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President Wolfensohn - Briefings Books for Presidents Meetings - Corporate
Management - Communications with Staff - March Presidential Archives - Initial

DECLASSIFIED
WBG Archives

Archive Management for the President's Office

Document Log

Reference # : Archive-00521

1188

Edit

Print

A. CLASSIFICATION

- ☐ Meeting Material
- ☐ Trips
- ☐ Speeches

- ☐ Annual Meetings
- ☒ Corporate Management
- ☒ Communications with Staff

- ☐ Phone Logs
- ☐ Calendar
- ☐ Press Clippings/Photos

- ☐ JDW Transcripts
- ☐ Social Events
- ☐ Other

B. SUBJECT: March Presidential Archives: Initial VPU Briefing for Mr. Wolfensohn
-Briefs, 1994, World Unemployment material from A. Brown Boveri; Private Sector.

DATE: 03/24/95

-Maurice F. Strong miscellaneous correspondence. Includes China and Agenda 21 -- Chairmand and Chief Executive Officer, Ontairo Hydro Secretary-General, 1992 United Nations Conference on Environment and Development Chairman, The Earth Council.

-Transition Planning, internal memorandum, Mark Malloch Brown.

-Material from Jean-Francois Rischard, VP, Finance and Private Sector, Development; VPU FPD.

-Task Force on Multilateral Development Banks (MDBs) forwarded by Sven Sandstrom.

-World Bank-NGO Relations - Brief/Miscellaneous, forwarded by Armeane M. Choksi; VPU HRO, ESD, Andrew Steer, Ismail Serageldin. Also profile on Brent Black welder - Friends of the Earth.

See also #520 for March/April.

C. VPU

Corporate

- ☐ CTR
- ☐ EXT
- ☐ LEG
- ☐ MPS
- ☐ OED
- ☐ SEC/Board
- ☐ TRE

Regional

- ☐ AFR
- ☐ EAP
- ☐ ECA
- ☐ LAC
- ☐ MNA
- ☐ SAS

Central

- ☐ CFS
- ☐ DEC
- ☐ ESD
- ☐ FPD
- ☐ FPR
- ☐ HRO

Affiliates

- ☐ GEF
- ☐ ICSID
- ☐ IFC
- ☐ Inspection Panel
- ☐ Kennedy Center
- ☐ MIGA

D. EXTERNAL PARTNER

Presidential Archives

Classification:	Briefs
Date:	1994.
Topic:	world unemployment material from A Brown Boveri
VPU:	
External: (NGO, government official, private sector, international institution, personal acquaintance)	Private sector
Document prepared by: (name, department, etc.)	A Brown Boveri

Josie?

For would be
Ries

Unemployment - World Status (I)

1. OECD unemployment est. 1994: 36 mill. (9%)
(up 50% since 1990, Western Europe expected to peak 1995)

From 1994

Provision by
Brown Boveri

2. Official worldwide unemployment $\approx$ 820 mill., excl.
 - 700 mill., in poverty despite jobs
 - «hidden» unemployment (given up looking, «fallen off» unemployment lists etc.)
 - «underemployed» people

3. Structural or permanent unemployment growing in OECD with increasing share of
 - long-term unemployed (40-60% in major European countries)
 - youth unemployed (15-30% in major European countries)

Unemployment - World Status (II)

4. Business cycle upturn limited impact:
«The jobless upturn of the economy»
5. Unemployment/Underemployment an overriding huge economic and social problem
 - Part of the general poverty problem in the developing world
 - Seen as a crisis in W/E Europe, emerging crisis in Japan, a major problem in North America
6. Job creation with social responsibility a huge challenge for our societies.

Important issues to discuss

1. The changing structure of employment and unemployment in OECD: Risk of large-scale «permanent unemployment»
2. Western Europe: Big «home-made» problems
3. Central and Eastern Europe: A special case
4. The trade issues
5. The case for work sharing
6. The welfare state and unemployment
7. Creation of new jobs

Permanent high unemployment

A looming threat in the western world
(particularly in Western Europe)

1. 32 mill unemployed in Western industrialized countries
2. Western Europe moving towards 12% (pockets 20-30%, youth unemployment high, higher share «long-term unemployed»)
3. U.S.:
 - 6 à 7% unemployed
 - Growth without more employment
 - 30 mill «working poor»
4. Growing realization that unemployment is *increasingly structural*

Historical Shift in employment (I)

1900 - 1990

Share of employment

Agriculture:

50% → 5%

Industry & rel. serv. }

Public service }

Private service }

50%

→

95%

{ 35%

{ 30%

{ 30%

100%

100%

5 - 10% unemployment

Historical shift in employment (II)

1990 - 2015

Share of employment

Agriculture	5%	→	2%	- 3
Industry + rel. serv.	35%	→	15 à 20%	- 17
Public service	30%	→	20 à 25%	- 7
Private service	30%	→	40 à 45%	+ 12
				<u>- 15</u>

If nothing is done: Just extrapolation

Consequences of extrapolation

Social

1. Unbearable stigma with $>10\%$ structural unemployment
 - Wasted education
 - High youth unemployment
2. Social tensions with A-teams and B-teams

Therefore: Unemployment must structurally
be below 7 à 8%

Reasons for growing structural unemployment (I)

1. Dramatic lift of productivity in industry recently

- Car assembly used to be: 70 hours, now: 35 hours, goal: 15 hours
- Locos: 12,000 hours to 4,000
- Electromech. to electronic
(50 - 80% reduction in manufacturing time)
- Electronics in service industry
 - AT&T's long-distance operators 44,000 → 15,000 in 10 years
- American bank tellers 480,000 → 301,000

Reasons for growing structural unemployment (II)

2. Productivity increases in industry will accelerate:

- Time-based management, «Re engineering» etc. spreading – dramatic lifts
- Falling prices accelerate automation/robotization in OECD (only 0.5% of blue-collar population are robots today: May become 5% = - 10 mill. jobs)
- Regional integration: Extra lift of productivity (e.g. EU, NAFTA, ASEAN)

3. Is this a threat? No, a source of future wealth, just like agricultural revolution

Profitability Dramatically Improved for Robot Systems

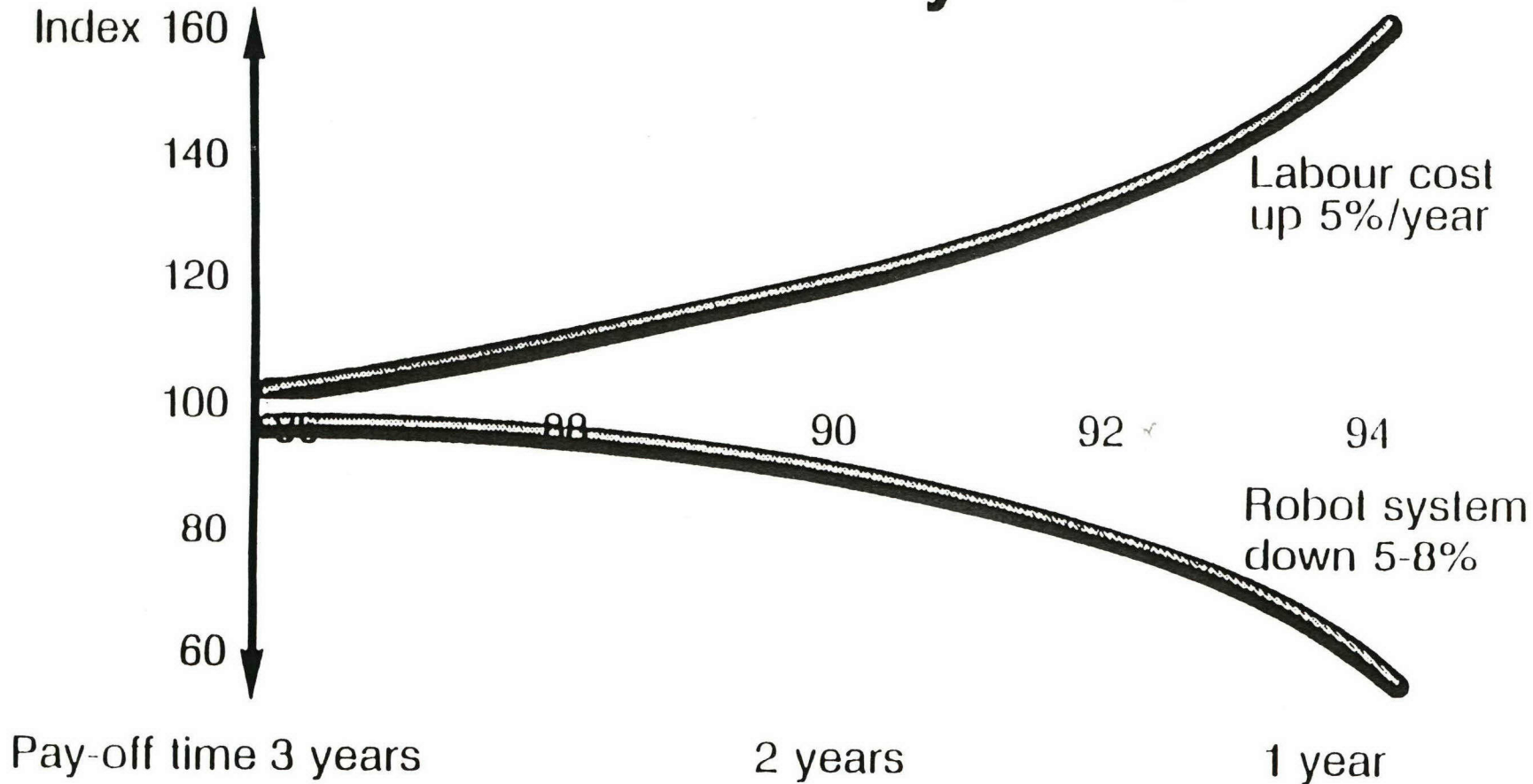


ABB Robotics

Public Procurement

- Opening-up of public procurement markets
- Excluded sectors:
 - Energy
 - Water
 - Transportation
 - Telecommunications
- EC market volume: US\$ 600 billion
- Only about 2% international bidding

Reasons for growing structural unemployment (III)

4. Public services

- Growth since the 50's will stop
- Reduction factors
 - Big rationalization potential
 - Escalating national budget deficiencies
- Growth factor - partly compensating
 - Aging population
 - More people in care-giving (front-line)

Public service rationalization potential

Examples

1. Utilities / public «companies»

Railways: 40 à 50% overstaffed in Europe
(BREL: 32,000 → 6,000)

Power and telecom utilities: Deregulation, privatization

National airlines (just started), compare USA, BA
Example: 5 UK privatized industries (Telecom, Gas, BA, British Steel, electric utilities) reduced 300,000 jobs.

Public service rationalization potential

Examples

2. National, provincial, municipal services - enormous potential

Health sector (3-4 times differences between hospital departments in the same country)

Education system

Defence (USA)

Administration on all levels

Swedish example

1. 1950 - 93: ± 0 growth in private employment
 + 1 mill. in public sector (many of them women)

2. Share of public sector employment

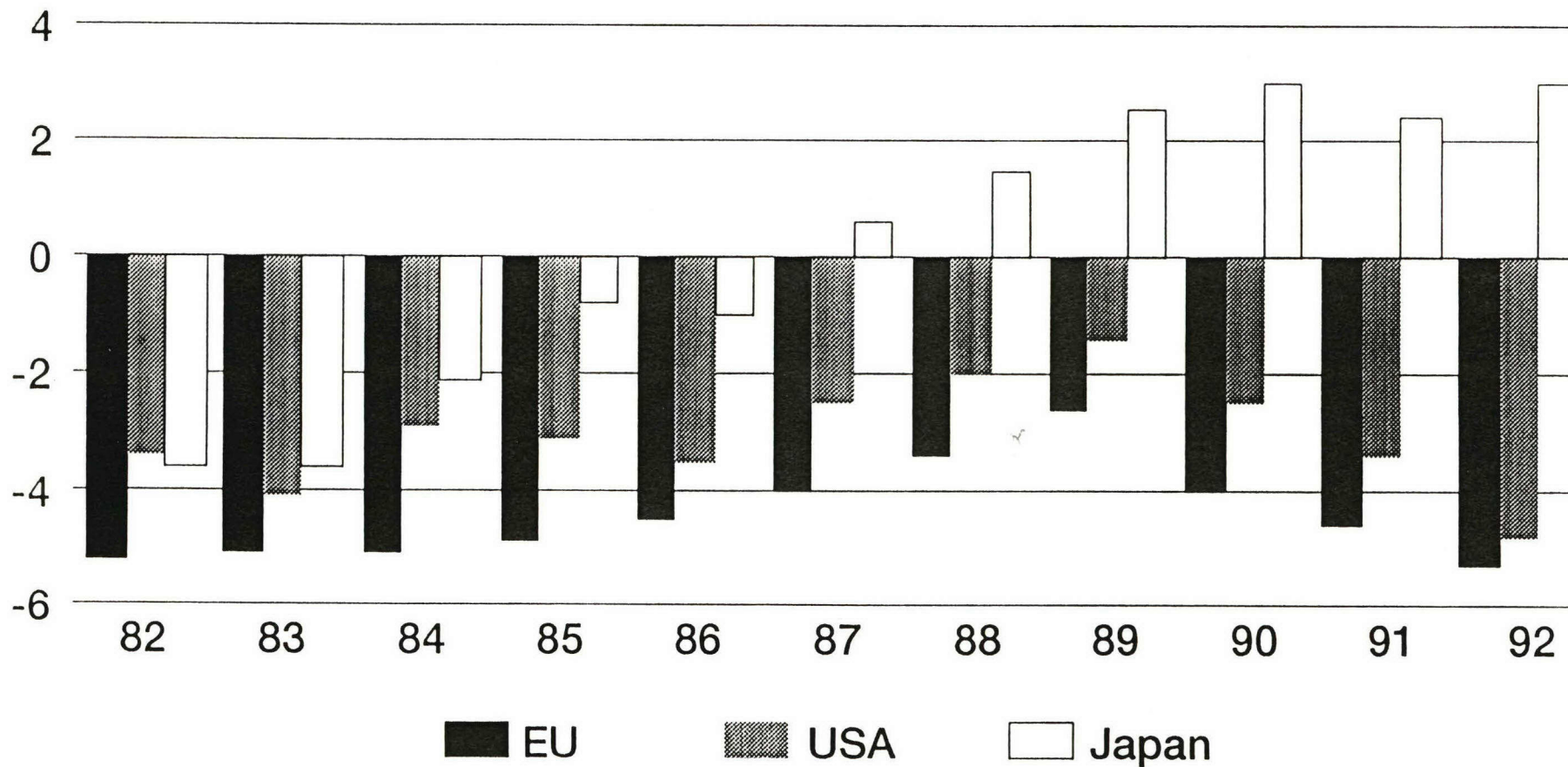
	<u>1970</u>	<u>1993</u>	
USA	15.2%	14.7%	- 0.5
Japan	7.6%	7.9%	+ 0.3
EU	13.0%	16.1%	+ 3.1
{ Nordic	17.4%	27.5%	+ 10.1
{ Sweden	20.7%	31.9%	+ 11.1

Swedish example (II)

3. Swedish public debt: Amongst the highest in % of GNP in Europe, rapidly rising
4. Dramatic changes
 - Reduced public employment
 - «Re-engineering» (down-sizing) of welfare system

Larger Budget Deficits

% of GDP



Source: European Economy

5. Private services - steadily growing

I. E.g. in USA

- Big Three automakers employ 436,000 production workers (- 33%)
- Wal-Mart stores employ 490,000 up from 64,000 in 1984

+ 16 mill. new jobs, mainly private services (not only good jobs replaced by bad jobs)

- «Hamburger flippers»: 93,000 → 82,000
- Food counter occupations: 326,000 → 329,000

II. Requires low-cost labour (increased wage differentiation)

- compare US debate on «working poor»

Asia Pacific (excl. Japan)

Official unemployment lowest in the world

Unemployment rates 1990-94, GDP 1994¹

Country	1990	1991	1992	1993	1994 ¹	Real GDP
Hong Kong	1.3	1.8	2.0	1.9	1.8	4.8
Indonesia	2.6	2.6	3.3	3.6	3.9	6.7
Korea, Rep. of	2.4	2.3	2.4	2.6	2.5	7.0
Malaysia	6.0	5.6	2.5	2.6	3.0	8.0
Philippines	8.1	9.0	10.3	9.0	8.7	4.0
Singapore	2.0	1.9	2.7	2.5	2.4	7.2
China	2.5	2.3	2.3	2.5	2.5	9.0

– Labor shortages: e.g., Malaysia imports labor from Indonesia, Bangladesh and the Philippines to work in plantation and construction sectors.

Source: ILO, Conference Board

¹ Estimated

W. Europe unemployment problems stand out within OECD (I)

Facts

1. Unemployment rising: 11.9% (9.6% average 1982-90), USA: 6.9%, Japan 2.6%
2. Long-term unemployment (>12 months) increased

	<u>% of work force</u>	
	<u>1979</u>	<u>1991</u>
France	1.8	3.5
Germany	0.8	1.6
UK	1.3	3.1
Italy	4.0	5.1
USA	0.2	0.4

Europe 5 times higher than USA

W. Europe unemployment problems stand out within OECD (II)

3. Youth unemployment (15-24) dramatically increased, %

	<u>1973</u>	<u>1992</u>	
France	4.0	19.5	↗ ('91)
Germany	1.1	5.6	↗ ('90)
Italy	12.6	32.7	
Sweden	5.2	11.5	
Finland	4.5	23.5	
USA	9.9	13.7	(also high)
Canada	10.1	17.8	(also high)

Consequences: Greater crime rate
Greater drug abuse
«Unravelling of social fabric»

W. Europe unemployment problems stand out within OECD (III)

Reasons

4. Productivity and R&D spending on high tech clearly below USA and Japan
 - USA under way for 10 years (e.g. automobiles)
 - W. Europe only recently started
5. Forecasted redundancies bigger in Europe
 - Industry productivity lagging (also agriculture)
 - More bloated public sector

W. Europe unemployment problems stand out within OECD (IV)

6. Other major contributing factors

- High-wage entry level (youth) - compare France**
- High minimum wage / little differentiation**
- Inadequate incentives to rejoin labour force**
(80-90% unemployment pay, long time, «excuses»)
- High exit costs: «insiders» and «outsiders»**
- Exit rules (seniority)**
- Barriers to mobility**
- Payroll taxes**

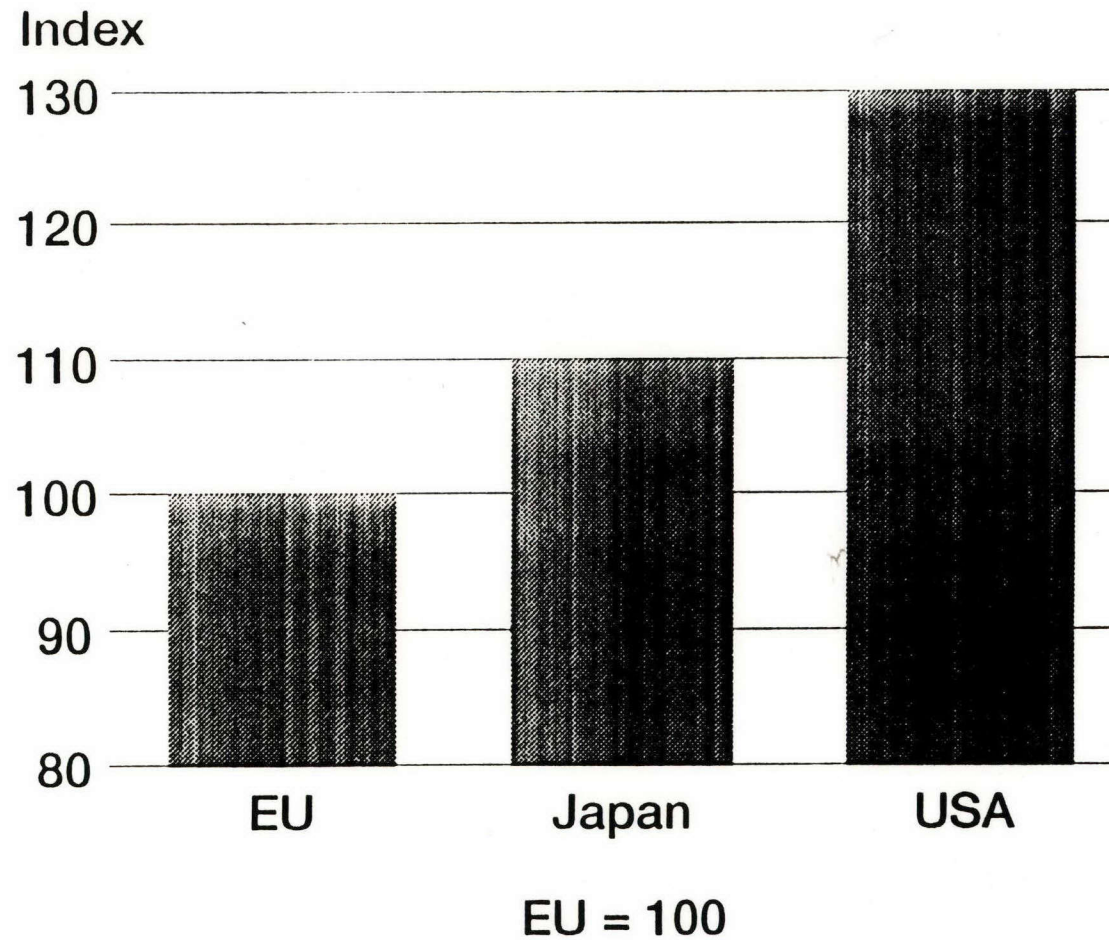
High minimum wage - France

Minimum wage: 40% of average early 70's → 50% mid 80's

Youth unemployment 4% → 22%

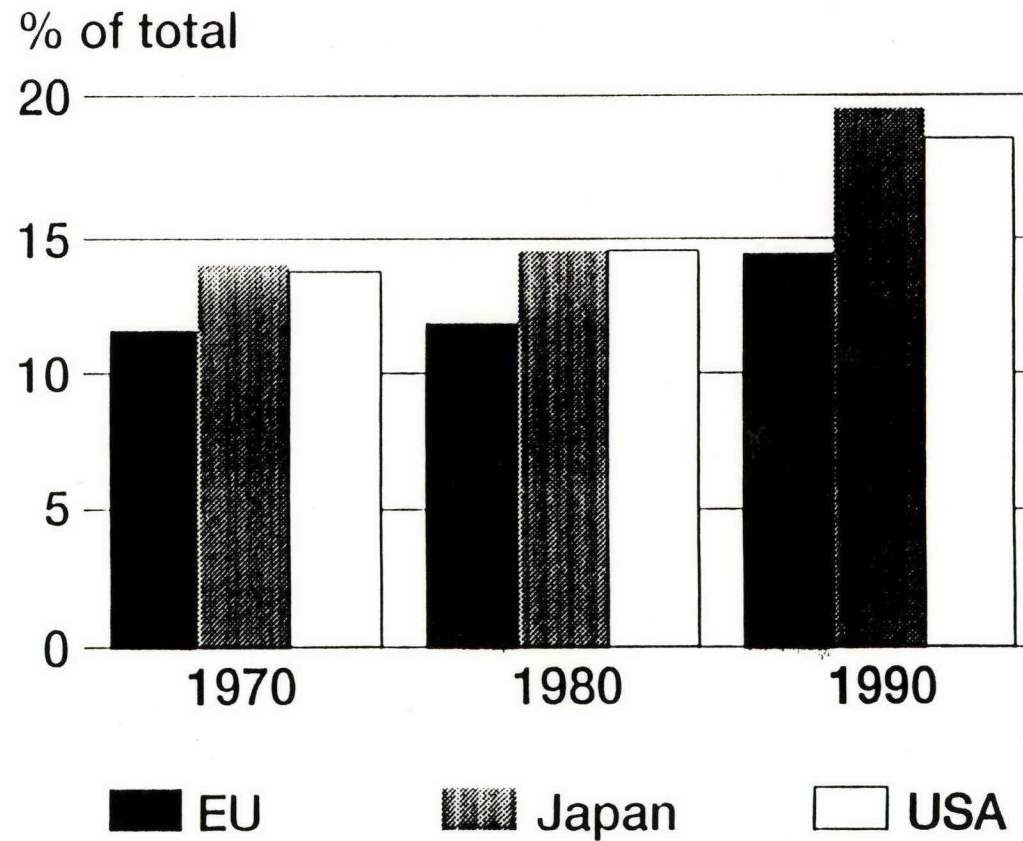
(In USA min. wage fell 40% → 30%, youth unemployment 14%)

Productivity Levels



Source: McKinsey

Share of R&D High-Intensive Industries

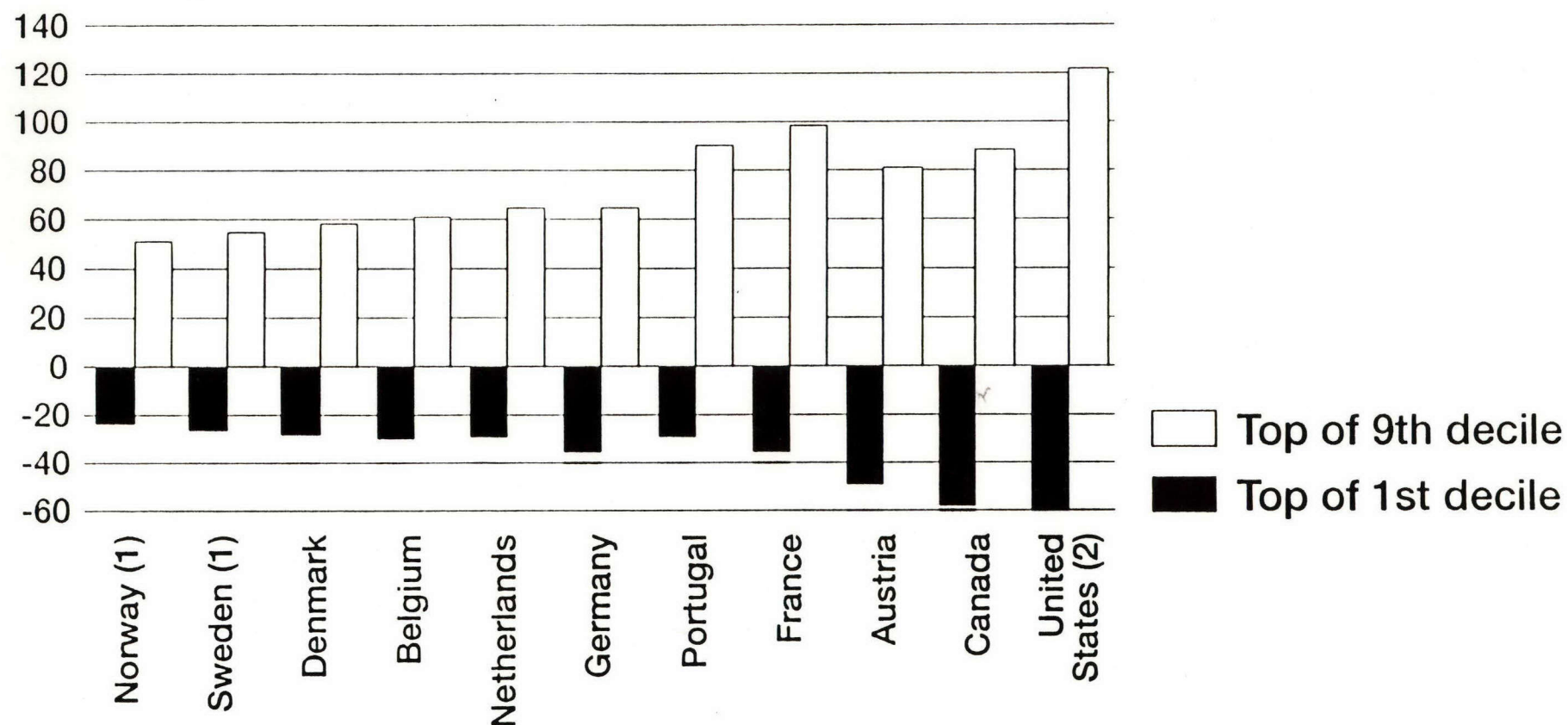


Source: Edquist & McKelvey

Earnings dispersion, 1990

1st and 9th decile compared to median

Difference, per cent



1. 1991

2. 1989

Source: OECD (1993a)

Unemployment benefits as disincentives to work: US jobless benefits are less generous and there are fewer long-term unemployed there than in Europe

Percentage of total un-
employed without a job
for more than a year 1990

Maximum duration of unemploy-
ment insurance benefits, 1993

		Initial benefits (months)	Extended benefits, (means-tested)
Netherlands	48.4%	24	no cut-off
Germany	46.3%	12	no cut-off
France	38.3%	12	no cut-off
Britain	36.1%	12	no cut-off
US	5.6%	6	none

Payroll taxes

Payroll taxes (unemployment insurance premiums paid by both employer and employee) may raise unemployment in short- to medium-term.

	total of payroll taxes as % of payroll costs	vs 1993 unemployment rate
France	more than 50%	11.7%
Germany	almost 40%	8.9%
Sweden	almost 40%	8.2%
US	about 20%	6.9%

OECD says «significant revenue-neutral cuts in payroll taxes could yield important increases in employment over the medium term.»

Central and Eastern Europe incl. CIS:

A special case

1. 25-50 years economically behind W. Europe
2. Dramatic drop in GNP, big hidden unemployment or underemployment, varying degrees of economic and political turbulence/chaos
 - 4 Western P/C/H/S: «Light in the tunnel»
 - CIS republics sinking ever deeper (Caucasus region in «semi-war», Ukraine risking disintegration etc.)
3. P/C/H/S rising productivity, quality, domestic demand
 - Baltic states, Romania, Bulgaria 3-5 years later
 - Russia/Belorussia 5 à 10 years later
 - The others - great uncertainty

Central and Eastern Europe, incl. CIS - unemployment (I)

1. Russian industrial production down ~ 35%, dramatically falling real wages, growing income gap, social tensions
2. 50% of state-owned industries technically bankrupt with 50% surplus people before production decline, thus gigantic hidden unemployment/underemployment and almost no social network
3. Other CIS republics: GDP fall of 20-50%

Central and Eastern Europe, incl. CIS - unemployment (II)

4. Ukraine - The disaster case

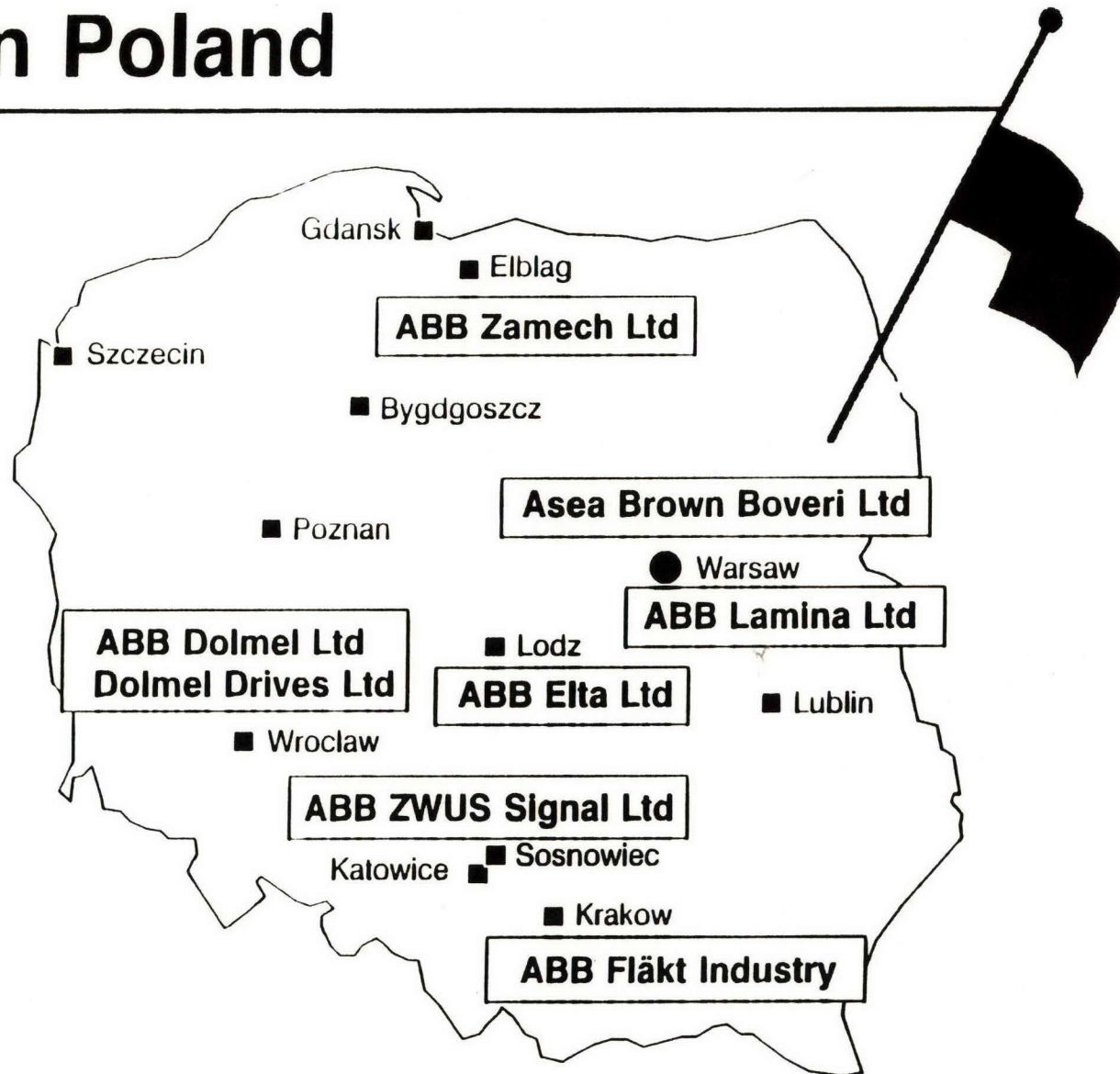
- Industry decline -40% and falling
- Urgent lack of energy: oil, gas, electricity
- 1993 inflation 10,000% (Hyper)
- Rising int./ext. political tensions
- Growing domestic unrest, also the military
 - The world's 3rd-largest nuclear power
 - Europe's 2nd-biggest army
- Will the country disintegrate or drift together with Russia («new Soviet Union»)?
- Huge hidden unemployment part of economic chaos (2/3 of state-owned industries are bankrupt but 7-8 mill. people cannot be put on the streets)

Central and Eastern Europe, incl. CIS - unemployment (III)

5. P/C/H: «Official» unemployment: 14, 5, 14% with hidden unemployment probably twice as big

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ABB in Poland



Some reflections on the polish experience

Negative

1. Negotiation time-schedule, unclear decision power
2. External difficulties (inflation, lack of domestic funds)

Positive

1. Speed of restructuring
2. Stunning lift of productivity and quality
3. After 2 years: «A Western company»

Some reflections on the polish experience

4. High degree of motivation for
 - Learning/changing
 - Hard work
5. Good cooperation/support from West in spite of threat
6. Financial achievements: Export, results

The trade issues (I)

1. The GATT agreement and the Triad drama

- Continued imbalances in trade
- «Voluntary trade restrictions»
(US-Japan, where goes the EU?)
- Growth within the Triad legs

2. «Workers of the world - compete!» - Dynamite

- At purchasing power parities: Developing world and C/E Europe = 46% of world output
- «Rich man's burden» (5-25 times wage differential)
- Developing world's export of manufactured goods is growing rapidly
- «Jobs on the line» in the industrialized world:
«Conventional wisdom»

The trade issues (II)

3. High-cost/low-cost country integration

- Containment of C/E Europe a tragedy:
The iron curtain ➡ the welfare curtain**
- Wage difference: Threat or opportunity to the rich
(e.g. E/W Europe)**

4. Danger of protectionism in the industrialized world

- Compare P.M. Balladur**
- Moment of thruth for EU and USA**
- Free (not fair) world trade: A win-win situation**
- Compare East/West European integration**

The trade issues (III)

5. New protectionist winds against dev. countries

- Social dumping
- «Level playing field» in env. control

10% well motivated

(like child and prison labor, abuse of the environment)

90% «bad old protectionism»

