$1.5 billion, the UNDP supports sustainable development initiatives through offices in 124 developing countries.

The World Bank Group - Comprised of five institutions --The International Bank for Reconstruction and Development, The International Development Association, The International Finance Corporation, The Multilateral Investment Guarantee Agency, and The International Center for the Settlement of Investment Disputes, -- the Group works to promote private sector led development in emerging economies. It supports private investment in these economies through a range of financial products and services.



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The World Times

Wealth of Nations Index

The Wealth of Nations Index is designed to measure the true health and wealth of 35 emerging economies through a total of 63 variables, equally divided in the economic, social environment and information exchange categories. A product of World Times Money Matters Institute, the Index is updated and published every six months.

RANKINGS					
Raw scores with rankings in parentheses for each of the three legs of the Index					
September 1996					
OVERALL RANK	COUNTRY	ECONOMIC ENVIRONMENT	INFORMATION EXCHANGE	SOCIAL ENVIRONMENT	TOTAL SCORE
1	Korea	483 (3)	515 (1)	364 (10)	1362
2	Taiwan	515 (1)	465 (3)	379 (8)	1359
3	Chile	445 (5)	437 (4)	417 (2)	1299
4	Czech Republic	388 (6)	411 (8)	413 (3)	1212
5	Israel	346 (11)	471 (2)	370 (9)	1187
6	Malaysia	502 (2)	347 (13)	302 (20)	1151
7	Hungary	293 (21)	414 (6)	401 (5)	1108
8	Argentina	359 (7)	421 (5)	325 (14)	1105
9	Poland	293 (21)	369 (11)	427 (1)	1089
10	Thailand	467 (4)	260 (21)	292 (22)	1019
11	Costa Rica	295 (20)	322 (16)	386 (6)	1003
12	Mexico	316 (15)	379 (10)	305 (18)	1000
12	Uruguay	229 (32)	414 (6)	357 (11)	1000
14	Brazil	355 (9)	333 (14)	305 (18)	993
15	Romania	275 (26)	298 (20)	411 (4)	984
16	Russia	270 (27)	366 (12)	309 (16)	945
17	Venezuela	259 (31)	391 (9)	288 (25)	938
18	Panama	288 (23)	310 (17)	322 (15)	920
19	Colombia	308 (16)	301 (19)	301 (21)	910
20	Ukraine	198 (33)	325 (15)	339 (12)	862
21	Turkey	322 (13)	247 (23)	290 (24)	859
22	South Africa	319 (14)	305 (18)	227 (32)	851
23	Indonesia	356 (8)	202 (28)	292 (22)	850
24	China	353 (10)	216 (27)	272 (27)	841
25	Ecuador	260 (30)	249 (22)	306 (17)	815
26	Tunisia	278 (25)	187 (30)	334 (13)	799
27	Jordan	270 (27)	236 (24)	285 (26)	791
28	Philippines	305 (18)	218 (26)	261 (29)	784
29	Peru	307 (17)	233 (25)	229 (31)	769
30	Morocco	301 (19)	190 (29)	223 (33)	714
31	Egypt	286 (24)	161 (32)	262 (28)	709
32	Cuba	158 (35)	157 (33)	380 (7)	695
33	India	324 (12)	148 (34)	219 (35)	691
34	Pakistan	261 (29)	179 (31)	221 (34)	661
35	Vietnam	194 (34)	126 (35)	238 (30)	558

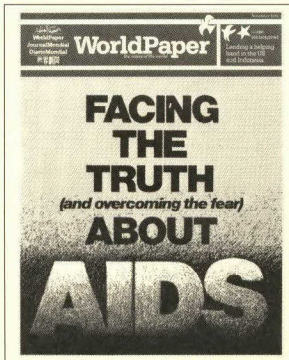
THE WORLD PAPER

Global issues, local insights



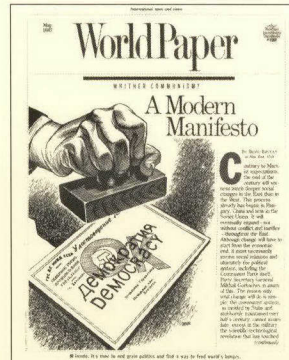
A compass for the future

Behind the headlines..



FACING THE TRUTH AND OVERCOMING THE FEARS OF AIDS •November 1985•

A cover story predicting the growth of AIDS throughout the world before the virus was widely known or understood internationally

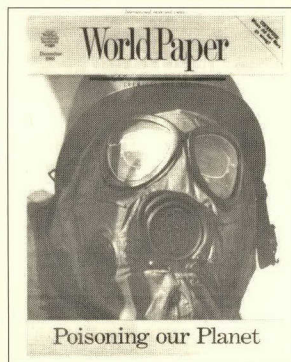


WHITHER COMMUNISM: A MODERN MANIFESTO •May 1987•

Cover story on the economic and technological lag in the Soviet Union and Eastern Europe, and anticipating dramatic political changes well before the collapse of the Berlin Wall

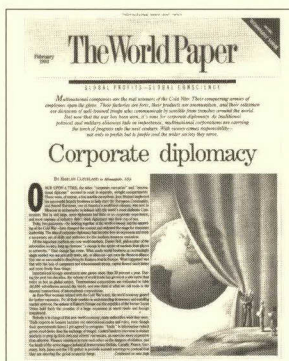
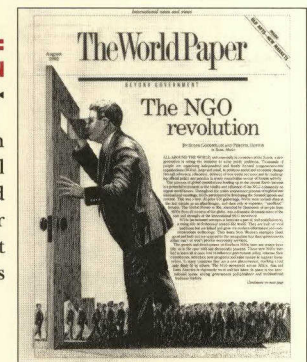
POISONING OUR PLANET •December 1988•

Highlighting the growing danger from unregulated abuse of chemicals to life and the global environment, prepared in conjunction with the award-winning Center for Investigative Reporting



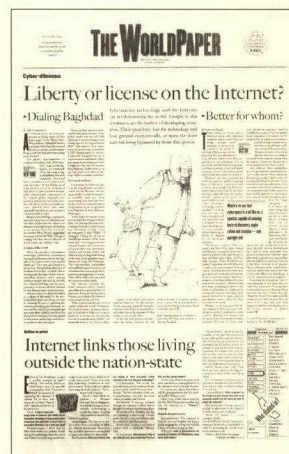
BEYOND GOVERNMENT: THE NGO REVOLUTION •August 1992•

Covering the growth of non-governmental organizations around the world and their influence and impact on international affairs



CORPORATE DIPLOMACY •January 1993•

Series of articles about the influence of multinational corporations, internationally owned and operated, in setting global agendas in the arenas of environmentalism and economic development

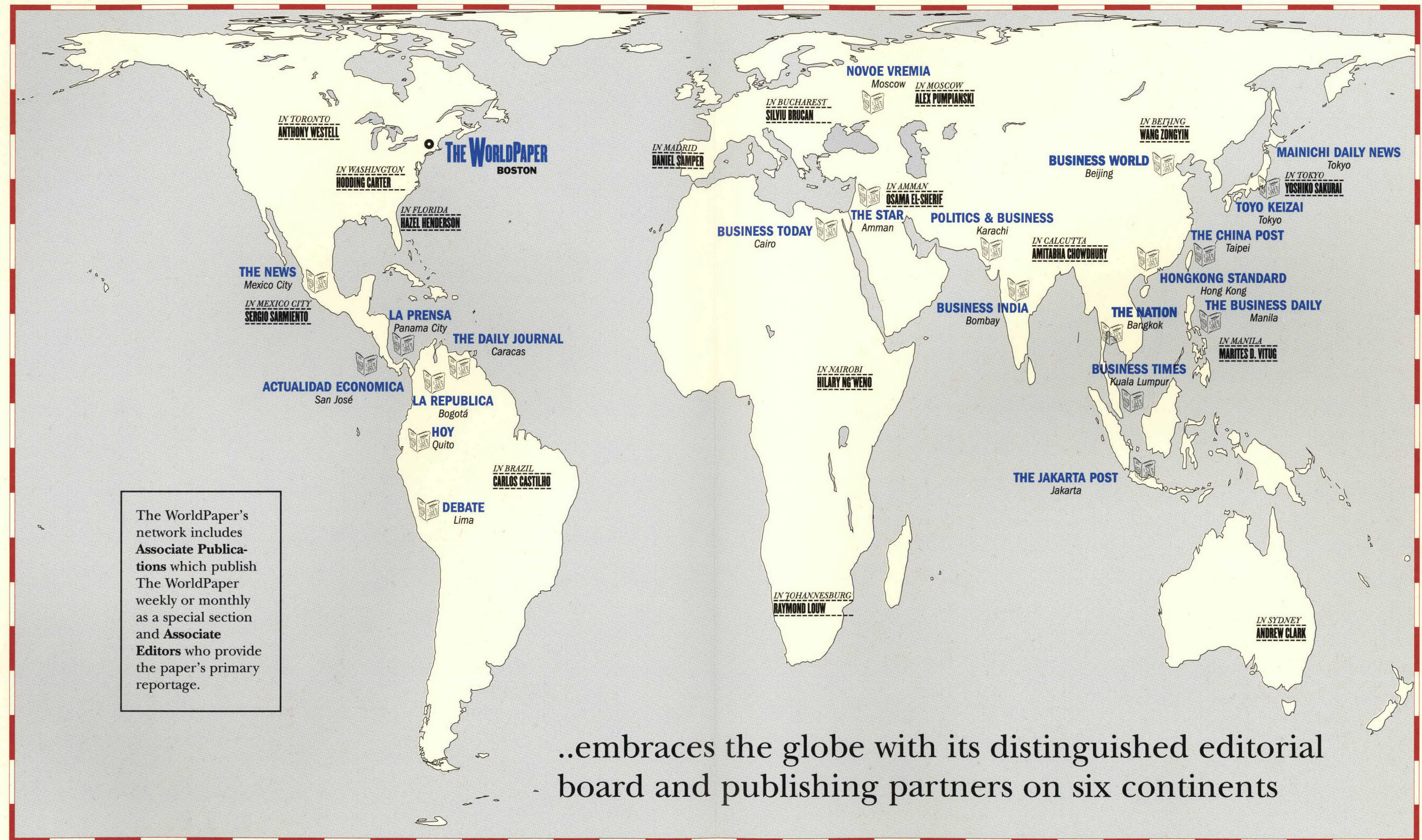


LIBERTY OR LICENSE ON THE INTERNET? •November 1995•

A cover story documenting the "information anxieties" in much of the developing world about the power and pace of the online information revolution

..and ahead of the news

The world of WorldPaper..

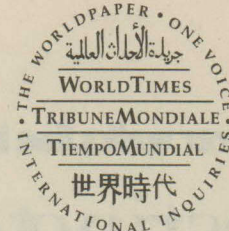


MARCH 1997

Fresh perspectives
from around the world
on matters of global
concern

THE WORLD PAPER

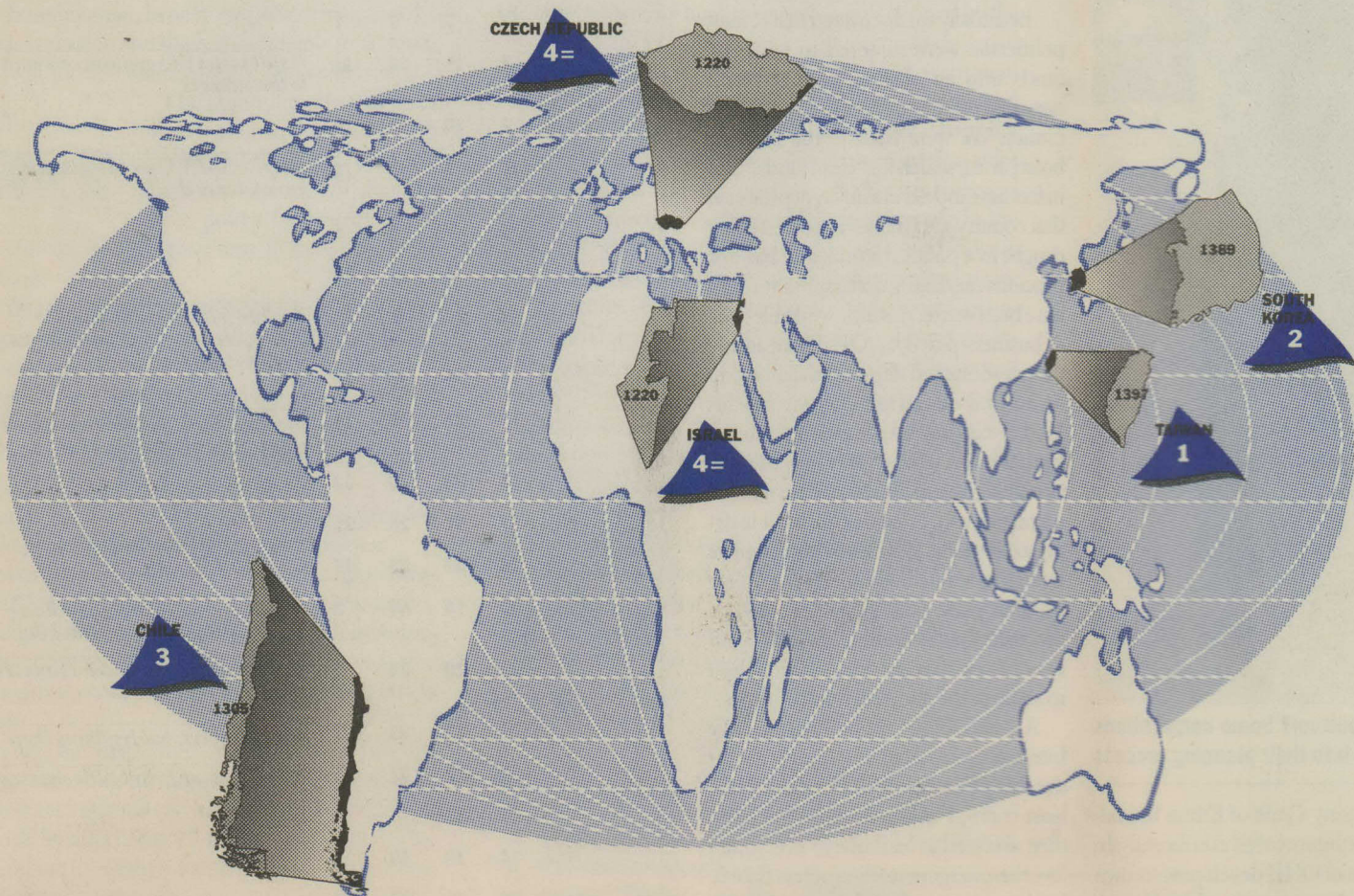
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ON FIVE CONTINENTS



APPEARING IN: AMMAN • BANGKOK • BEIJING • BOGOTA • BOMBAY • BOSTON • BUENOS AIRES • CAIRO • CARACAS • HONG KONG • JAKARTA • KARACHI • KUALA LUMPUR • LIMA • MANILA • MEXICO CITY • MOSCOW • PANAMA CITY • QUITO • SAN JOSE • TAIPEI • TOKYO

Leaders of the pack miles apart but on the same side of the ledger

CAT-scanning the emerging economies



Taking the economic pulse, checking the body politic and measuring the social blood pressure are all part of our semi-annual checkup of the world's most rapidly developing countries. The World Times Wealth of Nations Index measures 63 variables, divided equally between economic, social and information exchange factors. The result is our thermometer for gauging which economies are hot—and which are not

A fund manager argues with himself

Spreading the risk pushes science into an art form

EDITORS NOTE: Investing in the rapidly emerging economies of East Asia, Latin America and Central Europe has moved from a fad to a fashion during the short span of the 1990s. Attracted by the booming stock market of Poland or defeated by a bursting bubble in Bangkok, money managers in London and New York, in Tokyo and Boston are increasingly cutting their professional teeth on the profits and pitfalls of investing in the "emerging markets." Investment advisories tout the magnet of developing countries. Symposia in money centers address the rich diet of risk and reward. Like the "parachute journalists" of yesteryear, young and yuppie portfolio managers circumnavigate the globe scoping out investment opportunities in the highways of Seoul and Santiago and the byways of Lahore and Lusaka. The WorldPaper asked one ranking member of this influential breed to cast a critical and fiduciary eye on the special appeal of investing in emerging economies and the different, sometimes technical signals for success.