6. Strong political leadership required - do we have that?

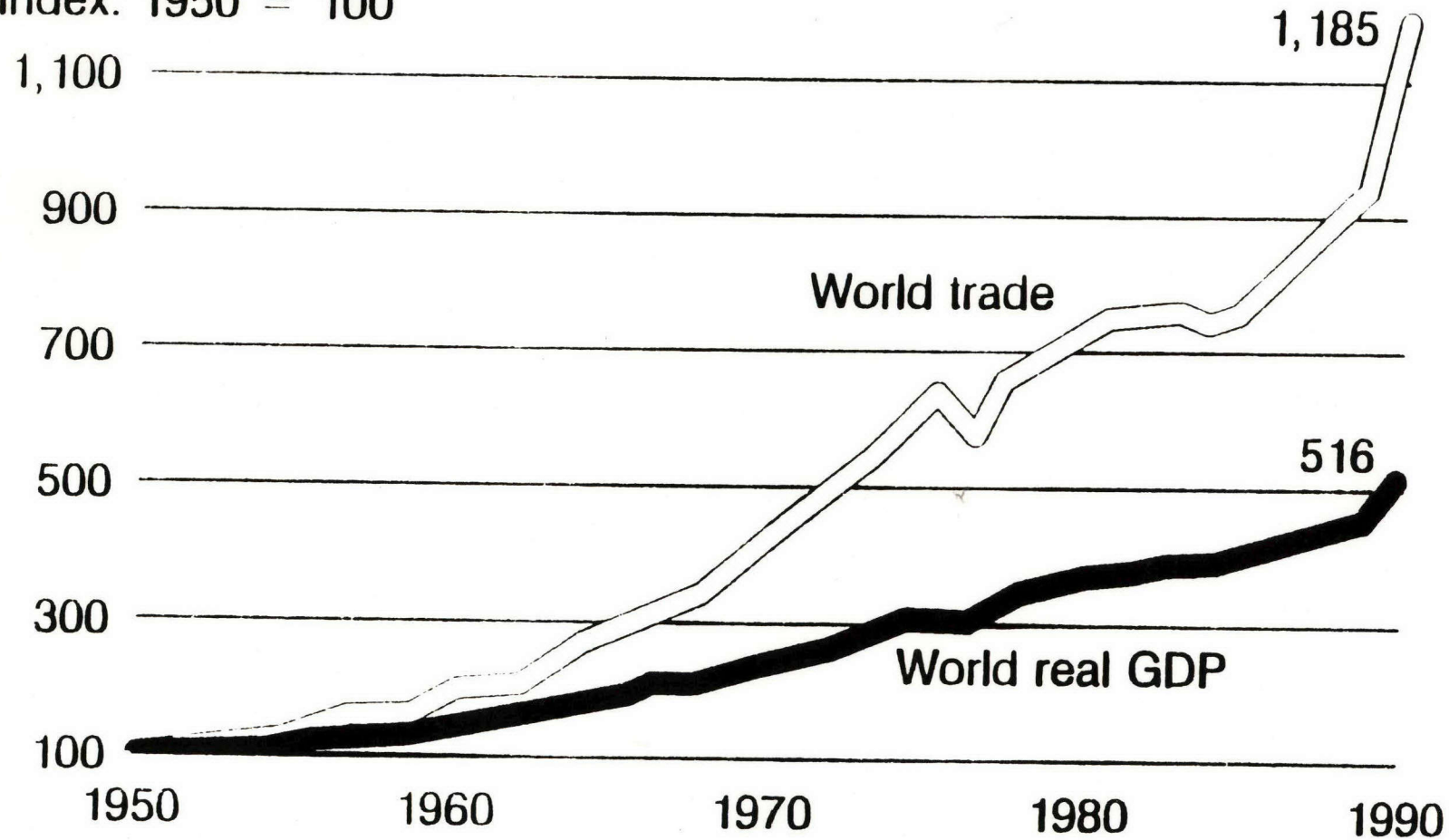
- Established, uncompetitive, «sunset» industries are loud, well organised, strong lobby forces
- Expanding/emerging high-tech industries: Rather quiet (potential employees not yet there)

The trade issues (IV)

7. One thing is clear (with or without trade):
The rich and the poor in ind. countries travel in 2 boats
- one rising
 - one sinking

Growth Goes Global

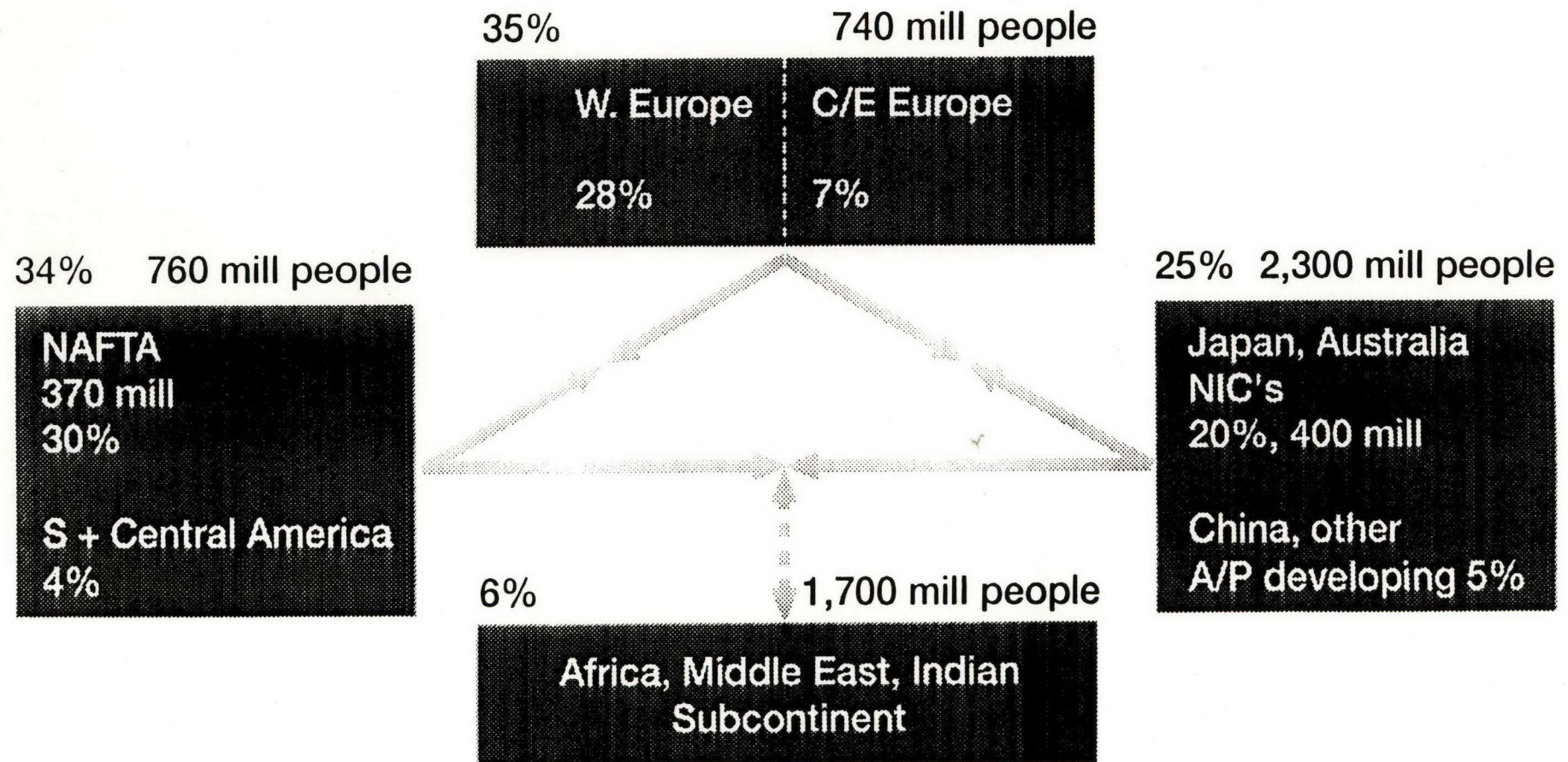
Index: 1950 = 100



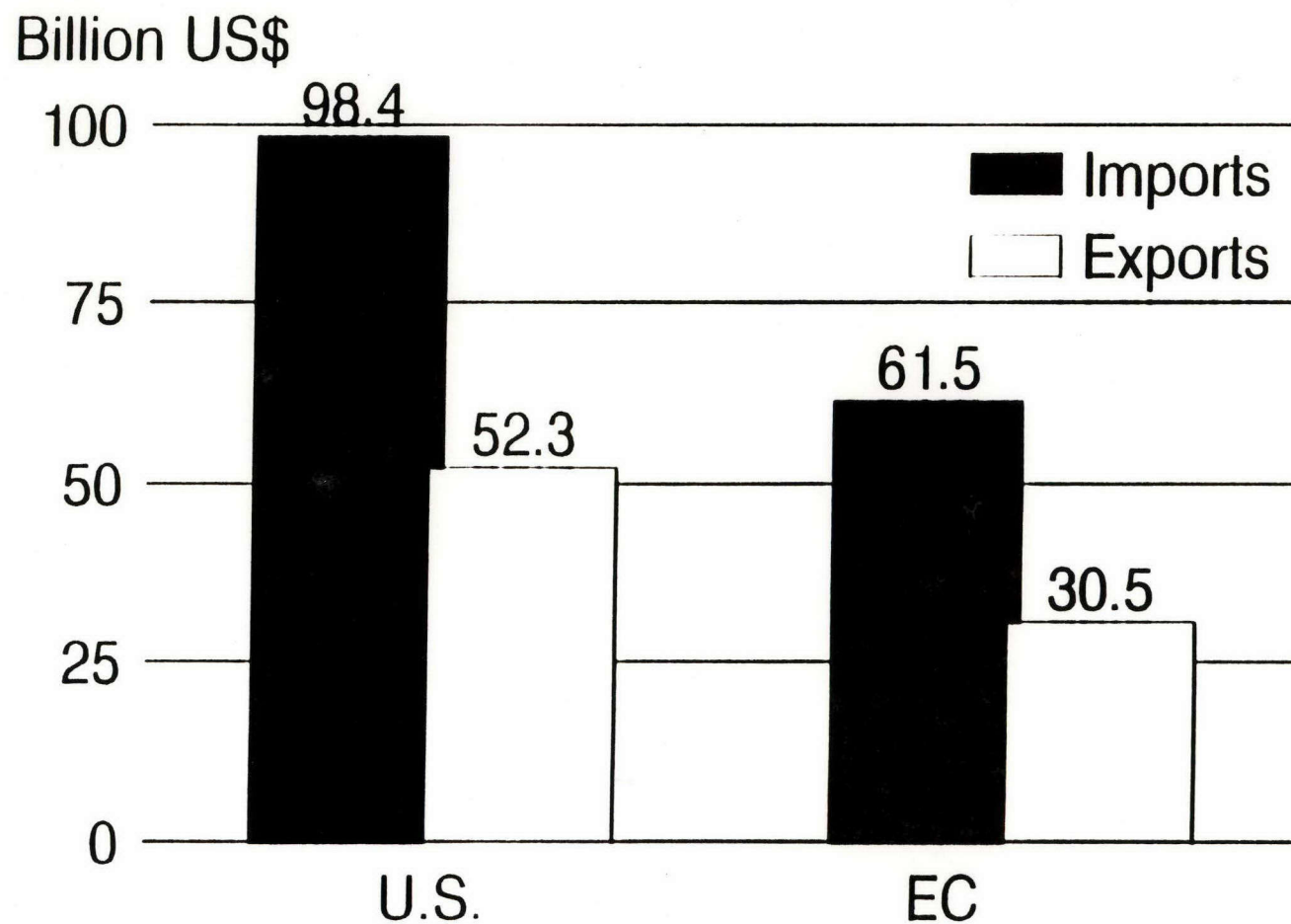
Source: GATT

The Triad and ABB

% of world GNP



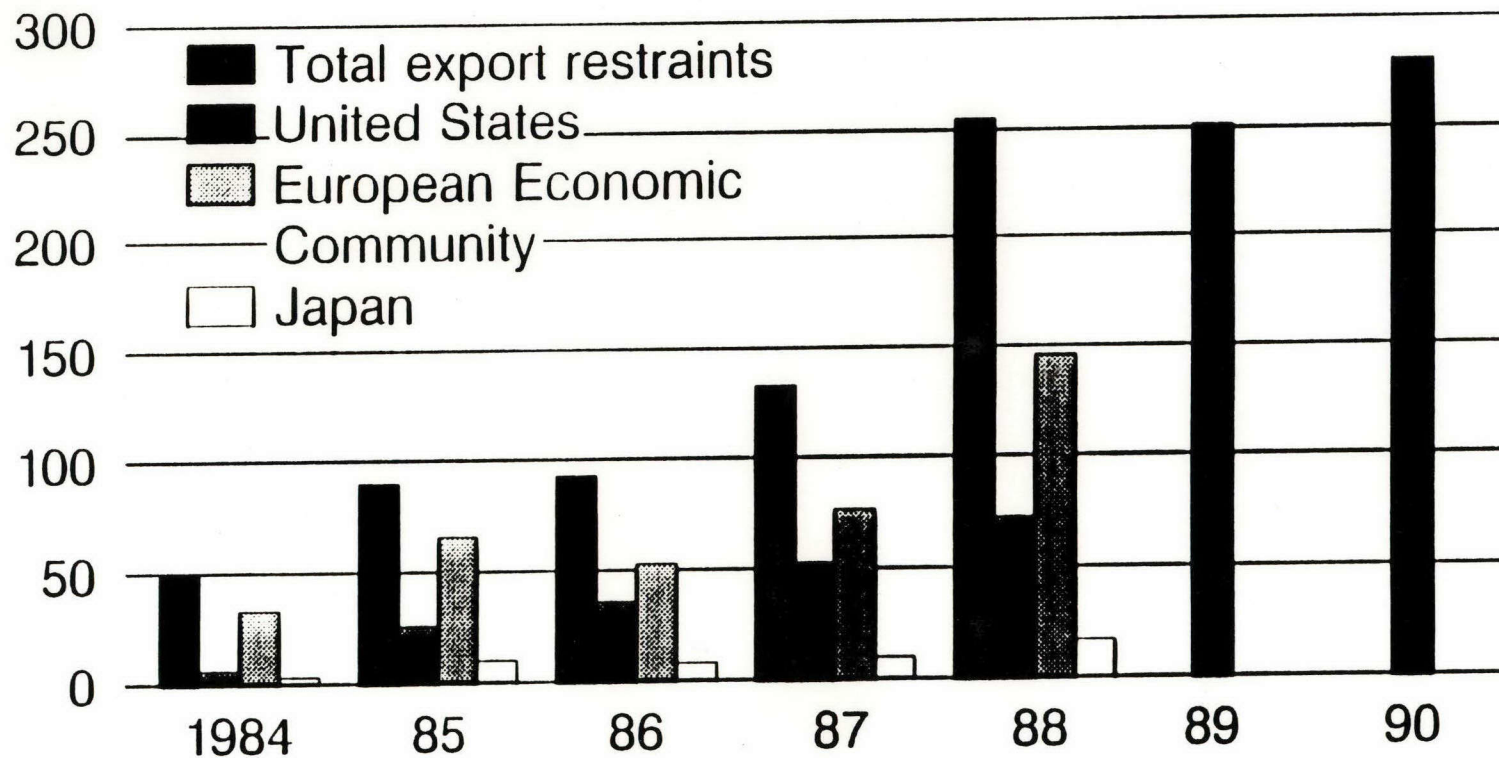
Bilateral Trade with Japan in 1992



Source: MITI

Voluntary Export Restraints 1984-90

(Number imposed, shown by country of affected import)

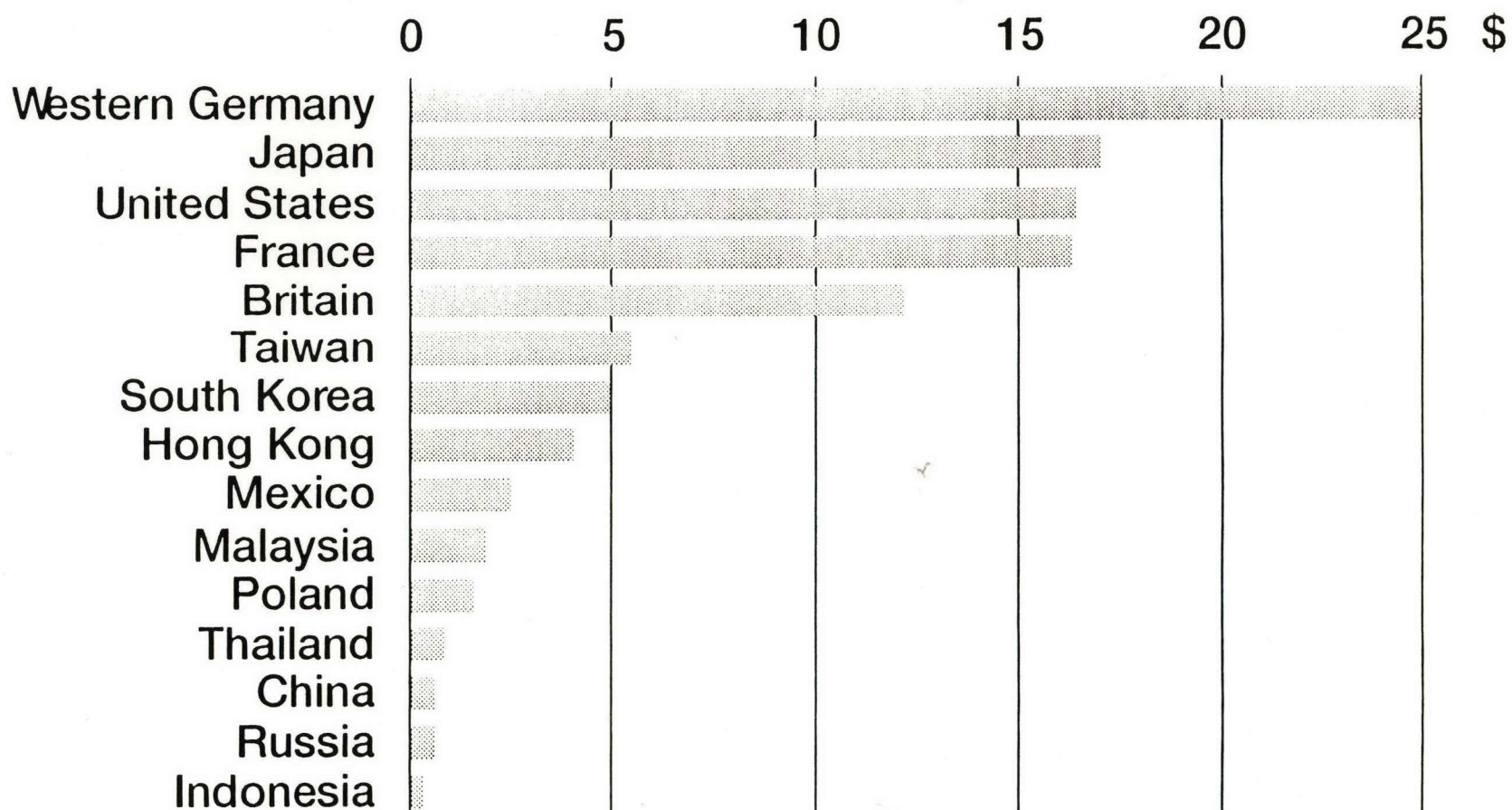


«Can we (West Europeans) take it for granted that we will remain sufficient leaders in a sufficient number of sectors to survive - in the face of countries with populations infinitely larger than ours and with levels of social protection infinitely smaller? I say we should leave this to the market, but only up to a certain point. What is the market? It is the law of the jungle, the law of nature. And what is civilisation? It is the struggle against nature.»

Edouard Balladur, Prime Minister of France, Financial Times, December 31, 1993.

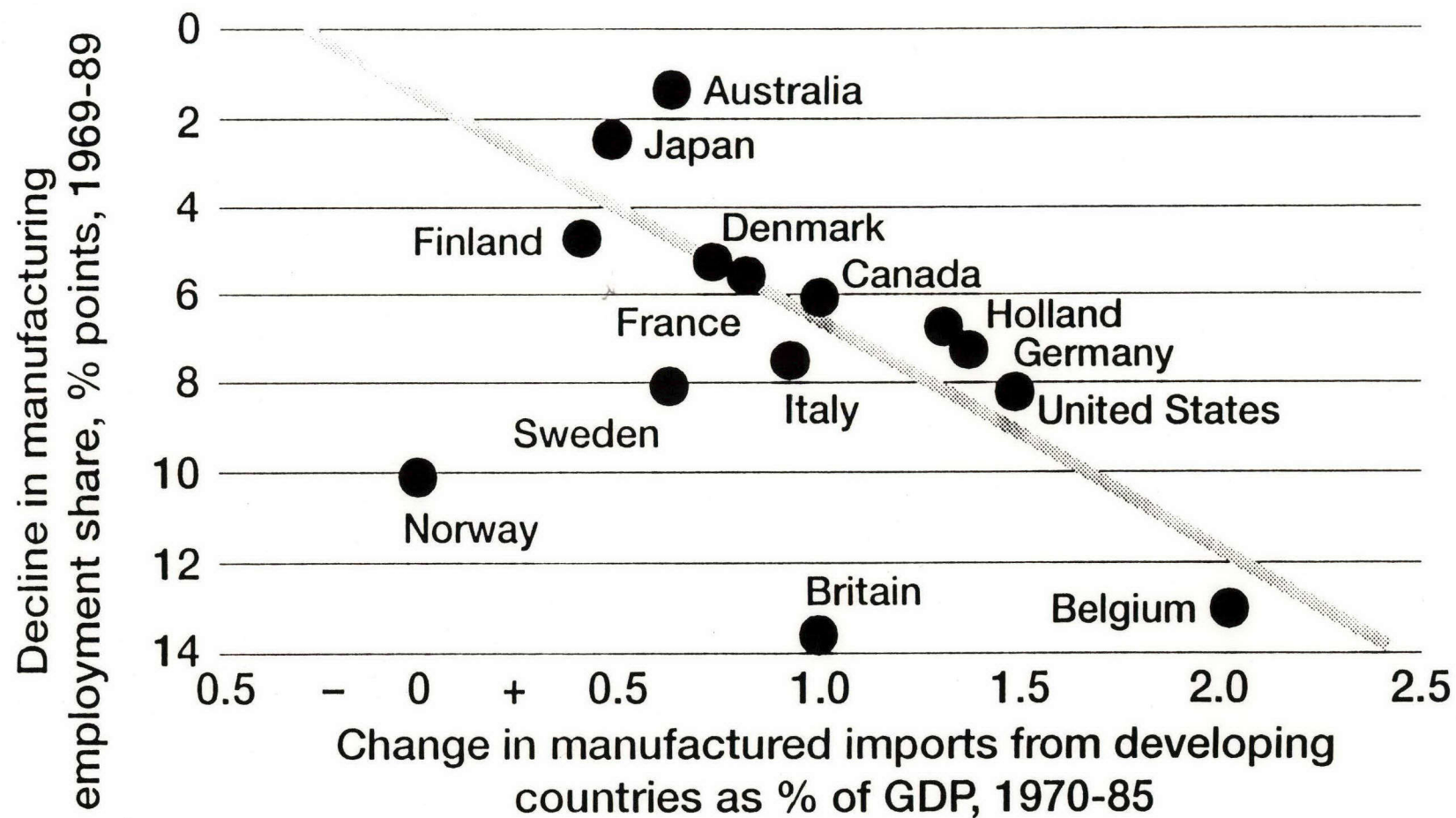
Rich man's burden

Hourly labour costs in manufacturing, 1993



Source: Morgan Stanley

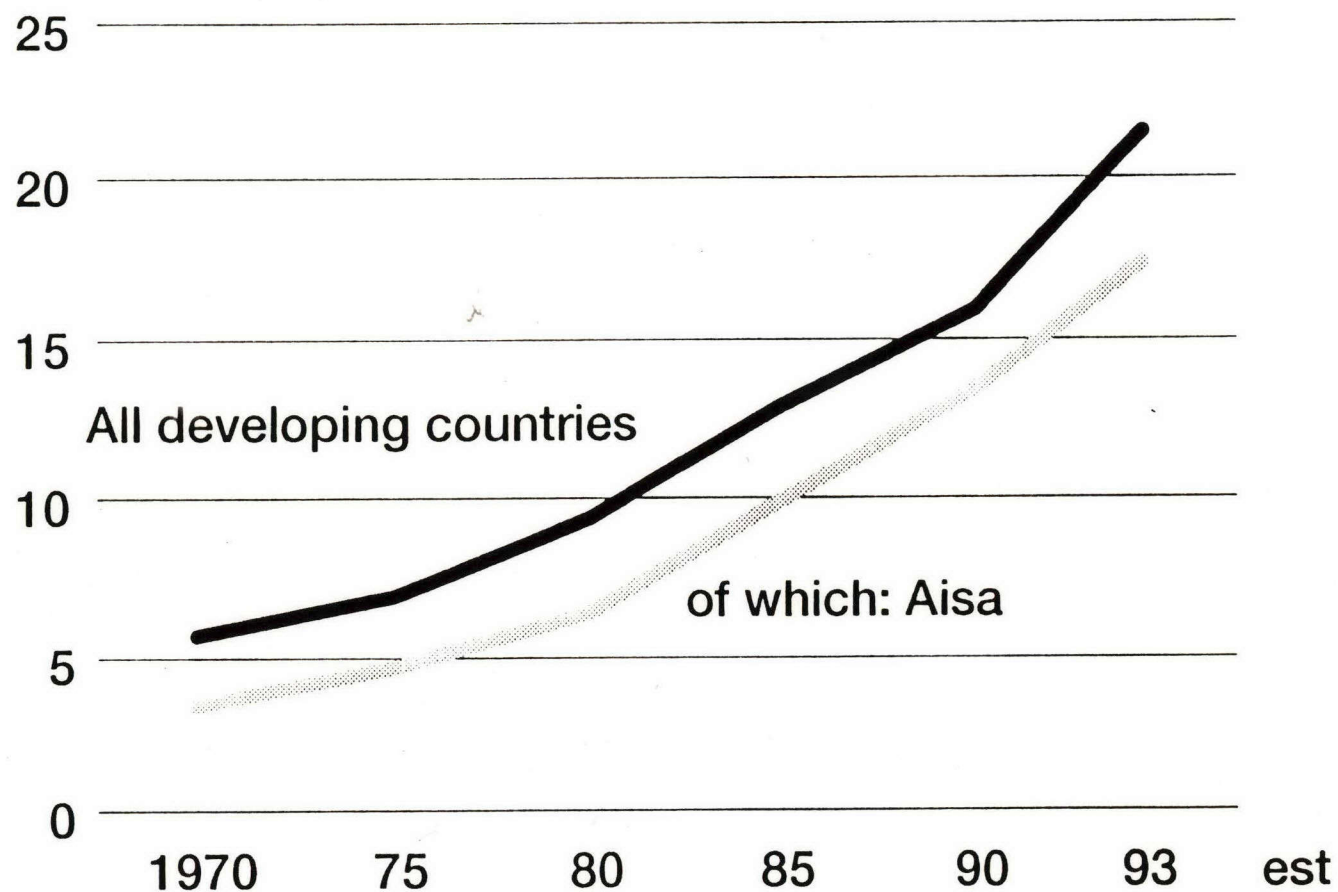
Jobs on the line



Source: Adrian Wood

New kids

% of world exports of manufactures



Source: Gatt

C/E Europe badly needs access to Western markets

1. Must earn foreign currency to be able to import
2. Must compensate for disappearing Comecon markets (CIS)
3. Must pay for imported oil and gas
4. Helps quality increase in industrial goods

Top priority to open West European markets faster and more completely

«Moment of truth» for EU and US

1. EU's and US's trade approach: «Managed liberalism», combining tariff reductions with

- non-tariff barriers
- contingent protection (abuse of anti-dumping etc.)

2. Open world trade: A win-win situation

- The US imports shoes and toys, exports airplanes and software
- Compare potential East/West European integration

West-East European opening: a threat and an opportunity for W. Europe (I)

Threat:

East: 60 mill industrial workers

West: 40 mill industrial workers

10-20 times wage difference

Opportunities:

1. *Huge new Eastern markets* with enormous needs - propelling total European industrial growth
2. East-West comparative advantages exploited:
 - Labour-intense Eastern exports
 - Capital-intense, high-tech (software) Western exports giving: higher total growth

West-East European opening: a threat and an opportunity for W. Europe (II)

Opportunities:

3. Joint Europe more competitive against Asia and the Americas (compare NAFTA)

Challenge:

West European governments:

- Open for trade
- Live through restructurings with unemployment
- Massive re-education, retraining

West European industry:

- Invest in the East
- Integrate East-West

West European competitiveness (I)

Negative factors at work:

1. Rigid and overregulated labour markets (lack of mobility and differentiation)
2. Protectionist attitudes - conserving old structures and «sunset» industries
3. «Overblown» welfare systems reducing work incentives, creating social «overhang» (pre-retired etc.) - ultimately reducing growth

West European competitiveness (II)

Positive factors starting to work

1. Europe '93: Increasing European competition, forcing restructurings
2. Liberalization and privatization (also public utilities)
3. Beginning deregulation of labour markets
4. Partial dismantling of social excesses
5. A «wind of change» in industry: Raising quality, cutting times

Western support for C/E European development and integration

1. <i>Financial support</i> (credits, aid etc.)	<u>Weight</u>
– Marginal	20%
– Conditioned to become even less	
2. <i>Trade</i>	
– Some openness: «In principle», «long-term - not now»	40%
– Rising barriers (quotas, tariffs, invisibles)	
3. <i>Direct investments</i>	40%
– Marginal except P/CZ/H and some oil/gas	
	100%

The case for work sharing (mainly Europe)

1. Extreme views:

- Anti-competitive, resignation, «the kiss of death» (Asians are working more, not less)**
- Static view: Share «given cake» in a fair way, unrealistic hopes on unchanged pay, overstating positive impact on unemployment**

Prejudice both with employers and employees

2. New development - unions increasingly tend to accept lower pay for fewer hours

The case for work sharing (mainly Europe) (II)

3. What is best in principle?

- An A-team of 80%, fully employed - maybe overtime, well off, and a B-team of 20% being carried by the A-team**

or

- 95% sharing**

The case for work sharing (mainly Europe) (III)

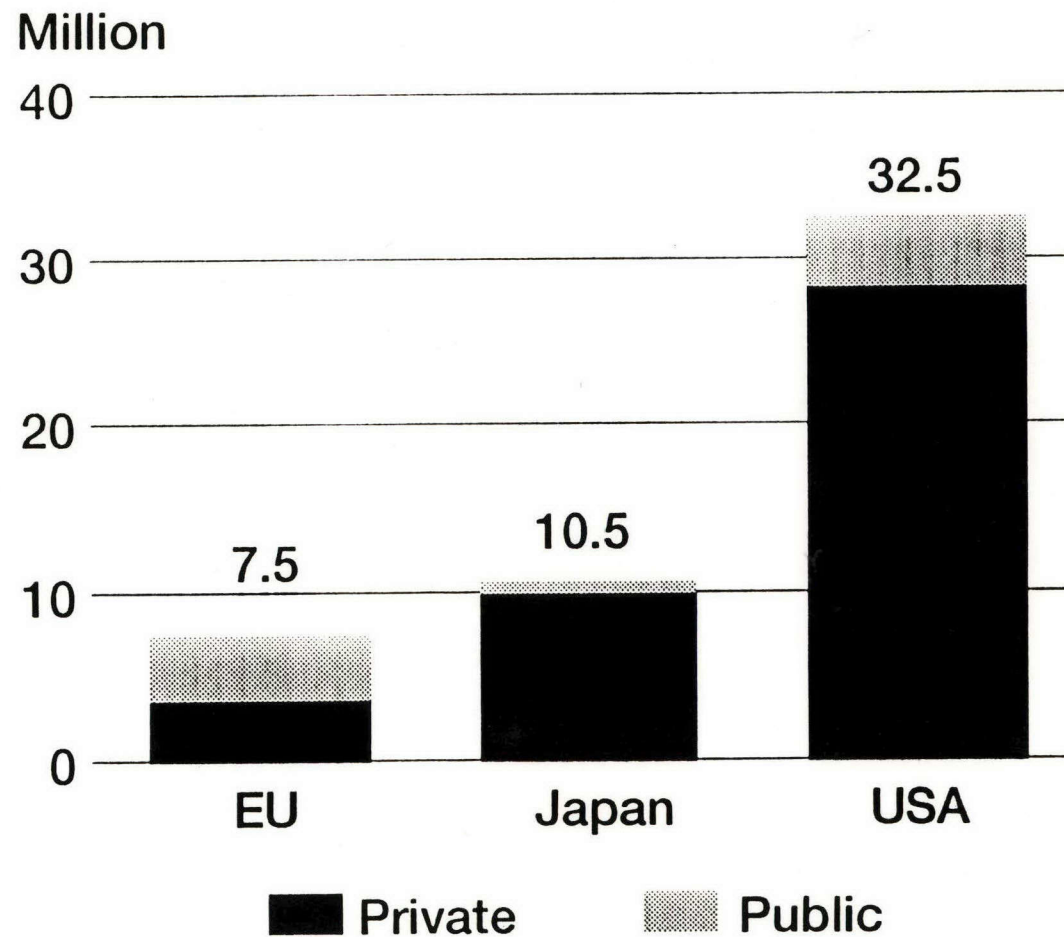
4. My views:

- Work-sharing does not address the root of the European unemployment problem (lack of competitiveness, rigidity in labour markets etc.). Thus, no solution.
- If in individual cases work sharing is neutral to competitiveness and demand - it can be motivated
 - Flexible, family-friendly hours
 - Older workers «ease out» - earlier open for younger
 - Short- to medium-term pos. impact on unemployment

The case for work sharing (mainly Europe) (IV)

- Today's working time rules not written in stone: Higher living standard (through e.g. industrial productivity) can be taken out over time
 - in higher real pay or
 - in more free time

Number of Jobs Created (1972-92)



Source: OECD/The Economist

The welfare state and unemployment (I)

(Assar Lindbeck)

1. Welfare state spending through

- generous unemployment benefits (80-90%)
- long or unlimited duration
- lack work test

Contribute substantially to unemployment

(incl. long-term and permanent)

- a. Subsidized social services shift labour from not only households but also private service sector
- b. High taxes also shift work from private sector (craftsmen etc.) to inefficient households

The welfare state and unemployment (II)

2. Job security legislation – Raising costs of hiring and firing, increasing unemployment

- Particularly damaging to small/mediumsize firms
- Extreme costs - extreme effect on employment (e.g. Spain)
- «Unholy alliances» government-unions protect «insiders», discriminate against «outsiders», push up wages (similar to medieval guilds)
- Seniority rules a «mixed blessing»
- Creates growing «temporary worker» population, a clear B-team with no protection

The welfare state and unemployment (III)

3. Wage formation and subsidies

- Equalization against market forces – negative impact on employment:
Ease minimum wages rules, decentralize negotiations

4. Wage subsidies (rather pay people for working than for not working)

- Generally not recommended (counter-argument: «Rather taxed than mugged»)
- Possible exception cases
 - New entries, long-term unemployed
 - Handicapped

Creation of new jobs/reducing unemployment (I)

1. Dramatic difference between regions
2. Industrialized world must «move up the ladder» in technology
 - Higher Company investments (traditional, R&D) in high tech, capital-intensive industries
 - Training / retraining of labour force
3. Dismantle overregulated, rigid labour markets and promote mobility (physical, job type) and flexibility (work hours)

Creation of new jobs/reducing unemployment (II)

4. Bigger wage differences (in W. Europe) a must to reduce unemployment (difficult ideologically)
- to stimulate upward mobility (increased competitiveness)
 - to expand private service sector

(has the US gone too far? 1977-90: Poorest 20%: -5%
Richest 20%: +9%)

5. Review of social security systems, e.g.
- reduce too generous unemployment legislation
 - eliminate tax traps

Creation of new jobs/reducing unemployment (III)

6. Open up for free (not fair) trade
 - use win/win situation with regional and global trade
 - integrate high-cost / low-cost countries within regions
 - resist all visible and hidden varieties of protection

7. Stimulate with worthwhile infrastructure investments:
No four-lane roads in northern Scandinavia but
 - competitive transportation, energy, telecom and educational investments

Creation of new jobs/reducing unemployment (IV)

8. EU's White Book (15 mill. jobs in 6 years)

- Reduction of interest rates
- Trans-European networks
- R&D - new technologies
- Education and training

Most things outside Brussels control but generally in the right direction

Presidential Archives

Classification:	
Date:	March / April 98
Topic:	Maurice Strong - misc.
	Correspondence
VPU:	
External: (NGO, government official, private sector, international institution, personal acquaintance)	
Document prepared by: (name, department, etc.)	

M. F. Strong

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March 19, 1995

PERSONAL AND CONFIDENTIAL

Mr. James D. Wolfensohn
James D. Wolfensohn Incorp.
599 Lexington Avenue
NEW YORK, N.Y. 10022

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FEB 04 2025

WBG ARCHIVES

Dear Jim,

By a fortuitous coincidence I was in Washington for a meeting with the Executive Directors of the World Bank and their alternates when they acted unanimously to elect you President of the World Bank. It was a great moment in your life, and in the history of the World Bank, and you could not have been any more pleased or excited than I was.

For you, Jim, it represents the culmination of a remarkable career. All the experience you have accumulated and the skills you have developed in the broad range of business, cultural and public service activities in which you have excelled will now be focused on the most important challenge you have ever undertaken. As Bob MacNamara remarked at a meeting we both attended over the weekend, it is "the most important job in the world". And we both agreed that there is no one who has that unique mix of qualities, experience and values that make you such an ideal leader of the Bank, and indeed of the entire development community, at this critically important juncture. Everything you had done, Jim, has contributed to your preparation for this. Those who don't know you will soon learn to acquire the confidence in and admiration for the very distinctive combination of personal and professional qualities that have won you such universal affection and esteem amongst those who have had the privilege of getting to know you as friend and colleague along the way.