By Herbert D. Blank

EMERGING MARKETS for the investor are somewhat akin to Madonna for the voyeur—lots of glamour, lots of danger and very hard to ignore. Hardly a workday passes in money management centers that doesn't feature some new angle on the need for investors to diversify into emerging markets.

At first blush, this can seem somewhat mind-boggling. After all, investors sticking solely with the US market have done just fine, thank you, over the past 15 years. With US asset management techniques practically down to a science, why take the risk of investing in a market like Zimbabwe where investment analysis seems more akin to a rare art form?

There are several clear and cogent reasons why:

- The potential for higher returns than most developed markets offer
- Low correlation with the pattern of returns in developed markets, allowing in-

vestors more opportunity to spread risk.

The potential for high returns is amply demonstrated by the fact that exactly half of the 30 International Finance Corporation Global (IFCG) country indices returned more in 1996—as calculated in US dollars—than the 23 percent recorded by the Standard & Poors 500 Index of US companies. This list includes Argentina, Brazil, China, the Czech Republic, Egypt, India, Malaysia, Morocco, Nigeria, Poland, Portugal, Taiwan, Turkey, Venezuela and Zimbabwe. Remarkably, all this was in a year that the US return was more than double its post-World War II norm of about 11 percent.

Furthermore, the magnitude of returns attainable in some emerging markets dwarfs that available in developed markets. Although Sweden's 38 percent topped all returns for developed markets in 1996, 11 emerging markets did better. Moreover, seven of these returned at least 65 percent with the top three being Hungary (99 percent), Venezuela (140 percent) and Russia (164 percent).

But the very identity and geography of the top performers also underscores the potential risks inherent in emerging market investments, and why simply focusing on financial data can be dangerous. In 1995, while the S&P 500 returned a sparkling 34 percent, investors in Hungary and Venezuela China lost more than 25 percent.

So all that glitters is not gold or, if it is, it may be debased by cheaper metals.

Still, if developing country invest-

ments are inherently risky, curiously they offer some security from the risk associated with full dependence on investments in developed markets. From the evidence, there is relatively low correlation between market trends in the rich, western world and those in the emerging economies. So a portfolio manager can usefully gain risk diversification by some covering bets on markets in East Asia, Latin America and Central Europe.

This attraction is increased by the fact that, during the past 10 years, the developed markets like Germany, Canada, the UK and Japan have become increasingly correlated with the US market, and

with each other. This is especially true of the countries within the European Community. By contrast, markets like Colombia, Korea, India, and Turkey have been negatively correlated with the US market over the past five years.

So a compelling case can be made for investing in emerging markets. Along with requisite and almost religious words of caution. Investment managers have no illusions about achieving desirable return and risk profile characteristics as simply as they can by investing in the US. It is, for instance, not very meaningful to tell an investment manager that the Russian market rose 164 percent last year if it is next to impossible for him or her to invest there.

The fundamental fact is that emerging markets give new meaning to the asset manager's understanding of "due

► SCIENCE INTO ART PAGE 2

WEALTH OF NATIONS TRIANGLE INDEX OF 35 EMERGING ECONOMIES

MARCH 1997 RANK	COUNTRY	CHANGE SINCE SEPT. 1996	ECONOMIC ENVIRONMENT		INFORMATION EXCHANGE		SOCIAL ENVIRONMENT		TOTAL SCORE
			Score	(Rank)	Score	(Rank)	Score	(Rank)	
1	Taiwan	▲ 1	544	(1)	462	(3)	391	(7)	1397
2	South Korea	▼ 1	540	(3)	517	(1)	332	12	1389
3	Chile	0	470	(5)	438	(4)	397	5	1305
4	Czech Republic	0	386	(7)	416	(6)	418	2	1220
4	Israel	▲ 1	384	(8)	465	(2)	371	10	1220
6	Malaysia	0	541	(2)	352	(13)	296	21	1189
7	Argentina	▲ 1	382	(10)	437	(5)	332	12	1151
8	Hungary	▼ 1	298	(25)	408	(7)	401	4	1107
9	Poland	0	305	(21)	363	(12)	430	1	1098
10	Mexico	▲ 1	353	(11)	374	(10)	305	(17)	1032
11	Thailand	▼ 1	482	(4)	266	(21)	272	(27)	1020
12	Costa Rica	▼ 1	305	(21)	321	(16)	392	(6)	1018
13	Uruguay	0	241	(32)	392	(8)	378	(9)	1011
14	Brazil	0	351	(12)	343	(14)	308	(16)	1002
15	Venezuela	▲ 2	294	(26)	391	(9)	279	(25)	964
16	Russia	0	268	(30)	372	(11)	304	(18)	944
17	Romania	▼ 2	250	(31)	380	(20)	411	(3)	941
18	Colombia	▲ 1	304	(24)	315	(17)	302	(20)	921
19	China	▲ 5	399	(6)	223	(27)	277	(26)	899
20	Panama	▼ 2	286	(27)	282	(19)	320	(15)	888
21	Ukraine	▼ 1	204	(34)	323	(15)	355	(11)	882
22	Indonesia	0	383	(9)	206	(28)	284	(24)	873
23	South Africa	0	342	(14)	305	(18)	224	(33)	871
24	Turkey	▼ 3	346	(13)	227	(24)	296	(21)	869
25	Jordan	▲ 2	319	(17)	227	(24)	291	(23)	837
26	Tunisia	0	317	(18)	191	(29)	327	(14)	835
27	Ecuador	▼ 2	272	(29)	254	(22)	304	(18)	830
28	Philippines	0	331	(16)	225	(26)	259	(28)	815
29	Peru	0	309	(20)	241	(23)	234	(30)	784
30	Egypt	▲ 1	314	(19)	178	(32)	255	(29)	747
31	Morocco	▼ 1	305	(21)	189	(30)	230	(31)	724
32	India	▲ 1	332	(15)	152	(34)	215	(35)	699
33	Pakistan	▲ 1	284	(28)	189	(30)	224	(33)	697
34	Cuba	▼ 2	150	(35)	156	(33)	387	(8)	693
35	Vietnam	0	238	(33)	126	(35)	228	(32)	592

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Components of the Index: 63 factors weighted equally

ECONOMIC ENVIRONMENT

- ▶ NATIONAL ECONOMY
 - ▶ GDP growth rate
 - ▶ Real GDP per capita (in PPPs)
 - ▶ Annual inflation rate
 - ▶ Savings rate
 - ▶ Government deficit/surplus (% of GDP)
 - ▶ Current account balance (% of GDP)
 - ▶ External debt/GDP
 - ▶ Debt service/exports
 - ▶ Foreign reserves (ext. gold)/imports
- ▶ INTERNATIONALIZATION OF THE ECONOMY
 - ▶ International trade (% of GDP)
 - ▶ Speed of integration
 - ▶ Convertible currency?
 - ▶ Foreign direct investment
 - ▶ Portfolio investment
 - ▶ Market capitalization
- ▶ BUSINESS ENVIRONMENT
 - ▶ Economic Freedom Index
 - ▶ Independent Central Bank?
 - ▶ Full central clearing services?
 - ▶ Commercial Property Protection
 - ▶ Privatization Index
 - ▶ Corruption Perceptions Index

INFORMATION EXCHANGE

- ▶ INFORMATION APPETITE
 - ▶ Newspaper readership (per 1000 inhabitants)
 - ▶ Literacy rate
 - ▶ College students studying applied and natural sciences (%)
 - ▶ College students studying abroad (%)
 - ▶ English as primary language for business?
- ▶ INFORMATION INFRASTRUCTURE
 - ▶ Radio ownership (per 1000 inhabitants)
 - ▶ Television ownership (per 1000 inhabitants)
 - ▶ Telephone ownership (per 1000 inhabitants)
 - ▶ PCs (residential) in use (per 1000 inhabitants)
 - ▶ Faxes in use (per 1000 inhabitants)
 - ▶ Cellular telephones in use (per 1000 inhabitants)
 - ▶ Membership in INTELSAT/ITU/WIPO?
 - ▶ Information technology expenditure (% of GDP)
- ▶ INFORMATION DISTRIBUTION
 - ▶ Books published annually (per 100,000 inhabitants)
 - ▶ Press Freedom Index
 - ▶ Number of independent daily newspapers published
 - ▶ Number of independent radio stations
 - ▶ Number of independent television stations
 - ▶ Cable television available?
 - ▶ Satellite television coverage?
 - ▶ Number of Internet service providers

SOCIAL ENVIRONMENT

- ▶ STABILITY AND DEVELOPMENT
 - ▶ Income distribution
 - ▶ Male/female wage parity
 - ▶ Unemployment rate
 - ▶ Refugees as % of population
 - ▶ Territorial disputes?
 - ▶ Political rights index
 - ▶ Independent Rule of Law
 - ▶ Private automobiles/trucks in use (per 1000 inhabitants)
- ▶ HEALTH
 - ▶ Birth rate
 - ▶ Life expectancy
 - ▶ Death rate
 - ▶ National healthcare program?
 - ▶ Government expenditures on health (% of GDP)
 - ▶ Pension spending (% of GDP)
 - ▶ Population per physician
 - ▶ Grain harvested area per capita
 - ▶ Daily calorie supply
- ▶ NATURAL ENVIRONMENT
 - ▶ Protected land
 - ▶ Air pollution index
 - ▶ Population with access to clean water
 - ▶ Signatory to CITES/ITTA/Montreal Protocol/UNCLOS

Manufacturer walks line between black and white

Investing overseas a matter of the heart as well as the head

By Vicky Sharpe

A CORPORATION WALKING away from business? And proud of it? Odd as it sounds, that is the direction Ontario Hydro International Inc. has taken in recent years, successfully marrying established risk assessment principles with social and environmental considerations in a way that screens out shady projects.

How, in a bottom-line industry, did the international marketing and investment arm of the largest electrical utility in North America get involved with indexes of corruption and sustainable development? It was, in fact, a very businesslike decision, driven by a need to create a strong, distinctive identity in an increasingly crowded, competitive market.

Our current approach really started when Maurice Strong became Chairman of the parent Company, Ontario Hydro, in 1992. Organizer of the United Nations' 1992 Rio Earth Summit, Strong initiated a corporate task force charged with incorporating Sustainable Energy Development (SED) principles into Ontario Hydro's business practices in a way that both entrenched these values and improved profitability. For the first time, energy efficiency and environmental work became distinct product and service lines.

Examining the sustainability of



A nice looking plan, but what about those at the bottom? Some corporations are starting to incorporate social and ethical data into their planning process

OHII's projects—or the work it was pursuing—meant going beyond technical issues. Data and variables that had long been absent from corporate documents had to be dug up, put in proper context and acted upon.

As a natural offshoot of this exercise, we started thinking about ethics and the role it played in our business. Develop-

ing a company Code of Ethics has become something of a fashion recently. In the process of OHII developing its own code, with the assistance of the Human Rights Research and Education Centre at the University of Ottawa, we examined those of many companies. The lesson which emerged was that lip service does not work and, despite some cynicism,

information is simply not available. Almost by definition, investors have an incomplete foundation on which to base their decisions.

► Liquidity. Many emerging markets have little liquidity. This is true even for issues with relatively large market capitalizations. Shares are outstanding, but simply not available to outside investors, or are available only at steep premiums. It's not an even playing field.

► Misleading indexes. The potential for great gains in an emerging market is nearly always characterized by referencing the returns posted on a local market index. But, as the former British Prime Minister Benjamin Disraeli once observed, "There are three kinds of lies: lies, damned lies and statistics," and there are tremendous inconsistencies among these local indexes.

The bottom line is that many of the returns boasted by emerging market indices cannot be achieved by investment managers due to the vagaries and limitations of local stock markets, thus rendering those statistics meaningless.

► Regulatory environment. Typically emerging economy investors do not get nearly the regulatory protection that they receive in the US and other developed markets. Investors can also be subjected to unexpected fees, stamp duties and withholding taxes.

Asset managers of the domestic or international variety are subject to a range of input—economic and emotional—in performing their profession and fulfilling their charge. Those with a taste for emerging markets are pushing the envelope.

Ultimately, it is market performance that is critical. But to predict and profit from it requires empathy and creative energy along with traditional analytical skills—and perhaps more than a little serendipity. Otherwise, the triple-digit-like returns of the business page headlines can turn out to be just like the Venus DeMilo—lovely to look at, but serving no practical purpose. ☐

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there is a cost to making proclamations without being able to back them up.

Here is an illustration of a situation that would derail many of these "paper" codes. For the last 18 months we have been part of a Canadian group pursuing a generation project in the Middle East—a region where it is almost impossible to work without an agent. Due diligence was undertaken on the agent—who is well-connected to the current political leadership—the client and on our partners. All seemed well when we met with the relevant ministers, heads of utilities, financial institutions and credit agencies.

Financing, however, was tight. Then, out of the blue, a new investor arrived ready to complete the financial obligations. Great! Initial assessment of the new players indicated that they were genuine. Then the ministers stopped talking to us—and the closure date moved into the future.

Eventually we discovered that certain politicians were rumored to have put funds into an offshore company and hoped to use this project to mobilize the money. We were back to the drawing board in our search for "clean funds," and in fact have moved to a different project in that country. OHII barely avoided being caught in a political storm, and has lost precious marketing dollars. But it could have been worse. Having a workable code of business practices, OHII kept asking the questions and did avoid the problem.

So, how do you reduce the risk of this kind of exposure? One is to set a strategy that keeps you out of countries rated as highly corrupt. Easier said than done; no matter who compiles the list it is depressingly long. Besides, trying to equate ratings to reality does not always follow a logical path, something illustrated by the fact that economic growth—and hence opportunities—are often highest in some of the more corrupt countries.

A useful source is The Transparency International Corruption Perception Index. In 1996 it rated New Zealand as the least corrupt with a score of 9.43 and then assessed at least one of everyone's favorite emerging markets at less than 5. Jordan scored 4.89, Hungary 4.86, Spain 4.31, Argentina 3.41, Indonesia 2.65, China 2.43 and, bringing up the rear, Nigeria with 0.69. (Incidentally Canada was rated at 8.96.)

There are countries where Ontario Hydro will not operate. However, rather than exclude a country completely, what we often do is to alter our sales tactics to reduce our exposure. In China, our activities have been fraught with difficulties. So rather than seeking investments in large generation projects we have "retired" to lower profile services work, of the type being administered and funded by bilateral or multilateral agencies. In this manner we stay in the market, do not enter into negotiations with local clients and essentially work for a Canadian-based development agency.

Acting ethically does not boil down to whether you take bribes or not. During project selection each element is considered from a variety of perspectives which may add up to a resounding "no." Indeed, one aspect alone may be a "deal breaker." Many of the latter are associated with technical and commercial risk—the conventional variables for risk assessment—but it can be issues such as employee safety. Recently we filed a "no bid" on a project based on Karachi, Pakistan for this reason.

Few things are black and white—it is struggling through the gray that keeps us on our toes. A key element in OHII's approach to screening projects, and of greater significance during implementation, is the concept of "proportionality." Do you work in a country whose general human rights record is poor, but where you can effect some improvement within the scope of your project? Or do you just stay away?

If a company is funding a project, or is its operations and maintenance contractor, it has considerably more influence over such matters as environmental

VIEWS FROM THE BOARD ROOM



As a reality check of the Triangle Index which weights 63 variables equally, The WorldPaper asked a manufacturing executive, a fund manager and a banker to apply their own, unequal weightings consistent with their professional objectives. WorldPaper ranked the 35 Index countries accordingly.

	Triangle Index	Manufacturer	Fund Manager	Banker	Short takes
TAIWAN	1	1	1	1	Numbers speak louder than Chinese missile tests
SOUTH KOREA	2	2	2	2	
CHILE	3	5	4	4	
CZECH REP	4	4	6	6	
ISRAEL	5	8	9	10	Real investors not as sanguine about Netanyahu's policies
MALAYSIA	6	3	3	3	
ARGENTINA	7	7	7	7	
HUNGARY	8	11	10	31	It still tastes like goulash communism to the bankers
POLAND	9	10	11	28	
MEXICO	10	9	8	21	Despite NAFTA, for the banks it's "once burnt, twice shy!"
THAILAND	11	6	5	5	
COSTA RICA	12	13	17	18	
URUGUAY	13	24	21	24	You can follow the Internet to Montevideo, and you won't be mugged when you get there
BRAZIL	14	16	12	19	
VENEZUELA	15	26	18	13	Black gold and populist rhetoric make a poor manufacturing base
RUSSIA	16	23	25	30	
ROMANIA	17	17	28	26	
COLOMBIA	18	27	20	15	
CHINA	19	14	16	8	Riding a river of foreign exchange despite loss of pilot Deng Xiaoping
PANAMA	20	20	24	9	It turns out you can take a canal to the bank
UKRAINE	21	32	33	33	Nice numbers, but try flying there
INDONESIA	22	12	13	11	Plenty of wealth, but little sharing
SOUTH AFRICA	23	15	14	16	
TURKEY	24	18	19	25	
JORDAN	25	25	29	17	
TUNISIA	26	22	26	12	
ECUADOR	27	33	30	27	Fund managers like flow of hard currency remittances from 6 million expatriates
PHILIPPINES	28	21	15	20	
PERU	29	31	31	23	
EGYPT	30	30	22	14	
MOROCCO	31	19	23	29	
INDIA	32	28	27	21	
PAKISTAN	33	29	32	32	
CUBA	34	35	34	35	Cuba and Vietnam; comrades in numbers.
VIETNAM	35	34	35	34	

and human rights practices than if it is delivering consulting services as a subcontractor. A simple example is allowing the staff working for you on a construction project to meet freely there even if the local laws do not recognize this right.

Another example would be OHII's decision not to participate in the Three Gorges Project in China. The company opted out of this massive hydroelectric project on the upper Yangtze River because we would not have been able to change the fact that many Chinese required resettlement under what was, at

the time of our decision, poor circumstances. Similarly, we will not work in Myanmar—the extent of the repression of that regime does not allow us to positively influence anything.

These are some of our experiences. It is a little early to say whether we have quantifiable improvements in dollar terms, but the new approach certainly provides a competitive edge. ☐

VICKY SHARPE IS VICE-PRESIDENT, ENERGY MANAGEMENT FOR ONTARIO HYDRO INTERNATIONAL.

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Global economy ties poor nations to unregulated growth. Cuba resists

Yo, is it time to break the money chains?

By David Korten

MESMERIZED BY THEIR FOCUS on the quantity of growth, decision-makers have too often embraced policies leading to growth that is jobless (creates unemployment), ruthless (benefits only the rich to the exclusion of the poor), voiceless (suppresses democratic expression), rootless (destroys links to community and culture) and futureless (destroys the planetary life support system). So says the *Human Development Report 1996*, the United Nations Development Programme's annual effort since 1990 to measure the quality of life. By implication, growth that is desirable would create adequately compensated employment, benefit the poor, strengthen democratic expression and the links of people to community and culture, and maintain environmental health.

REPORTING FROM WASHINGTON, DC

The report, however, failed to note an essential point: the kinds of growth it finds harmful are a direct consequence of the economic policy framework being advocated to the world's governments by most official aid agencies.

This framework is known among insiders as "the Washington consensus" because the Washington-based World Bank and International Monetary Fund, a number of conservative think tanks and centers of corporate interest within the United States government are among its most articulate and powerful proponents. I would summarize the framework as follows:

- Economic growth is the measure of human progress and the key to universal prosperity and happiness.
- Market liberalization and economic globalization—deregulating markets, privatizing public assets, scaling back government, reducing taxes on investors and integrating local and national economies into a seamless global economy—are the preferred pathways to growth.

However, the disparities resulting from this approach are becoming so extreme that even corporations themselves are beginning to take notice. Klaus Schwab and Claude Smadja of the World Economic Forum, an association of the world's 1,000 largest corporations, have pointed out that globalization "tends to delink the fate of the corporation from the fate of its employees" and leads to "winner take-all situations" in which "those who come out on top win big, and the losers lose even bigger."

Unfortunately for the members of the World Economic Forum, there is no way within the Washington consensus to correct the disruption identified by its leaders. The framework sets the wrong goal—undifferentiated growth in economic output—and advocates the wrong means—an unregulated global market.

Three cheers for more police

The monetary indicators of economic production by which we measure growth make no distinction between the beneficial and the harmful. Producing arms for sale to poor countries or to children increases economic output. Expanded use of cigarettes and alcohol directly increases economic output. Indirectly it increases the demand for health services. Crime and terrorism result in increased expenditures for security alarms and guards, police, lawyers, courts and prisons. The food produced and consumed by a subsistence-farming family isn't counted as economic output because it is not sold. But if the family is forced off its land to make way for production of export crops by a foreign agribusiness firm, it is recorded as an increase in economic output and a plus for society.

In short, what is good for the economy may or may not be good for people—these's no guarantee.

Part of the problem is our failure to take into account the limits to human uses of the earth's ecosystem. The continued press for economic growth accel-

erates the breakdown of the planet's life-support systems—as we see so dramatically demonstrated in the case of many ocean fisheries—and intensifies the competition between rich and poor for the resource base that remains.

An amalgam of gold and greed

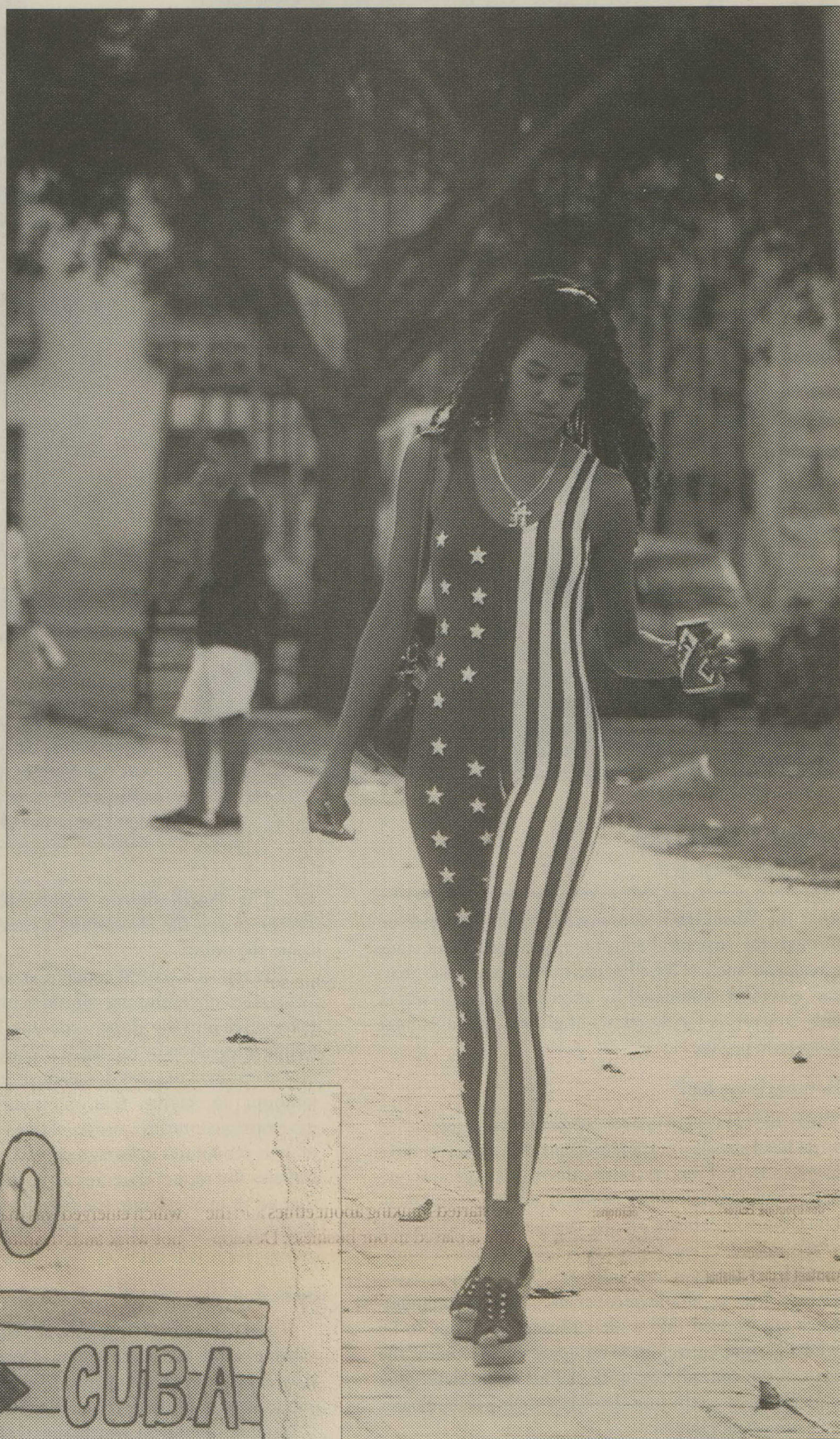
A typical consequence of this competition is illustrated by the case of the Igorot people of Benguet Province in the Philippines reported by Robin Broad and John Cavanagh in *Plundering Paradise*. For years the Igorot engaged in small scale mining of the rich gold veins found on their ancestral lands. Their lands are now dominated by huge open-pit mines operated by the Benguet Corporation owned in approximately equal shares by wealthy Filipinos, the Philippine government and US investors. Dozens of bulldozers, cranes and trucks cut deep gashes into the mountain, stripping away the trees and topsoil and dumping enormous piles of rocky waste into the riverbeds. With their soils and water sources depleted, the indigenous people in the area can no longer grow rice and bananas and have to go to the other side of the mountain for drinking water and to bathe. The cyanide used by the Benguet Corporation to separate the gold from the rock poisons the local streams, kills cattle that drink from the streams and reduces rice yields of people in the lowlands who use the water for irrigation. When the tailings and cyanide empty into the oceans they kill the coral reefs and destroy the fishing industry on which thousands of coastal people depend.

The company reaps handsome profits. The local people bear the costs. Economists applaud the company's contribution to national economic output and export earnings. And the winners in the global economy are able to buy their gold trinkets at a more attractive price. This is a dramatic case of the rich and powerful privatizing economic gains, while passing the costs onto weaker elements of the society. It is a pattern being repeated around the world countless times.

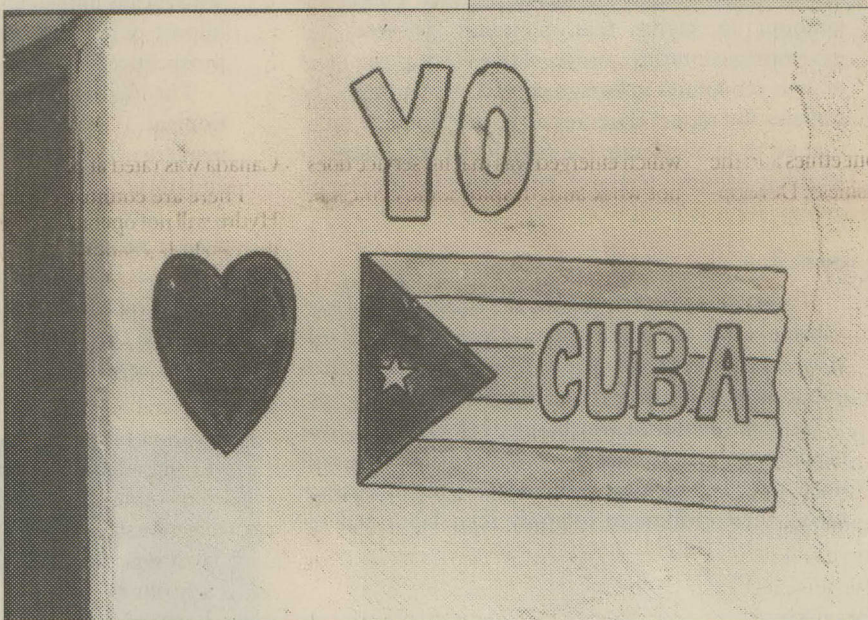
While it is often argued that growth is essential to ending poverty, in truth economic growth is predominantly an elitist agenda. The economic interests of the poor center not on growth, but rather on such things as a secure place to live, an adequate diet, basic education and health care, decent clothing and a place of dignity within the community. Adjusting economic priorities to meet these needs may or may not increase growth—depending on national circumstances. In any event, the needs, not mindless aggregate economic growth, should define the goal. The unmet needs of those with little money are of little interest, however, to the dominant players in the economic system created by the policies preferred by the Washington consensus.