This is one of those all-too-rare cases in public life where an appointment of such importance has gone to the best possible person. For as you know, Jim, the role of President of the World Bank is not just that of the Chief Executive Officer of a great institution, but one of primary world leadership. And never has the kind of leadership that you will bring to the Bank been more needed.

March 19, 1995

I need not tell you what an awesome challenge you face. Just as it is the most important job in the world, it is one of the most difficult. But, as I have found at Ontario Hydro, times of difficulty also make it possible to effect changes which would be much harder to make in easier times. Today, both friends and foes of the Bank are pressing for change, and you will be expected to deliver it. I have no doubt that you will.

But you face to some extent the dilemma that I confronted when I came into Ontario Hydro, as any outsider does who takes over a large organization with a deeply entrenched internal culture which requires radical change. You will be called upon to make some of the most important decisions that will affect the direction of the Bank under your Presidency during the early period when you have a good deal less knowledge of the institution, its people and its constituencies than you will acquire when you have been there longer. Accordingly, identifying the people largely within the Bank, but to some extent outside it as well, whose knowledge, judgement and objectivity you can trust fully will be critically important in taking your initial decisions as to appointments, restructuring and, most important of all, setting new policy directions and priorities for the Bank. And the process that you set up to assist you in taking these decisions, and ensuring their implementation, is also of the highest importance.

As to people, I certainly do not know all of them. But I have kept close to the Bank in various capacities since I first took over the principal responsibility for Canada's role in it during the George Woods era. There are a good many very able people in the senior levels of the Bank who have been there a long time and whose knowledge and experience you will certainly want to access, but whose advice as to the future you will want to weigh carefully in light of the fact that their attitudes and interests are so deeply rooted in the culture and structures that must now be changed. Ernie Stern is perhaps the primary example of this. There is no one who knows the Bank better or has operated at the centre of its leadership more brilliantly and effectively than he has done. He will be a goldmine of information and advice for you. But I doubt that you will find that his vision of the changes you should make would represent the kind of break that must be made with the institutional structures and practices that he had played such a part in creating. On the other hand David Hopper, who you also know, came into his senior role from the outside and his views of the changes the Bank needs to make, both in structural and policy terms, will be much less conditioned by the long term, vested career interest that some others will have.

You will obtain input from a number of sources concerning your key people and I would like very much to give you my views and the insights I have gained from people within the Bank whose judgement I trust. This would include identifying some to which you should be very wary of giving a renewed vote of confidence.

I am sure that one thing you have already concluded is that the structure of the Bank needs radical change, starting with the Vice-Presidents and Managing Director level. All of your predecessors have made changes in the structure at the senior level and you will want to do the same. The present structure is a recipe for the kind of complex and confused allocation of responsibilities that lends itself to the establishment of separate fiefdoms, which indeed is what has happened. It is also time to challenge the primacy of the regions in the internal power structure of the Bank. While the country level orientation must always remain strong, it would be timely to consider the fact that today many countries in a particular region have more in common with countries of similar size and nature in other regions than they have with the largest countries of their particular region. These smaller countries, particularly those that are very poor and dependent on a relatively few basic commodities, are a case in point. There must always, of course, be a regional dimension to the Bank's structure, but I think there is a good case for making this more of a policy coordination than an operational responsibility. Of course, like most big institutions, the basic structural issues revolve around the balancing of policy with operational and administrative functions respectively, as well as between geographical and sectoral divisions.

This is just to point out some of the key issues you will be facing rather than to attempt to go into them in detail or to touch on the many other related issues on which you will have to form your views and take decisions.

Of course the a priori basis for your decisions as to personnel, organization and structure will be your vision as to the basic character and role of the Bank and its policy directions and priorities in the period ahead. The world has changed vastly since the Bank was created and it has accommodated in many respects quite well to many of these changes. Nevertheless, you will need now to re-shape it not only to accommodate to major changes that are now occurring in the world, but exercise a primary leadership role in respect of these changes.

As you know, the Bank now accounts for only some 3% of total resource flows to developing countries. In respect of the least developed countries, particularly of Sub-Saharan Africa, the proportion is much greater and the Bank will continue to have a primary role in supporting sustainable economic and social development in these countries. The more rapidly growing developing countries are still amongst the Bank's largest borrowers, as well as the re-developing countries of the former Soviet Union. Although the proportion of Bank lending to total external resource flows to these countries will normally be somewhat less, the Bank must provide the leadership and influence that they very much need. This means that Bank lending must be accompanied by a high degree of intellectual and policy leadership.

In the past the Bank has been able to exercise its policy and leadership role to a large degree through the coercive power of its lending. In the future, it will have to depend more and more on its capacity to persuade and to enlist the confidence and cooperation of other actors, many of which are now alienated from the Bank.

You will now move into the centre of the dialogue both within and outside of the Bank concerning the degree to which its future orientation should focus on its policy and intellectual leadership, as distinct from its Banking functions, and how the costs of performing these functions can be reconciled with its need to be a competitive lender. I have no doubt that the primary, and perhaps the only, *raison d'être* for the Bank in the period ahead will be to exercise global leadership in respect of development, and in particular the kind of economic growth that will meet environmental and social needs with special priority to eradication of poverty, eg "sustainable development". If the rapidly developing countries of the Third World continue to follow the pathway established by the more mature industrialized countries, they will contribute to an unacceptable degree to global environmental risks and destruction of their own natural resource base as well as deepening the disparities between rich and poor within their societies. All this is to say that their development must be sustainable in environment and social terms or it will not be sustainable in economic and political terms. The Bank is the only institution that can provide the leadership that this requires. The UN's role will continue to be a marginal and supporting one which, incidentally, the Bank can do much to enhance. But most of all, the Bank must be able to influence the growing flows of private capital well beyond what it is now doing through IFC.

How to meet the costs of providing within the Bank the professional capacities required to exercise this kind of policy and intellectual leadership is, of course, a key issue. As the Bank's shareholders are governments which have established and supported the Bank to meet public policy goals, it would be reasonable to expect them in endorsing the new goals for the Bank to allow its profits to be used to support its development leadership role. It is also important that they continue to support IDA as a source of soft loans to the most needy developing countries which will further reinforce the primary development functions of the Bank. Without IDA, the Bank would certainly lose much of its development influence and relevance.

In emphasizing its development role, the Bank must nevertheless maintain the highest standards of professionalism, rigour and judgement in the exercise of its banking functions. This is essential if it is to continue to command the respect of the markets both in maintaining the high credit ratings required to attract funds on the best possible terms, and to be able to lend its funds on a basis that must increasingly compete with the access its clients will have to private funding.

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I have rambled on at greater length than I intended, but felt it might be useful to add to the many contributions people will be making to your own thinking at this stage some thoughts from a long-time friend of the Bank, as well as of yours.

To assist you to deal with these issues, Jim, you will no doubt be setting up a small team of people who can ensure that you have before you a sound evaluation of your various options before you have to decide them. The decision as to the composition and mandate of this team is therefore a critical, and an immediate one for you. If I may again point to my experience in Ontario Hydro what I did, and it worked out extremely well, was to identify a small number of "young Turks" who were already within the senior ranks of the organization, but not occupying the top positions that would be primarily affected by the decisions that would have to be taken. I then brought in a very experienced outsider to Chair the group and one or two others to advise them. This gave it the character of a largely internal process into which all key parts of the organization were able to feed, while at the same time ensuring that there was also access to a broad and representative range of external views. As Ontario Hydro is even larger than the World Bank in terms of numbers of people, most of them professionals, and had a culture that was if anything even more deeply entrenched than that of the Bank, I think our experience might be of some relevance to the task you face, and would be pleased to share it further with you if you think it useful.

This next few weeks will be an especially busy and demanding one for you in putting your own business affairs in order as well as in preparing for the formal assumption of your responsibilities on June 1. During this period, the best ways in which your friends can help you is to not add to the demands on your time, and I will try to abide by this. Nevertheless, there are two things I would like to suggest that would be well worth doing before June 1. I know that you will be meeting in New York with Prime Minister Chrétien and Deputy Foreign Minister Gordon Smith, the Canadian "Sherpa" in charge of organizing the G-7 meeting in Halifax. They have been concentrating mainly on the IMF but will be willing to give more attention to particular World Bank issues you may wish to raise with them. But neither of them has an in-depth knowledge of the Bank and I think it would be well worth your while for you to come to Ottawa for an informal discussion of Bank issues with Paul Martin and a few other key people who are especially knowledgeable about the Bank.

The G-7 Summit comes at an extremely opportune time for you and there is still time for you to have your own views and preferences reflected in the papers for the Summit as well as to bring yourself fully into the picture as to the prospects and possibilities that may result from the Summit from the Bank's point of view. I have spoken to Paul Martin and he would be pleased to arrange this on a strictly off-the-record and informal basis and, by the time you get this letter, he may already have been in touch with you about it.

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The other thing I would like to do is arrange a very small, informal dinner in either Washington or New York with a few of the most important environmental-related leaders. I believe it may be feasible even for this to include Al Gore. As you know, the primary reason he weighed in strongly and decisively, on your behalf, was the confidence he had in your environmental commitment vis-a-vis other candidates. But with or without Al Gore, I think such a meeting would be a valuable thing to do. As you know, most of the environmental constituents have reacted positively to your appointment and we were able to mobilize a number of them on your behalf before the appointment was made. All of them are anxious to get to know you better and to feel that they have an input on your own thinking at an early stage. I know that you don't want to have any public exposure as President of the Bank until after you assume the office, but an informal discussion like this, I think would be extremely helpful.

In addition, at an early point after June 1, I would like very much to be able to arrange a much larger and more on-the-record meeting with environmental leaders in Washington in my capacity as Chairman of the World Resources Institute. There is good precedent for this in that the World Resources Institute did the same for both Lew Preston and Barber Conable.

Enclosed are copies of a couple of my recent speeches which bear on these issues as well as a copy of a Chapter I contributed to a book for the 50th Anniversary of the United Nations. I am also enclosing some thoughts concerning the Bank by Keith Bezanson, President of the International Development Research Centre. He is one of the best people in the field and someone you will want to meet. His views on the present condition of the Bank are, as you will see, very strong, but are representative of the attitudes of many of the Bank's "friends" and partners in the development community.

This is a long letter, Jim, but if it is any comfort it will take you much less time to read it than it took me to write it. Having decided to make sustainable development the central interest of my own life many years ago, my hopes and expectations for the future have been given a whole new and more hopeful dimension by the knowledge that you are now to assume the primary leadership in this field at a time that is critical, indeed decisive, to the human future. If there is anything I can do to be helpful or supportive to you in exercising these awesome responsibilities, you have only to let me know. There is nothing to which I will give higher priority.

In the meantime, Hanne joins in extending to you and to Elaine and your family our deepest feelings of solidarity, pride and friendship, together with our hopes and prayers that this important and exciting new phase in your lives will be fully successful and satisfying to you in every way.

Warmest personal regards.

Sincerely,

A handwritten signature in blue ink, appearing to read "Maurice".

Maurice F. Strong

March 21, 1995

SOME REFLECTIONS ON THE WORLD BANK

The next half decade will determine whether the Bank is at all relevant to the real challenges of the human condition. The decline of the modern nation-state will continue during that half decade and the need for strong, purposeful and visionary supra-national arrangements and institutions will grow. The Bank can and should emerge as such an institution. It may not, however. Absent profound and rapid change, the Bank will suffer the fate of most bilateral and multilateral development organizations, mired in a paralysing and now almost irrelevant heritage and destined to enter the new century only by the force of those inertias. The outcome cannot be taken for granted; the forces inside the Bank are powerful, sufficiently so as to make a self-fulfilling prophecy of the current cry that "Fifty Years is Enough".

To be more specific:

1. The only space for the World Bank is leadership space. Far from leading, the Bank has, for some time now, not even done a particularly good job of following good external leadership. When was the last time that the Bank generated a development controversy worthy of the name (such as UNDP managed to do last year via its Human Development Report)?

The quality of Bank-led analysis and reporting is outstanding (no organization does it better), but it is not leadership material. It resembles far more the excellence one gets from statistical offices than "break through" thinking. This holds virtually without exception across the full spectrum of development issues confronting us:

- Sustainable development where the Bank is far behind countless organizations both in the North and in the South on environmental systems of national accounts, sustainable development indicators, incentive and disincentives.
- Over the next few years, issues and questions of social equity will prove to be the centrepiece of public debate on development. This should be natural ground for the World Bank and the principal springboard for its global leadership. It is not. Nor has it been since the departure of Bob MacNamara. The Bank has become a secondary or even a tertiary force on social equity issues.

- World bankers would argue that the Bank provides global leadership on economic policy and practice. I would disagree. The Bank is failing to move intellectually beyond the macroeconomic prescription of the 1980s. Almost no one is arguing about macroeconomics any more; its fundamentals are accepted as a necessary condition for development. Over the past five years, the economic development debate has moved beyond the "necessary" condition to a concern with "sufficient" conditions. Not only is the Bank mute in this regard, it even failed to seize a major opportunity given it on a silver platter a couple of years back when the Japanese cajoled (and paid) the Bank into an in-depth study of the "Asian Miracle Economies". The Bank report was terribly disappointing (and served to infuriate the Japanese) by refusing to grapple with the range of factors beyond the "necessary" condition of general macroeconomic balance. "Progressive" economists (if the words are not contradictory!) everywhere were distressed and even the ODC (Overseas Development Council) felt compelled to finance and publish a separate study in an attempt to fill in some of the enormous gaps.

The East Asian study is but an example. The voice of the World Bank is seldom heard on issues of jobless growth, labour standards, unemployment, capital flows, industrial policy, knowledge capital, etc.

2. The need has never been greater for leadership in designing, formulating and testing development instruments. The publicly-funded international transfer of social goods is unlikely to continue for many more years and, certainly, if it is to continue, it will not be in its present form. This calls for strategic thinking, for the risks that go with leadership and for the courage that goes with dismantling conventional wisdom. The Bank should be central to this; at present, it is not. Some of those instruments urgently in need of attention would be:

Social innovations — these are occurring everywhere as groups and communities band together in new and exciting ways in order to meet their basic needs, express themselves and, generally, fill those great gaps that are growing as a function of unprecedented change. And we are beginning to witness some real thinking on the potential of these innovations. No less a person than Peter Drucker commented recently that the adequacy of these social innovations "will determine whether our civilization will survive". Here again, alas, the Bank is largely absent. It seems to me clear that to sustain these innovations and to bring them to their full potential, new and innovative funding arrangements will be required, including the creation of "micro endowments" at the level of community. Some of the great American Foundations have just begun to wake up to the importance and potential of what is occurring, but there is an enormous international gap, particularly with respect to the poorest and most vulnerable nations and communities.

Resource Mobilization — we must think of the issue of resources for development beyond the nation-state and that should be a principal task of supra-national institutions such as the Bank. The sudden political correctness of the Tobin Tax notion reflects more desperation and lack of leadership than anything else. The issue and the needs will go far beyond a Tobin tax, even if one were to prove possible (and I have serious doubts on this because of technical factors). But there is an array of other instruments crying out for serious research and experimentation and mostly, again, for the leadership of an institution such as the Bank.

Information and Knowledge Systems — The clichés of our time are "information age" and "knowledge revolution". The literature of the Bank makes constant reference to "knowledge as the key to development". Yet the Bank is doing little to catalyze action here. When I suggest to senior Bank staffers that the Bank should be exercising powerful leadership in information highways that include the poorer parts of the world and should be determined to make the content and ownership of the highways a fundamental matter of social policy, I am greeted with confusion and dismay (the idea has never been thought of). Let me make a prediction (which is worth nothing more than any other prediction) that if the Bank fails to move quickly by leading in knowledge systems for development, then the Bank will inflict on itself a marginalization to the principal factor that will differentiate rich from poor.

The point of all of the above is only to show by a few quick references that the Bank is in very serious trouble. Wolfensohn inherits an institution in need of fundamental and profound repositioning.

This will not be easy. In my view, however, it is simply impossible with the current staff and under the current structure.

The Bank's structure is nothing short of Byzantine. Yet, God knows that the Bank has been re-organized enough times; it has been in a quasi-permanent state of re-organizing since MacNamara's departure. In my view, these previous attempts have been colossal (and colossally expensive) failures. The reasons for this centre on the fact that the Bank has grown into a huge bureaucracy which, throughout all the efforts at re-organizations, has been allowed to perpetuate itself and its own self-interests. This has not been difficult for experienced bureaucrats because the efforts at re-organization have focused on structures and on employees. The result has been a continuous reshuffling of all those things that the Bank had already been doing, determined by the same cadre of senior personnel who then become re-incarnate with different titles (and in most cases increased power within the institution).

I would think that there is no way that the Byzantine structure can be eliminated via another attempt at internal structural reorganization. Rather, it appears to me that what is needed is a new process that focuses on IDEAS, on the ideas of what the Bank really should be doing, on the ideas of where it should and must lead, on the ideas of what the next generation of issues, problems and crises are going to be and on how a global institution should organize its thinking for leadership on these. Thus:

- It is time that the windows of the Bank were opened and fresh air allowed to enter; the first step to any further reorganization should be a renaissance of creative energies, real intellectual debate and a determination to arrive at understandings that can provide the foundation for real leadership.
- The "gag order" should be rescinded as a first act. Rather than having to clear the contents of public statements before they are made, Bank staff should be encouraged to share ideas inside and outside the Bank as their ideas.

Leadership will require a significant change in the institutional culture of the Bank. That culture is bureaucratic, inward-looking, secretive, insular and arrogant. One result is that, with perhaps two exceptions, the current cadre of vice presidents are scarcely short of pathetic in speaking publicly on development; they communicate without inspiration, mission, conviction or vision. And like asexual biological forms, the Bank reproduces itself. The Junior Professional program attracts some of the brightest young people in the world who then spend a career of thirty years inside the Bank; compliance, promotion, career and stature within the organization become the characteristics. The J.P. family has become a mafia, — a very bright, supremely arrogant, self-serving power base of narrowness and insularity. If ever an institution needed "fresh blood", a wholesale change of senior management comprising experiences and talents gained outside, that institution is, in my view, the World Bank.

There is one recommendation above all others that I would make to Wolfensohn; it is that he announce on the day of his appointment that he would require that all senior management submit letters of resignation and that he would decide within three months the few current managers who would be retained. This announcement, coupled with the introduction of new people with deep experience outside the Bank would send an unequivocal signal of a new era and of a determination on the part of the new President to re-establish the Bank's openness and to re-assert its global leadership.

CHINA AND AGENDA 21

Maurice F. Strong

Chairman and Chief Executive Officer, Ontario Hydro
Secretary-General, 1992 United Nations Conference
on Environment and Development
Chairman, The Earth Council

Notes for Introductory Remarks

HIGH-LEVEL ROUND-TABLE CONFERENCE ON CHINA'S AGENDA 21

Beijing

July 7, 1994

Subject to abbreviation and/or change on delivery

I am pleased and honoured by your invitation to me to participate in this very important conference which, I am confident, will add momentum to China's significant progress in developing and implementing its national Agenda 21. This is vital not only for China, but also for its neighbours in this dynamic part of the world — and, indeed, to the entire world community.

China has made an excellent start in this direction. I hope that this conference can be instrumental in helping to guide this great country even further along the path to sustainability. I congratulate our Chinese hosts, in particular Vice Premier Zou Jiaua and State Councillor Song Jian, and his Vice-Chairperson Deng Nan, on this impressive achievement, which is one of the most important and encouraging national initiatives in follow-up of the Earth Summit. And I want, too, to commend the United Nations Development Program, and its Administrator, my good friend and colleague Gustave Speth, for its support of this initiative, and the critically important role the UNDP is playing in supporting similar national initiatives in so many countries.

As the Earth Summit made clear, the world community today is caught up in an unprecedented process of civilizational change, the results of which will determine whether our planet will remain a secure and hospitable home for its inhabitants on a basis that is compatible with their reasonable hopes, values and aspirations.

This is the essence of the challenge confronted by leaders of the world when they met for the United Nations Conference on Environment and Development in Rio de Janeiro in June 1992 for what was certainly the largest summit conference ever, and potentially the most important. As Premier Li Peng said in his statement, "It will turn a new page in the world history of environment and development."

The response of world leaders at Rio was encouraging, though no one could contend that it was sufficient. The Declaration of Rio and Agenda 21, despite some notable deficiencies, provide a basic framework, a set of guiding principles and a program of action which would launch the world community on to a pathway to sustainable development as the only way of ensuring our common future.

As they were agreed by virtually all the governments of the world, most of them represented by their principal leaders, they do carry a unique degree of political authority. However, the degree to which they will now be implemented depends primarily on what national governments do to give effect to them.

So far the record is mixed. To be sure, there have been some encouraging developments. A number of countries are following China's example in developing their own national Agenda 21. More than 40 nations have created national councils for sustainable development, or similar bodies. And the United Nations Commission for Sustainable Development, supported by a high-level advisory group, has been established as the principal instrument at the international level for facilitating coordination and cooperation in follow-up of the agreements reached at Rio.

But developing countries have reason to be disappointed at the response to their needs for additional financial resources to enable them to implement Agenda 21. In fact, a number of industrialized countries have actually reduced their Official Development Assistance. And the replenishment of the Global Environmental Facility was accomplished at a relatively modest level and only after difficult negotiations. Meanwhile, the scourge of poverty continues and the rich-poor dichotomy deepens.

At the non-governmental level, the response has been much more encouraging. There has been a virtual explosion of post-Rio initiatives on the part of a wide variety of voluntary organizations, citizen groups, professional associations of engineers, architects, educators, women, youth organizations, to name but a few. The Earth Council, which was formed as a direct result of the Earth Summit, seeks to provide linkages amongst these organizations and groups to facilitate their cooperation on issues related to Agenda 21, and help to ensure that the interests and concerns of people, particularly at the grass-roots level, are taken into account in the decision- and policy-making processes which affect them.

We are privileged to have as a member of the Earth Council, a distinguished Chinese scientist, Dr. Sun Honglie.

China made an exceptionally important contribution to the Earth Summit, both during the preparatory process, for which it hosted the Ministerial Conference of Developing Countries in Beijing, and through the participation at Rio of China's distinguished Premier Li Peng who headed one of the strongest and most influential national delegations. Immediately after his return, the Protection Commission of the State Council met in July, 1992, to discuss and set in motion an effective follow-up strategy to formulate China's Agenda 21.

China's serious and expeditious action in giving practical effect to the agreements reached at Rio through its own National Agenda 21 will have a profoundly important, perhaps decisive, impact on the prospects of translating the vision of Rio into reality. For China, as the world's most populous nation, is also becoming its primary engine of economic growth. Indeed, to maintain a growth rate as projected of 8 to 9 per cent per annum is a monumental challenge, involving a transformation of the Chinese economy without precedent in human experience. But China has demonstrated to a remarkable degree that it has the leadership, the will and the capacity to manage this historic transformation.

If China's economic growth does not proceed on a sustainable basis it will, as its Agenda 21 clearly recognizes, be self-defeating, ultimately undermining rather than serving the needs and interests of the Chinese people. At the same time it is equally clear that there can be no effective transition to sustainable development at the global level unless China develops sustainably.

I congratulate China for the enlightened and responsible leadership it is demonstrating in adopting its National Agenda 21 and the encouragement and inspiration the entire world community should draw from this. But this must also be accompanied by a strong and

sustained commitment on the part of the international community and its agencies and institutions to provide concrete support for China in implementing its Agenda 21.

In a country as vast and complex as China, leadership from the centre is essential, particularly in initiating the kind of process of fundamental change which this National Agenda 21 calls for. But it is equally essential that this national commitment be reflected in a similar commitment at every level of the society, particularly in the regions, the sectors and the institutions in which practical decisions are being made and implemented. It is therefore encouraging to note that they too have participated in the development of the National Agenda 21.

Sustainable development must be pervasive if it is to be effective. It must give rise to fundamental changes in our management of such basic resources as water, soil, forest, energy and minerals, as well as the manufacturing and processing industries. This requires a vast strengthening of scientific and technological capacities, for knowledge and technology are the primary sources of added value, sustainability and competitiveness in the modern economy. Sustainable development must also be integrated into trade agreements, and the economic, fiscal and sectoral policies which motivate the behaviour of corporations and individuals, so as to produce positive incentives for sustainability.

The fact that China's immense economy is at the beginning stages of a period of dynamic growth provides it with a unique opportunity to lead the global transition to sustainable development. One of the primary features of China's rapidly growing economy is the emphasis on the need for major additions to its infra-structure — roads, railways, airports, harbours, electric power facilities, telecommunications, industrial and urban facilities. Given the size and the scale of the Chinese economy these infra-structure needs are immense. So are the pressures for rapid implementation.

It is in the nature of such large infra-structure projects that they will have a long life-cycle. Thus the consequences of the decisions now being made will profoundly, indeed decisively, determine the long-term direction and nature of the Chinese economy. It would be illusory to believe that China can make the transition to sustainable development if the major infra-structure projects on which it is now embarking are not planned and implemented on the basis of sustainable development principles and practices.

One of the things that has always impressed me about China was the degree to which the Chinese people have long been so ingenious and resourceful in their use and re-use of materials and waste products. It surely is important that this experience not be lost in the course of modernization and industrialization. Rather, I submit it provides an important opportunity for China to build on its traditional experience a national program of re-cycling which could be an immense source of new job creation, economic opportunity and technological innovation.

No sector holds more potential for improvement than energy, for energy is at the

centre of so many of our most critical economic as well as environmental concerns. China's remarkable economic growth has given rise to a vast increase in the need for electric power. With the encouragement of the Government of China, foreign investors are scrambling for a piece of the action in meeting these needs. And the same is happening in the other rapidly growing economies of Asia.

Our own company, Ontario Hydro, has joined with two other Canadian companies, Hydro Quebec and Power Corporation of Canada, to form the Asia Power Group. We are not, of course, a development assistance agency, but we intend to help mobilize resources to help meet China's rapidly growing electric power needs.

Where there is opportunity there is also risk. One of the most ominous of these is the tendency, in the rush to meet Asia's rapidly growing electric power needs, to side-track environmental considerations. Several months ago the World Energy Council, in a major report called *Energy for tomorrow's World*, noted that energy issues are shifting from the industrialized to the developing world.

Within only 25 years, developing nations on the Pacific Rim and Southern Asia will increase their coal consumption by up to 250 per cent. China alone will double its already heavy use of coal in the electric power sector in the current decade. And China is already the third largest national source of carbon dioxide emissions, accounting for more than 11 per cent of the world's total.

The World Energy Council report stated that "The dominance of China in this matter is such that assisting China in achieving economic development with reduced greenhouse gas emission rates may be the single most beneficial action which mankind can take — with the potential improvement eclipsing that obtained by further improving the performance of the developed world."

While there may be enormous problems in running a country as big as China, the potential benefits of conservation and efficiency measures are also hugely magnified by the economies of scale. Our own company, Ontario Hydro, has made a major commitment to energy efficiency, as a means of helping to make our own economy more competitive and sustainable. This is one of the areas in which we feel we may be able to contribute most usefully to the achievement of China's Agenda 21 goals in the energy field.

Efficiency is what sustainable development is all about. This point was made very persuasively by the Business Council on Sustainable Development in its report to the Earth Summit, when it said the eco-efficiency is the key to the new generation of industrial opportunity and increased prosperity for all — efficiency in the use of energy, resources and materials, as well as in the prevention, disposal and re-cycling of waste.

At the national level this will require a major re-orientation and strengthening of economic, fiscal, trade and sectoral policies as well as changes in the legal and institutional

frameworks, in education and research and development, all of which are provided for in China's Agenda 21.

Implementing China's Agenda 21 is clearly China's responsibility, and it is also in its own national interest; but it is equally clear that it will not be feasible to achieve China's ambitious goal without full and large-scale external support in the form of investment and technology, technology cooperation and assistance in strengthening institutional capacities. It is in the interests of the entire international community to provide this; indeed there could be no better investment both in terms of global environmental and economic security. But this will not happen automatically; it will require special efforts to mobilize the investment and technology support which China will need to place its massive program of infra-structure development on a sustainable basis.

This conference will, I hope, give real and tangible impetus to this process.

January 12, 1995

DRAFT

**CHAPTER SUBMITTED FOR BOOK
ON THE UNITED NATIONS**

"MAKING THE UN MORE BUSINESSLIKE"

The UN is, of course, not a business, in the sense that its purposes are commercial or profit-seeking. But in the broader sense the UN is the centrepiece of the most important business of all — that of ensuring that our global community provides hospitable, peaceful and equitable conditions of life for all of its people. It is surely therefore important, indeed imperative, that the UN draw upon the best of business practices and expertise in fulfilling its global mission. This is especially so at a time when that mission is becoming increasingly complex and the resources available to the UN to fulfil it ever more difficult to obtain.

Much has been said about the need to reform the United Nations and to effect changes in its charter. Indeed, the approach of the 50th Anniversary of the United Nations has given rise to a plethora of books, studies, seminars and learned papers focusing on the future of the UN and the reforms required to prepare it for that future. Particularly valuable and timely is the report of the Commission on Global Governance chaired by Prime Minister Ingvar Carlsson of Sweden and former Commonwealth Secretary-General Sir Shridath Ramphal.

This process has produced some thoughtful and innovative proposals which will give governments a rich body of analysis and broad range of ideas from which to draw in taking the decisions concerning the future of the UN which can only be taken by its member states. It has concentrated largely on issues of structure, of process, and of charter change. There has been some, but I would contend too little, attention paid to the management dimension of these changes. Yet my own experience in the UN persuades me that the greatest and most immediate need is for improvements in its management. This is not in any way to detract from the importance of the structural and constitutional changes that must be made to enable the UN to function effectively in a world very

different from that which gave rise to its creation a half century ago. In the meantime, improvements in management and the introduction of relevant practices and methods developed in the business world need not await structural and constitutional change.

Many, perhaps most, of the necessary management improvements can be carried out within the existing mandate and authorities of the United Nations Secretary-General although it would be important for him to have the broad support of member states if these authorities are to be invoked fully and vigorously. At the same time, improvement of management and cost effectiveness of the UN would serve to strengthen political support for the kind of extended mandate and accompanying structural and constitutional changes that will be needed for the UN of the 21st century. The current financial crisis provides strong impetus to greater cost efficiency which can only be accomplished through major improvements in management. The need for such changes is likely to become more acute as a US Congress less sympathetic to the UN and the budgetary constraints faced by virtually all member states presage even greater pressures on the UN's finances and much tougher requirements by governments for more efficient use of UN resources.

I am convinced that a great deal can be done to make the UN much more efficient in the use of its existing resources without impairing its overall effectiveness. Indeed, a well managed process of internal change would, I am confident, serve to enhance the UN's effectiveness in the areas in which its services to the world community are most needed and most valued. The permanent staff of the United Nations is not excessive by the standards of government or other organizations, both private and public, many of which have purposes that are a good deal less important to society. The permanent staff of the United Nations is now at a level of some 10,609 permanent staff* and a total of approximately 33,967* if the specialized agencies, excepting the World Bank

* From the UN Document A/49/527 "Human Resources Management: Composition of the Secretariat".

and the International Monetary Fund, are included. In the aggregate, the costs of the United Nations and its agencies amount to less than \$2 for each of the world's people as compared with \$150 per person for military expenditures. It represents 0.0005 percent of the world's gross domestic product.*

While it is useful to bear in mind that the cost of running the UN system represents but a very modest proportion of the total cost of global governance, this is really not the point of issue in making the case for better management of the UN. The case really rests on what governments actually get from their investment in the United Nations and what value they place on it in relation to alternative uses of their resources. Today all governments are facing severe budgetary pressures that are requiring them to re-examine their own priorities and provide much more rigorous and cost-effective management of their finances. It would be illusory to believe that the UN can be exempt from this process. It would be much more realistic to recognize the reality that in few, if any, nations does the UN have the kind of strong political constituency that can support its claim on the national budget against the competing claims of domestic constituencies.

Over the past fifty years the UN Secretariat has grown in response to the evolving priorities of the community of nations it serves, as reflected in the agendas and the resolutions of the General Assembly and other UN deliberative bodies. But priorities have changed and new issues have emerged. These have been reflected to only a very limited degree by corresponding changes in the deployment of Secretariat resources. New Secretariat units have been created while existing units have been retained to perform functions overlapping those of other units and often no longer accorded the level of priority that gave rise to their creation.

* "Renewing the United Nations System" by Erskine Childers and Brian Urquhart - Page 143.

All organizations require periodic change, and in today's rapidly changing world the process of change must be a continuing one. But although the world has changed radically in the fifty years since the United Nations was established, changes within the United Nations have been minimal, certainly not radical. The time has clearly come for radical change. This change can and should begin at the management level. Many of the needs for change which drive the growing pressures for structural and constitutional reform can be met to a large extent through improvements in management. And while basic structural and constitutional change is indispensable, it will not come quickly or easily, and would not in any event be effective without accompanying management changes.

My basic premise is that such changes can and should precede and would help prepare the way for basic structural and constitutional change.

Secretary-General Boutros-Boutros Ghali is to be commended for initiating a more radical process of change within the Secretariat than that undertaken by any of his predecessors. In consolidating the departmental structure of the Secretariat, reducing the number of officials reporting directly to the Secretary-General and rationalizing the country level representation of the UN, he has made a good start. But it is only a start.

The process of management change must be guided by an up-to-date evaluation of what each unit within the Secretariat actually does, what it produces, to what extent this overlaps with what others produce, how its products are actually used, how they are valued by those who use them and how this relates to their cost. This is something quite normal in business and other organizations that are run in a businesslike manner.

Some will argue that it is not feasible or appropriate to quantify the output of the UN Secretariat, dealing as it does with major world issues which simply cannot be measured by the kind of quantitative standard which business applies. True, but only to a degree. It is entirely feasible to make a reasonably accurate assessment of the output of

each unit in the Secretariat, to determine its cost and to ascertain from those who actually use its products how much they value them.

I have no doubt whatsoever that such a process would reveal that much of the Secretariat's work involving perhaps half, or even more, of its staff members is devoted to areas and issues that are now accorded marginal priority by member states, or can be done better by others either inside or outside of the United Nations. I would suggest that a very large proportion of the UN Secretariat, probably well over half, is now engaged in activities that would fall into these categories. And this in most cases would not be a reflection on the quality or performance of the people performing these tasks. In so many cases a very small, underfunded Secretariat unit is expected to do meaningful work in areas in which other organizations with much larger budgets and capacities and stronger mandates are the prime actors.

The UN need not and cannot do everything. Its uniqueness and its comparative advantage lies in the fact that it is global in its mandate and is universal in its membership. Its resources should be concentrated in those areas in which these distinctive qualities enable it to perform functions for the international community other organizations are not geared to perform. But in doing so it should draw on and utilize to a much greater extent than it now does, the capacities and contributions of other organizations, intergovernmental and nongovernmental, which have the specialized knowledge, experience and constituencies which the UN does not and cannot have to the same extent. Often the primary role of the UN will be to provide a global framework or context for actions that must be taken on other levels, regional, national or sectoral. It need not and cannot have in the Secretariat the capacities to deal with these issues in their totality. Yet in all too many instances the UN purports to do so, maintaining Secretariat units to deal with issues which it simply does not have the capacity to deal with effectively. The result is a dispersion of UN resources and a dilution of its effectiveness that has contributed significantly to the unsatisfactory performance of the UN in so many areas and the reduction of confidence in it.

The experience of the UN's first fifty years surely points to the main areas in which the UN is at its best. There is no substitute for it as the global forum for leadership in identifying and legitimizing new issues for the international agenda — as it did in respect of international development cooperation, human rights, the environment, population and women's issues, to name but a few. It is also unique in its capacity to mobilize the international response to major peacekeeping, peacemaking and humanitarian needs and to provide the forum for the development of international law and the negotiation and administration of treaties and conventions. Virtually all of these areas have in common that the number of permanent secretariat members involved is relatively small and their principal task is to orchestrate and to service processes involving specialized representatives of member states, and representatives and experts from other organizations, intergovernmental and nongovernmental.

I cite three examples from my own experience, not to suggest that they are best examples, but the ones with which I am most familiar personally. They are the UN Conference on the Human Environment held in Stockholm in 1972, which placed the environment on the international agenda; the Office for Emergency Operations in Africa, which led and coordinated the international response to the great African famine emergency of 1984-86 and the UN Conference on Environment and Development in Rio de Janeiro in 1992, which provided a broad global sanction for the concept of sustainable development and agreement on basic principles and actions to give effect to it. In each case the central UN Secretariat unit was very small in relation to the magnitude of the task it was given — numbering from 20 to 30 persons drawn from the permanent Secretariat. But in all cases, too, it engaged the active support and involvement of all parts of the United Nations system and a multiplicity of other actors and sources of expertise, national and international, governmental and nongovernmental. What the UN provided was the leadership, the capacity for mobilization and orchestration of the contributions of other participants and the framework within which they could operate in a collaborative manner towards common goals and objectives.

An important feature of each of these examples is that the organizations responsible were ad hoc in nature and each was phased out after the task for which they were set up was completed.