Arguing that the market is the most economically efficient, democratic and accountable of human institutions, the Washington consensus is quite explicit in its view that decision-making power should be vested predominantly, if not exclusively, in the institutions of an unregulated market. Local markets comprised of small local buyers and sellers of reasonably equal economic power are indeed likely to be reasonably efficient, democratic and accountable to local needs and preferences. With strong leadership from the US government,

► MONEY CHAINS PAGE 4



Living in Cuba, America on our minds

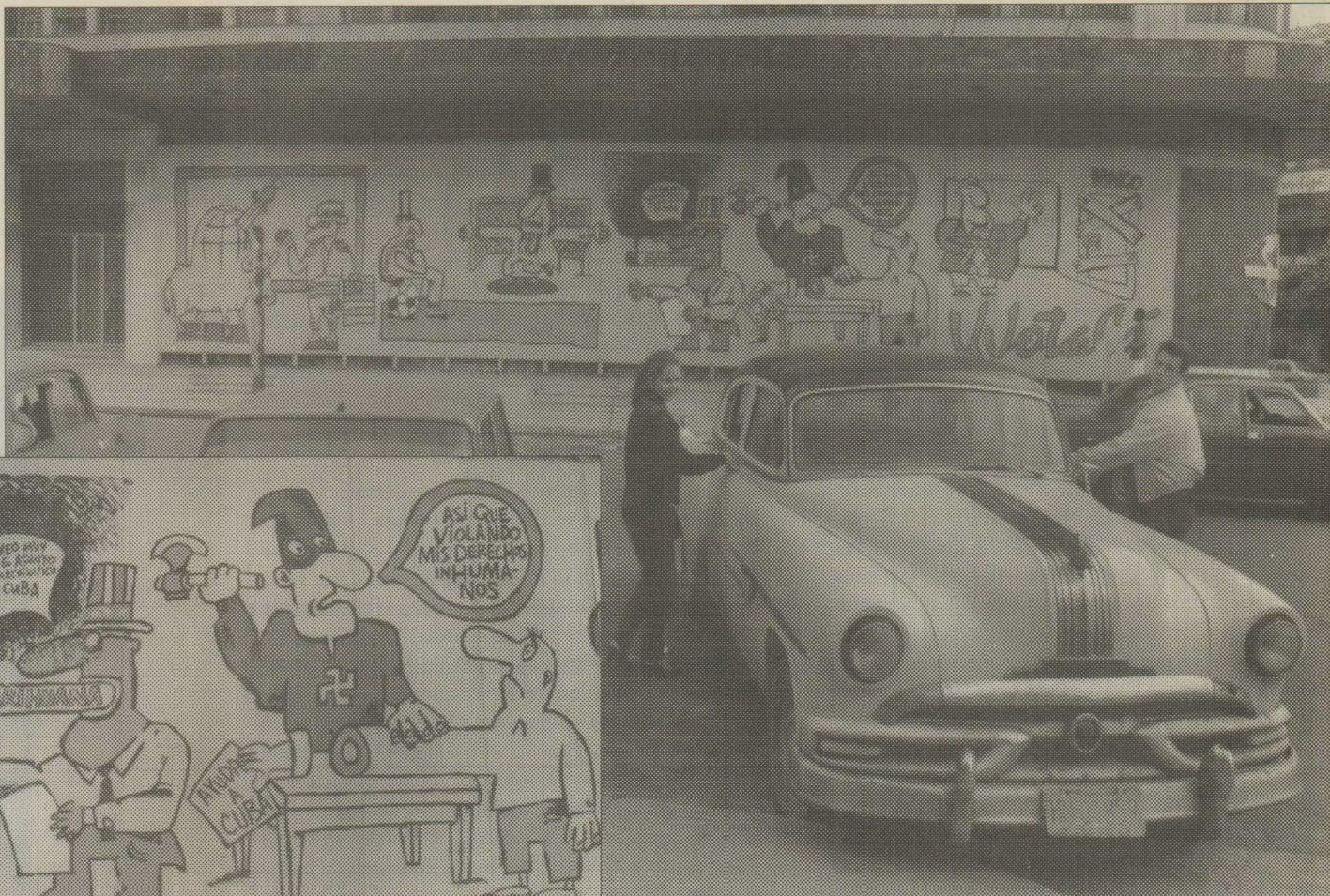


Assailed by the US for its socialist policies, Fidel Castro's regime has earned the loyalty of Cuba's people by committing resources to basic needs—food, health and education—rather than the infrastructure and markets demanded by the global economy. German photographer Ulrike Welsch, whose association with *The WorldPaper* spans two decades, recently visited the island nation. She was struck by the broad consensus that economic growth should come on Cuba's terms and serve Cuba's needs first, a consensus that is holding in a time of great shortages. Her photos reflect the kind of 'focused growth' society advocated by David Korten—and rebutted on the following page by Ruben Mendez



With the loss of the preferential trade with the Soviet Union earlier this decade, Cubans have been forced to live with strict rationing. During this "Special Period," every person has a ration book that entitles them each month to a kilogram of chicken or meat, 2 kg of fish, 15 kg of vegetables, 15 kg of root vegetables or bananas, 14 ounces of coffee, 10 eggs, 3 kg of sugar, 500 grams of beans, 500 g of salt, 250 g of oil, 250 g of soap—a deeply coveted commodity—and 4 packets of cigarettes. Despite the readily apparent effects of America's long-standing trade embargo, Americans are admitted to the numerous food queues without any rancor





Fodder for Helms-Burton? The Congressional act, which allows US businesses to sue foreign companies using their expropriated property in Cuba, probably doesn't extend to these vintage US cars. But it has further outraged Cubans, whose opinions appear in cartoon form on walls and billboards throughout the country. Car owners, meanwhile, keep restoring their vehicles in defiance of age and mechanical laws. Some are making handsome profits exporting for the 'vintage' car market. Those who don't possess one of these pre-Fidel Castro souvenirs make the most of whatever wheels are available

MONEY CHAINS

Continued from page 3

what the Washington consensus is creating, however, through the structural adjustment programs and trade agreements such as NAFTA, is a borderless global "market" economy dominated by mega-corporations whose only concern is for the kinds of growth that maximize short-term profits.

How big is too big?

Today, the concept of market competition is being turned on its head as mega-corporations meld themselves into a seamless web of central control through mergers, acquisitions and strategic alliances aimed at limiting and managing the competition among themselves. To increase profit margins, they use advanced technology and outsourcing to shed millions of jobs and push down wages. Facing a growing employment crisis, people and communities are pressed into a life-and-death struggle to be "globally competitive," or to outdo others in winning the favor of the central corporate planners who determine who will be given the jobs that labor-saving technologies have not yet eliminated.

By prodding each nation and community to become more globally competitive, the Washington consensus aligns solidly in this struggle with the corporate inter-

est. The World Bank's report, *Global Economic Prospects and the Developing Countries 1996* illustrates the point.

The report's central concern is with assessing the "progress" of developing countries toward integrating themselves into the global economy. It measures economic integration by the ratios of trade and foreign direct investment to gross domestic product. This is tantamount to saying that economic progress for developing countries consists of transferring ever more of their economies to foreign control. Accordingly, the policies the report classifies as "good" include those that serve to accelerate the transfer of the country's wealth to private foreign capital through tax breaks and deregulation.

So be it

If our concern is to increase the equitable and sustainable output and consumption of those goods and services essential to a good quality of life for all people, then our goals must be defined accordingly.

Southern countries, which, since colonial times, have been forced to subsidize Northern consumption, will need to reclaim their economic sovereignty by restructuring their economies to apply their labor and re-

sources toward production that meets the needs of their own people. Rather than pressing Northern governments to open up their markets to import even more of the South's wealth, Southern countries will need to reduce their dependence on exports and foreign investment and exert their own right to decide when and with whom they will engage in foreign trade and investment relationships. This means implementing properly managed systems of import tariffs and quotas and placing clear limits on prospective foreign investors.

The Washington consensus would call this protectionism. If it is protectionist to favor local firms and workers who pay local taxes, live by local rules, respect and nurture the local culture and eco systems, compete fairly in local markets and contribute to community life—then so be it. ☺

DAVID KORTEN IS PRESIDENT OF THE PEOPLE CENTRED DEVELOPMENT FORUM AND AUTHOR OF *When Corporations Rule the World*.



Northern do-gooders miss the point

No, people in 'paradise' want riches too

By Ruben Mendez

SYMPATHIZE with David Korten's views on the Washington consensus, but not his denigration of economic growth. To condemn this goal would be a tragedy for the Third World, where it is far from being reached. There are 90 countries comprising 4.8 billion people where per capita incomes average less than US\$1,590 a year; of these, more than half are countries where 3.2 billion people earn an average of \$380 per year. Many of these countries, especially in Africa, have shrinking economies or report no growth. Korten offers proposals for balancing growth with social and environmental concerns. But in the end, the less developed countries will remain mired in poverty unless we increase the size of the economic pie. Economic growth may not be a sufficient, but it is a necessary, condition for human progress, certainly in the lower-income countries.

Generation after generation of Cassandras have warned of the dire consequences of growth. But their predictions have not materialized. The earth's "carrying capacity," as Joel Cohen has noted in *How Many People Can the World Support?*, is a dynamic of complex factors, including technology, the physical and biological environments, institutions, levels and styles of living, and preferences and values.

Science and technology, institutional structures and serendipity have changed the equation time and again, creating new frontiers and higher standards of living, which are a prerequisite to the wider range of options advocated by the *Human Development Report*. This has been demonstrated by an increase in employment, among other things, in areas where globalization has

proceeded most rapidly, and not a decline as Korten claims. Anecdotes can be used to claim that foreign investment is damaging to the environment and income distribution. But the record shows that during the post-colonial period, foreign investment has



Ecofriendly, but we'd rather have jobs

promoted development by expanding the number of jobs, increasing foreign exchange for importing capital and consumer goods, diversifying economies and building industries

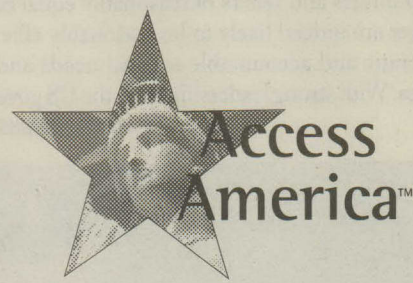
It is easy for Northern do-gooders to champion the cause of indigenous and other "native" peoples, for they are too few in numbers to be a real threat to the North. But the indigenous cause can be used to undermine the Third World. Unhappily, Korten and others can go overboard or spread misconceptions on the subject. This is the case in his account of the Igorots of the Philippines. His vignette of an Igorot gold-producing "paradise" with its "ancestral" lands suffering from exploitation by wealthy Filipinos, the Philippine government and US in-

vestors, is highly romanticized and patently false. Life for the Igorots has been far from idyllic. Indeed, even eking out a living has required the laborious terracing of the steep slopes of their land locked mountain habitat to grow food—a task that has been compared to the building of the Pyramids. Not mentioned is the fact that the bulk of the gold once found on Igorot lands had been mined long ago by Spanish and American colonizers, leaving little to post independence Filipinos. The fact is that today's Igorots, like many other "first peoples," are now more concerned with jobs and growing out of poverty than with preserving their economic and cultural past.

Korten's proposal to delink Third World economies from the global mainstream would be a reactionary retrogression to an age and philosophy of autarky, which has failed with disastrous results. Korten also neglects a crucial point: The Washington consensus' paradigm of globalization calls for unregulated markets and flows of capital and other financial resources, but conveniently leaves out labor, the mobility of which is an essential part of the free-market model. It calls for dismantling international trade barriers, investment regulations and foreign exchange controls, but says nothing about immigration restrictions. As with the "first peoples," it is easy to show bravado on eye-catching but non-threatening issues and ignore the fundamental ones, which are too discomforting for most Northerners.

RUBEN MENDEZ, A PHILIPPINE NATIONAL, IS THE AUTHOR OF *International Public Finance: A New Perspective on Global Relations*.

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A new mantra for integration

Mercosur puts South Americans in the holiday spirit



A whiff of optimism surrounds Mercosur, the common market established by Brazil, Argentina, Uruguay and Paraguay in 1994. The nationalism that hobbled earlier free trade efforts in Latin America has, so far, been absent—and North America, Asia and Europe are taking note

By Carlos Castilho

WHEN THE Southern Cone Common Market (Mercosur in Portuguese, Mercosul for Spanish speakers) was created in 1991, the conventional wisdom was that the new association wouldn't survive the tensions generated by the next soccer match between Brazil and Argentina.

To many Argentines, Brazilians are macacos (monkeys). To Brazilians, their Spanish-speaking neighbors to the south are cucarachos (cockroaches). But these are considered almost polite descriptions in the normally wild atmosphere at soccer matches, where fans of both teams traditionally behave as if they were party to a life-or-death struggle.

Mercosul, however, has survived these violent soccer passions and, on the first day of 1994, became a reality in the lives of nearly 200 million Latin Americans. For the residents of Brazil, Argentina, Uruguay and Paraguay, the first visible sign was the opening of fast-track line at the main airports for Mercosul citizens.

Now, after two years of economic co-existence, Brazilians and Argentines still raise eyebrows when they met at stadiums, but are both proud of their membership in Mercosul and prone to forget their nasty nicknames. Last year the Buenos Aires government officially apologized when a local newspaper referred to Chileans as macacos in a sports headline. Approximately 400,000 Argentines, Uruguayans and Paraguayans spent the 1996 summer holiday season at Brazilian beaches.

Overall, people believe Mercosul will evolve into a Latin American version of the European Union, according to a recent opinion poll in Uruguay. On a day-to-day level, however, what matters for the majority of Mercosul's citizens is imported goods and cheap holidays

ity of Mercosul's citizens is access to imported goods and cheap holidays abroad. In a poll conducted last November in the southern Brazilian city of Porto Alegre, only 7 percent of the respondents expressed any concern about Mercosul's impact on their jobs and lifestyles.

Among businessmen, diplomats and government officials in all four countries the expectations are grander. Integration is a mantra recited during all regional meetings, though the meaning of this mantra still shows some national differences—Uruguay and Paraguay, Mercosul's smaller members, want a faster pace while Brazil and Argentina are opting for a more cautious pattern.

In an average week, newspapers report an average of 20 Mercosul meetings of businessmen and diplomats. Even the trade unions and the militaries have boarded the bandwagon with an eye towards regional labor actions and common war exercises.

The key to understanding the most significant changes wrought by Mercosul can be summed up in

one word: trade. The cross-border flow of goods and services between its members increased fourfold between 1994 and 1996. Encouraged by this growth, multinational corporations started looking south again, pouring approximately US\$40 billion into Mercosul countries in the past two years.

Big car manufacturers led the scramble for position in a regional consumer market that is home to 190 million people. US-based General Motors is racing to set up a network of assembly plants in Argentina and the southern part of Brazil that will produce trucks, tractors, utility vans and family cars. Ford, Volkswagen, Fiat, Renault, Peugeot, Chrysler, Toyota, Audi, Volvo and even the Czech Republic's Skoda also have their sights set on Mercosul. All told, car manufacturers will invest \$10 billion in the four member-countries by the turn of the century.

Pharmaceutical and petrochemical industries are making their first moves. But it is in the transport sector where the economic stakes are highest now. Civil engineering contracts worth \$10 billion are being competed for by at least nine international consortia. The 35 kilometer bridge across the La Plata river, the 2,000 kilometer waterway linking the Parana and Paraguay rivers, the Bolivia-Argentina-Brazil gas pipeline and the upgrading of the 4,000 kilometer-long Mercosul Highway (from São Paulo to Buenos Aires) are the jewels in the infrastructure crown.

At the start of this decade, Brazil, Argentina, Paraguay and Uruguay were considered losers in the economic race towards progress and wealth. Five years later, the German corporation Siemens ranks the four Mercosul countries—plus Chile and Bolivia—as the new Latin Tigers.

The German company may have overestimated the reality, but it is betting on Mercosul's future. The region-

► HOLIDAY SPIRIT PAGE 6

Tequila hangover should not deter Southern Cone countries

Despite Mexico's woes, NAFTA is delivering the goods

By Sergio Sarmiento

THE NORTH AMERICAN Free Trade Agreement (NAFTA) started in 1994 under a cloud of controversy, its birth greeted by a violent Indian rebellion in the Mexican southern state of Chiapas.

Far to the south, another regional free trade bloc experienced no such birth pains. The four members of Mercosur are, however, watching Mexico carefully, fearful that its economic problems are linked to NAFTA and that similar trouble will haunt their union.

In a world where free-trade is becoming increasingly common, NAFTA was—and is—unique because it links an underdeveloped country, Mexico, with two major industrialized economies, those of Canada and the U.S. Economists throughout Latin America questioned Mexico's decision, warning that the weakest partner, Mexico, would be dominated by its two stronger neighbors to the north.

In spite of these fears, many countries in Latin America asserted their right to join NAFTA. Chile was believed to be next in line, although it is still waiting. Others, although they haven't abandoned hope of joining NAFTA, decided to join Mercosur.

Like NAFTA, Mercosur (or Mercosul) links countries of disparate sizes. Brazil and Argentina are the two giants of South America, while Uruguay and Paraguay are two of the continent's smaller countries. But unlike NAFTA, these four South American countries have roughly the same level of development. In this sense, Mercosur is a more traditional regional free-trade agreement than NAFTA.

This is of little comfort to the people in the Mercosur countries. The reason for their concern is the economic crisis that erupted in Mexico at the end of 1994, the very year NAFTA became effective. That crisis later rippled through most of Latin America, creating what became known as the "Tequila Effect."

Opponents of free-trade in Mexico and in the rest of Latin America have argued that this crisis was a consequence of NAFTA. The short time-lag between the agreement and the collapse of the Mexican economy led many outside the financial world to believe the argument that the two were

linked. The available facts, however, all point to an entirely different conclusion.

It is now clear that the Mexican economic crisis was provoked by errors of economic and monetary management. NAFTA is not among those errors. In fact, NAFTA prevented a greater fall of the Mexican economy and has been a major factor in its prompt rebound.

Overall trade between Mexico and the U.S. jumped 63 percent, from US\$89.6 billion in 1993, the year before NAFTA, to \$146 billion in 1996. Mexico was the main beneficiary, as its exports to the U.S. increased 84.2 percent from \$43.1 billion to \$79.4 billion. To some extent this was a consequence of the Mexican peso devaluation of late 1994, but the expansion started earlier, with the inception of NAFTA.

If the NAFTA experience is any guide, free trade does not insulate any country from errors of economic management

Trade between Canada and Mexico, albeit starting from a lower base, also rose significantly over the first three years of NAFTA, from \$2.7 billion to \$3.8 billion—a 40 percent jump.

Mercosur officially came into being on January 1, 1995, 10 days after the Mexican devaluation detonated the Tequila Effect. As a consequence, both Brazil and Argentina suffered major economic setbacks in 1995 and early 1996, and Uruguay and Paraguay were pulled down by them. As is usually the case whenever a country suffers an economic crisis, foreign products and free trade attracted plenty of blame.

By late 1996, however, a more sober view of Mercosur was beginning to pre-

vail. In the autumn of last year, I had the opportunity to talk with Julio Maria Sanguinetti, president of Uruguay, during a state visit to Mexico.

Elected in late 1994, he wasn't the president who promoted Mercosur. In fact, his political rival, Luis Alberto Lacalle, negotiated the deal. But still, Sanguinetti was optimistic about the agreement. "The whole world is moving toward freer trade," he said to me. "Our countries cannot be an exception."

The big challenge for Uruguay, which has the most developed and expensive social security system in Latin America, is to remain competitive in a free trade environment. Uruguayans do not want their extensive social support system dismantled for the sake of free trade.

In this sense, Canada is Uruguay's counterpart in NAFTA. Canada has a far more extensive and expensive social security system than either Mexico or the U.S. The main reservation most Canadians have about NAFTA is the same as Uruguayans' have about Mercosur—they don't want to sacrifice their privileges for the sake of an abstract idea such as free trade.

Still, everyone agrees that an expansion in trade generates jobs and jobs create prosperity. And prosperity is what allows countries to keep extensive—and expensive—social services.

If the NAFTA experience is any guide, free trade does not insulate any



country from errors of economic management, such as the ones Mexico made earlier this decade. So far, there has been no "sucking sound" of jobs being lost by any of the three signatories of NAFTA, as former US presidential candidate Ross Perot warned. What did happen is a major increase in overall trade with a win-win end result.

This is what the Mercosur countries should rightfully expect in the next few years. ☺

SERGIO SARMIENTO IS A SYNDICATED NEWSPAPER COLUMNIST IN MEXICO CITY.

An end to chaos

Asian tigers look at Mercosur—and see food on the table

By M.G.G. Pillai

SOUTH AND CENTRAL America, to the average citizen of the Association of South East Asian Nations (ASEAN), is a terribly unstable place: riots, guerrillas holding ambassadors hostage and countries that go to war over soccer match results. All in all, a good region to keep away from.

The region south of the Rio Grande and north of Tierra del Fuego was one large, unexplored, unknown continent. As late as the mid-1970s, only Thailand, Indonesia and the Philippines had diplomatic missions in any of the continent's countries. It figured peripherally in the education system.

Today, this is changing rapidly. South America has come back into focus for ASEAN. Bilateral visits have become the norm. The press pays more attention to events there, often backing it with political and economic features. Five years ago, a businessman planning a visit could spend literally days trying to find out the best way to travel; now there are direct flights by ASEAN airlines.

What caused this change? One factor is the development of Mercosur, the Southern Cone Common Market comprising of Brazil, Argentina, Paraguay and Uruguay, as a credible force. Another is Malaysia's prime minister, Dato' Seri Mahathir Mohamed, who not only visited almost every country in Latin America, but encouraged the setting up of joint ventures and offered ASEAN countries—especially Malaysia—as the region's stopping off point for trade with Asia.

Simultaneously, the Argentinean ambassador to Malaysia, Eduardo Alberto Sadous, went on a diplomatic sales mission. He started by selling his own country, then pushed Mercosur and other links with his region. Part of

it, as any successful diplomatic mission ought to be, was self-serving. But he did such a tremendous job that, despite obvious jealousies of his South American colleagues, he was instrumental in getting them together into an informal group and sold Mercosur to Malaysians.

Because of its own history, ASEAN looks at the internal squabbles of Mercosur—such as they are—with equanimity. ASEAN, after all, was formed amidst unresolved disputes between Indonesia on the one hand and

Because of its own history, ASEAN looks at the internal squabbles of Mercosur—such as they are—with equanimity. ASEAN, after all, was formed amidst unresolved disputes between Indonesia, Malaysia and Singapore

Malaysia and Singapore on the other. During that period Singapore hanged two Indonesian marines for an explosion outside a bank in 1967.

Indeed, Malaysia's former foreign minister, Tan Sri Ghazali Shafie, believes that a certain amount of friction is healthy. "It is good that these quarrels surface, for out of them may come an understanding that will strengthen [Mercosur]."

One change noted by ASEAN diplomats and businessmen during meetings with their South American counterparts is a new willingness to share the wealth. There is frequently an understanding that if a particular country, for whatever reason, cannot get an invest-

ment, then an effort will be made to steer it towards another Mercosur country. But a swallow does not make a summer. The mental baggage of the past still intrude into each region's view of the other—Malaysian businesspeople traveling to Argentina and Brazil for the first time were taken by surprise at the level of industrialization they encountered.

ASEAN's residual wariness stems from a desire to make sure Mercosur can and will work smoothly. Where, for instance, does Chile fit into the equation? Arguably South America's most dynamic economy, Chile has been courting both Mercosur and The North American Free Trade Agreement, better known as Nafta.

There are also problems to be ironed out at the Asian end. The South Asian link was to have been SAARC—the South Asian Association for Regional Cooperation—but it has been hampered by bilateral dissension and fears. Neither India nor Pakistan will let the other represent its interests in the dialogue, something inevitable in a rotational leadership system; both insist they separately represented.

What bodes well for the future relationship between ASEAN and Mercosur is the fact that relations all along have been based on trade. Political relations between the two groups of Southern Hemisphere countries are at worst neutral, as one would expect between regions separated by a few thousands miles of ocean.

A start has been made. Mercosur is seen by ASEAN as a conscious political effort by its members to have a life outside the United States economic umbrella in what is touted as the Pacific century. To achieve that goal, it must forge links along the Pacific Rim—and it is here ASEAN can be useful. ☐

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Amazing Grace: the passions that make soccer games between Brazil and Argentina such explosive affairs have not surfaced in Mercosur, the free trade agreement linking them with Uruguay and Paraguay

HOLIDAY SPIRIT

Continued from page 5

al trade boom was reflected in a 20 percent increase in the global economic activity in the Southern Cone block from 1991 to 1995, five points above the Latin American average rate, according to the Inter American Development Bank (IDB). Today the global Gross National Product of Mercosul countries is reaching \$800 billion a year.

But there is another side of the coin: the huge imbalances among the Mercosul partners. Brazil's population is 3.6 times bigger than all other countries combined. The collective gross national product (GNP) of Argentina, Paraguay and Uruguay is only one third the size of Brazil's GNP. Argentineans, however, earn twice the per capita income of Brazil and four times what the average Paraguayan makes.

There are also other hurdles. Mercosul is the only existing free trade block in the world exclusively founded by—and comprised of—developing nations. Its four members are newcomers to the democratic system, and the memories of hyperinflation and political turmoil are still strong enough to

shape their citizens' hopes and expectations.

In spite of such worrying drawbacks, the group of four nations has attracted the attention of Chile and Bolivia. Both countries have applied for partial membership as a preliminary step towards full integration. Mercosul's aspirations are also boosted by on-going talks with Peru, Ecuador, Colombia and Venezuela.

These countries, together with Bolivia, stitched together an Andean Common Market in the 1970s, but its impact has been modest.

By the end of 1997, if the talks between Mercosul countries and their Andean neighbors succeed, all former Spanish and Portuguese colonies in South America will be integrated for the first time in history, and the region's population of nearly 320 million will be only 50 million smaller than that of the North American Free Trade Agreement (NAFTA) members.

Mercosul is already at a strategic

crossroads in world politics. The US, NAFTA's leading member, and the European Union are silently struggling for influence over this emerging trade bloc. The Europeans recently signed a key agreement with Mercosul members to improve not only trade, but political and cultural relations as well.

America, meanwhile, is trying to bypass Mercosul's achievements through

an ambitious idea contained in former president George Bush's Initiative for the Americas: an Alaska to Patagonia free trade zone, known as America's Free Trade Alliance. But the Latin Tigers no longer shake at the knees when Washington growls. They know

that, regardless of their government's position, American corporations won't pass up the opportunity afforded by the newly open Mercosul markets. ☐

CARLOS CASTILHO IS A *WorldPaper* ASSOCIATE EDITOR FOR LATIN AMERICA.

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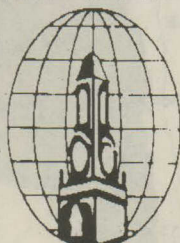


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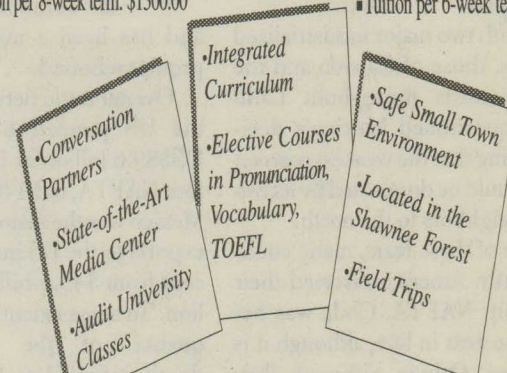
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Cutting a path through red tape does not guarantee business will follow

Adopted by governments everywhere, deregulation runs wild and free

If the road to hell is truly paved with good intentions, then deregulation may have one of the paving contracts. Privatization's dowdy partner has been present and partying in countries ranging from Argentina to Japan—with mixed results. The presumption that deregulated industries will use their freedom to pursue cheaper, better, more efficient means of doing business has frequently been found wanting. Post-deregulation industries are all-too-capable of less service for higher prices while migrating into fields they have little or no expertise in

By Brad Durham

IN RUSSIA CRIMINALS don't have to rob banks, they just start them," goes the refrain of many bitter Russians who believe that the powerful banking sector operates in an entirely lawless environment.