All of the UN's peacekeeping operations are by their nature ad hoc responses to particular crises situations. And all are managed and orchestrated by a permanent UN headquarters staff that has never exceeded more than 314* professionals, even now that the UN is managing an unprecedented number of some 18* peacekeeping and peacemaking operations involving a total of approximately 74,625* temporary personnel in the field. The same has been true of virtually all humanitarian operations, global conferences and treaty negotiations. The point here is that many of the UN's most important and successful value-added activities have involved relatively small numbers of its permanent staff and correspondingly modest contributions from regular budgetary resources. At the same time, the successful launching and management of such initiatives requires a permanent secretariat cadre with special qualities of leadership and management and the capacity to identify and command the respect and cooperation of the principal actors concerned both within and outside of the United Nations systems. Yet it is a quality that it is not sufficiently valued, nurtured and supported by present UN personnel policies and practices.

The kind of management improvements the UN so clearly needs at this juncture will require significant changes in personnel policies, particularly through reduced politicization and improved professionalization of the staff appointments process. Recruitment, career development and training practices should be oriented towards producing within the Secretariat professionals with the integrative, mobilizing and orchestrating skills required to deal with issues that are increasingly complex and systemic in nature and involve a multiplicity of actors, disciplines and sectors. Again my own

* UN Department of Peacekeeping Operations - Summary of Contributions to Peacekeeping Operations by Countries (as of November 30, 1994).

experience tells me that it is entirely feasible to do this while respecting the important principle of equitable geographical representation. One way of improving the leadership capacities of the UN secretariat would be to have an independent board review the professional qualifications of those being considered for senior appointments. The Secretary-General would, of course, retain final decision making in respect of such appointments but his selections would be made from amongst those whose professional qualifications met certain objectively applied standards.

One of the principal challenges the UN faced in its early years was that of facilitating the transition of former colonies in the developing world to independence, supporting the establishment of their governments and launching them on the pathway to national development. The technical assistance offered by the UN and the development assistance it mobilized and helped to deploy made a critically important contribution to the emergence of these newly independent nations as full and influential participants in the community of nations. But the situation and the needs of developing countries have changed immensely during the past several decades. Developing countries, which comprise some three-quarters of the world's population, now represent a similar proportion of the membership of the United Nations. It has become their principal international forum, the place where their voices can be most heard and heeded and their influence most fully brought to bear.

Yet the resources of the UN Secretariat have not been redeployed sufficiently to take account of the major changes in the needs and interests of developing countries while the proportion of their external funding requirements provided by the UN has been reduced substantially. Economic and social development is and must be one of the highest priority tasks of the UN. Yet it is one in which the UN is a great deal less effective than it could be and should be, despite the large proportion of the Secretariat ostensibly devoted to it.

In a global economy in which knowledge is the principal source of added-value and competitiveness, developing countries, and particularly the least developed, are

disadvantaged by lack of the resources required to develop their scientific and technological capabilities, their institutional infrastructure and educational systems. Many of them lack the policy research capabilities required to assert and protect their own interests in a rapidly changing international policy and negotiating environment. Supporting developing countries in development and strengthening of their capacities in these areas is, for most of them, their most critical need and highest priority. The United Nations Development Program, through its Capacity 21 and Sustainable Development Network initiatives is giving special attention to mobilizing resources for these purposes. But so far the response has been disappointing.

Funding for the UN's development programs is increasingly hard to get, and is likely to be even harder to come by in future. At the same time, the proportion of funds made available for emergency assistance has been growing, much of it at the expense of development funding. The recent experience of UNICEF is a case in point. The proportion of its budget devoted to emergency, as distinct from development, programs has grown from just over 5% to 28% in the past 10 years*. No one would argue with the need to meet humanitarian needs which are usually of a highly urgent and critical nature in terms of the immediate need to relieve human suffering and save lives. But when this is done at the expense of long term development which is the best means of ensuring against future humanitarian crises, it becomes a vicious circle in which the lack of adequate funding for development sets the stage for even greater humanitarian needs in the future.

Against this background, it is imperative that the UN make the best possible use of its financial and human resources in responding to both the humanitarian and development priorities of developing countries. There is, I submit, a great potential for doing this through improved management practices and greater cost efficiency. And in doing this, the UN will also restore the confidence of both donors and developing

* UNICEF Management Study, December 30, 1994 (Booz Allen & Hamilton Incorp.)

countries that it provides the most efficient and effective system for channelling resources to developing countries for both humanitarian and development purposes.

The UN must gear itself to become to a much greater extent a mobilizer and not just a dispenser of resources in the development field, as it has done so successfully in the humanitarian field. During the 1984-86 famine in Sub-Saharan Africa, the UN took the lead in mobilizing and deploying over \$4 billion of humanitarian assistance, only a modest portion of which was actually dispensed directly by the UN. Yet the UN was not nearly so effective in meeting the process of mobilizing the increased resources required for rehabilitation and long term development in Africa following the famine. This is in part explained by the fact that during emergencies public and political pressures drive a degree of coordination and focus of the combined efforts of the UN system in a way which has not been possible to effect the same degree in respect of development.

The recent initiative of the Secretary-General in creating a closer link between the policy and the funding functions of the UN and the broad responsibilities he has given to UN Administrator James Gustave Speth for development and coordination represent a promising step in the right direction. It would be important to the effectiveness of, and confidence in, this new framework for coordination that policies and priorities set by members governments drive and guide funding, rather than the reverse. The time has come to bring all of the UN funding functions within a common administrative framework, which would logically be provided by the UNDP. This would produce significant savings in personnel and administrative costs. And in consolidating the administration of funds in the UNDP, the distinctiveness required to maintain the support of specialized constituencies can be preserved by maintaining separate "windows". Thus, for example, the fund of the United Nations Environment Program would, for administrative purposes, become part of the UNDP, while a separate window would be maintained at UNEP headquarters in Nairobi to respond to the specialized funding needs of UNEP's program. This would have the further benefit of ensuring the close coordination of UNEP's programs with the growing amount of UNDP's development funding which has an environment dimension and can benefit from a UNEP input.

There is a great potential for cost effectiveness in rationalizing the UN's administrative and budgetary processes and developing a much more coherent system of program-budgeting. Substantial savings and improved effectiveness could also be achieved through a greater degree of rationalization of Secretariat and administrative resources as between the headquarters, the regional commissions and country level missions. This three-tier administrative structure is one of the reasons for the high overhead cost of the UN in the economic and social development field in relation to the amount of funding it dispenses to developing countries.

Virtually all governments are at or near the limits of what they can do to meet the needs and expectations of their people, and what their people are prepared to pay in taxes. Thus, the multiplicity of nongovernmental actors that make up civil society are inevitably playing a much larger role, both in developing social policy directions and in mobilizing and deploying resources to meet particular societal needs and interests. In many areas their capacities today exceed those of governments. The same is true at the international level in which more humanitarian and development resources are today channelled to developing countries through nongovernmental organizations than through the United Nations. Thus the role of the United Nations in providing credible, objective and well-informed leadership and a coherent framework for mobilization and deployment of international resources from a variety of sources around particular objectives is a primary one, and one it must learn to play much more effectively.

The UN needs to adapt to the sea-change that has taken place in the flow of resources to developing countries. Private investment has become by far the principal source of external financing for the rapidly growing economies of Asia and Latin America which are also generating substantially growing earnings from their export trade. While these rapidly developing countries continue to require external support in meeting their social needs, their capacity to do this from their own resources is improving. Meanwhile the least developed countries, particularly those of Sub-Saharan Africa, remain highly dependent on Official Development Assistance. And the countries in transition in Eastern Europe and the former Soviet Union require specialized technical policy support as well as infusions

of private and public capital to help them rebuild and restructure their economies. The UN must therefore be in a position to provide a more diverse range of support targeted to the particular needs and interests of each of these categories of countries.

The UN itself is not likely to become a channel for substantially increased flows of funds to developing countries. But it has the unique capacity, which needs to be vastly strengthened, to provide a forum in which developing country interests can be defended and championed, to mobilize support for development of their own institutional capabilities and to supplement them in the areas in which the individual capacities of developing countries for protecting and asserting their interests in the multiplicity of international negotiations in which their lack of adequate institutional and policy expertise puts them at a disadvantage. It is also in the best position to create the leadership and cooperative framework for mobilizing and deploying resources of the entire international community, including the nongovernmental actors, around particular needs and objectives. This would mean building the new United Nations around the best experiences of its past while shedding much of the costly and bureaucratic baggage that has developed over the years and is now more an impediment than a contributor to the UN's effectiveness.

An indispensable key to the UN's success in undertaking this role in leading and catalyzing action by the entire world community is for it to become the primary source of objective, credible information on major global trends and issues. The spectacular advances made in recent years in information sciences and telecommunications combined with the confidence and respect that the Statistical Division of the UN's Department of Economic and Social Information & Policy Analysis as one of the UN's quietest, but most consistently valuable performers over the years, provide the basis and the tools for such leadership. But it will require strong leadership mandated directly by the Secretary-General to rationalize the current hodge-podge of information services within the UN which, despite the high quality of some of them, has so far defied any attempt at coordination, consistency and common focus. I am convinced that here, too, the potential for improved cost effectiveness is so great as to make it likely that the kind of leadership and strategic purposes I foresee for the UN in this field could be achieved within existing

budgets.

As our experience in the Office for Emergency Operations in Africa demonstrated, information is the key to coordination. Nothing is more characteristic of calls for UN reform than exhortations for more "coordination". Yet, with some notable exceptions, principally of an ad hoc nature, the United Nations has a dismal record in effecting coordination. Nevertheless, as demonstrated by the experience of the Office for Emergency Operations in Africa, when the UN can dispense timely and reliable information that other actors find useful in their own decision making, it exercises de facto a coordinating role that most other actors would not accord to it in any formal sense. The OEOA had no formal mandate for coordination. Yet virtually all the major organizations — bilateral, intergovernmental and nongovernmental — providing humanitarian and relief assistance to Africa during the 1984-86 famine looked to the UN's OEOA for the information about needs and actions already underway or planned to meet these needs as the basis for decisions on deployment of their own assistance. This in turn enabled that assistance to be targeted to the people most in need. It was the key to the central role played by the UN in helping some 30 million people whose lives were at risk to survive the famine.

This chapter concentrates on management improvements that can be made at the secretariat level within the existing mandate of the Secretary-General. But even greater efficiencies could be achieved in the use and the effectiveness of Secretariat resources if governments were to agree on consolidating and rationalizing the work and meetings of the various committees, commissions, conferences and governing bodies which have proliferated over the years and contribute significantly to the dispersion of secretariat efforts, as well as those of governments themselves. A good deal of such rationalization could be accomplished by the decision of member states in the General Assembly and other UN bodies without charter change.

Introducing businesslike management principles and practices into the United Nations may seem somewhat mundane in light of the broad global purposes the UN was established

to serve and the ideals enshrined in its charter. But as the UN reaches the important milestone of its 50th Anniversary, it must prepare itself to make radical changes in the manner in which it manages its awesome responsibilities if it is to meet the challenges of the much more demanding, complex and interdependent world of the 21st century. Indeed, it is precisely because its task as the centrepiece of an effective global system of governance is so vitally important to the human future that it requires the very best of management, and should settle for nothing less. After all, no business is more important than that with which it is entrusted.

TEXT OF
INDIRA GANDHI MEMORIAL LECTURE

MAURICE F. STRONG

Chairman and Chief Executive Officer, Ontario Hydro

Chairman, The Earth Council

Delhi, India

November 18, 1994

Subject to abbreviation and/or change on delivery

The honour you have accorded me in inviting me to deliver this lecture, memorializing the late Indira Gandhi on the eve of her birthday, is one which moves me deeply. I can't tell you how much I appreciate it. For I had the great privilege of knowing Mrs. Gandhi as a person as well as one of the great leaders of our times. She followed in the remarkable tradition of world leaders that her father, Jawaharlal Nehru, established as India's first Prime Minister and to which she added such lustre. I recall with particular gratitude her leadership at the first world environmental conference held by the United Nations in Stockholm in 1972.

When I came to New Delhi to seek her participation and support, she was pre-occupied by a war with Pakistan and many other pressing political concerns. My friends at the Foreign Ministry told me it was not likely that she would be able to see me about an issue that was seen by many in the developing countries at that time as rather remote from their immediate concerns and interests and even, to some extent, a threat to them. Nevertheless, she did see me. And I shall never forget the fervour and the passion with which she spoke of the environmental troubles confronting India and her intimate and personal knowledge of these. At the same time she expressed the worries of many in the developing world that the Stockholm conference would focus primarily on the pollution problems of the industrialized countries and could lead to diversion of resources from and new constraints on the development of developing countries, while largely ignoring their principal environmental problems which arose from underdevelopment and pervasive poverty.

I invited her to come to Stockholm as the most respected leader of the developing world to ensure that these concerns and interests were presented with the greatest possible authority. And I undertook to do everything possible to ensure that the agenda of the conference would be re-cast to address these issues.

She accepted the invitation and was good enough to allow me to make this known. This did more than anything else to upgrade the political importance of the

conference, to re-fashion its agenda around developing countries' concerns and interests and to encourage other developing countries to participate. As you know, she was the star of the Stockholm conference. Her speech more than anything set its tone and direction. Her memorable statement that "Poverty is the greatest polluter" has become the best known and most widely quoted in the folklore of the environmental movement. And thanks to her leadership, never more could the environment issue be considered only in the narrow context of the pollution problems of the rich, but as inextricably linked with the development needs and aspirations of developing countries and the imperatives for new dimensions of cooperation and equity in north-south relationships.

On the 20th Anniversary of the Stockholm Conference, the United Nations General Assembly decided in December 1989 to hold a new United Nations Conference on Environment and Development. It was then decided that the conference would be held in Rio de Janeiro, Brazil, at the level of heads of government, making it the first truly "Earth Summit". I am pleased to say that in the tradition of Indira Gandhi's leadership at and after Stockholm the Indian Government, under her son, Prime Minister Rajiv Gandhi and, following his tragic death, his successor, P.V. Narasimha Rao, again played a pivotal leadership role, both in preparations for the conference and at the conference itself.

Little more than two years after Rio, it is too early to pronounce final judgement on its final results. This will depend on what governments and others do now to give effect to the agreements reached at Rio - a statement of principles in the Declaration of Rio and a comprehensive program of action, Agenda 21, designed to give effect to these principles. Also framework treaties on climate change and biological diversity were negotiated as part of the Rio preparatory process and opened for signature at Rio. Both have now come into force. And agreement has now been reached on another convention of particular importance to many developing countries, the Convention on Desertification, which was initiated by the Rio process.

Despite some shortcomings, the agreements reached at Rio represent the most comprehensive and far reaching program for the future of the Earth ever agreed by governments. And the fact that these agreements were reached by virtually all the nations of the world, most of them represented at the highest political level, surely gives them a unique degree of political authority. But, as I made clear in my final statement at Rio, this does not guarantee that these agreements will be implemented. So far the record is mixed at best. To some degree this is understandable. A plethora of immediate and pressing political and economic concerns have been pre-empting the attention of governments, and people since Rio.

Most disappointing is the lack of response by OECD countries to the needs of developing countries for the additional financial resources which all governments at Rio agreed were required to enable developing countries to make their transition to sustainable development. The rich have seldom felt more poor than they do today. What is particularly discouraging is that progress towards meeting these needs has actually been further set back since Rio as a number of donors have reduced their Official Development Assistance. And all the signs currently point to further reductions accompanied by a diversion of resources that might have been available for development assistance to meet growing emergency humanitarian needs as well as the needs of the countries of the former Soviet Union for the re-building of their shattered economies.

To be sure, there have been some positive developments. Many developing countries, including, I am pleased to say, India, have taken steps to implement many of the measures called for in Agenda 21 despite the fact that Rio's promises of additional financial resources remain unfulfilled. At a conference last month in Tokyo, Japanese leaders made a strong commitment to sustainable development as the main theme of their role as what their Prime Minister described as a "global civilian power".

At the international level, the United Nations Commission on Sustainable Development, has been established as the forum for continuing governmental consultation

and cooperation in following up and implementing the agreements reached at Rio served by a Secretariat headed by a distinguished Indian, Nitin Desai. And a High-Level Advisory Board on Sustainable Development has been established to advise the U.N. Secretary-General on Agenda 21 implementation issues.

Agreement was reached following protracted and difficult negotiations on the replenishment of the Global Environment Facility with unique modalities for governance which give developing countries a larger role than in the Bretton Woods Institutions. The G.E.F. is a far cry from the much more ambitious vision of the late Rajiv Gandhi when he proposed the creation of a "Planet Protection Fund". But it provides the foundations on which the international community can continue to build as the imperatives of the future will inevitably require more enlightened, innovative and substantial responses to the resource needs of developing countries than have yet been forthcoming on the part of the major industrial nations.

Many of the most exciting and promising post-Rio developments are occurring outside of governments, where there has been a virtual explosion of activities and initiatives on the part of grass-roots organizations, citizens groups and other key sectors of civil society. It is evident that people returning from or inspired by Rio are determined to translate its basic themes into their own responses to Agenda 21. Engineers and architects, through their international bodies, have committed their professions to sustainable development and to cooperative programs designed to support implementation of Agenda 21 in their sectors. The Business Council for Sustainable Development has been reconstituted with a commitment to continuing leadership in effecting the change of course it called for at Rio. And the International Chamber of Commerce has brought together a similarly impressive group of business leaders in its World Industry Council for the Environment. Many of the world's cities are establishing their Agenda 21 under the aegis of the International Council of Local Environmental Initiatives. And similar initiatives are proliferating at the community and sector levels in every region of the world.

Particularly promising has been the initiative of more than eighty countries in establishing National Councils of Sustainable Development, or similar bodies, as multi-stakeholder fora in which representatives of government and various key sectors of the civil society can consult and advise on the development and implementation of Agenda 21 at the national level and provide guidance and support for similar initiatives in local communities.

I am pleased to note that the Indian National Environmental Council is chaired by the Prime Minister himself.

In contrast to the earlier reactions of business leaders and many policy makers to the environmental movement, a new generation of enlightened leaders in both business and government is realizing that sound economic policies and practices must integrate environmental and social considerations and that this is also the soundest approach in economic terms. This was the basic message of the book, "Changing Course" by the leading Swiss industrialist, Stephan Schmidheiny, and some 60 other Chief Executive Officers of major corporations, including India's Ratan Tata, in their report to the Earth Summit. It called for fundamental changes in economic practices and behaviour based on a commitment to "eco-efficiency" - efficiency in the use of energy and resources and in the prevention, disposal and recycling of wastes. Eco-efficiency is good for business as well as for the environment. As Japan's Keidenren and its Ministry of International Trade and Industry have recognized, the new generation of industrial opportunity will be driven largely by environmental considerations. Some of your own principal industrial leaders are in the forefront of this movement. And the Confederation of Indian Industries has been amongst the most active and progressive anywhere in highlighting the importance of these issues and providing basic principles and guidelines for dealing with them.

These are all hopeful signs, but they are not enough. The evidence produced for the Earth Summit made it clear that what is needed is fundamental change in the dynamics and direction of our economic life based on changes in our economic

behaviour at every level of society. The changes called for at Rio are fundamental in nature, and fundamental change does not come quickly or easily. It is therefore not surprising, though none-the-less disappointing, that this basic change of course has not yet occurred. Until it does we will, despite our rhetoric and good intentions, continue to move in a direction that is simply not sustainable.

The Earth Council, headquartered in San José, Costa Rica, is a unique product of the Earth Summit. It is a new kind of global, non-governmental organization, designed to act as a catalyst to facilitate and support implementation and follow-up of the results of Rio. In doing so, it consults with a network of some 25,000 organizations, most of them of a grass-roots nature, and also including a broad cross-section of development, environmental, social and public policy leaders and experts throughout the world. Its principal mission is to help to link people at the community and grass roots level with the broad policy and decision making processes which affect them, and to amplify their voices in these processes, voices that are too seldom heard or heeded. I am pleased to say that one of your most active and able scientific and social activists, Dr. Vandana Shiva, is a member of the Council.

Meanwhile there have been some profoundly important changes in the dynamics of the global economy which are re-shaping the economic and political geography of our industrial civilization and defining its future. Prospects for achievement of the goals set at Rio and implementation of its Agenda 21 are inextricably linked to the complex of issues through which these changes are occurring.

But I would like to focus attention on what I am convinced is one of the most important dimensions of these changes - one for which I know that Indira Gandhi's vision and leadership were a prescient portent - the dramatic shift now taking place in the configuration of economic and political power as between the developing countries and the traditional industrialized countries.

Energy is a primary example.

Energy is at the centre of the environment development nexus. Already consumption of commercial energy by the developing countries of Asia is growing at a faster rate than in OECD countries. The report last year of the World Energy Council's task force on "Energy for Tomorrow's World" estimates that by 2020 developing countries will need some \$30 trillion of new investment in energy facilities if they meet their growing needs on the basis of current patterns of use and efficiency. This is nearly 50% greater than the entire world GNP - clearly an impossible prospect.

A massive commitment to energy efficiency is the only answer. It is as essential in economics as in environmental terms - the most cost effective and sensible investment in the energy future of developing as well as more developed countries. My own company, Ontario Hydro, is carrying out a massive program of energy efficiency and recently joined with other electric utilities and policy institutes to form a Global Energy Efficiency Collaborative to foster the movement towards energy efficiency throughout the world.

The transition from an energy economy based largely on fossil fuels will not come easily - or as quickly as we might wish. But come it must - and we must prepare for it - by using fossil fuels more efficiently and responsibly, and by developing new and renewable energy sources. Here again I am pleased that India is taking a lead in having established what I believe is the world's first Ministry of Non-Conventional Energy Sources; headed by Prime Minister P.V. Narasimha Rao. Also thanks to the union and initiative of Indira Gandhi and the strong support of P.M. Narasimha Rao, India has established a promising lead in the field of solar energy.

Today developing countries are leading the revitalization of the global economy. Developing countries are growing. Not all of them to be sure. The economic growth of many of the poorest, as well as the conflict-ridden countries of Africa, has been stalled or declined. But in Africa, too, - notably Uganda and Ghana - some economies are on the move again and with the historic transformation to multi-racial democracy in South Africa, it is expected to lead Southern Africa into a new era of economic progress. But

most of the new growth in the developing world is occurring in Asia and Latin America. India is rapidly becoming one of the most dynamically growing economies.

A recent World Bank report points out that even in the two decades 1974 - 1993, developing countries as a whole grew at a rate slightly higher (3%) than the rich industrial countries (2.9%) and are expected to grow by almost 5% per year in the next decade compared with 2.7% in the traditional industrial countries.

On this basis, as noted in The Economist's survey of the global economy last month, China will replace the United States as the world's largest economy by 2020, and 9 of the top 15 economies of the world will be today's developing countries. India will replace Germany as the fourth largest economy. And the same survey projects that developing countries' share of world output will grow to 62% by 2020 while that of the rich industrial countries will decline to 37%.

The G-7 which today does not include a single developing country is clearly becoming an anachronism. The current "world order" continues to be rooted in the past, particularly our notions as to north-south relationships.

The basic character of the economies of the developing countries is also undergoing a major transformation. Most have moved beyond their traditional role as exporters of raw materials and commodities. Manufactured goods now constitute some 60% of developing country exports as compared to only 5% in 1955. And their share of world manufacturing exports rose from 5% in 1970 to 22% in 1993.

The major movement of economic growth to the south is evoking mixed feelings, and responses, from the traditional industrialized countries, the "OECD" countries. On the one hand, their export industries have welcomed - and been quick to exploit - the opportunities that have opened up in the rapidly growing economies of the developing world. A recent OECD report postulates that if China, India, and Indonesia continue to grow at current rates, without changing current patterns of income distribution,

some 700 million people in these three countries alone - more than the combined populations of America, the European Union and Japan, will, by 2010, have an average income equivalent to that of Spain. This compares with only 100 million today.

On the other hand, OECD countries are increasingly looking on developing countries as competitors. Low labour costs and rising productivity are making their manufactured products highly competitive in northern markets - helping to keep consumer prices down but evoking strong and growing resistance from those in the industrial countries that see their investments and jobs at risk.

Such powerful voices as those of Sir James Goldsmith - now a member of the European Parliament - have joined in the chorus of those who predict that freer trade with developing countries will lead to massive movement of industry to the Third World and mass unemployment in OECD countries as well as in developing countries. Similar concerns are beginning to surface in Japan.

Political turbulence, conflict and economic hardship in parts of the former Soviet Union and the developing world, is creating increased pressure for migration at a time when most countries are tightening their borders against those who are uprooted, dispossessed and persecuted. In industrialized countries, attitudes are hardening even towards those immigrant peoples who have made important contributions to the economies of their host nations. Despite the movement towards a global economy and more open trading system, I see signs of a "fortress north" mentality developing in the wealthy industrial countries which would not bode well for future relationships with the developing world.

At the same time, environmentalists have protested that free trade will encourage growth based on models that are unsustainable in developing countries at the expense of the environment, and tend to lower overall environment standards. These concerns resulted in unilateral action on the part of the United States to ban tuna imports from Mexico and led to incorporation of the "side agreements" on environment in

NAFTA.

As Indira Gandhi foresaw, developing countries feel that environmental concerns may be used as a pretext for new protectionist measures which would inhibit their development and exports. And we must recognize that the position taken by some environmentalists - even recently in activating voluntary bans on lumber from British Columbia, in Canada, - lend credence to those fears.

All of this means that the environmental dimension will become a much more important - and controversial - factor in trade negotiations, and their implementation, in the period ahead.

As we enter the 21st century, our common need to protect the environment and life support systems of our planet provides a new dimension to the north-south relationship. As India's representatives have constantly reminded industrialized countries, they have a responsibility to reduce their demands on the Earth's resources and environment and leave "space" for developing countries to grow. Their right to grow cannot be denied. Nor should it be constrained by conditions imposed on them in the name of environment. If the developing countries are becoming the primary engines of economic growth, how they manage their growth will be the key to our common environmental future. The war to ensure a secure environment for all the people of earth - rich, poor, north, south - will be won or lost in the developing world, and most particularly in Asia.

As they move into a new era of economic growth, developing countries have a rare opportunity - and need - to fashion their own development model. As Prime Minister Shri P.V. Narasimha Rao said in his speech earlier this year to Harvard University, "it will have to find an equilibrium among three factors, viz:

- (1) the level of material benefit necessary for a human being to attain his full creative potential;

- (ii) the level of exploitation of Nature consistent with its needs to replenish itself;
- (iii) the need to ensure comparable benefit to the vast masses of people and lift the social pyramid as a whole."

This is as good a definition of sustainable development as I have heard.

In the context of economic liberalization, there is an urgent need to counteract the growing disparities that would otherwise undermine development goals because -

- overconsumption and waste by the rich together with resource destruction by the poor is ecologically unsustainable;
- it ultimately undermines productivity;
- it will give rise to social instability;
- it is patently inequitable.

No country is in a better position to take the lead in creation of this new sustainable development model than India, because of the strength and experience of its democracy, its diverse natural resource base, its formidable scientific and technological capabilities, its well developed industrial sector and entrepreneurial tradition, the quality and strength of its institutions and professional cadres, its commitment to education and its high degree of environmental awareness. And no country has a greater need to do so in its own interests. For India must prepare to accommodate in its rich but limited territory at least 1-1/2 billion people before its population stabilizes towards the middle of the next century. And can you really contemplate a situation in which replication of the western experience would reduce the proportion of your population employed in agriculture from the present level of 62% to some 5%? Think of what it would do to your already overstrained cities; and even more important to the lives of the people who would be seeking livelihoods in a modern sector that could not possibly accommodate so many of them.

At the same time India now has an historic opportunity - one which will not likely even recur - to establish a new development model based on a synthesis of Gandhi's principals of Sarvodaya and people-centred rural development with Nehru's commitment to science, technology and modernization. It will not be easy to effect this synthesis; and it will require an enlightened and sustained political will of the kind India has always been able to produce. India's leadership in the transition to a new model of sustainable development is, I am persuaded, the key to its own future and to its role in the world of the 21st century.

What is at risk in this transition is the survival and well-being of the human species. As the Earth Summit made clear, this requires new dimensions of cooperation amongst the nations and peoples of our planet, and most of all, a new basis for relationships between the rich industrialized countries and the developing world, one that is based on true partnership, shared, though differentiated, responsibilities, mutual respect and equity. It means recognizing the special responsibilities of the traditional industrialized countries as the principal sources of the damage that has already been done to the global environment and the main beneficiaries of the processes of economic growth which have given rise to them. It must be based on willingness of these countries to accord to the indispensable services the developing countries provide to the world community - as for example as custodians of most of its precious and irreplaceable biological resources and life-supporting ecosystems - the real value of these services and reflect this in the terms of trade and the prices they pay for the relevant products of the developing countries. It must provide for the kind of equitable access to technologies and sharing of intellectual property called for in Agenda 21.

This calls for innovative new mechanisms and instruments for transfer of financial resources and technologies.

All of this will require radical changes in the policies and expenditure priorities of governments and a substantial re-orientation of the system of incentives and penalties by which governments motivate the economic behaviour of individuals and

corporations.

Mere efficiency is not object of these changes, but rather real improvement in the capacity to respond to the directions, to meet the needs and to serve the interests of people. People must not only be the main beneficiaries of sustainable development, but its prime movers. The ultimate goal of sustainable development is to enable people to achieve sustainable livelihoods. Nations everywhere are now encountering the limits of governments - limits on their capacity to meet the expectations of their electorates, limits on the willingness of people to accept new taxes and their insistence on a greater degree of cost effectiveness, transparency and accountability on the part of their governments. This is directly related to the movement that has taken place towards more democratic forms of government throughout the world. It is a movement in which India, in demonstrating its strength and resilience as the world's largest democracy, has set such an outstanding example. It is therefore not surprising that India is also in the vanguard of the movement from merely representative to participatory democracy which makes more effective provision for the increasingly important and activist role being played by the various organizations of the civil society.

Clearly one of the most dramatic phenomena of our times is the triumph of the "capitalist" free market system, even in those countries which still have a political commitment to socialism. While the process which led to this "triumph" has been in the making for some time, it was the demise of the Soviet Union that marked the surrender of capitalism's principal ideological rival. But how permanent is this triumph, and where will it lead? There is an old maxim that every success gives rise to a new cycle of problems. And already there are signs that the success of capitalism will not be an exception.

Most countries of the developing world are in varying degrees today invoking capitalist, free market principles and some, particularly the newly industrialized countries of Southeast Asia and Latin America, are generating impressive rates of economic growth. Again, India is managing the transition of its vast and complex

economy through the democratic process. This has opened up a new era of growth that promises to move India into the front ranks of the world's economic powers.

All of these developments require national economies to become more efficient and this, in turn, has dictated massive re-structuring of industry and corporations as well as the privatization of government enterprises.

A series of paradoxes is developing which will soon confront both industrialized and developing countries with some very painful tensions and challenges. While efficient and competitive economies produce more gross national product, the benefits accrue disproportionately to the minority which have capital and knowledge to deploy. This class is highly mobile and those in it and can move their assets and activities across national borders. They will exercise these options when they have to bear too great a burden of taxes to support the cost of maintaining a disproportionately large and costly government and providing welfare for the elderly, the needy, the underskilled and the unemployed. These people are largely not mobile and, indeed, there are more and more barriers to their movement.

Thus, the gaps between rich and poor, privileged and underprivileged, will tend to grow, both within and amongst societies. This process, if it is not reversed will inevitably lead to greater social tensions and potential for conflict. In the early stages of a major new cycle of economic growth, these pressures may be relieved as some of the benefits trickle down to the poorest sectors of society. This happened in the US between 1929 and 1969, and I understand that there is evidence that it is now occurring to some extent in India. But the fact that modern, competitive industrial societies require proportionately less labour and more capital will ultimately lead to widening, and entrenchment, of the rich-poor gap, as the current experience of the United States and the United Kingdom demonstrates.

Democratic, market capitalism must find ways of dealing with these emerging dilemmas or risk becoming the victim of its own success. It must become just

as effective at meeting society's needs as it is in generating economic growth. Where large sections of society are denied the ability to participate in the benefits of the prevailing economic system, that system will not be sustainable. A mercantile society without a soul, however successful it may be in material terms, will not be sustainable.

Jawaharlal Nehru commented on this paradox in an article on "The Strange Behaviour of Money" in which he said that "the extraordinary spectacle of abundance and poverty existing side by side" and that "if capitalism is not advanced enough, some other system must be evolved more in keeping with science". And a recent article in "The Economist" - hardly a radical publication - stated that "if the Marxist prediction of a proletariat plunged into abject misery under capitalism has so far been unfulfilled, the widening gap between haves and have-nots is causing some to think that Marx might yet be proved right on this point after all".

The informatics revolution has given new dimensions of reality to the old adage that "knowledge is power". But as the quantity of information proliferates our capacity to comprehend and to understand its implications and risk being overwhelmed, challenging our ability to synthesize and to integrate. Caught up in the dynamics of universalization, it is no wonder that people react with anxiety and rejection, seeking refuge and identity in their own traditions and values. The clash between modernism and fundamentalism has deeply rooted secular as well as religious dimensions and is producing a new generation of conflict and turbulence.

The internationalization of crime and terrorism poses a growing challenge to the legitimacy as well as to the capacities of governments and makes personal security a matter of real and immediate concern to people everywhere.

The unprecedented complex of challenges faced by national societies becomes even more daunting as we confront its implications for global governance. For as the realities of global interdependence have opened up vast new opportunities accompanied by a new generation of global risks, they have also imposed new constraints

on the capacities of individual nations to deal with these. This makes cooperation amongst nations more and more necessary in respect of the increasing number of issues that even the largest nations can no longer deal with alone. It requires a new look at the international organizations and processes through which nations cooperate to manage these issues.

The 50th Anniversary this year of the Bretton Woods Institutions - the World Bank and the International Monetary Fund and the 50th Anniversary of the founding of the United Nations next year, provide a timely opportunity to review and revisit the structure and mandates of these organizations which constitute the principal system of multi-national organizations at the global level. This must be accompanied by a review of the relationship of these global institutions with the large number of regional and special purpose organizations outside of the United Nations and Bretton Woods system which play roles of growing importance. These issues were examined in-depth by the Commission on Global Governance, co-chaired by Prime Minister Ingvar Carlsson of Sweden and former Commonwealth Secretary-General Sir Shridath Ramphal of Guyana, of which I was privileged to be a member, together with one of your distinguished countrymen, Dr. I.G. Patel. Its report, which will be released shortly, will, I am confident, make an important contribution to this dialogue.

It is clear that the global system of governance needs substantial strengthening and re-orientation if it is to provide the services the world community will require of it in the period ahead.

The issue of reform of multi-lateral institutions, principally the United Nations and the Bretton Woods Institutions, is in fact now the subject of a great deal of attention. Indeed, it has become a veritable industry. Many proposals are being made for fundamental changes, particularly for changes in the charter of the United Nations. Certainly such changes are necessary and inevitable. But the difficulties that must be surmounted are formidable and agreement will not be achieved quickly or easily.

In the meantime, my own experience in the United Nations suggests that much can be done to improve its effectiveness and its service to its member states and the world community through improvements in its management. These need not await agreement on charter change. Secretary-General Boutros-Boutros Ghali has initiated a promising process of change and it is important that governments engage themselves strongly in support of management changes that will make the United Nations system more effective. And the same is true for the Bretton Woods organizations. More effective management of these organizations will give governments greater confidence in them and improve the prospects for agreement on the kind of charter changes that are needed.

Without dwelling on my own thoughts concerning the nature of these charter changes, let me only say that they must give effect to the new configuration of economic and political power that has emerged since the institutions were established a half-century ago. I cannot conceive of any realistic move to expand the permanent membership of the U.N. Security Council that did not include India. And provision must be made for the prospect of continuing change. The United Nations Security Council and the composition of the Boards of the World Bank and the IMF must reflect the growing power of the developing countries as well as the leading roles of Japan and Germany. It will require a major act of statesmanship, equivalent to that which led to the creation of the Bretton Woods Institutions and the United Nations in the aftermath of World War II, to effect these changes in a way which will provide all member states -the major powers, the middle powers and the poor and the weak - with confidence in the integrity of the organizations and their capacity as well as their will to meet the needs and protect the interests of all nations.

The system will not function effectively if it is viewed by the majority as responding primarily and selectively to the interests and priorities of the powerful few; nor can it be effective if the most powerful feel it is hostage only to the numerical majority and hostile or apathetic to their interests. The poorest and weakest of nations and those experiencing troubles that impinge on their national viability should be a particular priority for attention. In these times, this will include some of the least developed and most

disadvantaged nations of Sub-Saharan Africa which face special hardships as a result of their history, climate, inadequate resources and late entry into the processes of modernization. Special attention, too, should be devoted to protecting and advancing the rights of minorities particularly of women and indigenous peoples.

The Social Summit to be held in Copenhagen, Denmark, next year provides a timely opportunity to focus on the social dimensions of the changes to which I have been referring here, and the Habitat II conference in Istanbul will address the immense challenges of urbanization. It is also encouraging to note here that one of the most important treaties ever negotiated by the UN, The Law of the Sea, has finally come into force establishing an international regime for exploitation and protection of the resources of the oceans - some 70% of the area of our planet.