While a generous helping of envy drives this stereotype of champagne-swilling, cherubic bankers, for the most part it is correct. The assassination of bank presidents is such a regular event in Russia that it's clear a whole set of unwritten rules govern this industry and its swashbuckling participants. The few formal regulations imposed by parliament or the Russian Central Bank are clearly secondary.

Ironically, these official regulations are beginning to rein in the unconventional, "fringe" banks that dot Russia's financial landscape and feed this image of lawlessness. The country's major banks, which through lobbying and financial clout really are beyond regulation, are moving—unconventionally—into the traditional fields of financing and assisting the business sector.

Leading by ownership

Banks like Menatep Bank, Oneximbank, Stolichny Savings Bank, Most Bank and the Alfa Group now control such major Russian enterprises as the oil holding companies Yukos and Sidanco, the world's largest nickel producer Norilsk Nickel, and many others. Russian financier Boris Berezovsky, who has parlayed his influence into a position on the country's national security council, said recently that the country's six largest banks control 50 percent of the economy.

If you look beyond these giants, however, Russia's banking sector has been in a state of near collapse for several years. But there is no real consensus on exactly what collapse means in a country with 2,600 registered banks, no regulations steering banks away from the stock and government securities markets

and, consequently, little activity that can be characterized as the lending and savings variety associated with traditional banking.

Unlike in most countries, including the major emerging markets, the Russian banking sector is largely detached from the real economy. So a collapsing banking sector would not necessarily drag the economy down with it, according to Mikhail Dmitriev, a Russian banking analyst with the Carnegie Endowment. Dmitriev says that bad loans to clients are not likely to trigger a crisis in the Russian economy since they amount to only 1 percent of the

banking sector's total assets.

Much of this bad debt is concentrated in one area—the business sector. Bad loans represent more than 20 percent of the total loans outstanding to Russian companies, and nearly half of all outstanding debts have been postponed at least once. For Russian banks, the conclusion is obvious: there are far more profitable places for them to put their money than Russia's industrial giants, which are trapped in a spiral of nonpayment, unable to pay back either suppliers or creditors since they aren't being paid by their customers. And, if you are going to put money into business, buy it first so you call the shots.

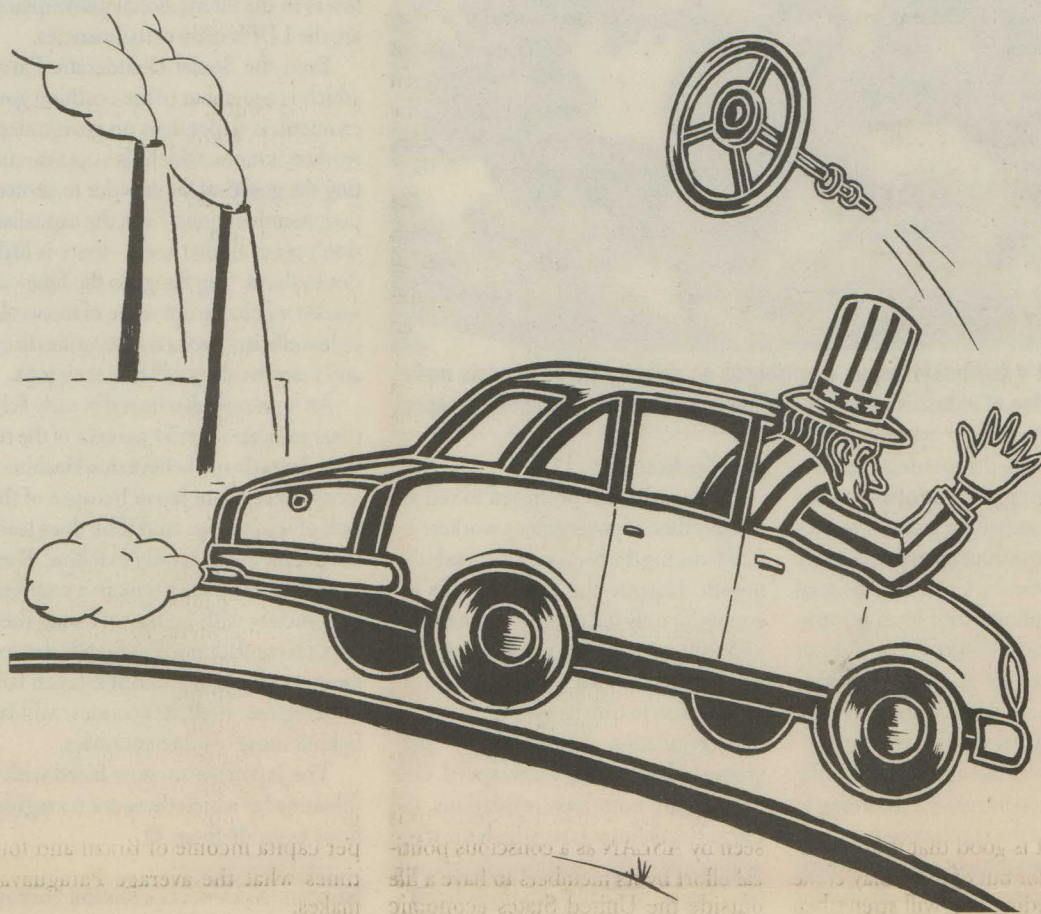
Consequently, the loan portfolio of Russia's top 10 banks—responsible for the lion's share of corporate

loans—amounts to less than one-third of their assets. The ratio is far less if all of Russia's banks are considered, including many of the small, fly-by-night operations with a tiny capital base that are set up solely to invest in Rus-

sia's high-yield T(reasury)-bill market.

This situation has actually had a positive effect on many of Russia's savvy companies who, without much hope of raising development capital at home, have buffed up their balance sheets and staged roadshows in London and New York where they are tapping international capital markets through private equity placements, syndicated bank loans and corporate Eurobonds.

The current plight of the banks, amongst whom an estimated third to a half will either go belly-up or be consolidated into larger banks in the next



Destination unknown: the deregulation preached by free market crusaders assumes responsible businesses that thrive in competitive environments. The reality in Russia and other countries new to capitalism is much different

tor were disintegrating—and from cheap centralized loans.

All bankers had to do to hit payday was to invest their rubles in dollars and wait for hyperinflation and a rapidly devalued ruble to work their magic.

Inflationary hangover

But the rules of the game quickly changed. Russia got its fiscal house in order, reducing inflation from more than 1,000 percent a month to the current level of under 2 percent and introducing a trading band for the ruble that caused it to appreciate against

requirements, tighter licensing standards, ended centralized credits to banks and has been attempting to reduce T-bill yields, mainly to cut the government's costs of borrowing. The pinch has touched off a couple of liquidity crises, forcing many smaller and several large banks under—or into reorganization—because they did not have enough ready cash to meet their obligations.

Russian Central Bank officials today wear smug expressions as they announce the latest tallies of bank licenses that have been revoked. More than 200 licenses were jerked last year on top of 315 in 1995.

But in reality, those caught in the regulator's net are small fry. Russia's top banks are a different story. They represent the country's most powerful lobbying group and have been successful at pushing legislators, privatization officials and presidential advisors into clearing a path for banks to both restructure and control top Russian companies—in much the same vein that Germany's industry giants are cod-

ded by a powerful banking sector.

Equity binge

No regulations prevent Russian banks from their current acquisition binge, which has led to the creation of hundreds of financial industrial groups (FIGs). Some observers are concerned that Russia's top banks are

too vulnerable to a downturn in the market as they increase their equity holdings and suggest that Russia needs a Glass-Steagall Act, introduced in the US after the 1929 stock market crash to restrict the participation of banks in the equity market.

But others such as Boris Jordan, a US citizen who opened CS First Boston's profitable Moscow office and launched the rapidly growing Moscow-based investment bank, Renaissance Capital, believes these bank-led consortiums represent a necessary phase in the restructuring and financing of many of Russia's ailing enterprises over the next 5-10 years.

Jordan likens this stage of development to the US at the turn of the century, when the marriage of industrial monopolies and large merchant banks like J.P. Morgan were the prime engine of growth. "After the US deregulation opened up all the segments of the market—now any company can participate. Government price control was abolished, along with import duties and export taxes on oil and derivative products. Exploration blocks (i.e. promising fields), once the exclusive domain of YPF, were made available to any bidder. As the last step of the process, YPF itself was streamlined and then, in July 1993, privatized. "Today, it depends only on your economic considerations, when and where you build a gas station," says Montamat.

No wonder there is a fierce fight for market share. Shortly after its opening, the Esso station near our home got a metal pedestal displaying a bright red sedan. Customers were invited by wide banners flying in the

BRAD DURHAM IS THE EDITOR OF *Russia Portfolio*, A US-BASED NEWSLETTER FOCUSING ON RUSSIAN SECURITIES.

Freed, prices climb

Argentines now able to buy less gas at more gas stations

By Zoltan Mikolas

BANG! BANG! THE sound was too harsh even to come from one of the frequent car crashes that take place in front of my house. The Avenida del Libertador, one of the busiest avenues in Buenos Aires, was suffering from its usual rush-hour fever, but there was nothing out of the ordinary. Still, the strange bangs were repeated again and again.

The explanation came the following morning. My one-year-old son was delighted to discover that a nearby corner was taken over by bulldozers and construction workers. In due

course, a big inflated plastic tiger—the mascot of Esso—appeared on the

roof of yet another new gas station.

Yes, "yet another." In the last few years, the number of gas stations has grown by around 20 percent. Existing facilities get facelifts so often the everyday landscape changes every week.

After decades of far-reaching state control, such competition is relatively new to the Argentines—at least in this sector of the economy. It started in 1991 when President Carlos Menem's government, strongly committed to liberalization and privatization, decided to deregulate the country's oil market.

"Before, the principle was self-sufficiency," says Daniel G. Montamat, the head of the oil consultancy Montamat & Associates. "The government created an executive arm to implement this policy: YPF, Argentina's 100 percent state-owned petroleum monopoly. There were some other players allowed in exploration. But production, refining and distribution were strictly regulated. The few producers which got licenses beside YPF, were forced to sell their oil to the monopoly at official prices. Though Shell and Exxon also operated gas stations, prices had to be the same everywhere in the country."

Deregulation opened up all the segments of the market—now any company can participate. Government price control was abolished, along with import duties and export taxes on oil and derivative products. Exploration blocks (i.e. promising fields), once the exclusive domain of YPF, were made available to any bidder. As the last step of the process, YPF itself was streamlined and then, in July 1993, privatized. "Today, it depends only on your economic considerations, when and where you build a gas station," says Montamat.

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The flames keep spreading: Russians have come to find that burning communist flags was the easy part of deregulating their centralized economy

few years, owes much to the regulation-free environment in which Russia's banks were allowed to take root.

Most Russian banks cut their teeth as currency traders during the easy-money period of hyperinflation from about 1990 to 1994. Because of lax capital requirements and liberal legislation, virtually anybody with a blue suit and some petty cash could open a bank and begin accepting deposits. The banks were fueled by non-interest-bearing deposits from former state-owned companies—since many of the specialized banks that were used to support a single industrial sec-

the dollar. This sent the banks scurrying in search of profits into the government securities market, where triple-digit yields also offered windfall gains, and into corporate lending. Since the bankers had learned little about evaluating risk, assessing creditworthiness and performing due diligence, they got burned.

At the same time the Russian Central Bank, sensing a real opportunity to restructure the banking sector by thinning its ranks, decided it was time to implement some sorely needed regulations. Since late 1995 it has introduced increasingly strict reserve re-

You can be too aware of deregulation's dangers

Japan's economy strangled by its own security blanket

By Nozomu Nakaoka

WHEN THE meter is running in Tokyo, foreign businesspeople squeal in pain. Aided and abetted by government regulators, the city's taxi drivers take full advantage of their artificial monopoly to charge some of the highest prices in the developed world.

Taxi fares are one example of Japan's notorious passion for regulating industry—the Ministry of Transportation dictates fares and other business practices for taxi companies and, until recently, did not allow any price competition among them.

But some of the squeals have reached official ears. Because of the criticism from consumers about high taxi fares, the ministry has cautiously started to relax its regulations. Recently a taxi company named MK Taxi, which once fought the local transportation authority in Kyoto for the right to charge lower fares, announced that it has lowered its prices in Tokyo. But its service is so limited that, for the time being it is a matter of luck whether or not you flag down one of the company's taxis.

This small shift is part of a pattern that has made deregulation a buzzword in the Japanese media. For years, security in Japan has been regarded as more important than costs. Regulation can provide the people with improved security—but it also imposes high costs. Today, those costs may be too high, but a keen sense of the dangers that might be unleashed by deregulation have slowed the pace of real change to a crawl.

Both domestic and foreign factors are putting pressure on the traditional attitude towards government regulation. The emphasis on safety gives great scope for inefficiency. Faced with increased competition from abroad, Japan is finding that the costs of this inefficiency are growing. High costs undermine the in-

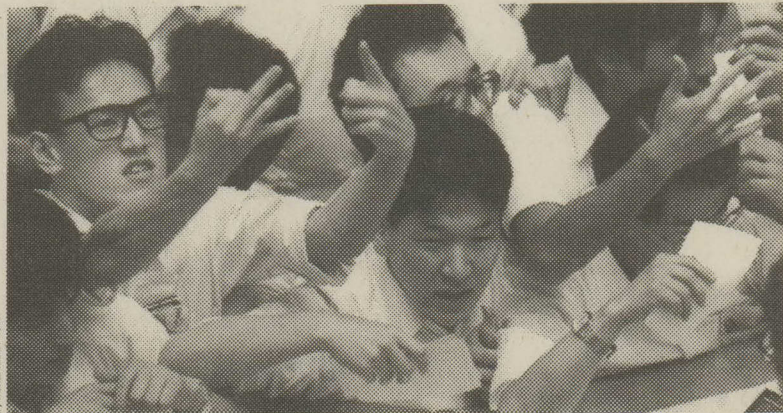
ternational competitiveness of Japan, and will eventually reduce living standards if it is not checked.

Prime Minister Ryutaro Hashimoto said at the Liberal Democratic Party conference in March, 1996, that, "companies are now choosing the countries where they operate. It is urgent for Japan to change a high cost structure. Otherwise Japan will lose its attractiveness and business opportunities, and the concern about industrial 'hollowing-out'—the fleeing of industries to cheaper labor markets, leaving behind only corporate headquarters—will become a reality."

At the same time international pres-

This is an improvement; at the regulatory high tide, there were more than 11,400 governing the society, but corporate executives still want the ministries to relax about 1,800 of the current regulations.

The present coalition government led by the Liberal Democratic Party (LDP) presented a plan for deregulation as part of their agenda for last year's election. After the election, Hashimoto unveiled a plan, called "Japan's Big Bang," to liberate the financial market by the year of 2001. In addition, Minister of Finance Hiroshi Mitsuoka also announced the government's plan to consolidate the number of ministries and



A bureaucrat's nightmare: Japan's consensus on security ahead of costs makes the deregulation of industries such as the financial sector a frightening prospect

sure is increasing, the mounting national debt and the rapid aging of its population are also compelling Japan to reduce the reach of government and encourage economic efficiency. Currently, the total debt of the national and local governments amounts to ¥403 trillion. The per capita debt stands at an unbelievable ¥3.38 million. In the face of such a debt problem, a smaller government is vital.

But the government remains too big and its reach too intrusive. According to a survey about the regulations conducted by the Management and Coordination Agency, there are 10,900 regulations and rules which require permission and approvals from ministries and agencies.

agencies from 22 to 11.

Mitsuoka also promised to reduce the number of government workers by 2,200 during the fiscal year that ends this month. Despite the fact that this accounts for only 0.2 percent of the total of 855,000 government workers, officials say that this shows the government's determination to trim its own ranks.

Deregulation has certainly progressed, albeit at a very slow pace. One of the more notorious regulations, the Large Retail Store Law, which the trade negotiators of the American government have been criticizing as a trade barrier, was relaxed in 1990 as a result of negotiations between Japan and the U.S. Ap-

plications to open large supermarkets increased dramatically. In 1989 the number of applications was only 794. But in 1990 the number jumped to 1,667, and they climbed to 2,206 in 1995.

Prior to this, a government-owned telephone company, NTT, was privatized in 1986 and competition introduced into the telephone market. For long-distance calls, three new entrants—DDI, Japan Telecom and Teleway Japan—started providing service. Charges of long-distance telephone calls declined steeply. KDD, which had a monopoly on international telephone calls, was also broken with new-comers. While consumers still complain of high rates, they are enjoying the fruits of competition. Charges have fallen almost every year.

These gains, however, have failed to increase the pace of deregulation—in part because there are so many people trumpeting its real or imagined drawbacks. The LDP is based on vested interest groups, most of which are against any drastic changes. Farmers, construction companies and small-to-medium sized companies, all of whom are vulnerable to competition and tabbed as losers in the international marketplace, are the LDP's main constituencies.

Even the Social Democratic Party, which is a member of the coalition government, is dependent on government workers' unions, which also oppose cutting the government in order to protect their members' jobs. Even the capitalists don't seem all that keen—there is little doubt that a "Big Bang" in the financial market will bankrupt some of the weaker, less efficient banks and securities firms and many workers will lose their jobs.

An opinion poll released in early February indicates that 51 percent of the respondents do not believe that Hashimoto can deregulate Japan because of the lack of leadership. And if he does lead, the people are not ready to follow. They have lived for a long time in a comfortable society with no fear of losing their jobs. Deregulation will definitely destroy life-time employment. But if Japan fails to deregulate itself, its economy will fall behind those of other countries.

The Japanese are now faced with a dilemma for which there are no regulations to guide them. ☐

NOZOMU NAKAOKA IS A SENIOR EDITOR FOR THE TOKYO-BASED NEWSMAGAZINE *Toyo Keizai*.

LESS GAS

Continued from page 7

wind: "Win one of the 50 Renaults we draw!"

YPF couldn't help following suit: They gave away Volkswagens. To which the reply came in a high voice: "At Shell, the prize is not a car. It's a Land Rover."

Isn't this a car-owners paradise? Won't petroleum companies rush to do anything to attract more customers and keep them happy?

Well, nearly. They give you all you can imagine—but at a higher price.

Despite competition, gasoline prices have been increasing steadily. Whichever station drivers choose, they now have to pay over US\$1 for a liter of premium gasoline, a sharp increase on the pre-deregulation prices. This price might be greeted with cries of joy in France, but it is steep compared to most of South America and three times US rates.

With its 1994 oil production of approximately 38 million cubic meters, Argentina lags far behind Saudi Arabia

(464

million). Still, in the same year, the fuel/energy portion of its foreign trade balance showed a \$1 billion surplus. By 1994, the share of fuel/energy in the total exports of the country had grown to more than 10 percent, up from 3.4 percent in 1980. Argentina currently supplies some 7 percent of the oil needs of Brazil. How then can gasoline be so expensive here?

According to Montamat, after an initial price hike, which was unavoidable, oil companies now take advantage of Argentina's logistic problems. "After deregulation, prices had to be based on international references," he explains. "As a first step, deeply depressed official prices had to be raised to approach those in the open market. This meant a shocking, 40 percent jump in September

1990."

Once the two price levels had reached equilibrium, it was reasonable to expect that the competition unleashed in January 1991 would drive down the prices, if only a bit. This has never happened. Even net prices (without taxes) are higher than in many countries.

"Oil is a commodity which can be sold or bought any time in the international market but, of course, prices depend on the actual conditions," says Montamat. "In the case of Argentina, transportation and logistic difficulties allow vendors to charge more. Deregulation has been solved. Now it ought to be fol-

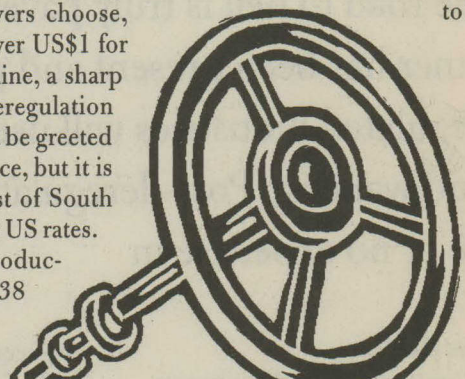
lowed by internationalization."

There is one exception to this general tendency. Diesel fuel, thanks to a generous tax cut aimed at helping the agriculture, now costs about \$0.45 per liter, 33 percent less than three years ago.

Unfortunately, I cannot feel happy about this reduction, and not just because I do not have a diesel car. The measure derailed a successful environmental program to switch engines to natural gas. Bus companies and cab drivers now prefer cheap diesel fuel and what we have to inhale in downtown Buenos Aires, named the city of "Good Air," is often little better than exhaustion gas.

Premium and basic grades of gasoline are expensive. But maybe it is better this way. It is possible people will buy less and Argentina's environment will get some unintended protection. ☐

ZOLTAN MIKOLAS IS AN ARGENTINEAN FREELANCE JOURNALIST BASED IN BUENOS AIRES.



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If it's worth the wait...

The world is standing in line for capitalism

From affluent American teenagers lining up for rock concert tickets to starving Africans waiting patiently for food, queues are an evocative symbol of the human condition. What we will stand in line for—and who is found at the head of queue—are often important clues to a society's direction and values

By Daniel Passent

THE LONGEST QUEUES in Poland have formed at the border between capitalism and socialism. Poles who used to line up to spend their money on goods, any goods, now queue up for any opportunity to make the money needed to shop in the well-stocked stores.

Today, the most likely place to find such a gathering is in front of a bank. Last November, thousands queued for hours in sub-zero temperatures at banks throughout the country. While people in other countries were shopping for Christmas presents, Poles were staking a share of the industries being privatized.

The 400 state enterprises privatized in 1995 were divided—by lottery—into 20 National Investment Funds (the

Polish abbreviation is NFI). For a year, every adult Pole was entitled to buy one NFI certificate for the equivalent of US\$8. Over the next few years, these certificates will automatically turn into shares and be traded on the stock exchange.

REPORTING FROM
WARSAW

Critics of the scheme saw no need for queues, predicting that only half those entitled would bother to buy a certificate. They were wrong: by last November, people were lining up at different banks in freezing weather for up to eight hours in order to beat the one-year deadline. When that deadline passed, 95 percent of the Poles who were entitled to had bought a certificate.

As it happened, many of the Poles who bought NFI certificates left one queue at the bank and joined another—when they got to the end of this one, they resold their certificate to the bank at a profit ranging from \$30-\$40. This was a result of market forces, which had



driven up the value of the certificates tenfold.

As these queues cleared, new ones blossomed as a result of two "reforms" implemented in the name of efficiency. First, the largest savings bank, Powszechna Kasa Oszczednosci (PKO), introduced a new "integrated" computer system—known as ZORBA—that has customers completely baffled.

Adding to the confusion is the countrywide introduction of new, mandatory bank account numbers. According to the Bank of Poland, they are a step towards European Union norms, but to most Poles they look like the formula for a nuclear reaction—this author's new number, for instance, is PKO BP II O/W-wa 10201026-86974-270-41-111. Added together, the new numbers and ZORBA mean that even the simplest banking procedure such as making a deposit takes three hours.

According to the designers of ZORBA, it acts as "shock therapy" for the banking system, with a lot of early pain giving way to gain. As usual, it is the customers who stand in endless queues that pay. According to Andrzej Topinski, president of PKO, a more gradual approach is impossible because, "banking reform is like an airplane taking off. Once it has left the ground you can't stop it." Nor, says Topinski, is closing the banks for a few days to restore order. "We have not only individual customers but business clients as well, and these cannot function without a bank even for a day."

There is, however, a deeper reason these lines form at banks. They, more than any other institution, represent the gate between socialism and capitalism. Under socialism, the banking system was very primitive. Cash was used for all transactions between individuals, be it settling bills or buying a used television. Individual checking accounts did not exist, and even today very few Polish busi-

nesses will accept checks. Instead, everyone takes cash to their bank, deposits it, and draws it out in the form of cash when money is needed.

Even on a day when there is no reform or new computers at work, basic banking easily consumes an hour. It takes two weeks for banks to notify

Outside of necessities such as meat, the longest lines in the communist days were found in front of the Passport Office, another border between Poles and capitalism

their customers of a transfer, six weeks for them to cash a foreign check. No wonder this system is a bottleneck for Poland's new capitalists, a queue-producing legacy from the communists and their planned economy.

When Poles were living that myth, patience was unlimited and the "time is money" rule did not apply—there was plenty of time and money had no

value. If something good appeared in the store, its value was measured by the amount of time people were willing to queue for it. When the first Sony television sets appeared, people stood in line for two days.

During this era, queuing was a way of life, and special "social committees" kept order. It was here that people made friends, exchanged news and made comments, especially about communism. Many of the more enduring queues formed outside meat stores. Meat was a "strategic commodity," and every time its price went up Poles took to the streets. This was a relatively simple process—the queues became protest marches.

Outside of necessities such as meat, the longest lines in the communist days were found in front of the Passport Office, another border between Poles and capitalism. Stefan Kisielewski, a leading anti-communist writer and composer, recalls queuing for three hours to apply for a passport and another five hours to appeal the state's refusal to give him one.

Now, Poles queue not for freedom but for money. There is one exception, however. People will stand in line for days for the chance of getting a travel visa to the US, capitalism's champion. To them, these visas are a ticket to paradise. ☺

DANIEL PASSENT, A FORMER EDITOR OF *The World Paper*, IS FOREIGN EDITOR OF THE WARSAW-BASED NEWSMAGAZINE *Polityka*.

Waiting as a career

Urban life taxes time for most Brazilians

By Carlos Castillo

FOR MOST OF THE 40 million Brazilians who live in cities, it literally takes days out of their lives. For 17-year-old Rodrigo Souza Parente, it means money in the bank—US\$300 a month, to be precise.

Parente's job is to queue at least four hours a day in three or four different places in São Paulo, the biggest and most dynamic Brazilian city. Parente is an office boy for an attorney's firm, and he does all the external work not only for his bosses, but also for the assistant secretaries, the receptionist and the computer operator.

"If I add all hours I've stood in line in the last three years I've probably queued for six months in a row," says Parente, who admits that without the lines it would otherwise be difficult for him to get a job as an office boy and enjoy the \$300 monthly wage that allows him to attend a private secondary school.

The opportunity that Parente is exploiting is actually a curse for most urban Brazilians who, by some estimates, lose an average of two and a half hours each day queuing for such things as buses, bread, public telephones, bank tellers, restaurants and cinemas. It adds up to more than two full days (50 hours) a month of wasted time, according to one conserva-

tive estimate made by a group of social workers in São Paulo.

According to some researchers, queuing is the biggest drain—after the hours spent at work—on the time of Brazilians who don't own a telephone line or a car and live in cities with more than 400,000 inhabitants. In a year the average Brazilian urban dweller will spend 25 days just standing and waiting in line. This figure doesn't take into account the number of hours spent inside buses, cars and trains, commuting to and from work. If this time is added, the time wasted each month ranges from 60 hours to 90 hours depending on the distance commuted.

The reasons for this state of affairs? Bureaucracy, bad planning, lack of information and conformism are the main causes, according to consultant Antonio Trevisan, who recognizes that there are many other South American countries where queuing is even worse.

The result is an added cost for businesses, who need a "line professional" like Parente to function in this environment. "You probably would think I'm over reacting if I'd say that without Rodrigo the office wouldn't exist, but it's true. As attorneys we need to be in daily contact with the courts, Justice Department, police districts, banks and so on. We wouldn't do anything due to the long lines in almost every place," says attorney Simon Hertz, Parente's boss.

According to Parente, the worst lines are in some banks and in the courts. "Many times I have to make a deal with some friends of mine who are also office boys so one queues while the other does something else. In banks I always avoid standing behind guys with fat portfolios because they normally are paying a lot of bills and will work with the teller for more than

In a year the average Brazilian urban dweller will spend 25 days just standing and waiting in line. This figure doesn't take into account the number of hours spent inside buses, cars and trains, commuting to and from work

► TAXES TIME PAGE 10

Dressing up for foreign capital

Emerging economies line up for financial beauty contest

By Crocker Snow Jr.

THE LINE THESE DAYS doesn't form at the rear of the World Bank's headquarters two blocks north of the White House on Washington's Pennsylvania Avenue. Instead, it marches confidently through the vast new front entrance, re-forming later for power lunches at the Meridian Hotel's Cafe Fleuri in Boston's financial district, the Regency on Park Avenue in New York and Simpson's in The Strand in London.

These lines are composed of a variety of well-heeled, well-groomed folk in business suits who speak English in a variety of accents. They are finance ministers, central bankers or state-owned enterprise directors from

many a developing country in Asia, Latin America, the Middle East and Eastern Europe, and they brandish good housekeeping seals of approval from multilateral organizations like the World Bank. They seek good reports—and rapport—with money managers and investment bankers from the likes of Fidelity and Peregrine, Morgan Stanley and Merrill Lynch.

These elite solicitors queue up like so many door-to-door salesmen to extol the virtues of their countries and insist that their financial house is in order. Their goal? To attract the international flows of monies that now drive the global economy.

These financial diplomats are dif-

ferent; more technical, more competitive, more mercantile in nature than ever before. Gone—or going—are the days of government-to-government understandings leading to development grants and aid packages.

Gone too is the post petro-dollar illusion that "sovereign governments don't go broke." Gone is the dominance of the "big bang" banks like Hongkong Shanghai, Bank America or Sumitomo with their Third World loan portfolios.