Greater provision must also be made for dialogue and cooperation with the non-governmental organizations of civil society, building on the experience at the Earth Summit as well as the recent conference on Population and Development in Cairo. More reality should be accorded to the "We the people....." introduction to the preamble to the UN Charter and this can be done without in any way infringing on the basic power and responsibilities of member states.

India has occupied a pivotal position in the United Nations and Bretton Woods Institutions over the years and will now play an indispensable role in reshaping these institutions. Its experience and the respect it commands in international affairs will be reinforced by its growing strength as one of the world's leading economic powers. Its long experience with democratic management of its own complex, multi-ethnic federal nation lends further weight to the influence that it will bring to bear on these processes.

In the final analysis, the behaviour of people as well as of society responds to the deepest moral, ethical and spiritual values of people. Again, India is unique. No nation has a greater diversity of religious and spiritual traditions. Yet it was established as a secular state on the basic moral and ethical principles promulgated by Mathatma

Gandhi and implemented by Jawaharlal Nehru and his successors. Respect for the rights of all of India's diverse communities, and particularly its most disadvantaged, has become a strong and durable feature of India's national life. It should not be surprising that conflicts and tensions continue to arise; what is more important is that these have not been allowed to subvert the basic nature of Indian democracy and its continuing respect for diversity and the rights of its minorities.

I am convinced that the radical changes now occurring in our society are producing a historic convergence between our traditional perceptions of relationships between the practical aspects of human life and its moral and spiritual dimensions. It has too often been assumed in the past that there is an essential dichotomy between the "real world" of practical affairs and the more ethereal, ideal world of morals and spirit. One of the most encouraging insights I have derived from my own experience dealing with the environment is that it requires us now to realize that the key to our common future lies in taking seriously and applying in our lives and in our relationships with each other as people and as nations the values and ideals that are rooted in our moral and spiritual traditions. Concepts of mutual respect, caring for, sharing with and cooperating with our brothers and sisters both at home and internationally can no longer be seen as mere pious ideals divorced from reality, but as indispensable pre-requisites for our common survival and well-being.

The principles that Mahatma Gandhi espoused and died for, and the leadership of Jawaharlal Nehru and Indira Gandhi inspired the hopes of all developing countries and evoked the respect and esteem of the entire world community. They provide the historical and the moral foundations on which those who have succeeded them in the leadership of this great nation are now working to fashion a more peaceful, equitable and sustainable future for India and all the peoples of our "Only One Earth".

04/13/95

09:22

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JAMES WOLFENSOHN

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212 446 1303

JAMES WOLFENSOHN

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Ontario Hydro700 University Avenue
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RECEIVED

4-3-95 (Not mached on Fed Exp.)

ANSWERED

FILE

Chairman's Office

Tel: (416) 592-2115, Fax: (416) 971-3681

March 24, 1995

PERSONAL AND CONFIDENTIAL

Mr. James D. Wolfensohn
James D. Wolfensohn Incorp.
599 Lexington Avenue
NEW YORK, N.Y. 10022

Dear Jim,

DECLASSIFIED

FEB 04 2025

WBG ARCHIVES

Further to my letter of March 19, I thought you might be interested in taking a quick look at our Ontario Hydro organization chart, which you will see is very much in contrast with the one you inherited at the World Bank. When I came here it looked very much like the Bank's does now and, although in many ways the Bank is a very different institution than ours, it has in common that our staff is also composed mainly of well qualified professionals. We had some 35,000 people when we began our own re-structuring and now are down to 21,000 and working better than ever.

I know you will be deluged with information and advice at this point, but thought that this might be of interest to you as a "real life" example.

Best regards.

Sincerely,



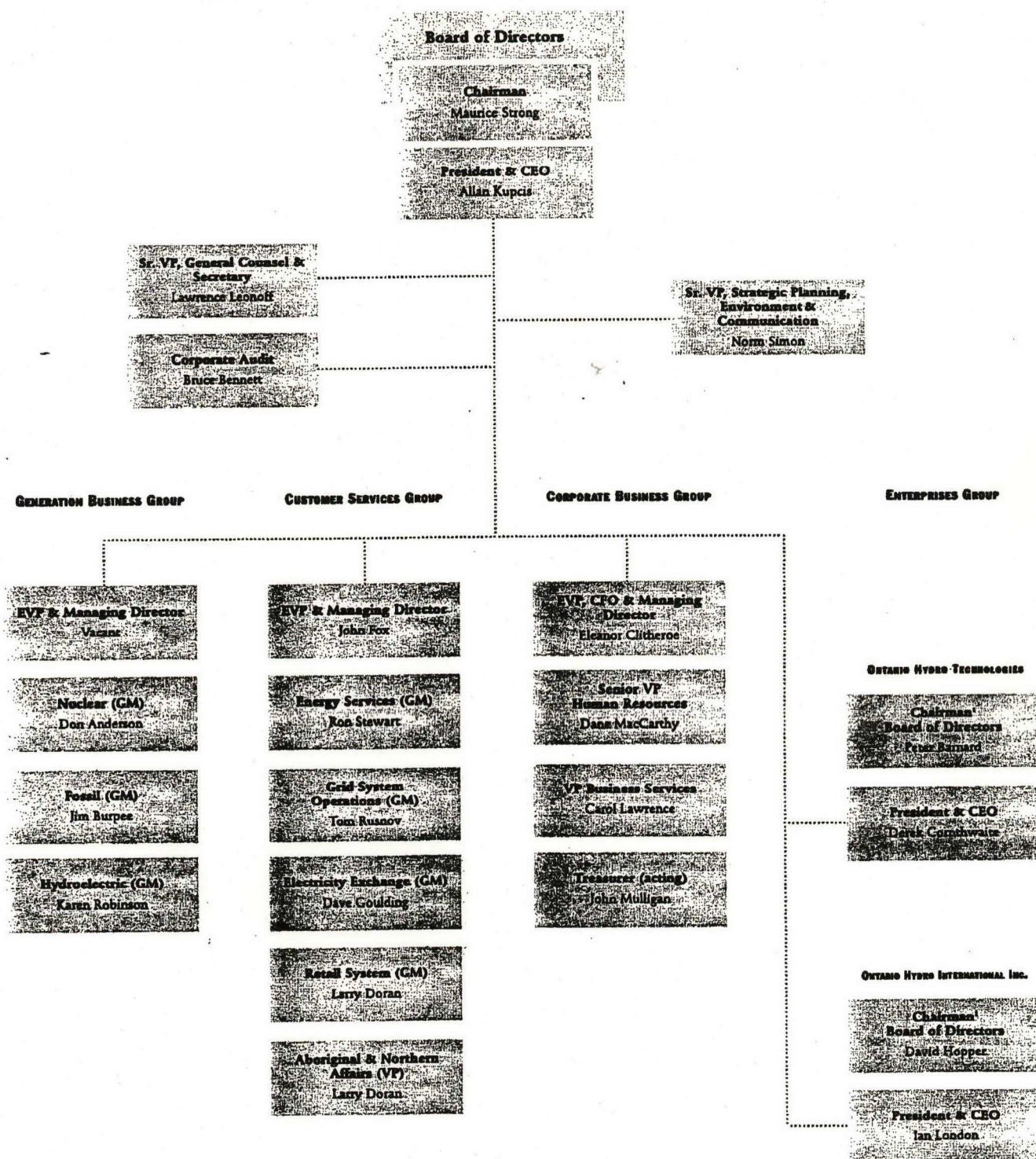
Maurice F. Strong

Att.

JA
Reminder
Canada
#017

1994 ANNUAL REPORT

ONTARIO HYDRO ORGANIZATION



1 non-executive chairman

Presidential Archives

Classification:	Internal Memorandum
Date:	June 11 1995
Topic:	transition planning
VPU:	EXT
External: (NGO, government official, private sector, international institution, personal acquaintance)	
Document prepared by: (name, department, etc.)	Mark Malloch Brown

A L L - I N - 1 N O T E

DATE: 11-Mar-1995 05:19pm

TO: James D. Wolfensohn

(PAPER MAIL)

FROM: Mark Malloch Brown, EXTDR

(MARK MALLOCH BROWN)

EXT.: 85914

SUBJECT: Next Steps

Now that your nomination has been announced by the US, you will want to begin thinking about how you want to handle the "transition phase" between now and the day you take over as President.

There are a number of people you should reach out to - Executive Directors, Senior Management, staff, officials of the major shareholders, and the media. However, in the early days before the Board formally approves your nomination, we must be careful not to be seen to be disrespectful of the Executive Directors prerogatives, and not to overshadow Mr. Preston's retirement announcement.

Prior to Board Approval

Jan Piercy hopes that the Board meeting to approve your nomination can occur quickly - perhaps as early as Friday, but more likely early in the next week. Until then, I recommend that you avoid talking to the press. In the meantime we will be very active on that front. As you have seen, we have put out a press release on your nomination (and have prepared a backgrounder on the Presidency for our press staff to use in answer to questions). We have also put out a note to all staff containing the full text of the White House announcement. This will help fill the vacuum of knowledge about you (and your priorities) without the risk of premature on the record comments from you. We are also encouraging the press to talk to several of your friends (the "validators") for testimonial quotations.

Attached are the names and phone numbers of key Bank officials (EDs, Senior Staff, and the Staff Association); and the two top IMF officials. You may want to speak with some of the Bank people this week. Calls to the EDs should wait until after the Board has met to approve your nomination.

After Board Approval

Once the Board has approved your nomination, there will follow a transition phase, the length of which is determined by how

quickly you feel you can disengage from your present responsibilities. My understanding is that, at the Board Meeting, they will appoint a "Committee" to formally visit you and offer you the Presidency (the Dean and Co-Dean of the Board and the General Counsel). This same committee will also negotiate with you on the terms of your contract (you might ask Lew how this process went with him).

The Bank will begin to assemble briefing papers for you on the our major activities and on the main issues facing us today. We can do this any way you like: long background notes, briefings by staff and/or outside experts etc. In the past, the Bank has also offered the incoming President the use of an office in the Bank (and a secretary). Someone (probably in the Executive Office of the President) will be asked to arrange a schedule of briefings and meetings for you. This would include meetings with the EDs individually and perhaps informal coffee meetings with larger groups of EDs and Alternates.

You should also at this time begin a broader series of outside contacts. This should include:

- A letter to all staff.
- Selected press interviews.
- Calls to key officials in member governments.
- Calls and/or meetings with key Committee Chairmen in the US Congress.

You also should begin to think about your schedule in your first few weeks at the Bank. You may want to visit some of the key capitals (Tokyo, Bonn, Paris, London etc.) to begin to build working relationships with those officials most important to us. How you present yourself in these first weeks will have a tremendous influence on how you will be perceived in the long run by those both inside and outside the Bank. We need to give a lot of thought to this issue.

	<u>Office</u>	<u>Home</u>
Lewis Preston, President	458-2001	202/483-3280
Ibrahim A. Al-Assaf, Dean of the Board; Executive Director, S.Arabia	458-0191	703/356-1694
Eveline Herfkens, Co-Dean of the Board, Executive Director, Netherlands	458-2052	202/333-2365
Fritz Fischer, Executive Director, Germany	458-1183	301/229-0056
Huw Evans, Executive Director, United Kingdom	623-4560	202/462-6212
Marc-Antoine Autheman, Executive Director, France	623-6505	301/229-8573
Yasuyuki Kawahara, Executive Director, Japan	458-0098	301/365-3095
Leonard Good, Executive Director, Canada	458-0077	
Enzo Grilli, Executive Director, Italy	458-1169	301/652-8356
Sven Sandström, Managing Director; Acting President for most of March	458-1138	202/483-4585
Richard Frank, Managing Director	473-0585	703/790-8477
Gautam Kaji, Managing Director	458-1384	703/237-8557
Jannik Lindbaek, Executive Vice President, IFC	473-0381	301/907-9715
Akira Iida, Executive Vice President, MIGA	473-6138	301/530-0776
Shahid Husain, Senior Vice President, Management and Personnel	473-9001	301/320-3973
Ibrahim Shihata, Senior Vice President and General Counsel	458-1601	202/333-3057
Eric Swanson, Chairman, Staff Association	473-6964	703/243-5126
Timothy Thahane, Secretary	458-0242	703/698-8241
Michael Camdessus, Managing Director, IMF	623-4600	
Stanley Fischer, First Deputy Managing Director, IMF	623-4607	

Issues

Internal

- Budget cuts; staff reductions; staff morale
- Caliber of Board Members
- Relations between Board and Management; new committees, new O.D.s, reviews
- Isolated over many years; internal values and language
- Regional differences
- Internal power map

External

- Mexico and banking sectors
- Narmada; megaprojects define the Bank
- Arun III; Inspection Panel
- IDA also defining trait
- Wappenhans, OED
- Invisible on Capitol Hill, in DC
- NGO relations -- vicious circle
- Debate on size of Washington presence vs. field presence
- Human rights emerging

Both

- New communications strategy
- 

Presidential Archives

Classification:	
Date:	March 1995
Topic:	Private sector development
VPU:	FPD
External: (NGO, government official, private sector, international institution, personal acquaintance)	
Document prepared by: (name, department, etc.)	Thomas Richard

Moving towards a Multi-product and More Agile Bank: the Culture Angle

A major move towards a multi-product and more agile Bank (a premise to this note) is not a matter of staff quantity, but of staff *quality*. Central to staff quality is staff and management *culture*. Deep down, we all know that little can be achieved without major changes in the Bank's culture.

Over the past 50 years, the Bank has proven that it can change directions and culture. This time around, while new blood will be needed, the machine can be made to move once more.

Bank culture is essentially an unanalyzed topic. It is a complex one, if only because of the links that exists between that culture *and* the way our staff come to the Bank, live and work around it, and become wedded to it (G4 status; indefinite tenures where the Bank becomes both the family and the temple; dominance of academically brilliant staff; debating and conflict-avoidance methods which justifiably err on the side of multicultural sensitivity, etc.).

Nevertheless, it is possible to point to the *directions* of desirable changes in Bank culture. These are essentially the same as those in which other organizations are going in the new high-speed, global, brain-force economy. In a nutshell, Bank staff and management must move from:

an issues culture	to	an opportunities culture
a "what" culture	to	a "how" culture (better: what <i>and</i> how culture)
a blame-the-system culture	to	a buck-stops-here culture
a risk-avoidance culture	to	a risk-management culture
a control culture	to	a team culture
an introverted culture	to	an extroverted culture
a report-writing culture	to	a change facilitation culture, etc.

Crudely summarized as they are, those directions, and the mentality shifts they imply, provide some pretty strong clues as to *how* changes in Bank culture can be put in motion over the years to come.

Part of the story is that *incentives* must be changed. Those incentives are carried deep within the budget, tenure, career and promotion, and even country assistance planning mechanisms of the Bank. Those *steering mechanisms* consequently need redesigning so that they provide the right incentives for the new cultural directions. Actually, these steering mechanisms must *in any case* be changed to reflect the other, more technical product/people/process changes which a major move towards a multi-product and more agile Bank would demand.

But it is equally clear that changing incentives won't be enough. The most powerful way to change culture in the Bank is to *bring in fresh minds*. Culture changes rarely occur in closed tribal environments. The average age of the Bank's professional staff is nearly 50, and the average tenure is moving towards 20 years. Many Bank managers have spent their whole professional careers in the Bank. At this point in the institution's life, it is inconceivable that the desired culture change can happen without replacing a substantial percentage of the departing senior staff and managers over the next 5-7 years through externally recruited, experienced outsiders. This would have to be done most crucially at the senior and middle management levels, where the role-model leverage is highest. Indeed, several recent external entries at the director and VP level have led to positive culture changes.

Finally, it will be important, as we bring in these fresh minds, to go for rapid and aggressive *diversification*. It is crucial that the Bank possess an outstanding cadre of home-grown or imported professional economists--and we undoubtedly have some of the world's best in our midst. But it is equally important to populate the Bank's most culturally influential echelons much more systematically than before with people who have first-hand knowledge of how enterprises, governments, technologies, and markets work--people who have shot, and been shot at, with real bullets. Besides bringing credibility, individuals of that type will precipitate cultural changes even more readily, and will help move the Bank away from the jargon and codewords that have contributed to its introverted culture.

The Finance and Private Sector Vice-presidency

It's a maverick vice-presidency, popular with:

- the Board
- the Regional staff (even though these clients are never completely happy with any central support staff, in the us vs. them Bank culture)
- the countries
- the private sector firms and business associations

About 200 specialized experts, one third recruited externally (rare in Bank)

Organized like a consulting firm, with fluid structure and working managers (unique in Bank); superb team

75% of time spent working for Regional staff in "cross-support" mode; 830 contracts fulfilled last year, only 12 complaints. Exceptional turnaround speeds; staying away from internal bureaucratic steps, leaving those to Regional staff

25% time spent in an "own-financed" mode:

- *specialized training for Regional staff and countries
- *dissemination (short notes, videos, case studies) for Regions and others
- *Board policy work
- *multiple partnerships outside the Bank
- *external relations viz. business constituencies worldwide
- *main force behind Bank/IFC/MIGA collaboration efforts of last year
- *quality control and adhoc advice for Regions
- *development of innovative products for the Regions
- *just-in-time information systems for Regions
- *no great interest in research (give jobs to DEC)

Very different value system than in other bank units

can-do, tough/nice, highly responsive, fast, "how" rather than "what"

Very different communications style

slides, videos, quick papers, no long reports, more interest in facilitating change than in writing reports, little jargon; having many outside recruits helps. Our way of communicating with the Board is entirely different. All our dissemination products are on Internet, too

Extremely field-oriented: staff travels 9 time/year, some more, get their

kicks from getting things done with country counterparts. Some very interesting experiments going on, e.g. massive private sector effort in Morocco—quite different style, way of operating, of creating government-private sector coalitions for change

Lean and mean setup: but we're downsizing more than others, and re-recruiting some outside to change some of our business lines; e.g. we're turning a classical telecoms team into an information technology, infrastructure and applications team; and we are (quietly) studying the possibility of the merger of that team with IFC's smaller telecoms team. If this works, we can do it for oil&gas, mining too. Would be a cultural revolution in itself.

The World Bank/International Finance Corporation
Office Memorandum

Date: 15 January 1993
To: All FPD Staff
From: Jean-François Rischard, FPDVP
Extension: 80920
Re: **Welcome to FPD**

As we all join the Finance and Private Sector Development vice-presidency, I would like to welcome each one of you aboard and to tell you how much I am looking forward to working with you at this exciting new venture.

Change is always a partially discomforting thing. Statistics often point to job changes and moving house as particularly stressful events of life; here's a double case in point. Nevertheless, change leads to opportunities and a fresh look at things. On that account, I would like to share with you my thoughts on the three challenges we face as we strive to meet the needs of our clients—the Regions and the borrowing countries, the Bank and other members of the Bank Group at large, and external partners.

Challenges

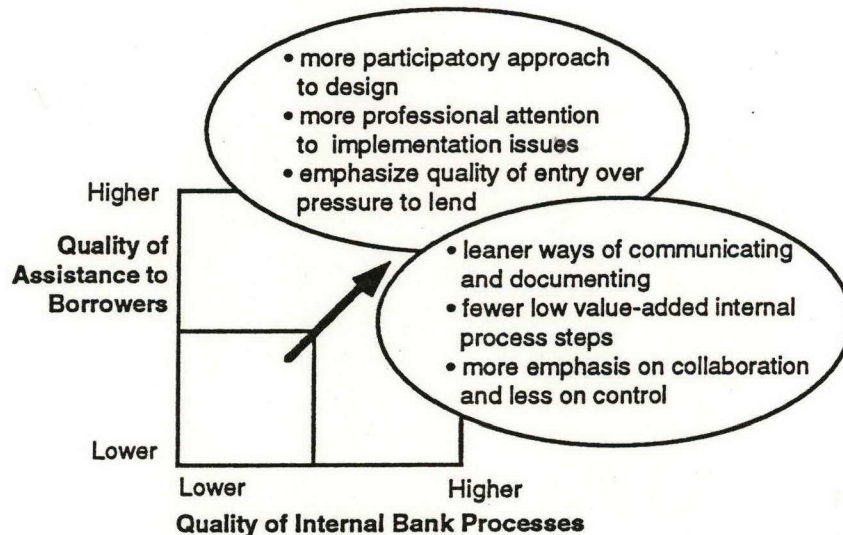
- The first challenge is to act, from our central location, as catalysts for **better Bank products**. This means working with the Regions on delivering technically deeper, more hands-on loan and technical assistance products for our borrowers, as we all move beyond the "what" to the "how" in financial sector development, private sector development as well as industry, energy and utility restructuring and reforms. Many see such deepening as essential for the Bank in the 1990s—even if it clashes with the hurried pace often imposed by internal loan delivery deadlines. Better products also means developing, together with the Regions, client processes which are more participatory at the preparation end and more intense during the implementation phase. We will pursue these objectives with great vigor, not so much as a reflection of our own preferences, as on behalf of the Bank in its development role. All of you who have not done so: read the Wapenhans report, to which the Board is giving serious attention.
- The second challenge is to help the Bank in its search for much leaner, faster, **more business-like Bank processes**. As a matter of fact, we don't have much choice to do otherwise in our new vice-presidency. We will operate worldwide, will need to produce a demanding one-third / two-thirds mixture of high quality dissemination/ cross-support activities, and will face large excess demand for our services in quite a few areas. Just to be able to deliver, and so as to leverage ourselves up for the benefit of our clients, we need to communicate faster. This, in turn, means that we must write fast and to the point, in formats that are easily digested, and that we will have to resort to visual and verbal communication methods more than is usual. In other words, we'll have to emulate the best practices of successful consulting firms in those areas. More generally, we should eagerly join forces with others in the Bank in efforts to redirect valuable staff working capacity from internal processing and documentation towards the better products and client processes alluded to above.
- The third challenge is to establish that in the Bank, **collaboration** is not only a viable concept, but really an indispensable one. As in many large corporations, this simple concept has been somewhat neglected in favor of a culture still bent on control. Interestingly, in large organizations, excessive emphasis on control has often been

Material from
Rischard
VP
Finance & Private
Sector
Development

accompanied by diluted accountability; an unattractive pair. From our central location, there is much we can do to establish that collaboration among equals leads to mutual respect and to a much more potent form of accountability—the variety that is openly shared.

Putting the Challenges in Perspective

Meeting these three challenges would be a formidable task if pursued in isolation. But in one way, this task will be facilitated because these challenges “go with the flow”. The Bank, at this stage of its life, needs to move along the arrow below and has begun to do so. It is the direction advocated by Mr. Preston, and articulated in the Wapenhans report as well as in the design of this very reorganization. From our central location, we’ll just be crusading in that same direction.



Values

The above challenges connect to certain values which our team should stand for:

- We ought to be **tough when it comes to technical depth and workmanship, and to pursuing the proper efforts on the participation and implementation sides**. Tough first of all on ourselves, and tough on others.
- We want to be very **service-oriented** in our dealings with our main clients—the Regions and other parts of the Bank Group, i.e., seek results rather than credit, accept feedback easily, honor our promises, and remain even-handed and fair. And above all, under that same heading, we want to be nice people to deal with—subject, of course, to the first value.
- We want to be **innovative** both on the product and process side, and willing to take quite a bit of risk in that respect: innovation errors are respectable, unlike workmanship errors.
- We want to make our mark mostly as **can do problem-solvers**; there is only so far one can go raising issues and articulating broad exhortative principles. Problem-solving should be our preferred line in our cross-support activities, when we are giving advice, and as we engage in our learning and dissemination work.
- Finally, we want to be **enthusiastic and energetic** in our activities—be they our important learning and dissemination activities, or our cross-support efforts. Cynicism is a deadly disease in large organizations; it shall have no place in our team.

Work Environment

Vitally, we need to create a *professionally satisfying culture* in FPD. A central, service-oriented platform brings both excitement and logistical difficulties. It is therefore important that each one of us contribute to such things as:

- organizational fluidity
 - working across departments, not being held up by boundaries
 - nimble approach to team-forming, but with a careful articulation of accountability and authority
- strong team atmosphere—a lot of shared debriefings, internal training, open and informal brainstorming sessions, mutual support on short notice, etc.
- periodically reviewing our successes or failures team by team, and rededicating to improved processes and products
- a first class reputation as providers of cross-support
 - sticking to scheduled commitments
 - not caring about who takes the credit as long as something useful happens for our borrowers, and our management team is aware of what was achieved
 - responding promptly to requests for unscheduled advice
 - due diligence in time recording
 - being very responsive in the training area viz. our clients
- extroversion
 - listening to what people outside the Bank have to say
 - really being “part of the industry” in each sector as part of our important dissemination/external channel role
 - consciously seeking partnerships with others: IFC, MIGA, other development institutions, industrial associations, etc.
- managers acting as business leaders and coaches rather than administrators, with streamlined administrative procedures
- selective business pursuits
 - not trying to be everything to all people, but trying to be very good at our comparative advantage-based products, and at participatory processes

The management team of the new vice-presidency will endeavor to develop managerial and personnel styles and practices that encourage the culture which we are trying to promote. Making the above things happen, though, is in the hands of each one of you.

Success

As a new organization, we will judge how successful we are about 18 months from now (our first six months will be mostly a continuation of already committed tasks). That judgment will be made by our managers and by each one of us in reference to the challenges and values alluded to here. Our clients will judge us too, understandably from the more immediate standpoint of “what did I get out of this”. I count on your enthusiasm and hard work to make both of these types of judgment come out positively.

I am confident that we will succeed, given two things: (1) the quality of the team; and (2) what's at stake. There's no choice but to win the challenges we face.

FLOW:

Seven main problems	(Bank)
The opportunities	(Bank)
The vision	(Bank)
Private sector development	(Bank Group)
Finance and Private Sector VPy	(FPD)

Seven Main Problems

- 1) IDA11 (hard), Halifax Summit (easier)
- 2) Formulate an exciting vision--products, people, processes (hard work), change internal steering mechanisms to fit with it (harder)
- 3) Change the Bank's image outside (hard, but easier with point 2)
- 4) Rejuvenate management levels with external recruits to accelerate culture changes (may not be so hard)
- 5) Attack serious quality issue existing in the trenches (tough)
- 6) Deep re-engineering of business processes, clean up worse areas, outsource, intelligently thought-through decentralization (hard but less than point 5)
- 7) Bank/IFC/MIGA as a real group (easier than other items)

Most serious problems: 1 to 5, particularly 4,5 (where the rubber hits the road).

The Opportunities

Bank still has tremendous value as a planetary asset:

- \$25 billion nestegg--financial independence
- budget less than 1% of net earning assets
- world's largest rolodex
- decent governance system, can be improved
- still pretty high quality staff by and large
- combined Bank/IFC/MIGA tool kitty is formidable
- of all Multilaterals, best placed as a global source of best practices in the "how" of development

Plus:

- quite a bit of useable slack available through simple re-engineering(20-30%)
- demographic retiree wave creates fabulous one-time opportunity to restaff from outside, change culture
- an exciting vision, and a vocal President, will switch on pent-up energy

In a world context where it will be needed more rather than less:

- demographic explosion
- environmental explosion
- technology revolution (opportunities *and* threats for LDCs)
- failed states soaring in numbers
- UNDP, other UN outfits decaying
- bilateral aid may end up even more questioned
- Regional Devt. banks: not all is well
- coming disillusionement with NGO performance

The Vision

From a development *lending* institution to a development *services* institution

Four Banks:

Money Bank (old, declining, but can be pepped up a little, and leveraged up through Bank/IFC/MIGA synergies)

Traditional Policy Advice Bank (advice on the "what", definitely declining, but can be improved as it becomes smaller)

Connector Bank (advice on the "how" of development, strong comparative advantage of objectivity and worldwide sourcing, a cutting-edge product based on cutting-edge staff, non-controversial, clear usefulness)

1) best practice dissemination on the "software of development" 1/

2) multi-year institutional development work to orchestrate install that "software"

3) brokering, referrals, relationships for same

Fiduciary Bank (also a comparative advantage; we are good at managing mandates given by governments, e.g. environment, occupied territories, regional water programs etc.)

The first two old Banks will slowly wither away.

The two new Banks would not fly on their own.

The power of this vision is in the combination of the four, and the changing mixes depending on countries

The 4 Bank vision would completely alter the debate on the Bank.

The 4 Bank vision is *not infeasible*: the Finance and Private Sector Vice-Presidency, and the Middle East and North Africa VPs are actively experimenting with it.

The Bank's old style managers have a hard time relating to the 4 Bank vision; only about 40% of VPs do

1/ examples: water management, social safety nets, potent technical education programs, preventive health systems, modern agricultural support systems, civil service reform with teeth, judicial reform, urban traffic management systems, environmental regulations and enforcement, faster customs, better tax administration, payment and settlement systems, private pension fund systems, effective industrial zones and teleports, competition agencies, trade finance policies, investment promotion agencies, open telecoms and power regulatory systems, privatization programs, better housing finance systems, capital markets development, banking sector restructuring, distance education, distance health, knowledge-based agriculture, advanced and clean aquaculture etc. etc.

Private Sector Development in the Bank Group

Reasons for bullishness:

The first reason is that right now, the Groups' private sector financing operations--between the Bank, IFC and MIGA--amount to some \$5 billion a year, supporting some \$25 billion in private investment. With IFC growing at 12%, with MIGA having now reached its full stride, and with the Bank activating its guarantee power, engaging in capital markets lending, and reactivating its lending through banks, the Group should soon reach a volume of \$7-8 billion a year, supporting some \$35-40 billion in private investment, a considerable figure. A large chunk of this will be in infrastructure and lending through banks.

The second reason is that we see our advisory and best practices work on improving the business environment and the financial sector environment in developing countries (or "systemic private sector work") becoming more and more popular, and our specialized staff (Finance and Private Sector VPy, two IFC teams, FIAS, Legal Dept. unit etc.) becoming better and better at it. And indeed the Bank is, if one thinks about it, marvelously positioned to be a global source and disseminator of best practices in all these areas. (There is a serious problem with weak Regional staff capacity, and suboptimally small units in the Regions, but that's a more general problem going beyond private sector work).

The third reason is that one can predict that we will be more successful, and successful faster, than most would expect, when it comes to finding that happy medium between specialized Bank, IFC and MIGA cultures on the one hand, and genuine intra-Group collaboration on the other hand. There are many simple things that can be done to that effect--nothing a strong chief executive could not achieve. .

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Relationships between the World Bank and private sector firms

I am looking forward to working with you, and have a lot of things to tell you. One of those things is that there are a number of areas within the Bank Group's overall private sector development strategy which will require your attention, but that this whole area is *not* your biggest problem as you come in--external views and articles on the Bank notwithstanding. Rather, consider this area as one in which you can score a number of visible successes early on, in part based on things already in motion, and in part through sheer innovation. (I am not being defensive--you'll find me about the most outspoken member of your management team.)

Back to the specific topic on which you wanted a 2-3 pager. The Bank has several types of relationships with private sector firms (I'm also going to throw in IFC here and there for the sake of giving you an overall picture; I am sure my friend Jannik Lindbaek will bear with me, although I did not get the time to run this by him):

1) *Investment banks, rating agencies, institutional investors.* Those relationships originate mostly in the treasury operations of the Bank and the IFC (borrowing \$12 billion a year in the markets, and trading our \$20 billion liquid assets portfolios). Those types of relationships are very good; many of them are quite ancient. We are generally seen as steady and conservative, yet innovative borrowers and liquidity managers. Only one slight negative, regarding investment bank relations: the corporate finance types of those banks occasionally complain that IFC is competing with them for fee business. Jannik Lindbaek can tell you more about this.

2) *Private suppliers of goods and services under Bank loans.* These are equipment suppliers, contractors, consultants; we represent about \$15 billion a year of business for them. Relationships on that score are generally good, but in the eyes of many firms dealing with us, there's a rub: we impose on our borrowers demanding procurement procedures (international bidding mostly) which are often deemed too slow and bureaucratic. Those procedures have offered us and our borrowers a good measure of protection from mistakes and corrupt practices, and from perceptions of unfair treatment. But it is true that they could be improved, particularly when it comes to complex, sophisticated bidding packages--as opposed to procurement of simpler items. When you come to the Bank, there may be two things to address: a) making sure that our procurement procedures are as modern, fast, and differentiated as they could be--without sacrificing any of their safety and integrity benefits; b) getting more PR mileage out of the beneficiaries of this very large \$15 billion or so business (Mark Malloch-Brown has actually started useful state-by-state programs to that effect in the US).

3) *Private promoters of (and lenders to) private industrial, energy and infrastructure projects who operate or want to operate in the developing world.*

For virtually all of these projects, IFC and MIGA are the main parties involved, rather than the Bank. IFC nurtures long-standing and excellent relations with hundreds of firms of that type from all over the world; so much so, in the case of some large multinationals, that this is one of the points sometimes (and unfairly) brought up by critics of the IFC's developmental role.

As to the Bank, its main role in that area is in the detailed legal, regulatory and institutional work required to open up infrastructure and energy sectors to private participation *in the first place*, and to install a policy and regulatory environment that promotes competition. This role is generally well known to, and welcomed, by large private firms operating in this field, but they are not in the habit of expressing public appreciation for the Bank's achievements in this crucial upstream work.

The other way through which the Bank can get involved with private project promoters is through its guarantee tool (outright Bank lending for private projects has disappeared because these days, governments don't want to give the Bank the Articles-mandated counterguarantees for loans to private parties). The most valuable application of this guarantee tool consists in the Bank covering only non-commercial risks, that is, risks having to do with breaches of undertakings (e.g. on tariffs, power purchases) by governments and their agencies vis-a-vis

private infrastructure projects; essentially, this amounts to offering governments a way to post a performance bond on their own behalf *through us*. This 5 year-old program has been lagging, and management has been trying to rejuvenate it. It looks like this will work, but the proof will be in the pudding. The Bank's relationships with private promoters and lenders in relation to this guarantee program are *mixed*: a) those firms often have excessive expectations as to what the Bank can or ought to do, and often hope for commercial risk coverage which the Bank won't give; b) they find Bank crews too slow and bureaucratic for this fast-moving private project business, and get concerned about our statutory demands, e.g. for elaborate environmental assessments of the projects concerned; c) they are sometimes confused as to what the respective roles of the IFC, MIGA and Bank are in this whole field. This is an area where, when you come to the Bank, some visible changes and improvements can be made--particularly on b) and c). (For example--but this is just an idea at this stage--a possible part solution to b) is to use as often as possible the IFC as the merchant banker for the whole Group, drawing on the Bank's guarantee power).

4) *Private sector firms at large (as constituencies, advisers etc.)*

The IFC has a council of advisers drawn from private sector firms from various parts of the world. Those gather formally at Annual Meetings time; they are, as far as I can see, more useful to IFC as individual "godfathers" than as a body providing advice. The IFC also has ties to business associations, and has, as was said under 3), a wealth of direct and ongoing relationships with private sector firms from all over the world.

The Bank formed a separate private sector vice-presidency just two years ago, and only since then have we been able to systematically cultivate our business constituencies, solicit their advice, and follow through on it. Also, only since then have we been able to speak coherently, with one voice. This has represented a big change for an institution hitherto used to deal mostly with public sector entities. Here's how we are going about it. Historically, the Bank's Articles do call for some sort of council of independent outside advisers, but this had already died by the early 50s. We, in this new vice-presidency, initially thought of setting up an IFC-like council of advisers, but ended up starting instead multiple, focussed partnerships with the private sector--because we found this to be a much more results-oriented approach in the case of the Bank. These partnerships are of three kinds:

- | | |
|----------------------------|--|
| Sectoral: | <ul style="list-style-type: none"> -power industry (US): we have an agreement with their research outfit -independent power project (IPP) promoters and financiers: several worldwide roundtables per year, with very practical agendas -oil and gas: we are running a true <i>network</i> with all key firms -telecoms and information technology: we're also starting a network with key firms in the field; this will involve funding by private firms of an Information and Development fund -annual get-togethers with world fertilizer industry -same for steel industry, together with OECD and UN -general and specialized roundtables with the mining firms -we're a founding member of the Global Information Infrastructure Commission, a worldwide group of CEOs and other leaders |
| National/
International | <ul style="list-style-type: none"> -we have a collaboration agreement with the Japanese Keidanren and have an annual meeting with them here -we work with the Prince of Wales Group, and FUNDES (Schmidheini) on specific initiatives -we are developing ties with BDI (Germany) and CNPF (France) -we have several kinds of ties with the International Chamber of Commerce -we work with ASCAME (Mediterranean chambers of commerce) -virtually all of these are entirely new initiatives; we're expanding the list (e.g. European Business Roundtable) |

- Other:
- more than 100 speeches this year to business constituencies; nice impact
 - we have (in our new private sector vice-presidency) 12 seconded staff seconded by private firms; more to come
 - we are beginning to get private sector contributions for important causes (examples in energy, telecoms, small enterprises)

But there's a lot that remains to be done. The Bank's business constituencies have been neglected for so long that there's a lot of catching up to do. Judging from experience, the impact of the sort of things we have started to do can be very positive--if only because they force cultural exchanges onto the Bank, and serve to connect it in a real sense to private sector players. The other positive is that many of the partnership forms described above are a good way for deepening Bank/IFC/MIGA collaboration, and projecting it outside; for example, we have roped in IFC and MIGA in many of the sectoral private sector partnerships listed above. We will want your support in pushing these things much further. And this is an area where you can help a lot personally.

5) *Private entrepreneurs within the developing countries themselves.* This could be a long story, but in a nutshell:

IFC has many good relationships with local entrepreneurs, invests alongside them, and even has facilities designed to help them prepare their projects (Poland, Africa, for instance)

The Bank's contacts with domestic private enterprises in developing countries are normally more limited, but as part of the so-called "policy dialogue" between the Regional staff and the client countries, there are regular contacts with the local entrepreneur community. Where such contacts become even more intense and systematic is when we do enterprise surveys and when we prepare the so-called private sector assessments (about 40 done or in the works all over the world; they are done jointly with the IFC). In some countries, e.g. Morocco, our vice-presidency has teamed up with the Regional staff and gone even further--by aggressively following up on these assessments through the creation of joint government-private sector councils designed to move the whole private sector development program along. In those case, we end up quite well connected to the local entrepreneur community, and have actually helped create a stronger bridge between the local private sector and its government. We think this is a powerful model for things to come.

A few final thoughts

The Bank's relationships with private sector firms, under these five headings, can be improved through a limited number of initiatives, and this can only have good results for the Bank's image, and our success on the terrain. You can help a lot.

But deeper down, if we wanted to expand this whole crusade, there's a cultural problem in the Bank. Only a minority of the staff possess this way of tackling problems, and this way of communicating that the business world relates to. There are things one can do about this over the years to come; one, among several of these things, is to develop much more of a can-do culture and upgrade the quality of the Regional staff dealing with private sector development (which for the Bank means mostly work on improving the business environment and strengthening the financial sector). Another important thing is to continue, and indeed invigorate, recent efforts at achieving a much happier medium *between* nurturing specialized cultures in the Bank/IFC/MIGA, and getting the three to intelligently exploit their operational and financial synergies as part of a true Group approach. There's a lot of scope for this in the years to come--but that's another 2-3 pager, which I know Richard Frank is preparing for you.

**Brief on Relationships between World
Bank and Private Sector Firms from Jean-
Francois Rischard**

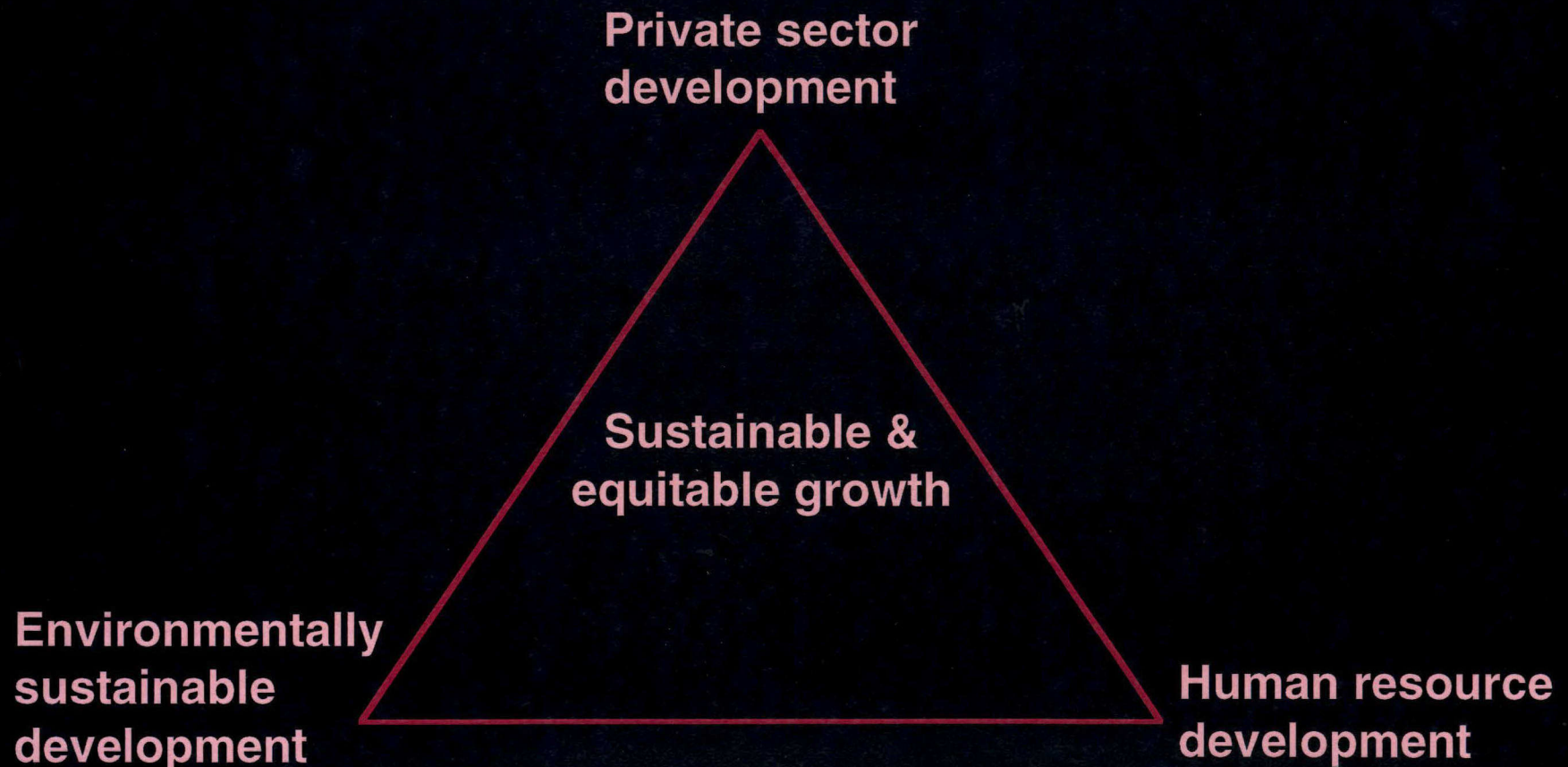
Finance and Private Sector Development

Outline

- The challenge of private sector development
- FPD setup
- FPD activities
- Linkages to IFC and MIGA
- Visions of the future

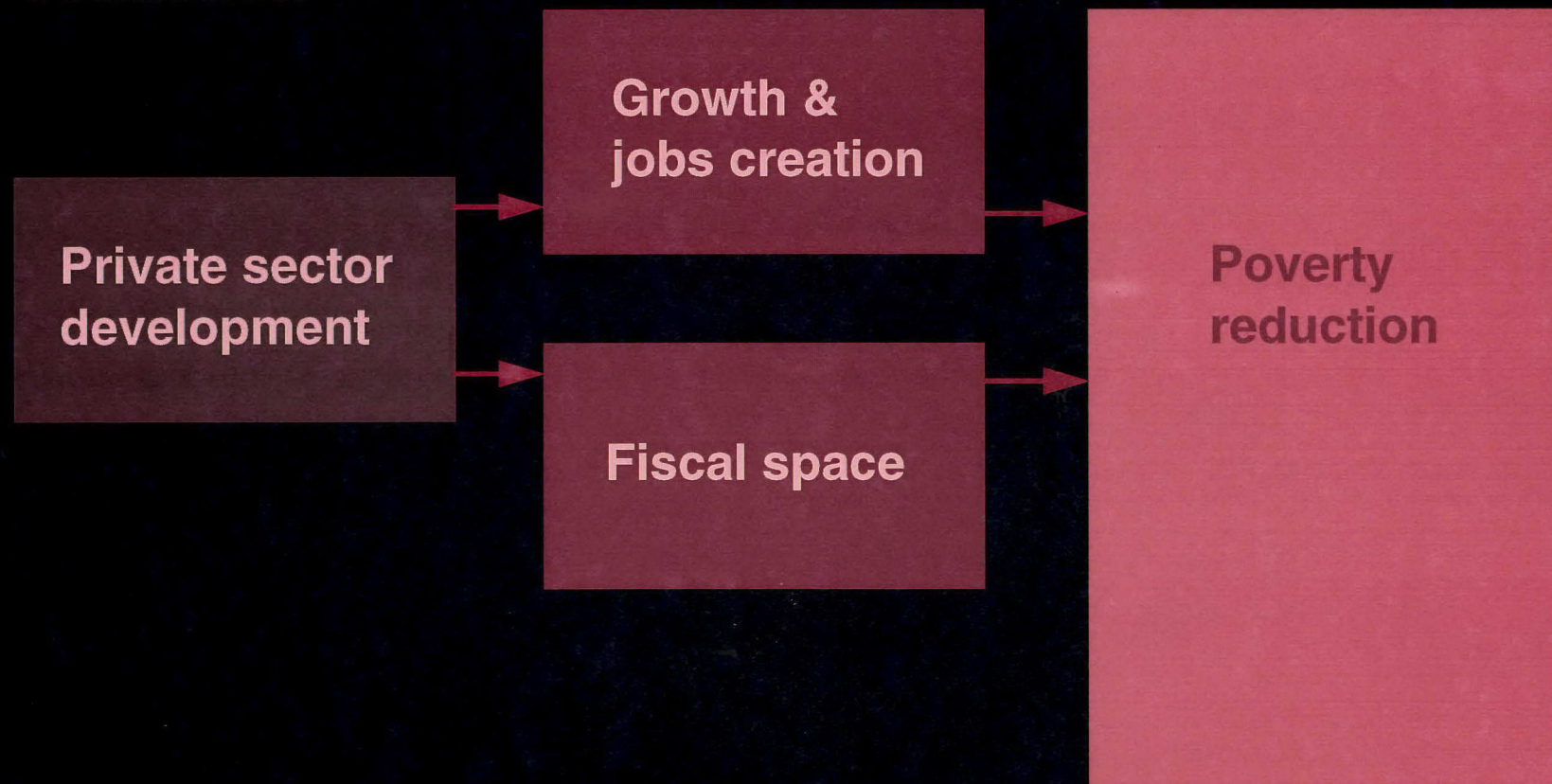
The challenge of private sector development

Private sector development is now a fundamental part of Bank strategy



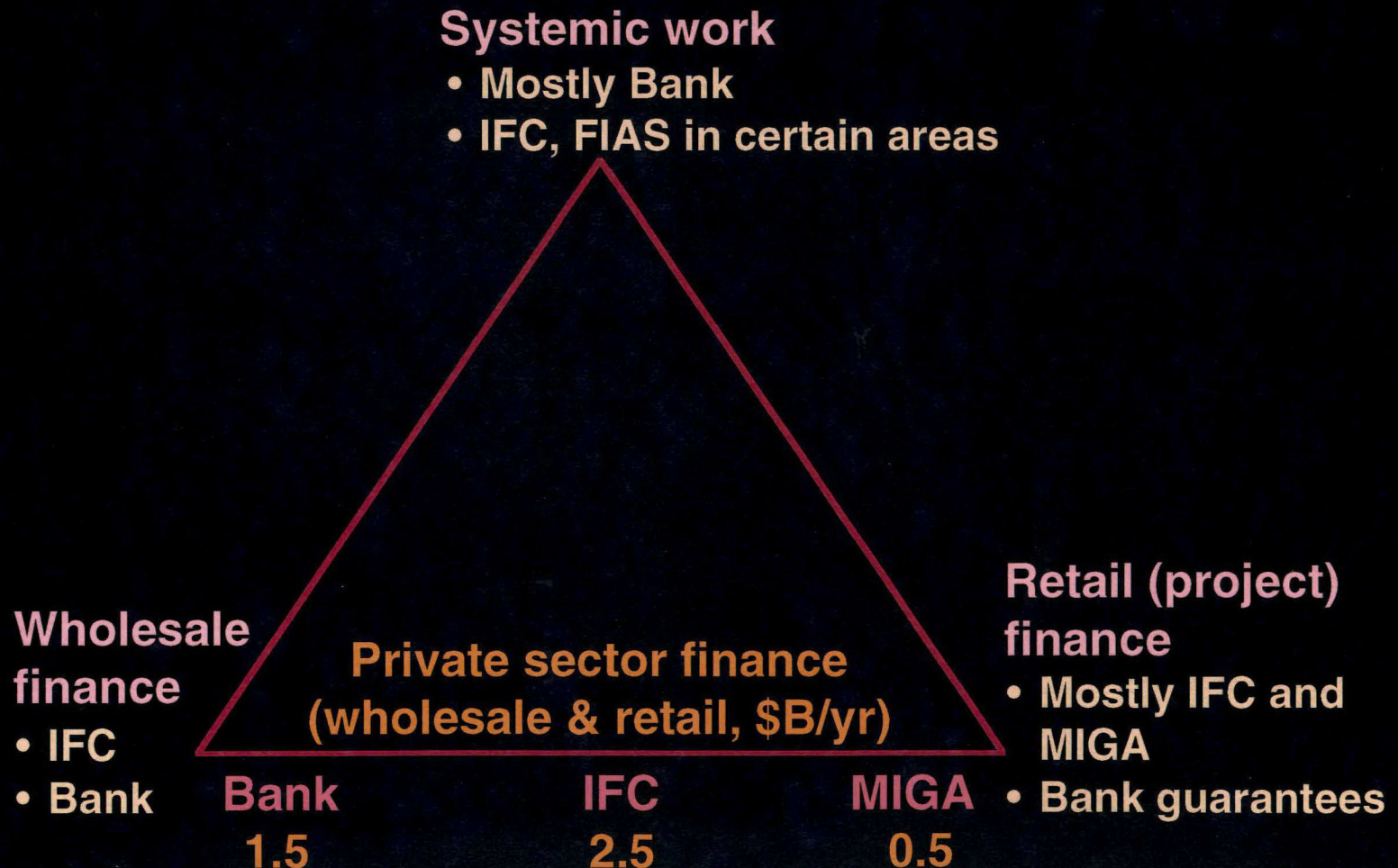
The challenge of private sector development

Private sector development contributes to poverty reduction



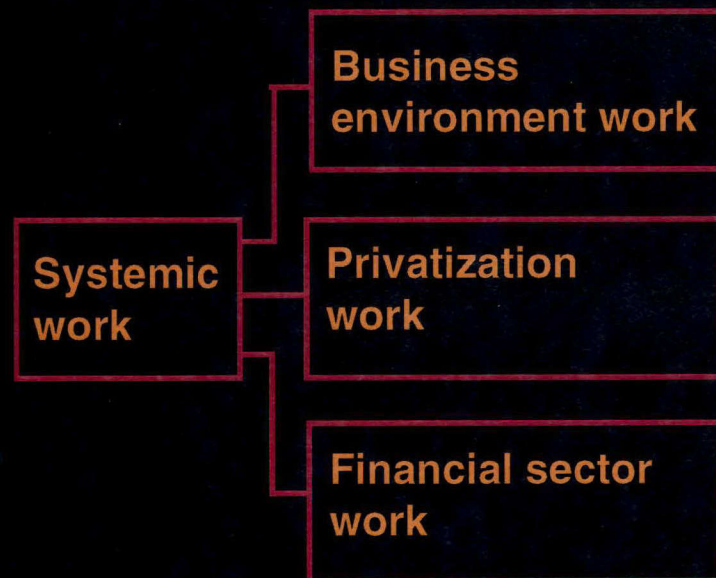
The challenge of private sector development

The Bank Group gets involved in three kinds of private sector development activities



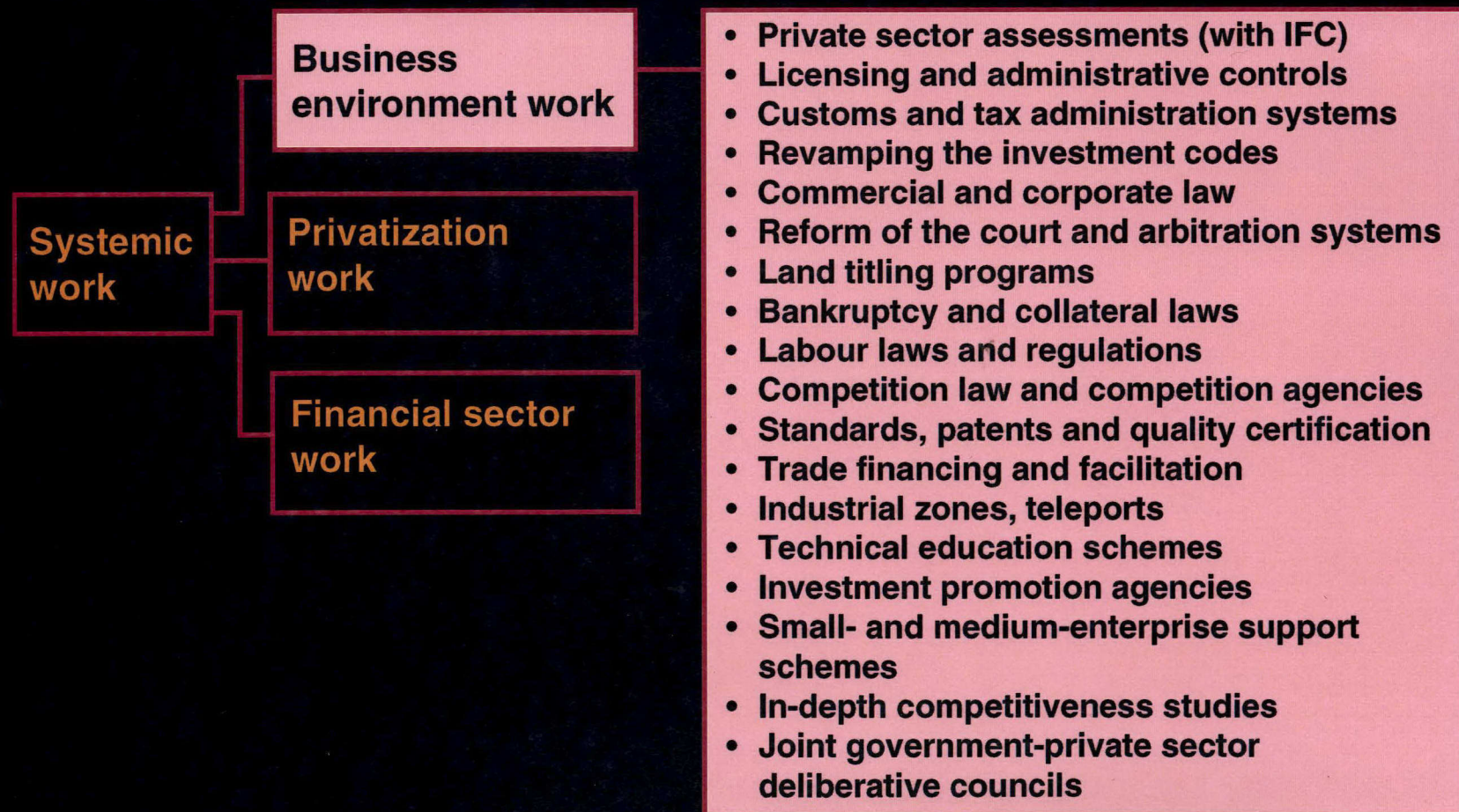
The challenge of private sector development

“Systemic” private sector development work gets the Bank involved in many areas



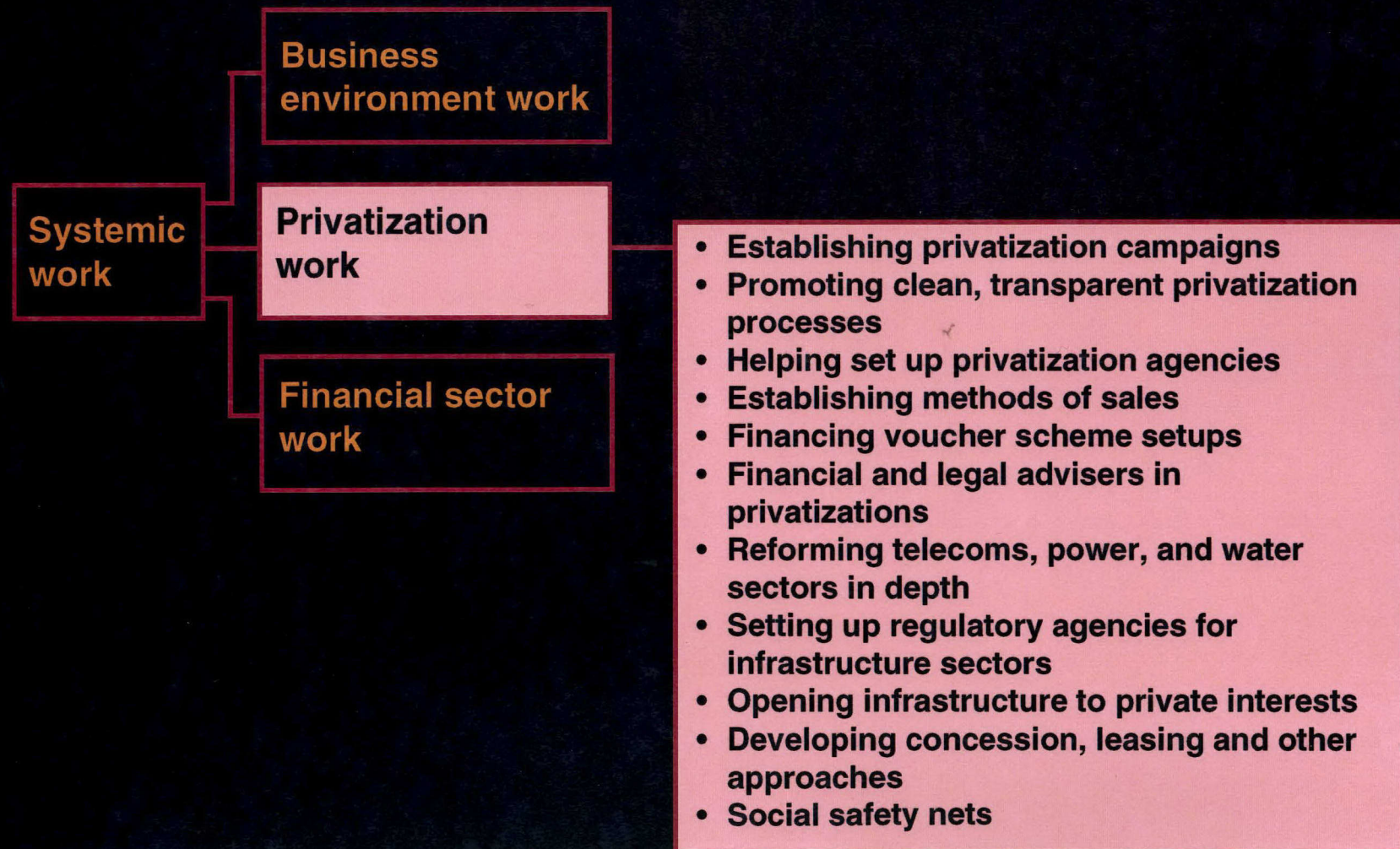
The challenge of private sector development

“Systemic” private sector development work gets the Bank involved in many areas



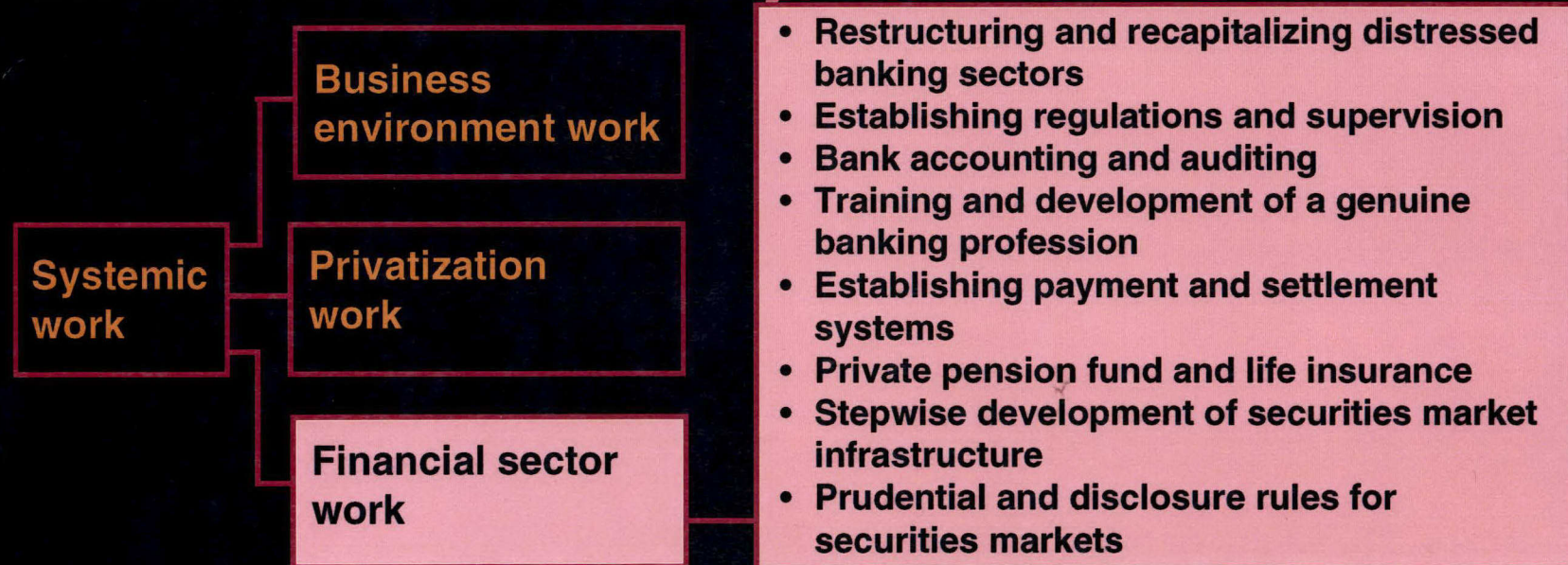
The challenge of private sector development

“Systemic” private sector development work gets the Bank involved in many areas



The challenge of private sector development

“Systemic” private sector development work gets the Bank involved in many areas



FPD setup

- VP
- Senior Advisor for External Affairs
- Business Manager
- Communications Development Team

Financial Sector Development

- Director
- Multi-disciplinary Pool

(without divisional compartments)

H/L positions 33

Private Sector Development

- Director
- Multi-disciplinary Pool

(without divisional compartments)

H/L positions 46

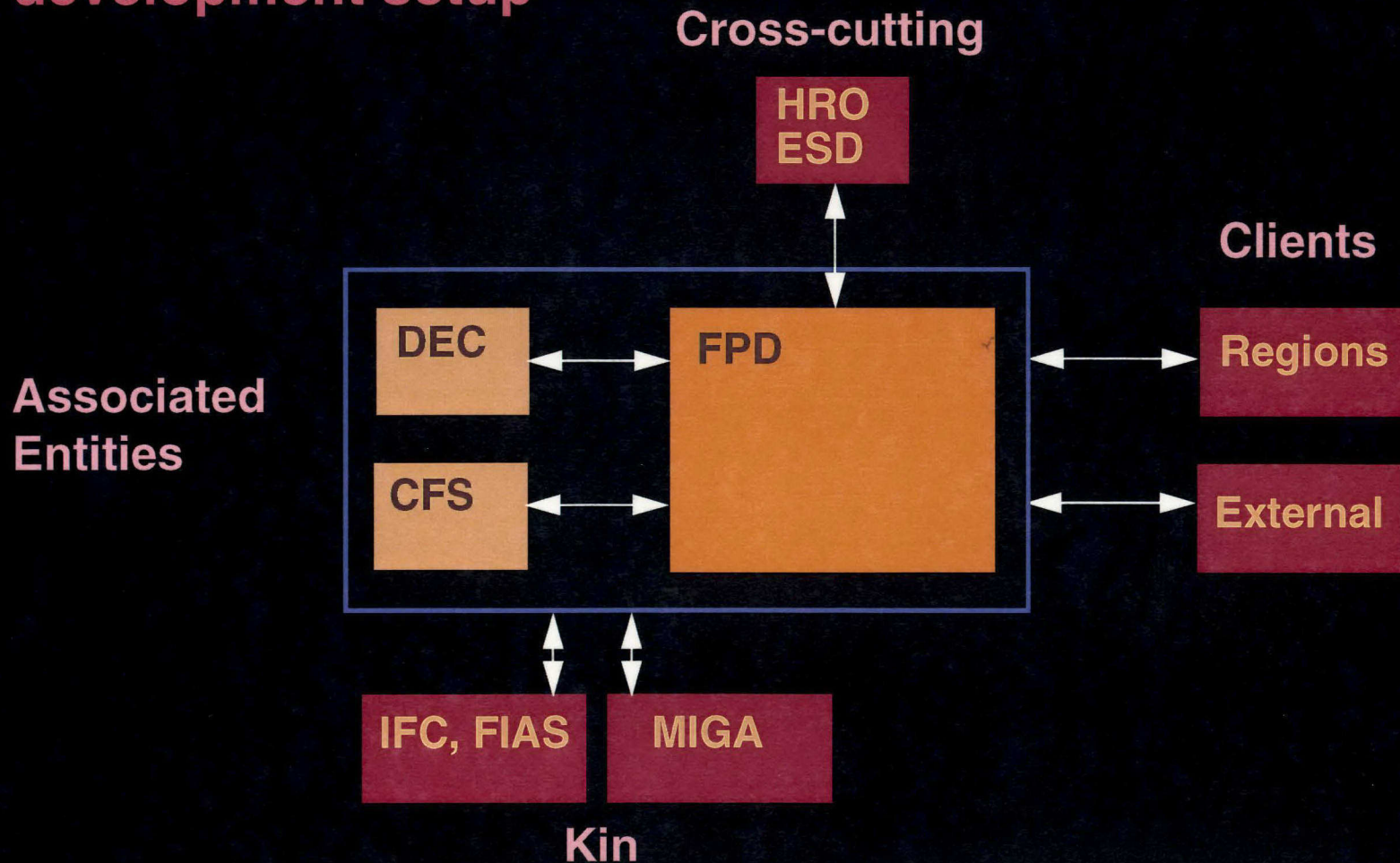
Industry and Energy

- Director
- Divisions
- Telecom & Informatics
 - Industry & Mining
 - Power, Efficiency, Household Fuels
 - Oil & Gas

H/L positions 85

FPD setup

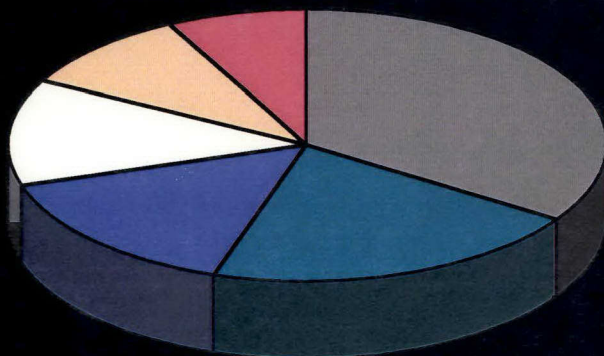
How the Finance and Private Sector Vice Presidency (FPD) fits into the Bank's private sector development setup



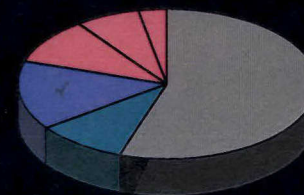
FPD setup

- **Cross-support to Regions/Borrowers** 65%
-

- **Own-financed work program** 35%
-



ECA	34%
Africa	21%
E Asia	15%
LAC	13%
S Asia	10%
MENA	7%



Best practices dissemination and training	55%
Policy work	10%
Quality assurance	15%
Business development	10%
Partnerships	7%
External relations	3%

FPD activities

Cross support: being responsive to client needs

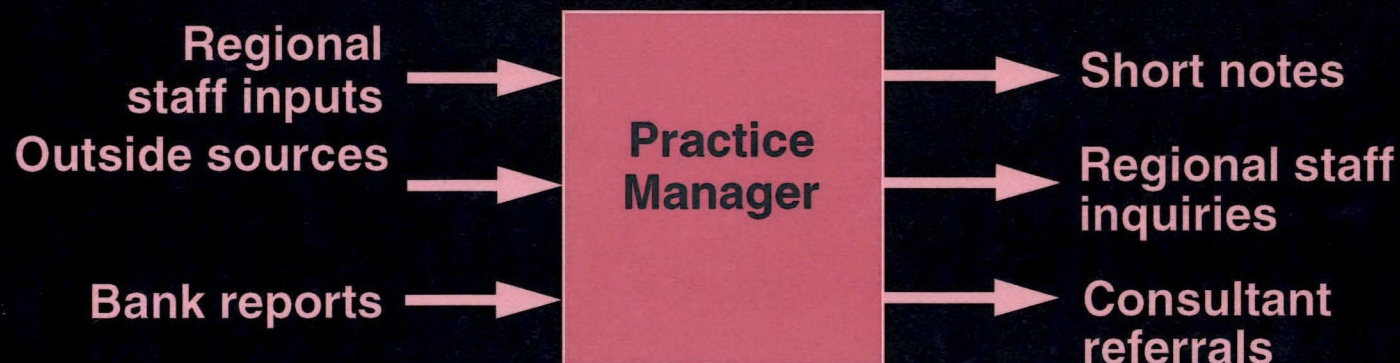
- Highest cross-support percentage in Bank
- 830 assignments in FY94: 60% small, 30% medium, 10% “flagship products”
- Three types of involvements
- Cross-support budgeting mechanism works, but great flexibility is required
- Major cuts in telecoms and industry staff reflect demand changes

Total FPD	FY94	172
H/L Positions	FY95	151
	FY96	141
	FY97	137

FPD activities

Best practices dissemination and training: getting maximum leverage

- Case study-type research; major research: DEC
- Short 4-page notes are key dissemination tool
- 67 training events in FY94, 4,000 person-days
- Internal and external seminars
- Practice manager concept



Just-In-Time Information

FPD activities

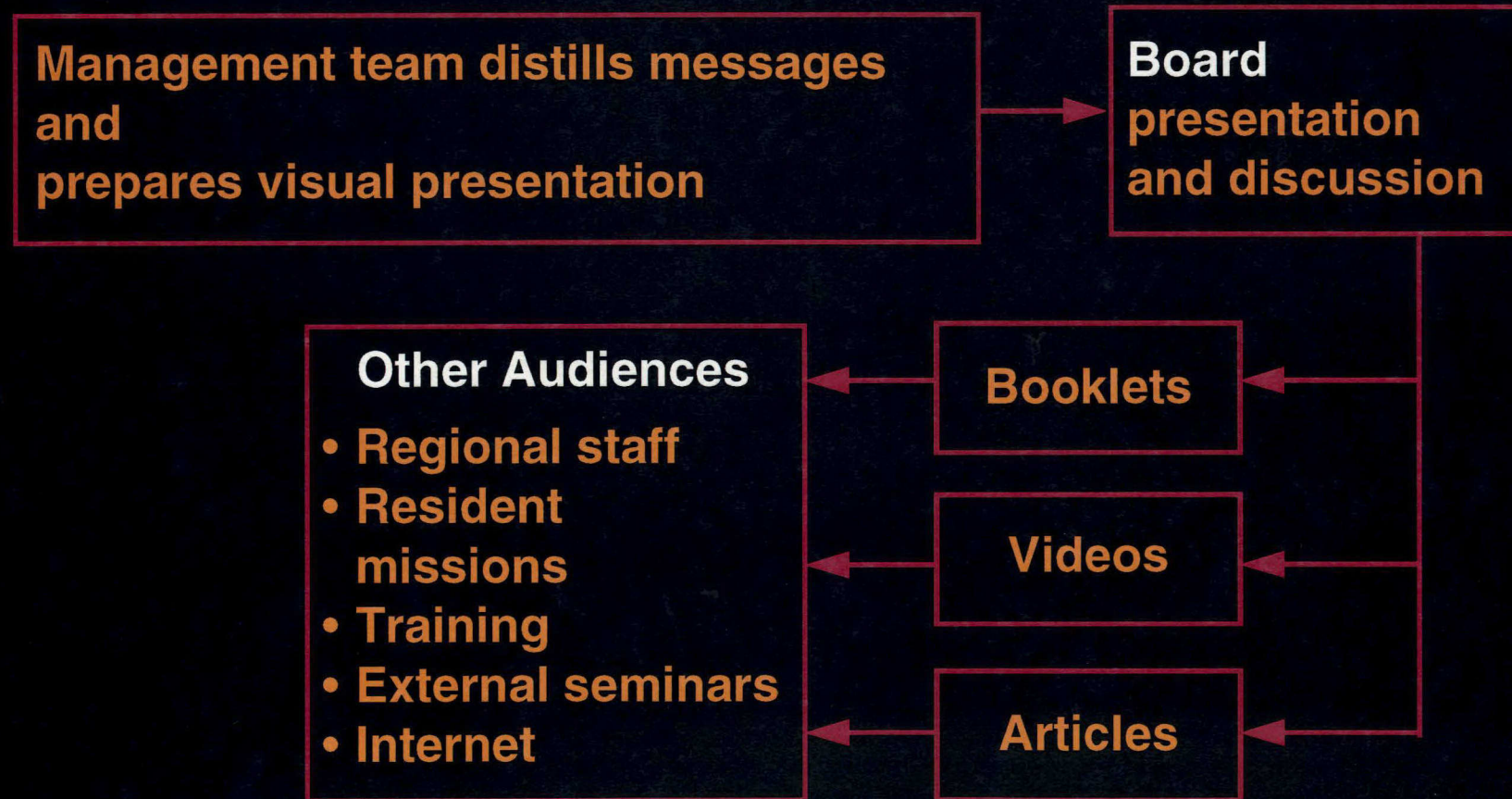
Policy work: reaching beyond internal audiences

- Joint Bank Group seminars
 - Telecoms Feb 1994
 - PSD Mar 1994
 - Power Jul 1994
- Coming up
 - PSD in IDA countries Mar 1995
 - PSD Jul 1995
 - Financial sector FY96

FPD activities

Policy work: reaching beyond internal audiences

- Concept



What do we do?