The Chicago School finance ministers are in there pitching, one against another, for the attention of young, detached money managers in Western capitals whose only allegiance is to the most lucrative investment with the least amount of risk.

► BEAUTY CONTEST PAGE 10



Egyptians show a post-colonial talent for bypassing queues

Good things do not come to those who wait in Cairo's Mugamma

By Omar Younes

DESPITE YEARS OF British influence, Egyptians have never adopted one of Britannia's most cherished institutions, standing in line. When forced to wait for something, Egyptians much prefer standing in a bunch—queuing en masse—or striking off in search of an alternative.

REPORTING FROM CAIRO

The best place to observe this attitude in action is the Mugamma, a massive, Kafka-esque shrine to delay set in the heart of Cairo. Meaning literally “the coming together,” the Mugamma houses a piece of practically every government agency that needs to be accessible—or at least give the appearance of being so—to the public. Within its walls are branches of the Fire Fighting Organization, the Tax Evasion Investigations Offices, the Passport Offices and the High Committee for Sports and Youth, just to name a few of the jewels in the bureaucratic crown.

The result of this is a bureaucratic log jam that the average citizen has no hope of shifting. This is especially true if the citizen were so foolish as to stand patiently in line.

Those entering the Mugamma are assaulted by an odd, headache-producing hum that the complex emits constantly. There is little visual relief. Recently, the Mugamma has been dressed up a bit with a re-cemented entrance and a few flower pots, no doubt feeble offspring of the new reforms sweeping the bureaucracy in Egypt today, but the beast's true character remains intact. All Egyptians dread having to go to the Mugamma, but unless you have no need of government services it is unavoidable.

BEAUTY CONTEST

Continued from page 9

These ministers are lining up to talk the talk and demonstrate they can walk the walk. They parrot the jargon of “structural adjustment” and “capacity building” fostered by the World Bank and the International Monetary Fund. And they practice the demanding arts of privatization, of creating a functioning stock market, a first bankruptcy law and a suitable legal system, all of which is judged by a jury of portfolio managers.

The queue that forms outside the bastions of private capital has, of course, its own characteristics. For a start, it doesn't operate on a first come, first served basis; rather, the logic is best presented, best served. Which means that the same countries seem to be standing at the head of every queue.

The 1990s' phenomenon of private capital flowing—and even flooding—into the “emerging markets” countries is a notably unspontaneous and undemocratic one. The unhealthy equation that 20 percent of the world's population consumes 80 percent of the world resources is mirrored in the equally unbalanced flow of private capital to the world's developing countries. China, Malaysia, Taiwan, Thailand in Asia; Chile, Argentina, Mexico, Brazil in Latin America; Poland and the Czech Republic in Central Europe and Turkey on its borders—these magnets have established and maintained their drawing power over the last five years.

The reason lies not only in the size of their markets and the productivity of their populations. It's tied to their success in dressing up for foreign capital and adapting the “economic transparency” that western private capital requests and, increasingly, requires.

Most businesses have resorted to hiring someone full-time whose main duty is to navigate through the Mugamma. These navigators are not only well versed in the location of departments and key personages, but understand the proper etiquette. Unlike the passive impersonal, line-forming approach found in Western countries, these bedouins of bureaucracy, reflective of their heritage, are constantly on the move, only pausing briefly for tea and cigarettes.

There is, however, a real and genuine debate about this trend. Surprisingly, a house organ of the United Nations Development Programme is the latest to raise its head. The January edition of the magazine *Choices* features a truth-in-advertising type point/counterpoint on this issue.

In it, writer David Korten, author of *When Corporations Rule the World*, stirs the debate with a powerful, almost polemical piece decrying the “Washington consensus” of the IMF and World Bank that economic growth is the measure of human progress. He cites the 1996 *Human Development Report's* conclusion that decision makers “have too often embraced policies leading to growth that is jobless (creates unemployment), ruthless

Sooner or later, though, even the navigators must gather to wait. In the jellied queues of the Mugamma life is harsh: subtle shoving to improve your position is key, sarcastic epithets hurled at opponents can catapult you ahead in the mental queue forming in a bureaucrat's mind—or blast you back if it is not well received by the crowd.

With the absence of any physical queues, the goal is to get to the head of these mental queues, which makes being able to judge the mood of a Mugamma employee a vital skill. It is important to remember he (or the more dangerous she) is without fear of unemployment, fortified with dusty stacks of paper, mentally numbed by years of stagnation and armed with the power to make you wait 5 minutes, two hours or three days.

Perhaps the most famous story depicting the Mugamma and how Egyptians feel about it is the film *Irrab wa Ilkebab* (The Terrorist and The Kebab). The entire movie, which was released about 10 years ago, takes place inside the Mugamma and tells of how one man became so frustrated by the workings of the building he decides to hold it hostage.

The hero of this film is able to copy a few other disgruntleds, one of whom is a prostitute, but eventually becomes so confused by the Mugamma's logic that he forgets what brought him there in the first place; finally he just demands some kebabs to eat.

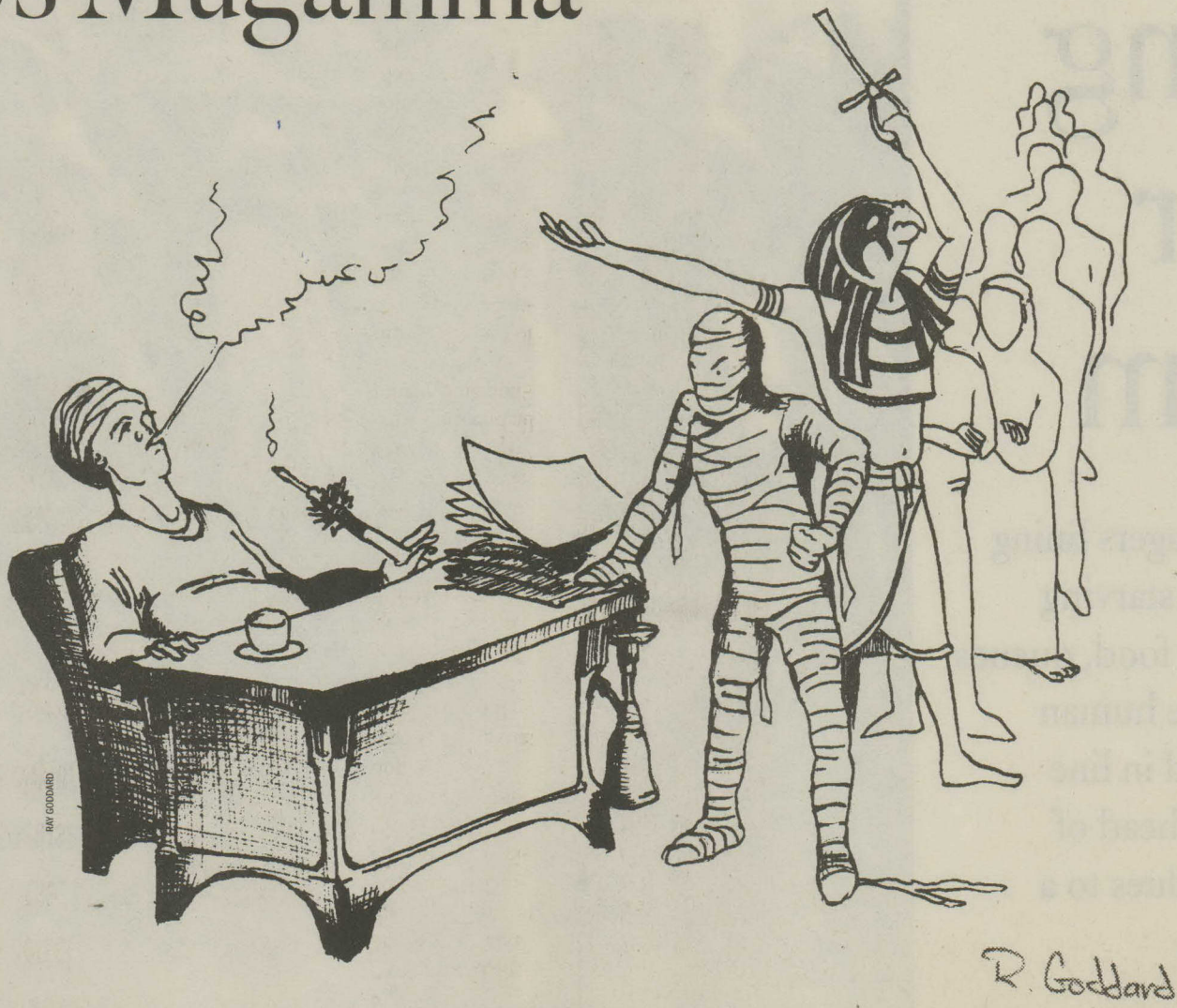
There was a time when Egyptians formed lines, but the art of queuing left with the colonists that brought it here. Ironically though, you can still find the British “queuing up” along with the other tourists directly across the square from the Mugamma at the Cairo Museum.

The law of the Mugamma is, however, suspended for visitors. Egypt's informal—but rigorously observed—code of hospitality makes the navigators toe the line. ☺

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TAXES TIME

Continued from page 9

half an hour.”

Other professional “liners” are paid to buy tickets for music concerts, important soccer matches and popular events. They get an average of \$1 to queue—sometimes for more than 12 hours—in front of ticket offices. Fights frequently break out in these queues, as happened last year in Rio de Janeiro when two men died while waiting to buy tickets for the famous Carnival parade.

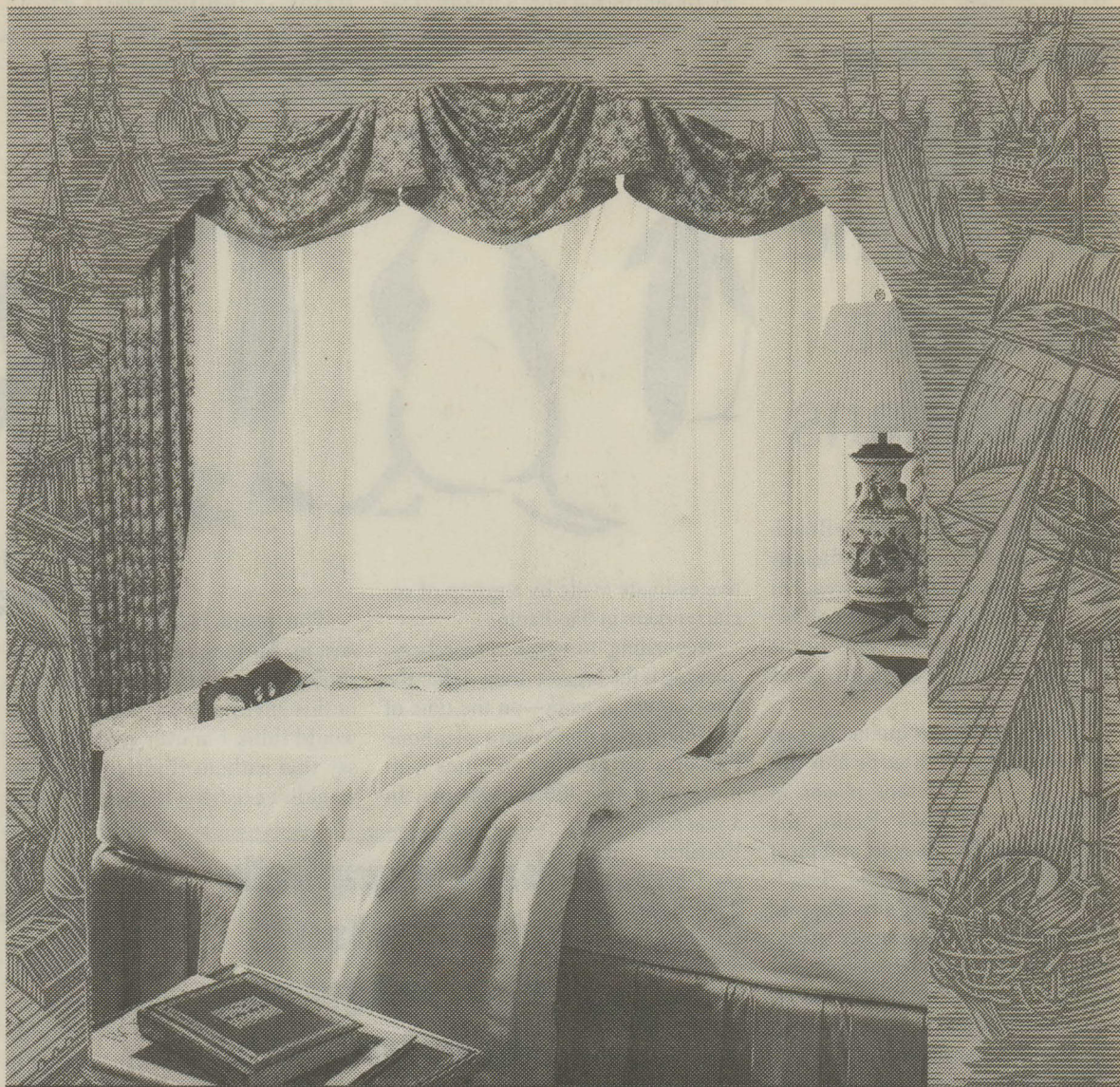
Poor retirees can't pay somebody else to queue, so they face a monthly ordeal to get their pension checks. Florianopolis resident Jaime Fortunato, 58 years old, spends at least five hours every month queuing to get his \$170 check and tells some grim tales.

“I've seen people fainting and one guy even died in front of me in the line,” complains Fortunato, who admits that his worst fear is falling ill “because nobody else can get the money on my behalf.”

Last December, Brazilian television showed dramatic scenes from the public hospital of Fortaleza, in the northeastern state of Ceara, where women with children, many of them newly born, waited in line for more than seven hours to get an appointment with a doctor. One of the women shown by the cameras was clearly in agony.

But Brazil's lines have their soft side too. They are regarded as a unique opportunity to socialize and, if you are lucky, to make friends. Parante met his girl friend in a bank line, while Fortunato's favorite poker partner is an old queue companion.

Indeed, some Brazilians do not leave the social aspect of queuing to chance. Last New Year's Eve, in the city of Campinas, in São Paulo state, 60 families celebrated the arrival of 1997 together while queuing for three days to get a place for their sons and daughters in a highly regarded public school. ☺



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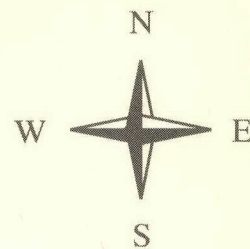
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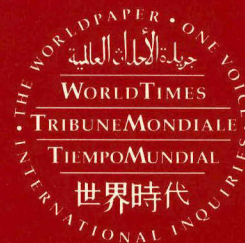
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