Quality assurance: a difficult area

- Dilemma: quality assurance vs. service orientation
- Solution: early and selective involvement

FPD Activities

Quality assurance

- FY96 initiative: The 5 “Ts”
 - Talking
 - Tagging
 - Triage
 - Tender-loving care
 - Training
- This may not be enough

FPD Activities

Partnerships

ESD

- Microfinance for the poor
 - Renewable energy initiative
-

ESD, HRO, Regions, US National Research Council

- Marshalling technology for development
-

MNA, European Union, ASCAME

- Mediterranean initiative
-

ESMAP (UNDP, donors)

- Energy planning, management, household fuels
-

ESD, NGOs

- Energy efficiency
- Energy and environment

FPD Activities

Business Development

Industrial
restructuring and
post-privatization
technical assistance

Competitive-
ness

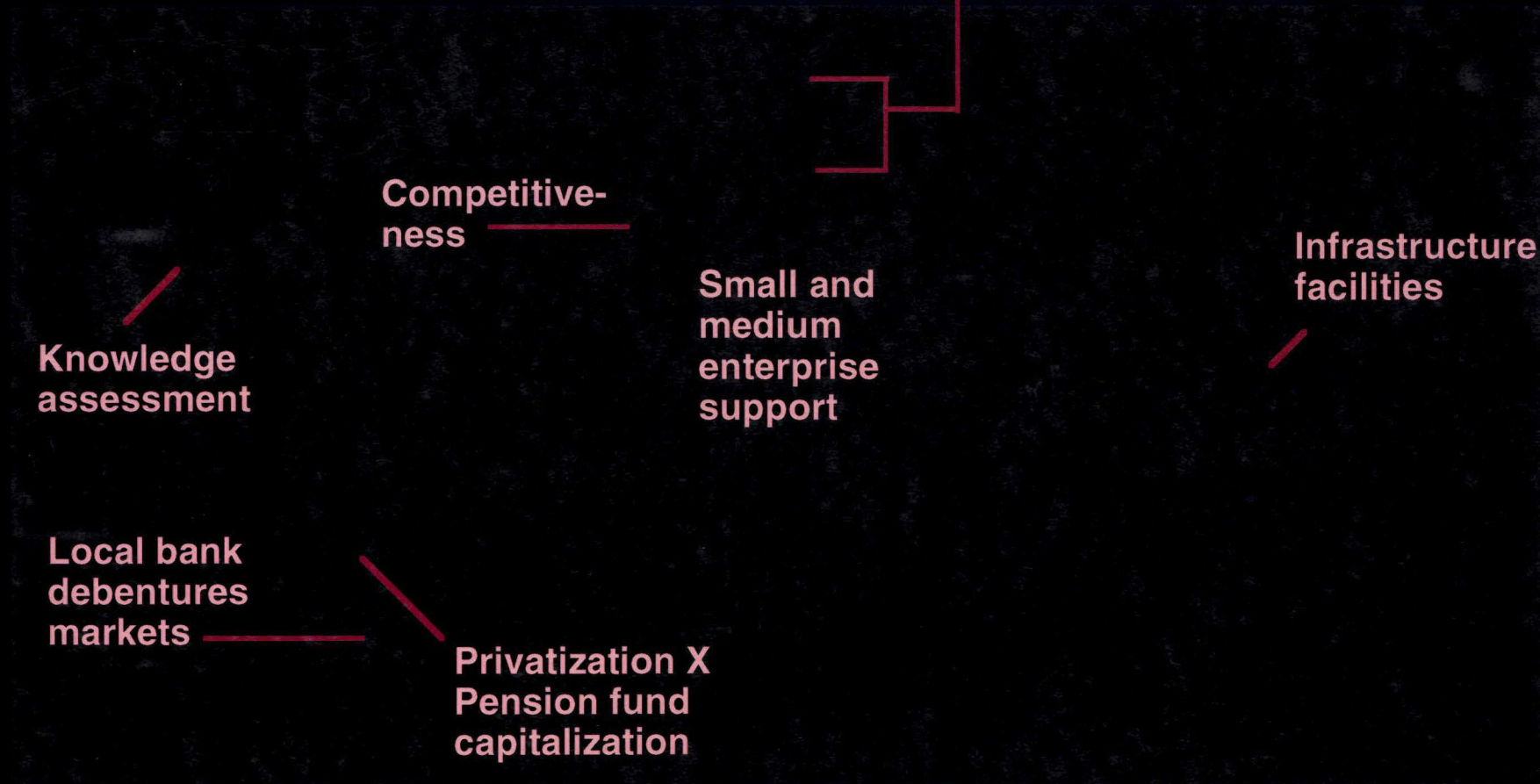
Small and
medium
enterprise
support

Infrastructure
facilities

Knowledge
assessment

Local bank
debentures
markets

Privatization X
Pension fund
capitalization



FPD Activities

External relations: aiming at several constituencies

Targeted publics

- Business associations
 - Private sector firms
 - NGOs
 - Special Part 1 effort
-

Targeted areas

- Explaining Bank as partner
 - The various areas of PSD activities
-

Scope

- 80 activities for FY95
 - Link with World Bank Group Communication strategy launched by EXT
 - Extensive involvement of all FPD managers
-

Linkages to IFC and MIGA

Building an integrated Bank Group

- Bank-IFC-MIGA joint presentation
- New Private Sector Development Working Committee
- Joint brochure
- Joint PSD paper to come
- Infrastructure coordination
- Other options

Assessment

- Major progress
- Still a long way to go (ODC report)

Vision of the Bank Group's Future PSD Efforts: Financial

\$ billion/year		Private sector investment supported
World Bank financial intermediation loans	1.5	4.0
IFC loans & equity	2.5	18.0
MIGA guarantees	0.5	3.0
	4.5	25.0

Vision of the Bank Group's Future PSD Efforts: Financial

\$ billion/year

Today

**A vision of what
could be done**

**Bank Group
private sector
financing**

4-5

8-9?

**Private sector
investment
supported**

25

40-50?

Vision of the Bank Group's Future PSD Efforts: Financial

\$ billion/year		Private sector investment supported
World Bank financial intermediation loans	2.5	6.5
World Bank domestic bond market operations	1.0	6.0
World Bank private infra- structure guarantees	0.5	3.0
IFC loans & equity	3.5	25.5
MIGA guarantees	0.5	3.0
	8.0?	44.0?

Vision of the Bank Group's Future PSD Efforts: Policy and Advice

- **Non-lending services are becoming more important to Bank clients in PSD area**
- **Yet we are running out of “carriers” for policy and advisory work**

What is the Bank Group doing?



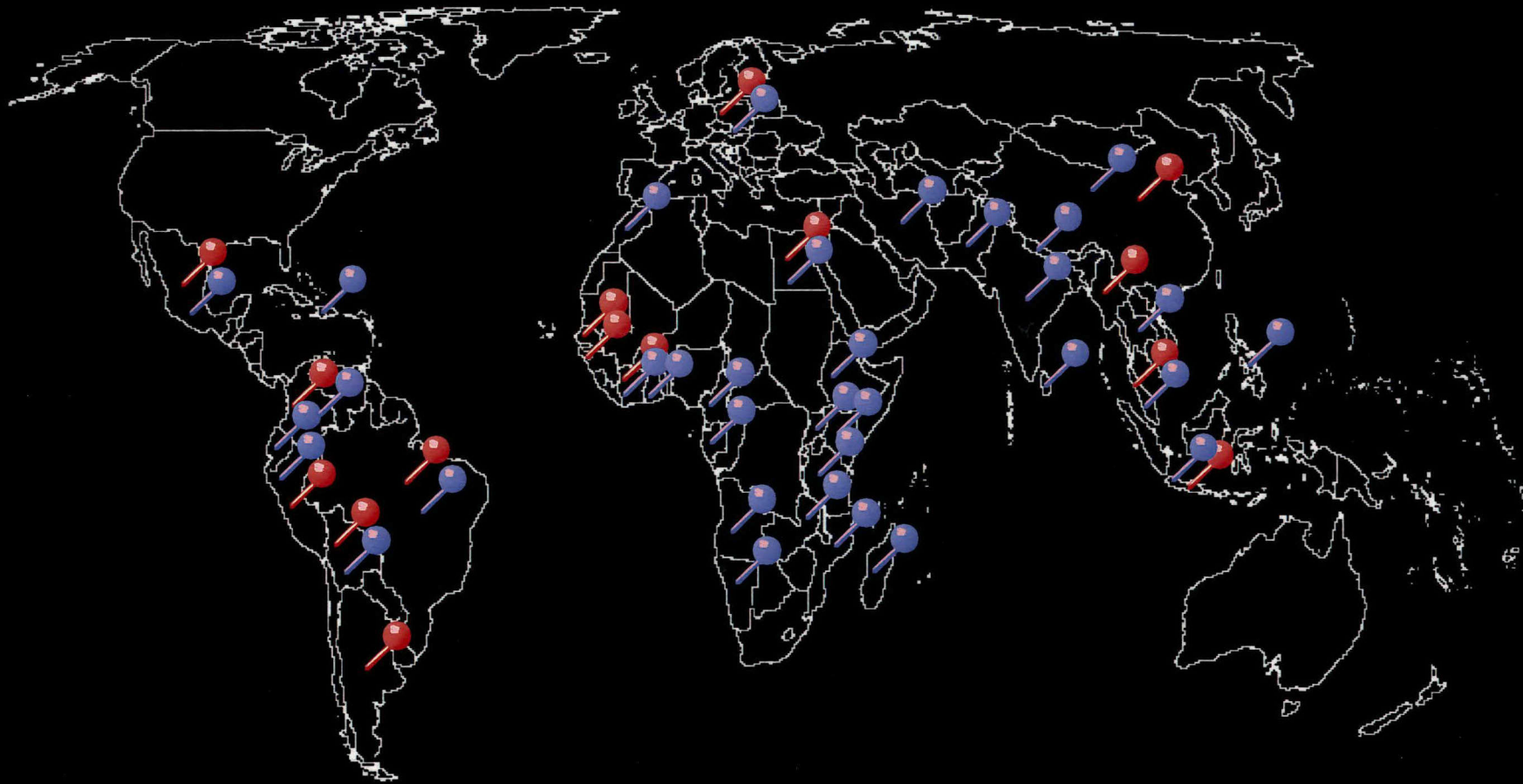
IBRD/IDA Power Lending since 1993



What is the Bank Group doing?

- TA loans/credits
- ESW/ESMAP/other trust

IBRD/IDA Power Technical Assistance since early 1993



What is the Bank Group doing?



IBRD/IDA Telecommunications Lending FY90-94



Lending

Vision of the Future: the Bank

Development lending institution → development services institution

Products

- Money Bank
 - Traditional Policy Advice Bank
 - Connector Bank (“the software of development”)
 - Fiduciary Bank
-

People & Processes

- Major surgery in internal business processes
 - How and where we work
 - Communications revolution
 - Professionalism and quality
 - Steering mechanisms
 - Basis for employment
 - Internal support systems
-

Synchronizing the World Bank with the New World Economy

In today's world of accelerating change, the World Bank must redefine itself as a development services institution, not just as a development lending institution. This note describes what such a redefinition would entail from an operational standpoint and proposes general steps to increase the Bank's agility.

What's happening out there?

As the new century approaches, two main forces are reshaping the world economy: new business practices and new global players.

New business practices are emerging from a cluster of innovations, centered around telecommunications and information technology. Time and distance shrink a little more every year. And information has become the key to wealth-creation. Beyond the old distinction between rich and poor are some new distinctions that are becoming more important: fast or slow, plugged in or left out, constant learning or no learning. Agility will be the recurrent theme—not just for firms but for government institutions.

New global players are entering the world economy in force. The developing and transitional countries now account for half of world GDP (in purchasing power parity). And having embraced policies friendly to the private sector across the board, they will score average growth rates 2–3 percentage points higher than the OECD countries. So, for decades to come, more than half the increases in the world GDP will be in the developing countries and in the transitional economies of Europe and Asia. The best business opportunities—

and the best growth opportunities—are shifting south and east.

What does this mean for the World Bank?

The high-speed global economy offers enormous opportunities to the 4 billion people in the World Bank's client countries—but only if they can attain the agility, networking, and learning standards needed to compete. It is therefore up to the Bank to help its client countries become more responsive—while working with their governments to direct the bulk of the proceeds from higher growth and new-found fiscal space to more ambitious programs of poverty reduction and environmental protection.

To do this, however, the Bank will have to catch up with the times—and upgrade its own standards for agility, networking, and learning. This requires recasting the Bank not just as a development lending institution but as a development services institution. It also requires improving the Bank's internal processes and quality standards.

All this is eminently feasible.

For starters, the World Bank is a global asset with enormous untapped potential. It has a considerable base of retained earnings. It has also accumulated one of the world's foremost stores of experience, ideas, and relationships—in finance, in economic management, in all key sectors of the economy. And because of its unique ability to tap global best practices, it is well positioned to build up its development services.

But if the Bank is to become more potent, it will have to overcome its weak-

Vision Statement

M
Riscuro (1/94)

— how many times
agility

**Agility will be the
recurrent theme—
not just for firms but
for government
institutions**

The Bank needs to reinvent itself as a development services institution

nesses, many of them stemming from age, and most relating to people:

- Introverted staff with low turnover under an obsolete tenure system
- A preference for writing rather than communicating for action
- A low propensity to innovate and take risks
- An inclination for macroeconomic evangelism (*what* countries should do) rather than for institutional development work on the terrain (*how* to do it)
- Internal steering mechanisms fixated on lending, when the action has moved elsewhere.

All these deficiencies can be addressed in the next few years—more easily than many would expect. Between now and 1997, nearly half the Bank's managers, and many senior staff, will earn retirement rights. That offers a one-time opportunity for recruiting outsiders with fresh perspectives and for restarting the successful in-and-out rotation that characterized the World Bank in its earlier, more technical years.

But even with greater internal agility, business as usual will not do. Continuing to rely on lending clout to get things done in borrowing countries will not do either. What is needed, instead, is to reinvent the World Bank.

Turning the World Bank into a global development services institution

The Bank still sees itself mostly as a *development lending institution*. But it needs to reinvent itself as a *development services institution*. Seen thus, the World Bank of the future would have four related roles: the money Bank, the policy advice Bank, the connector Bank, and the fiduciary Bank.

The Money Bank

The World Bank continues to be a fantastic machine for intermediating funds between private savers and its client countries. On the basis of a mere \$7 billion of capital paid in by its shareholders

since 1946, the Bank has lent more than \$250 billion. It borrows at the finest rates worldwide. It is profitable and cost-effective—with an administrative expense-to-assets ratio well below that of most commercial banks. And it has an unusually strong financial structure, with many astutely engineered buffers protecting its bondholders and shareholders. To supplement its lending operations, the World Bank has raised grant funds in the form of IDA replenishments, turning its IDA soft loan window into the largest official funding source for the least developed countries.

This “money franchise” of the World Bank is nevertheless weakening and needs pepping up.

Many client countries demand less IBRD funding than they used to. The reason: a massive portfolio shift by developed country investors toward emerging markets—in equities, bonds, and loans. This ongoing portfolio shift is not yet complete. If anything, it will intensify, given the differences in growth rates between the aging OECD economies and the new global players.

Many of the IBRD's better-off client countries will thus continue to accumulate reserves and look to the IBRD more and more as a mere standby lending facility—for a rainy day. This will not occur as readily in the many IBRD client countries that are less attractive for private investors. But even for them, the IBRD franchise will weaken—compounded by the extraordinary primitiveness of the IBRD's lending product, engineered under a strict cooperative model when the IBRD was a lending powerhouse able to dictate terms.

With aid fatigue and the tight budgets of donor countries, the IDA franchise is weakening too. Aging populations and explosive growth in entitlement programs in many OECD countries will further erode their aid budgets. And this trend is certain to affect the World Bank and IDA, even though multilateral aid is

generally more effective than bilateral aid. The sheer difficulty of development in Africa—a major area of IDA deployment—reinforces this unhappy trend.

In other words, the money Bank is slowing down relative to other sources of financial flows. But many countries still need IBRD and IDA funding for poverty alleviation and other priority programs and for meeting their infrastructure needs, which now total \$200 billion a year in the World Bank's client countries. And the portfolio shift toward emerging markets will run into discontinuities and setbacks.

Much can be done to invigorate the money Bank. Not to avert its slowdown in growth. But to make sure that the money Bank adapts to the new needs of its clients.

The IBRD should reinvent its financial products and make better use of its enormous, underexploited risk-carrying capacity. Consider four possible innovations:

1. The IBRD's lending products can be re-engineered to offer borrowers *reasonable choices* in currencies, payment terms, and interest rates (fixed or variable). The IFC, the EBRD, and the EIB now do this. And there is no reason the IBRD should not.

2. The IBRD can add *confidence-building products* to its traditional products: project financing guarantees against the risk of government failure, wholesale guarantee approaches (say, through Bank-supported national infrastructure guarantee corporations), and a new array of cofinancing tools. There is tremendous potential in this highly catalytic line of business. An exciting subgroup of such products is the new breed of World Bank loans to develop domestic capital markets.

3. The IBRD should also add a panoply of *risk-management products* to its lending and confidence-building products because many client countries need

them. Here are some examples: guaranteeing swap counterparty risk, perhaps supporting a multilateral swap clearing house for client countries, tying lending terms to commodity price movements for a hedge effect, and guaranteeing the random residual that could result from annuity-like lending terms when the underlying interest rate varies.

4. The possible *synergies among the IBRD, IFC, and MIGA* are large and should be fully exploited. There are many ways of achieving high multipliers and strong catalytic effects through intra-Group linkages—both operational and financial. Subordinated lending by the IBRD to the IFC could eventually expand the Group's financial reach. Other possibilities for Bank-IFC couplings and for joint Bank-IFC-MIGA affiliates could add operational flexibility to the Group. More generally, the Bank and IFC seem to operate as separate compartments, still interacting uneasily. But recent examples show that better working arrangements can be forged, and that is clearly the way to go.

The IBRD is a powerful machine whose financial products remain underdeveloped and behind the times—and whose risk-carrying capacity is not fully used. Remedying this—something that could be done in 2–3 years without putting the IBRD's credit standing at risk—is a matter of urgency.

For IDA, the adequacy of its product is not as prominent an issue, since IDA funds are like grants. But there are ways to deploy some of these funds in forms other than the super long-term credits that constitute IDA's only product. Terms could be shorter for some uses. Long-horizon equity facilities could be carved out of IDA reflows, as could nonguaranteed infrastructure loan facilities. There could also be other creative ways to deploy IDA funds: match-funding and channeling them through NGOs meeting rigorous fiduciary criteria. So, there is some potential for creativity

The IBRD should reinvent its financial products and make better use of its enormous, underexploited risk-carrying capacity

An increased array of products and approaches will go a long way toward maintaining the relevance of the money Bank

on the IDA side as well, with the poorest countries as the main beneficiaries.

All in all, the potential for invigorating the money Bank is good, even though growth in the volume of its lending is unlikely to be strong. An increased array of products and approaches—all within the feasible—will go a long way toward maintaining the relevance of the money Bank for decades to come.

Note, however, that one alternative for invigorating the Bank makes little sense: amending the IBRD's Articles to permit lending without government guarantees. Even if that could be done expeditiously (unlikely), the permissible amounts of such lending, according to the advice of rating agencies, probably would not exceed 3–5% of annual IBRD lending. That piddling amount pales before what could be achieved by expanding IFC's financial reach. After all, IFC was set up precisely for nonguaranteed operations.

The Policy Advice Bank

This second Bank expresses itself through economic and sector work (ESW) and high-level policy dialogue with the client countries. The structural adjustment successes of the 1980s came from a marriage between the money Bank and the policy advice Bank. And in 1987, the Bank was reorganized around the model created by that marriage. Today, with structural adjustment lending down to less than 10% of the Bank's operations, countries still value ESW as a good source of integrated economywide and sectoral analysis.

But the Bank's policy advice franchise is weakening too. Much of the macroeconomic side of structural adjustment is done. And many of the Bank's client country governments now boast graduates trained in the world's best economic faculties. Those graduates have more recent training than most World Bank economists, and many of them have even taught in first-rate programs. Unlike

Bank economists, they possess a greater sense of the practical and political angles of macromanagement. And they share the best practices in that field—which by now are well known.

The policy advice Bank is harder to pep up than the money Bank. Its main product—the traditional report-based ESW—uses an approach that seems obsolete in this age of communications. The focus is on preparing reports, mostly in line with the World Bank's internal calendar, rather than on facilitating change. The reports' formats repel rather than welcome. And there is too little country involvement in the underlying analyses.

The main direction for product reformulation for the policy advice Bank lies in dramatically improving the communications, client involvement, and change-facilitation aspects of ESW. Beyond these obvious improvements, the policy advice Bank needs in time to yield some of its budget resources to the third Bank—the connector Bank.

The Connector Bank

The reshaping of the world economy is producing unprecedented opportunities for the World Bank's client countries. But to realize the potential, countries will have to meet the new standards of agility, worldwide networking, and constant learning. This will require massive investment in new economic, legal, and social "softwares." It will require building better and more agile institutions. It will require developing webs of relationships with market participants and organizations everywhere. It will require becoming a learning nation rather than one relying on static comparative advantage. And it will require achieving much better social, human resource, and environmental protection systems. All this demands a move from the "what" of development to the "how."

The World Bank faces a parallel challenge to develop what could end up being

its most leveraged and helpful role for decades to come. For this, it has to develop nonlending services along three lines:

1. *Best-practice dissemination.* The connector Bank could become valued as one of the world's foremost sources and active disseminators of best practices in "softwares": better water distribution systems, social safety net development, demand-oriented technical education programs, efficient preventive and curative health systems, modern agricultural support systems, civil service reform in all its forms, revamped judicial systems, better urban traffic management systems, sound regulatory approaches to environmental issues, faster customs systems, better tax administration, effective industrial zones and teleports, open telecoms and power regulatory systems, deep banking reforms, stepwise capital market and pension fund development, effective small enterprise support systems, and so on.

2. *Institutional development services in the field.* The connector Bank could build on these best practices, becoming valued as a participative and objective co-designer, sequencer, and orchestrator of programs to equip client countries with these "softwares," through what often is called institutional development. Such programs, the neglected children of development work, typically require extensive field assignments before and during implementation. Despite their enormous importance and leverage, many of these programs have been mediocre. Why? There has been far too little impartial, experienced orchestration. Instead, there has been haphazard hiring of consultancy services under whichever bilateral technical assistance grant funds happen to be available for use in the country. As an inspirer and disciplined orchestrator of detailed programs of institutional development, the World Bank would add its impartiality, its global view, and its knowledge of

best practices to the available private consulting and grant-based resources, all to better serve its client countries. The Bank would help countries understand what they are supposed to get from these services and foster the involvement and commitment of local constituencies in their delivery. Done the right way (see below), it is easy to see that World Bank staff could become very good at this.

3. *Brokering and networking services.* The connector Bank could also become valued as a disinterested broker and facilitator providing client countries (and other shareholder countries) with data and information relevant to the new world economy, with ideas for transnational relationships and partnerships, and with referrals to relevant professional networks, NGOs, and official entities worldwide.

The Bank has obvious comparative advantages in these three closely linked activities. Its ability to integrate the micro and macro aspects of effective institutional development is unparalleled. It can link the new forms of nonlending work services—informed by its regular lending and policy advice activities—in a seamless web. And it has a unique position as a global yet practically experienced collector and networker of best practices—unlike regionally focused international financial institutions or coordinating bodies with little field experience, such as the OECD.

The emphasis of these activities would be much more on the "how" than on the "what." Rather than being overly prescriptive or too heavily involved, the Bank would serve as facilitator and orchestrator, helping to identify the best local and foreign experts. The desired outcome: much greater client ownership of detailed project execution—and better *management of change*.

The World Bank's ability to field staff on the cutting edge—rather than its usual lending-based influence—would underpin the demand for such services by client

The connector Bank could become valued as one of the world's foremost sources and active disseminators of best practices

**The fiduciary Bank
could do much in a
high-speed global
economy that has a
lot of new players
but few global
governance
platforms**

countries. This would demand shifts in the Bank's skill mix toward technically excellent, well-connected, and extroverted staff.

Depending on which of the three types of these nonlending services is involved, a small fee—somewhere between zero and full cost—could well be charged by the Bank, or covered by bilateral trust funds. But whether the Bank should charge for these nonlending services—and how—is a relevant but only incidental issue. Of greater consequence is the sheer magnitude of benefits that could accrue to the Bank's client countries (and to other shareholder countries) from disciplined, professionally orchestrated institutional development.

To realize these benefits, the nonlending services corresponding to the connector Bank's three areas of activities—best-practice dissemination, institutional development services, and brokering and networking services—would have to be constituted as *bona fide* World Bank products. This means that these products would be classified as important high-impact products in the Bank's budgeting and incentive structure. They would also be quality-controlled and subject to evaluation, just like the Bank's more traditional lending products and policy advice products. There would be one difference: the evaluations could be done in real time.

The connector Bank has almost nothing to do with traditional technical assistance, and its promise should not be contaminated by experience with such technical assistance, which has displayed few of the features listed here. Traditional technical assistance has too often been mediocre precisely because it was never a legitimate, top-of-the-line Bank product. Instead, it has often been a subitem in a loan or treated as a side activity for which staff received little credit. The connector Bank would change this.

This vision of the connector Bank harbors great potential for the institution's

relevance—and beyond that, for providing superb value to its shareholders. In this, the connector Bank is akin to the fiduciary Bank.

The Fiduciary Bank

The GEF, the CGIAR, the riverblindness program, ESMAP, FIAS, the EDI program in a way, and the business of running Consultative Groups are all part of the fiduciary Bank. Working on the Occupied Territories, working early on in South Africa, working on the financing of nuclear safety in Eastern Europe, and helping the Japanese government channel trust fund and other resources worldwide are other examples. In all such cases, the Bank has a fiduciary role as trustee, using its global experience and relationships. It has been asked to play this role, or has chosen to play it, because of its objectivity and credibility.

There is no doubt that if the connector Bank maintains and reinforces the World Bank as a global asset, the fiduciary Bank will grow in importance and reach. It would do so because the Bank would increasingly stand out as a proven steward and trustee for global and regional programs (or even country conservatory programs) which for various reasons cannot be handled in the G7 or other setups or which major OECD countries do not wish to handle themselves.

The fiduciary Bank could do much in a high-speed global economy that has a lot of new players but few global governance platforms. That alone would justify the strengthening of the fiduciary Bank—which provides great service to its shareholders at modest cost.

The four Banks at work

Visualize how the money and policy advice Banks would fare alone. The image is of two slowly eroding franchises—which even if reinvigorated up would not permit the Bank to become the global asset it should be in the new

world economy. And without the excitement and professional attraction of a four-Bank setup, there is a strong chance that the first two Banks would wither, even if they become more efficient. Entities that are not exciting and that continue to be mired in self-doubt eventually become mediocre. The main victims of this mediocrity would be the developing countries—most prominently, the poorest countries and people.

Interestingly, it is equally hard to visualize how the two new Banks—the connector and the fiduciary Banks—would fare alone if one were to build them up without the money Bank and the policy advice Bank. They probably would end up being quite mediocre as well, assuming they were to get off the ground.

Now visualize the four-Bank setup, with the two new Banks built up on the two old Banks.

Developing the two new Banks would *not* mean that the World Bank would become almost exclusively a nonlending services firm. Nor would it mean vast increases in the Bank's budget, despite the labor-intensity of those services. Nonlending services would indeed become more important in the four-Bank setup. But the *combination* of the four Banks would be the powerful feature, and the secret of success would reside in the mix of products, staff, and operating methods. The four-Bank vision could be realized with today's staff size (roughly 4,500 higher level staff) and today's budget (say, \$1.5 billion in 1994 dollars). The connector Bank could be financed through a very gradual shift of some positions and resources away from traditional ESW—and general savings from outsourcing and improved business processes.

The staff and product composition of that four-Bank setup would have to veer gradually away from today's. Fewer than 10% of the Bank's higher-level operational staff resources are involved in connector and fiduciary activities. But if one went squarely for a four-Bank strat-

egy, the proportion could well be 40% or more by the end of the century. This could be achieved by attrition, with vacant positions assigned preferentially to the external recruitment of technically expert, well-connected staff. To help change the Bank's approach from development lending to development services, a good share of the senior management positions vacated during the next few years could also be diverted to external recruitment of the best available fresh minds. There is no way such change can be internally generated.

How would different countries use the four Banks? It is likely that the combinations would vary a great deal depending on the stage of development. The two old Banks would generally weigh in more heavily in the least developed countries. The connector Bank would sometimes dominate in advanced middle-income countries that need only modest amounts of lending and traditional policy advice. The fiduciary Bank, by contrast, would often be involved in global and regional issues across many countries. Incidentally, both the connector and the fiduciary Banks could on occasion operate very well in industrial countries or regions.

But even the least developed countries could benefit from the connector Bank's products. For example, many connector Bank activities aim at dramatic changes in the role of the government and at technological leapfrogging. Those activities could have their greatest leverage in the least developed countries. And the connector Bank activities hold the promise of a radical micro-level rethinking of the development recipes applied in those countries.

Increasing the agility of the World Bank

Regardless of the strategic choices it makes, the World Bank must *in any case* modernize its internal steering mechanisms and working methods—to bring its agility up to what is increasingly demanded of others. The subject is too

The four-Bank vision could be realized with today's staff size and today's budget

The World Bank has to choose from three possible paths

broad to elaborate on here, but it is useful to list the major areas to be tackled:

- *Major surgery in internal business processes.* Staff lose about 20-30% of their time in low-value-added internal business processes. Freed through in-depth process re-engineering, this time represents an enormous store of energy and talent—of particular importance for building up the two new Banks without budget increases.

- *Outsourcing.* Many areas of World Bank activities are fit for outsourcing, a major area of potential gains in efficiency and even in professionalism. Swissair has some of its accounting done in India. Why does the Bank lag so far behind in such things?

- *Communications.* The World Bank has to adopt—rapidly—communication methods that are more participative and more effective in distilling key messages. This is true in external communications and in internal communications—and most important in the dialogue with client countries and other audiences. The process has to be seen as more important than the report.

- *Professionalism and quality.* The Wapenhans report relies mostly on exhortation and additional checks and procedures to improve the quality of Bank operations entering the project pipeline. But no real progress can be made without redressing the serious deprofessionalization of task management—which seems to originate in the suboptimal size of the sector divisions and the frequent use of insufficiently seasoned, generalist task managers. This needs to be addressed without delay, most likely by reverting swiftly to larger project units possessing a serious professional critical mass within Regional vice-presidencies. There are also many other possibilities for quality improvements, well beyond the Wapenhans report recommendations.

- *Steering mechanisms.* Most large firms that run into difficulty when trying

to change have to look at their internal steering mechanisms, which often are the culprits. The Bank's steering mechanisms fixate on lending, make excessive use of "body count" methods, and point only weakly toward rewarding professionalism and integrity. The incentive structure implied by these mechanisms makes it easy for people at all levels to blame "faults in the system" rather than to take charge and deploy their intelligence courageously. This is a major area for scoring big successes. But it will take fresh minds—and a scalpel.

- *Basis for employment.* The World Bank employment systems badly need redesigning. The civil service-like indefinite tenure system is no longer compatible with the agility required. Moreover, it serves the needs of the staff far more than it does those of the developing country clients. Fixed-term contracts of 3-5 years would provide a much better, more self-refreshing, disciplined basis for recruitment—and should be generalized to all new staff and to all existing managers.

- *Internal support systems.* In general, but most emphatically under the four-Bank vision, the higher-level operational staff needs to be surrounded and supported by a new type of support-level staff acting not so much as secretarial agents but as information organizers and dispatchers. Traditional secretarial work could increasingly be outsourced, as is already done today to an extent. The process can, however, be more gradual than in the other areas mentioned above so that support staff could adapt to their new roles. What is urgent is the need to build a proper management information system and a modern array of hardware and software to assure institutional memory and proper informational networking.

Three possible paths

The World Bank has to choose from three possible paths. The first is to carry

on with the two old Banks. The second is to evolve incrementally into the four-Bank setup, very much in the way the institution has changed over time. The third is to push for the four-Bank setup in an untraditional way, through a set of voluntary moves organized around a fairly articulate vision—moves that relate to recruitment, product classification, budgeting, and organizational decisions. Given the speed of change in the outside world, there is much to say in favor of the third path. Time is of the essence in moving onto this path to make these changes, which have nothing to do with

perpetuating the institution for its own sake but much to do with the new needs of the client countries.

Indeed, as powerful forces reshape the world economy, growth and development will both become more idea-intensive and less finance-intensive. Accordingly, the Bank's challenge is to turn itself into a development services institution whose contribution is valued under four complementary headings: money, policy advice, connector, and fiduciary—while developing the full strength of synergies among the Bank, the IFC, and MIGA.

"Although reconstruction would mainly occupy the Bank in its early days, it would later have another primary duty—to develop the resources and productive capacity of the world, with special attention to the less developed countries, to raise the standard of life and the conditions of labor everywhere, to make the resources of the world more fully available to all mankind..."

**—Lord Keynes,
at the Press Conference
held on the first day
of the Bretton Woods
Conference**

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Classification:	
Date:	April 22 95
Topic:	Task Force on Multilateral Development Banks (MDBs)
VPU:	
External: (NGO, government official, private sector, international institution, personal acquaintance)	
Document prepared by: (name, department, etc.)	

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

SVEN SANDSTRÖM
Managing Director

March 22, 1995

Mr. Wolfensohn,

Attached is a short note on the Task Force on Multilateral Development Banks (MDBs). The report for the Task Force is being prepared by Willi Wapenhans and a small team, under the Chairmanship of Mr. Abdlatif Al Hamad. So far Mr. Al Hamad has not taken an active role in the work of the Task Force, leaving it pretty much entirely to Mr. Wapenhans.

The report has the potential to do the Bank considerable damage externally, compounding the impact of the 1992 Wapenhans report on portfolio management. I gather from Jane that you know Mr. Al Hamad well. Any encouragement you could give him to take a hands-on approach to the Task Force would be helpful, although this is a clearly a sensitive issue where we cannot be seen to be trying to influence the Task Force.

I will brief you more fully on the Task Force, its background, and its work when we meet next.



Attachment

**THE DEVELOPMENT COMMITTEE TASK FORCE ON
MULTILATERAL DEVELOPMENT BANKS (MDBs)**

1. **Origins.** The origin of this Task Force was a request by Larry Summers to Messrs. Preston and Camdessus in April 1994. The US Treasury was under an obligation to Congress to review the development impact and efficiency of the MDBs and Mr. Summers suggested that this be done under the auspices of the Development Committee. In the April 1994 Development Committee meeting, the proposal of a Task Force to study the MDBs was endorsed. Over the following six months, the Terms of Reference were agreed, a Chairman and Secretary selected (Arab Fund Director-General **Al-Hamad** from Kuwait was appointed Chairman and Mr. **Willi Wapenhans**, Secretary), and the size and composition of the Task Force was agreed (see attached membership).
2. **TOR.** The Terms of Reference focussed on the need to review the implications of recent major economic changes for the MDBs (with a specific reference to increasing their focus on poverty reduction and private sector development.) A further objective was to increase cooperation among the MDBs, with an emphasis on comparative advantage and improved implementation.
3. **First Meeting and Decisions.** The 18-member Task Force met for the first time on December 6-7, 1994 under the chairmanship of Mr. Al-Hamad. It discussed three papers prepared by Mr. Wapenhans, which reviewed the proposed terms of reference, work program (including budget), and how to interact with the broad range of participants in the development community. It was agreed that:
 - The Task Force Secretariat should have a budget of US\$2.5 million, to be shared between the Bank and Fund with contributions sought from the regional banks (the Bank has already committed up to US\$1.25 million for this purpose).
 - The work program should focus on four main areas: the development agenda of MDBs; operational policies and management; evaluation procedures and practices; and cooperation and coordination among MDBs.
 - For the second meeting of the Task Force (in Kuwait on March 30-31, 1995), the Secretariat was asked to start work, in close consultation with the MDBs, to prepare issue papers and background materials (the Bank is helping by providing already available material).
4. **Next Steps.** The Chairman will give a progress report to the next meeting of the Development Committee on April 27, 1995. The Task Force is expected to have an interim report by the time of Annual Meetings in October, and a final report for the spring meetings in April 1996.
5. **G-7/Halifax Implications.** The Task Force's work will probably be given further impetus by the Halifax Summit, as most of the issues on the Task Force agenda are of concern to the G-7.

**DEVELOPMENT COMMITTEE TASK FORCE
ON
THE ROLE OF MULTILATERAL DEVELOPMENT BANKS**

LIST OF PARTICIPANTS AT THE DECEMBER 6-7, 1994 CONFERENCE

Australia	Neil Hyden First Assistant Secretary International Economy Division Department of the Treasury
Brazil	Ambassador Sergio Silva do Amaral Head of Cabinet Ministerio da Fazenda Esplanada dos Ministerios
Canada	Tom Barnes Assistant Deputy Minister (International Trade and Finance) Department of Finance
Chile	Nicolas Flano Via Blanca 7282 Vitacura
China	Zhang Juni c/o World Bank Department Ministry of Finance
Denmark	Ole Lonsmann Poulsen State Secretary Ambassador Ministry of Foreign Affairs
France	Francis Mayer Assistant Secretary for International Affairs Department of the Treasury Ministry of the Economy
Hungary	Laszlo Akar State Secretary Ministry of Finance
India	N. K. Singh Additional Secretary Ministry of Finance

Japan	Haruhiko Kuroda Deputy Director-General International Finance Bureau Ministry of Finance
Netherlands	Joop B. Hoekman Ambassador Ministry of Foreign Affairs
Nigeria	Alhaji Abubakar Alhaji Nigerian High Commission United Kingdom
Russia	Alexander Knhandruev Deputy Chairman of the Board Central Bank of Russia
Saudi Arabia	Jobarah Al-Suraisry Deputy Minister of Finance for International Economic Cooperation Ministry of Finance and National Economy
Togo	Victor Komla Alipui c/o BCEAO
United Kingdom	Robert M. Ainscow Deputy Permanent Secretary Overseas Development Administration
United States	Jeffrey Shafer Assistant Secretary for International Affairs Department of The Treasury
Chairman	Abdlatif Y. Al-Hamad Director General Aab Fund for Economic and Social Development
Secretary	Willi A. Wapenhans

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Classification:	
Date:	March 1995
Topic:	NGOs - misc, briefs
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Document prepared by: (name, department, etc.)	Choksi, Serageldin, Steer

OFFICE MEMORANDUM

NGO briefs

DATE: March 24, 1995

TO: Mr. Sven Sandstrom, EXC

FROM: Armeane M. Choksi, HROVP *Amc*

EXTENSION: 31811

SUBJECT: World Bank-NGO Relations - Brief

1. NGOs have become important players in the development field over the past decade. International NGO programs today represent 14% of all development assistance, or \$8.5 billion per annum. Over the same time period, numbers of developing country NGOs have also increased dramatically: for example, there are now estimated to be 18,000 registered NGOs in the Philippines, while in India NGOs handle \$520 million per year, or 25% of all external aid. NGOs have become increasingly important to the Bank as their interest in Bank policies and practices has grown and as their capacity to collaborate in Bank-financed operations has expanded.

2. NGO views on the Bank are mixed. Most of the operational NGOs (both international and developing country groups) which run practical programs of poverty reduction and environmental conservation) see the Bank as an influential development agency and seek to work with it. While these operational NGOs are critical of certain Bank policies and operations, they recognize the complexity of the development effort and are prepared to constructively engage with the Bank on policies and programs. At the same time there is a determined and vocal set of environmental pressure groups and other advocacy oriented NGOs (mostly in developed countries) which criticize the Bank for the market-oriented model of development it promotes which they portray as being damaging to people and the environment. The latter school of NGOs is well-connected politically and uses the media and their substantial networking capacity effectively (the most critical subset of this group led the recent "50 Years is Enough" campaign calling for Bank reform).

3. NGOs that seek to influence changes in the Bank have concentrated on four key areas:

- *structural adjustment*, particularly its social and environmental costs;
- *environmentally sustainable development*;
- *social policy*, including issues related to poverty alleviation, popular participation, gender, equity, resettlement, indigenous peoples and human rights; and
- *institutional reform*, calling for greater transparency and accountability in the Bank's work and expanded public access to project-related documents.

4. While their criticisms are sometimes extreme and politically motivated, advocacy NGOs have helped to identify the need for important changes in Bank policy and practice, for example, concerning involuntary resettlement (particularly in reference to large dams), forest conservation, information disclosure, and the inspection panel. They have also frequently used their field networks to identify where Bank policy is not being fully adhered to in practice. The fact is that in each of these areas the Bank has made changes in recent years, in part due to increased levels of attention

and learning generated by critical NGOs directly and through their pressures on donor governments (particularly the US).

5. The key policy focus for NGOs over the next year will be the IDA 11 negotiations. Both NGO critics and friends of the Bank see this as an opportunity to convey their points of view. NGOs in IDA countries are likely to stress the need for generous replenishment (regional meetings of African and Asian NGOs have sent a strong message on this theme to donors) while US-based advocacy NGOs will concentrate on further reforms they believe are necessary. A vocal subset of the advocacy groups will oppose IDA.

6. While the highly publicized criticism by NGOs has been damaging, there is a less public but more important story on the increased operational partnership the Bank has with NGOs. The percentage of Bank-financed projects with some form of NGO involvement has increased from an average of 6% from FY73-FY88 to 50% in FY94. The scope of collaboration (which is most extensive in Africa) has broadened from the social sectors and rural development to include environment programs, informal sector development, resettlement operations and a wide variety of other activities. NGOs are increasingly involved in the preparation and design of projects, including assessing environmental and social impacts, poverty assessments, organizing public consultations, managing project sub-components and acting as financial intermediaries (for example, in the Bank's many social funds).

7. The *NGO-World Bank Committee* established in the early 1980s, provides an on-going forum for policy dialogue. Consultation with NGOs is now more common than in the past during the formulation and review of Bank policies and procedures in a wide variety of sectors (for example, in the case of forestry and energy). With the exception of some small grants programs, to date the Bank has not had an instrument to directly fund NGOs. This is a sharp contrast with all other major bilateral and multilateral agencies which have NGO funding mechanisms. An important shift in this position was the approval on March 21, 1995 by the Board of a *Consultative Group to Assist the Poorest*. This Micro-finance Program is projected to manage a portfolio of approximately \$100 million (with a proposed \$30 million contributed by the Bank). Managed by NGOs and other institutions, its objective is to increase learning of best practices for delivering financial services to the very poor. Most NGOs strongly support this initiative and hope that the scheme will eventually be broadened to encompass a wider scope of activities beyond micro-finance. This issue of whether the Bank should develop a broader link with NGOs through a direct financial facility remains a key issue.

8. Current priorities for improved Bank-NGO relations include:

- strengthening links with developing country NGOs (at headquarters and in field offices);
- continued efforts to mainstream operational collaboration throughout the Bank (with an emphasis on more upstream involvement);
- working with governments to support an enabling environment for NGOs and to improve State-NGO relations; and
- efforts to improve on-going communication with NGOs and to respond more effectively to criticisms.

JANE A ←

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

ISMAIL SERAGELDIN
Vice President
Environmentally Sustainable Development

May 11, 1995

Mr. James Wolfensohn

Re: Requested NGO Guide

Per your request, the attached table and notes provide some background information on the NGOs you are likely to encounter in the next few months. Table 1 is an assessment and listing of three types of NGOs: professional Bank bashers, informed and sensible critics, and well-meaning but ill-informed individuals and groups. (A fourth category of critics includes other donors and UN family institutions.) Attachment A is a listing of issues which Church World Service/Lutheran World Relief put together for the April 1995 IDA Deputies meeting. This includes some "NGOese" wording but it is quite informative in terms of the issues which the NGOs themselves see as relevant to their positions on IDA. A second attachment is a profile of the individuals participating in your recent NGO meeting at the White House.

I am pleased to put this material together for you, but I would urge two cautions. First, this list is very approximate and depends greatly on the issue in question. An NGO may be critical on some issues and supportive on others; knowledgeable about some and ignorant of others. The second is that many NGOs are quite diverse within their own memberships. For example, the Malaysia chapter of the Third World Network has signed some fiercely critical statements of the Bank, while the London and Ghana chapters make extremely well-informed and usually constructive statements about the Bank. The list only contains critics; it does not indicate the large number of NGOs who see themselves as partners with the Bank in development. These NGOs may have criticisms, but usually on finer points of our operational processes, such as procurement rules.



Table 1

Bank-bashers	Informed Critics	Ill-informed
Environment Defense Fund (US)	WWF (US, International, UK)	Various National Council of Churches (M)
Friends of the Earth, UK, US (S)	Bread for the World (S)	Bishop Tutu (M)
International Rivers Network (S)	World Resources Institute (M)	UK Church Leaders (W)
Greenpeace (US & International)	National Wildlife Federation (S)	Results (US)(M)
Sierra Club (S)	Conservation International (M)	
People Centered Development Forum (David Korten) (S)	National Resources Defense Council (US) (M)	
Transnational Institute (S) (Susan George)	World Council of Churches (M/W)	
Public Interest Research Group (India) (S)	IUCN (M)	
Lokeyan (M)	Bank Information Center (S)	
Narmada Bacho Andolan (S)	Earth Council (US) (M)	
Christian Aid (UK) (S)	InterAction (US) (S)	
Ecologist (UK) (S)	Center for Science & Environment (Anil Agarwal in Delhi)	
Survival International (M)	Participatory Research in Asia (M)	
Oxfam Belgique (M)	Third World Network (UK, Ghana)(S)	
Oxfam US (M)	Inter Africa Group (Addis)(S)	
World Rainforest Movement (UK) (M)	Int'l. NGO Forum on Indonesian Development (INFID) (Indonesia)(S)	
Rainforest Action Network (US) (S)	FAVDO (Senegal)(M)	
Rainforest Action Group (Australian) (S)	Oxfam (UK, Canada)(S)	
PROBE (Canada) (S)	ACFOA (Australia)(M)	
Bern Declaration Group (Switzerland) (S)	Community Aid Abroad (Australia)(S)	
WEED (Germany) (S)	Novil (Netherlands)(S)	
Urgewald (Germany) (M)	Environment & Energy Study Institute (M)	
Cato Institute (right wing) (S)	IIEC (Energy)(M)	
Institute for Policy Studies (left wing) (S)	European Network on Debt & Development (EURODAD)(M)	
Institute for African Alternatives (South Africa)	Global Legislators for a Balanced Environment (M)	
AEDENAT (Madrid)(S)	IBASE (Brazil)(M)	
ASEED (Student Group Organization Demonstrations Against the Bank) (Madrid, Copenhagen)(S)	FASE (Brazil)(M)	
	CEDI (Brazil)	
	FONDAD (Latin America)(S)	
Third World First (UK)	Swiss Coalition of Development Organization (S)	
Development Gap (S)	Center of Concern (US)(S)	
	Lawyers Committee on Human Rights (US)(M)	
	Committee on Sustainable Agriculture (US)(M)	
	Church World Service (M)	
	International Institute for Environment & Development (UK)(S)	
	EZE (Germany)(M)	

Key: The criticism of the Bank is strong, orchestrated and sustained (S); medium, reactive and intermittent (M); or weak, ad-hoc and occasional (W).

Bank-bashers	Informed Critics	Ill-informed
	Miseror (Germany)(W)	
	World Development Movement (UK)(S)	
	Action Aid (UK)(M)	
	Intermediate Technology Development Group (M)	
	International Confederation of Free Trade Union	
	Mwengo (Zimbabwe)(M)	
	ENDA (Senegal)(M)	
	Polish Ecological Club (S)	
	Grameen Bank (BD)(M)	
	Freedom from Debt Coalition (Philippines)(S)	
	CRID (France)(M)	
	Solagral (France)(M)	
	Hairbon Foundation (Philippines)(M)	
	CCIC (Canada)	
	Asian NGO Coalition for Rural Development (ANGOC) Philippines (M)	
	ALOP (Costa Rica)(M)	
	FACS (Nicaragua)(M)	
	Inter Church Coalition on Africa (M)	
	ANGOC (Philippines) (M)	

Key: The criticism of the Bank is strong, orchestrated and sustained (S); medium, reactive and intermittent (M); or weak, ad-hoc and occasional (W).

A Synopsis of IDA-11 Positions by NGOs For Discussion

I. Sources

Africa Recommendations of the African NGO Consultation on IDA 11", Addis Ababa, 11 January 1995

Asia "Statement on IDA-11 by Asian NGOs," New Delhi, 26 March 1995.

BFW "Conditions for Bread for the World's Support for IDA."

ChrAid Christian Aid submission on the eleventh replenishment of IDA, 30 January 1995

FOE "Friends of the Earth Position Paper on the IDA-11 Replenishment," Feb. 9, 1995

Oxfam Oxfam Internat'l Position Paper, Replenishment of IDA11.

WWF World Wildlife Fund, "Legislative Brief: Should the United States Support IDA?" February 1995

II. Funding

Africa: maintain or increase real funding level

Asia: maintain or increase real funding level

BFW: support funding

Chr Aid: 'substantial aid is clearly needed for the poorest countries, but the quality of aid is as important as the quantity.'

FOE: 'If a [reform] package [along the lines FOE recommends] were agreed to and a process was established for considering the restructuring of IDA, ...the replenishment of IDA-11 would be supported by many NGOs.'

Oxfam: 'Should be replenished.'

WWF: 'Continued participation of the U.S. in the financial support and governance is a sound and cost-effective investment in global economic, political and environmental security.'

III. Reform Agenda and Benchmarks

1. Adjustment

delinked from current SAPs; reduce disparities	Asia
shift: from mitigating to promoting pov reduction	Chr Aid
- broader involvement in design, GO and NGO	Chr Aid
- appraisals describe how benefit the poor,	BFW
describe gender and environmental impacts	
- social indicators for evaluation	BFW
focus on poverty reduction as a major objective	Oxfam
Adjustment should entail no cuts in basic education	BFW
or primary health spending; should aim to	Oxfam
rectify regional inequities in countries	
ceiling of 10% of IDA lending for "conventional" SAPs	FOE BFW
All poverty-related directives that apply to the Bank	BFW
in adjustment policies should apply to the	
sustainable development sections of IMF Policy	
Framework Papers, for which the WB is responsible	
broader process of design for new SAPs, with	FOE
staggered disbursement tranches, linked to	BFW
execution of poverty and environment targets	
procedures to share ESW more broadly in governments	FOE
and with stakeholders	
strengthen positive state roles in economy;	Africa
emphasize creating 'the essential components	
of an enabling and accountable state.'	
realistic assessment of financial flows, for SAP planning	Chr Aid

2. Poverty

focus on redressing inequities created by market; bebefits	Africa
disproportionately to poor and disadvantaged sectors	
emphasize local understandings of poverty; enable	Africa
locally-based initiatives; expand opportunities	
for poor people to foster new mechanisms of social	
integration and support.	
human development lending should be at least 60%;	Africa
adjustment and infrastructure less than 40%	
(in SSAfrica, or globally?)	
'directly' target for poverty reduction; 'structural	Asia

causes,' build 'long-term capacity' of poor and their institutions.

PAs; improvements needed, gender, participatory	Chr Aid
Poverty Assessments should be made public	BFW
Expand use of participatory poverty assessments; use WB funds, not donor trust fund money, to do this. "As a rule" (BFW) these should include gender and hunger issues.	BFW
Country assistance strategies: incorporate PAs; make explicit how reforms help the poor	Chr Aid Oxfam
Social Impact Assessments; these discretionary assessments of project impact should be 'required for all projects & programs which affect the well-being of various stakeholders, especially poor people.' (BFW)	Chr Aid BFW
Social/environmental goals should be set and monitored for projects/progreams; this is now done for social sector lending.	BFW
Expand poverty targeted investments from current 40% of IDA to 55-60% in 1995; give increased emphasis to PTIs that expand poor people's access to productive assets.	BFW
Independent assessment of PTIs 'to determine how they could more meaningfully measure the distributional aspects of poverty.'	Oxfam
Project lending 'conditional on compliance with the environmental and social guidelines in place'	Oxfam
Half of IDA resources for human resource dev	FOE
Action plan for primary education for all	FOE
Action plan for micro-enterprise promotion	FOE
Follow up to Hunger Conference of 11/93	BFW
3. participation	
full participatn by poor & affected; indigenous capacities & knowledge; access to timely information.	Asia
full implementation of participation action plan	Asia BFW
use local experience, knowledge, experts	Africa

full participation (governments, civil society organizations, 'beneficiaries' in all processes: poverty assessments, public expenditure reviews, policy framework paper negotiations, country assistance strategies, project design, implementation & monitoring)	Africa
participation action plan, especially in macro policy	Chr Aid
high-level advisory group, to lead full implementation of action plan	FOE BFW
Give more emphasis to participation by poor people	BFW
Fund the Participation Regional Action Plans	Oxfam
 4. Debt	
'no further diversion of IDA for debt repayment'	Asia
'no recourse to IDA funds as a soft option to address' MDB debt overhang	Africa
paying IBRD interest with IDA funds "inappropriate"; Bank should develop program of IBRD debt relief using cash reserves.	FOE
"rapidly expand" number and value of actions under the Debt Reduction facility for IDA-only countries	BFW
Expand "fifth dimension" in short term	BFW
WB work with members to outline debt relief and restructuring approaches for debt owed to IFIs	BFW
a strategy 'separate from IDA' for multilateral debt	Africa
consider WB reserves for multilateral debt relief	Chr Aid
 5. Resettlement	
full, effective implementation of 1994 policy	Asia FOE
 6. Regional and country allocations	
'judicious and targeted application of IDA credits' to India and China	Asia
Focus on Africa; at least 60%	FOE
Include poverty-focused programs in countries eligible for IDA but excluded from funding	Africa
45-50% of IDA funds to Africa 'subject to performance	Oxfam

7. Institutional reform

decentralize staff, utilize local resources, tripartite consultations	Asia
improve skills mix	Chr Aid
Quantifiable goals set for new hires of staff with grassroots experience	BFW
appraise staff by quality of loans; promotion criteria rewarding work on participation, sustainable dev.	Chr Aid BFW
decentralize decision-making regionally	Chr Aid
full implementation of information reforms	FOE BFW
revise disclosure policy to allow release of project documents and ESW in early stages of planning/design	Oxfam
strengthen Environmental Dept role in project selection and design	FOE
public review of streamlined operational policies	BFW
full implementation of information and Independent Inspection Panel	BFW
Inspection panel: remove requirement of Board approval of investigations; public release of panel's recommendations, memos, final reports, and WB responses	Oxfam
'rethink' project cycle	BFW

8. Monitoring

compliance with past agreements	Chr Aid
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9. Ownership and Accountability

full implementation information disclosure	Chr Aid
EDs should oversee staff implementation closely	Chr Aid

10. Infrastructure

end use for large-scale dams and power; shift to sewer, railroad and public mass transit	FOE
--	-----

11. Military spending

link IDA access to progressive reductions mil spending	FOE
--	-----

12. Proposal for an independent IDA

FOE

13. Global environment

no IDA/IBRD funds undercut objectives of major international conventions; energy efficiency and conservation; phase out ozone-depleting

FOE

14. Rethinking growth

Greater emphasis from WB on "mismanagement, protectionism and unsustainable consumption among its donors...." BFW

IV. The significance of NGO Reform Proposals and 'Conditions'

What do we mean by citing these issues: are they 'conditions' on our support for the replenishment? For future support? Are they expressions of concern with no 'condition' intended?

Do we state a minimum level of compliance that we will expect? What do we threaten or promise -- a withdrawal of support? Loud complaining?

Most of these are conditions that we want governments to adopt as they negotiate the replenishment. Are they also our own standards, by which NGOs will judge the Bank's implementation of IDA-11? Would it be useful to agree on such NGO standards, publicize them widely, and structure the monitoring effort, as proposed by the African NGO paper, around them?

Are the conditions verifiable? Is there a numerical measure attached to them? Is a yes/no answer possible?

Do we use 'carrots' or 'sticks' to encourage change? In what cases is it better for us to propose a reward rather than a punishment?

Following are examples of the formulations agencies have used:

Africa: calls on African NGOs, voluntary and community-based organizations to monitor IDA impact, publicize to governments, donors and the World Bank.

Asia: "support is conditional upon...."

Christian Aid: "conditions that should be attached":

Oxfam: "Recommendations" - three-tranche release, annual reviews to improve poverty focus

BFW: support will continue if progress is made on these conditions.

PROFILE ON NGOs ATTENDING THE MEETING WITH Mr. WOLFENSOHN

Barbara Bramble, National Wildlife Federation. One of the longest serving NGO Bank-watchers; originally focused on Brazil issues such as Polonoroeste (early 80's); helped form an international NGO alliance on Bank issues. Has focused on debt, and is widely credited for her role in developing the idea of "debt-for-development swaps". She gave rather negative testimony on the Bank during IDA 10, but has increasingly become more supportive since then, particularly as developing country NGOs criticized US NGOs for jeopardizing IDA 10, and as many of the reforms her NGO sought were taken forward by the Bank. So even before the swing to the Republicans she was voicing support for IDA. Her NGO's magazine recently carried a strong statement explaining their change of stance. An important ally, highly articulate and well connected on the Hill.

Ian Bowles, Conservation International. CI is a very large, long-established NGO. Bowles (who used to be a Hill-staffer) often gives testimony in support of the Bank. He is one of the Bank's strongest NGO supporters, particularly regarding the Global Environment Facility. CI frequently gets Bank contracts in natural resource management, indigenous peoples, national park fields.

Scott Hajost, International Union for the Conservation of Nature Only recently started as the head of IUCN's Washington office. IUCN is a very large international organization, based in Gland, Switzerland. It variously describes itself as an NGO and as an official body, since it embraces government agencies. IUCN is currently very keen to forge close operational links with NGOs in a variety of countries. It is a supporter of IDA, but not active in lobbying for IDA.

Korinna Horta, Environment Defense Fund. EDF is one of the most effective, relentless and harshest critics of the Bank. It is also one of the most prominent US environmental NGOs with a very large membership. EDF is based in New York, but their international program (principally directed towards the World Bank) is run out of their Washington office. This seems to run rather independently from their headquarters; and the bulk of EDF members are interested in domestic, rather than international, issues. The leading activist on the Bank in EDF is Bruce Rich (an attorney), who is vitriolic in his attacks on the institution, and almost obsessive in the documentation he maintains on the Bank. He is the author of last year's "Mortgaging the Earth", which has become the "bible" of the Bank-bashers. Ms. Horta reports to Bruce Rich, but takes a less aggressive stance. She is an economist, with much experience in Africa and Indonesia. EDF is a member of the Fifty Years is Enough campaign; its current line is to support IDA (conditionally), so as "not to throw the baby out with the bath-water". To any reader of their statements, the "Yes" is so eclipsed by the "but" that probably only an attorney would detect their endorsement of replenishment.

Chad Dobson, Bank Information Center. He is one of the most influential, best informed and best connected Bank lobbyists. BIC is a small organization (about 5 staff), but is extremely effective in terms of accessing Bank documents and disseminating them to developing country and European NGOs, and hence is extremely popular overseas. BIC's style is "back stage"; they lobby one-to-one at high level, bring people from overseas to give

testimony or attend key meetings, introduce people to each other; but they rarely give testimony themselves. They have been particularly active on the disclosure issue, and serve on an informal Bank-NGO working group on this. BIC is not anti-Bank, mostly works with pro-IDA NGOs, though do tend to concentrate on the things they see as wrong, because they see their mission as reform of the Bank.

Frances Seymour, World Wildlife Fund (US). A very bright, experienced lobbyist, who worked for many years with Ford Foundation in Indonesia. She personally, and her institution (more so than WWF International - see above), is very sympathetic to the Bank and very supportive of IDA. She gave extremely positive testimony on the Hill twice recently on the subject of IDA, but also wrote a letter to the Bank setting out some major things WWF feels the Bank should do if it is to keep the NGO support it does have. WWF works with the Bank operationally on projects. WWF has said on IDA: "Continued participation of the US in the financial support and governance is a sound and cost-effective investment in global economic, political and environmental security." (David Reed of WWF International was not at the meeting, though his name appears on the list).

Marijke Torfs, Brent Blackwelder, Friends of the Earth. This is perhaps even more anti-Bank than EDF (above). FoE house the "Fifty Years is Enough" campaign (FYE), and their comments to date on IDA have been very negative. FYE materials have appeared to call on Congress not to give money to the Bank, but they claim that they meant IBRD, not IDA. They want IDA taken out of the Bank and run separately. Ms. Torfs is a very intelligent woman, works mostly on IMF issues. Mr. Blackwelder (an attorney) is, like Ms. Bramble and Mr. Williams, one of the "grandfathers" of Bank-campaigning, very opposed to large dams. FoE are scrutinizing some IFC projects, and the Bank's energy and transport operations. FoE have said of IDA: "If a [reform] package [along the lines FoE recommends] were agreed to and a process was established for considering the restructuring of IDA, ...the replenishment of IDA 11 would be supported by many NGOs."

Lori Udall, International Rivers Network. Views on the Bank and style of campaigning are similar to those of Bruce Rich, who she used to work for before they fell out. In other words she takes up very specific issues, researches them very carefully, and is very aggressive in her arguments. She is very articulate, an attorney by training, and was the most active US campaigner on the Narmada Dam issue, and more recently has taken up Arun. In evidence or at meetings she will always voice criticism of the Bank. She might, like her former mentor, be conditionally for a replenishment, but in effect her lobbying can be assumed to be anti-IDA. IRN is a small, San Francisco based organization comprising individuals who have either a technical or a recreational interest in rivers, and who are against large dams. IRN took on Ms. Udall to open a Washington lobbying office after she left EDF. IRN is a member of FYE.

Larry Williams, Sierra Club. This is one of America's most established environmental organization. Mr. Williams was one of the early Bank campaigners, but Sierra no longer does much original work on the Bank. Now they react rather than initiate. As such their evidence is not likely to be very effective, though they are likely to be more anti than pro. Member of FYE.

NOTE

May 18, 1995

To: Mr. James Wolfenson
From: Andrew Steer

Interactions with Environmental NGOs

1. Dinner with Brent Blackwelder:

Jane asked for my suggestions on potential additional guests for your dinner with Brent Blackwelder. My recommendation would be that you add a few heads of environmental NGOs. In rough order of priority, I would suggest:

*Always
remember to bring
on a player*

Lester Brown, President, Worldwatch
Jonathan Lash, President, World Resources Institute (WRI)
Kathryn Fuller, President, World Wildlife Fund
Russell Mittermeir, President, Conservation International
Fred Krupp, President, Environmental Defense Fund (Bruce Rich and Karina Horta both work for EDF)
John Sawhill, President, Nature Conservancy
Jay Hair, President, National Wildlife Federation and President of IUCN (International Union for the Conservation of Nature).
John Adams, Executive Director, NRDC

There are others too -- such as Sierra Club, Audubon, GLOBE, Greenpeace etc., that over time would also be good to meet, but I would recommend the above 8 as the first priority.

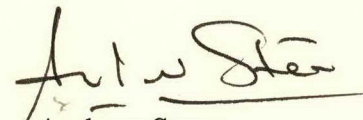
Each of these organizations are both working with us (on operational and analytical issues) and seeking to change us. With some (WRI/WWF), professional operational collaboration is dominant. With others (EDF, NRDC) advocacy and debate predominates. The mix would lead to a rich conversation on environmental challenges in both rich and poor countries and on the need for the Bank to be a more aggressive player in finding solutions.

2. Reception Hosted by Kathryn Fuller

We would recommend that you accept Kathryn's offer to host a reception for you to meet some of the other NGOs. WWF (US), which she heads, is a tough yet constructive partner with the Bank. (We are incidentally currently doing some interesting joint work with them on the interactions of macroeconomic policy reforms and the environment, and on "green" national income accounting).

3. Meeting on Food Security and Agriculture

You have received a letter from Ambassador Robert Blake, Chairman of the Committee on Agricultural Sustainability for Developing Countries. This is a thoughtful and energetic organization which continues to make serious proposals to the World Bank for action. In our judgment, Bob Blake would be a good host for a meeting with NGOs on the subject of food security and agriculture. 2


Andrew Steer

JAMES D. WOLFENSOHN

1818 H STREET, N.W.
WASHINGTON, D.C. 20433

Phone: (202) 458-5120
Fax: (202) 522-3433

Outgoing
(see my note)

May 4, 1995

*What about
a time out
right?*

Mr. Bruce Rich and Ms. Korinna Horta
International Program
Environmental Defense Fund
1875 Connecticut Avenue, NW
Washington, DC 20009

Dear Mr. Rich and Ms. Horta:

Thank you for your letter of April 26, 1995. I was very pleased to have the opportunity of meeting the Washington-based representatives of environmental organizations on April 3, 1995. Judging from the quick feedback I have received, it is certainly encouraging to see the constructive approaches that are being taken toward making the Bank an effective and sensitive institution.

I agree with the importance of the three institutional measures – strengthening the *Next Steps* action plan, empowering Bank technical departments, and increasing transparency and information disclosure – you and Ms. Horta suggest.

With regard to the first, I concur with the need to actively follow-up on the *Next Steps* action plan. As you can appreciate, this is a matter that is at the front and center of many discussions, both with and among senior Bank managers I have met. I have noted your assessment that there is a perception about continuing management problems within the Bank, and I want to assure you that addressing such concerns will feature prominently on my agenda. The second measure, concerning quality control and the role of the Bank's technical departments, I must confess that I will need to fully understand the processes before I can comment on them. Finally, I fully agree that disclosure of information and increased transparency are both important issues, not only for the Bank but also its member countries. Here too, I will first need to ascertain where we are, and how the situation can be improved.

As you know, I expect to take up my new position on June 1. Soon thereafter, for the first six months, I intend to travel extensively in all the regions where the Bank operates, seeking views about how the Bank can more effectively serve its member countries. I am confident that these visits will provide me the necessary insights as well to address the three issues you raised. I look forward to sharing my evolving views with you, and others in the development community, from time to time.

In the interim, I encourage you to share your ideas and concerns with Mr. Ismail Serageldin, the Bank's Vice President for Environmentally Sustainable Development, in the context of his regular meetings with the Washington-based NGO community. I was encouraged to hear that the agenda for these meetings is developed collaboratively with NGOs.

Again, thank you for sharing your concerns and I am looking forward to continuing the dialogue that has gotten off to an excellent start.

Sincerely yours,

James D. Wolfensohn

You suggested a lunch or
dinner sometime.

Andrew Steer recommends
Pomee + Korinna
NOT including with Blachwelder,
but as keep them to the
WWF reception hosted by
K. Fuller



Bruce Rich
(incoming)

426
4/28
EN/AD

April 26, 1995

Mr. James D. Wolfensohn
The World Bank
Washington, D.C. 20433

Capital Office
1875 Connecticut Ave., N.W.
Washington, DC 20009
(202) 387-3500
Fax: 202-234-6049

Dear Mr. Wolfensohn,

We thank you very much for meeting with Washington-based representatives of environmental organizations on April 3, 1995. As Bruce Rich, director of EDF's international program, had been away on travel at the time of the meeting and just returned recently, it is now that we are responding to your request to submit to you a note on how we envision our future cooperation.

We were encouraged to hear from you about your determination to "turn this battleship around" and to move the institution into a direction where it can effectively improve the lives of poor people in borrowing countries by ensuring that Bank investments are environmentally sustainable, socially responsible and make economic sense in the long-term.

During the meeting you mentioned that it would take about six months for you to delve deeply into the intricacies of Bank management and activities, which would help you lay out your own reform agenda. We look forward to working with you during this important time by continuing our ongoing research and advocacy efforts to provide critical analyses and information on specific Bank projects and policies, information that we will be happy to share with you first before circulating it publicly. We hope our work will provide a useful perspective for you, since it reflects independent professional analysis both from within EDF and from outside research institutes and academic sources, and is also based on the input of local NGOs in borrowing countries that report on the actual implementation of Bank policies and activities in the "field."

In response to your suggestion, we would like to briefly outline our short term and longer term vision of changes we think would help the Bank effectively realize its mission.

Over the short term--the next six months to one year--there are three institutional measures you could consider and initiate which we believe would begin to address deep rooted institutional problems in the Bank responsible for poor project quality:

1. Revisit and strengthen the "Next Steps" action plan the Bank is carrying out to remedy the problems identified in the Wapenhans Report.

We believe that the "Next Steps" Action Plan fails to take sufficiently effective measures to address the systematic portfolio problems documented in the Wapenhans Report. Needed changes in the Bank's administrative and budgetary procedures to make country lending operations more accountable for performance and for carrying out Bank policies are not addressed, and tangible commitments and timetables to achieve specific benchmarks in improvement in project quality are also lacking. Last month we prepared an extensive analysis of the Next Steps action plan, and sent it to the U.S. Treasury Department requesting a response and action. Bank management response has been

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128 East Hargett St.
Raleigh, NC 27601
(919) 821-7793

1800 Guadalupe
Austin, TX 78701
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Mr. James D. Wolfensohn

April 26, 1995

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extraordinarily defensive, amounting to a blanket claim that EDF "grossly misrepresents and misinterprets the Next Steps action program." We do not believe this is a balanced nor constructive response to what are widely perceived continuing management problems in the institution. We hope you will examine the situation independently, and judge for yourself what additional actions may be needed.

2. Empower the Bank Technical Departments by giving them more budgetary and administrative autonomy.

The main functional locus for independent review of projects in preparation lies in the four technical departments that service the Bank's six operational regions and their respective country departments. If quality control is the goal, these technical departments need to be strengthened. For example, currently the technical departments are largely beholden to the country departments for their budgets, which we believe serves as a disincentive for truly independent evaluation of whether Bank policies are being sufficiently adhered to in project preparation.

3. More transparency and disclosure of information in project preparation, within the necessary limits of the Bank's need to keep certain information confidential in dealing with its clients.

The Bank's new information policy still holds almost all project documentation confidential before loan approval. More transparency earlier on in the project cycle would significantly contribute to improved project quality, and help avoid repetitions of Bank involvement in controversial, questionable projects that are challenged at a stage where the Bank is already too involved and committed to easily change course. At the time Bank management was considering the new policy, the Bank's then Directors of Environment and External Relations proposed an alternative policy which would have made most project preparation information publicly available. This was a commendable proposal that balanced the need for transparency with the need for confidentiality, and it should be revisited.

Over the long term we believe that the Bank needs to focus more clearly on the goal that Bank Presidents over the years have repeated as the institution's "overarching objective:" poverty alleviation through means that are environmentally, economically and socially sustainable over the long term.

Specifically, we believe a much higher proportion of Bank lending should go for population, education and health programs; for so-called micro-enterprise lending (a strong personal interest of the current U.S. Executive Director...); and for activities that will assist developing nations to achieve the goals of international environmental conventions such as the Climate and Biodiversity treaties signed at the Rio Earth Summit. Most importantly, future Bank lending in the energy, water resources and transport sectors should make end-user efficiency and demand-side management top priorities: this is an area where economic efficiency and environmental conservation are totally complementary and mutually reinforcing. (The issue is not to cease financing all new supply infrastructure in borrowing countries, but over a given time slice to prioritize user and demand side efficiency investments coupled with a more selective approach to new investments in supply infrastructure—a principle that is set out in the Bank's energy efficiency policy paper, but not implemented in its operations).

Mr. James D. Wolfensohn

April 26, 1995

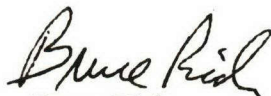
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We welcome the interest that you have expressed in maintaining a frank and open dialogue with voices outside the Bank. We and other groups believe that this approach will help you obtain a more complete picture of the effects and efficacy of Bank operations. We believe that bureaucratic self-interest and institutional situations of conflict of interest may strongly discourage internal dissidence in some instances, making it all the more important that outside analyses and input be available to you.

We would like to take you up on your offer to meet with us again after you officially have joined the Bank and had a chance to familiarize yourself in more detail with the way the institution works. We would like to discuss concrete steps and measures by which the battleship - with you at the helm - will turn around and become able to achieve the Bank's stated goals of helping the poor and protecting the environment.

We wish you success with your important endeavor at the World Bank.

Sincerely,



Bruce Rich
Director, International Program



Korinna Horta
Economist, International Program

Brent Blackwelder - Friends of the Earth

Brent is one of the "old hands", both in terms of campaigning on dams and World Bank campaigning. This year he became President of Friends of the Earth US (a national environmental group founded in 1969, and one of 52 national members of FOE International). His PhD is in hydrology and so is extremely well versed technically in the issues of dams and water resource use, and developed his political/campaigning skills in fighting large dams domestically.

Before Friends of the Earth, he worked with the Environment Policy Institute (EPI), which was a Washington-based lobbying organization. In this capacity he worked the Hill ferociously and meticulously. In the early 80's, in common with other leaders of the DC environmental community, he started looking at environmental consequences of USAID operations, and in 1983 was one of the initiators of campaigning to reform multilateral development banks. Since it worked on domestic as well as international issues, and because it was well resourced and energetic, EPI was extremely well connected on the Hill. Having been involved in the business for so many years, Brent is probably today about the best connected environmental lobbyist on the Hill. Many of his close contacts are now very senior staffers, and he has close friendships with Senators and Representatives. He has also known Al Gore for many years. In 1990 FOE merged with Environment Policy Institute, and at this point he became a Vice-President of FOE for Policy.

About 8 years ago Jim Barnes joined FOE and started campaigning on Bank-related issues, and a few years later Marieke Torfs joined the staff, working on structural adjustment, and one or two years ago Jim Barnes left US to work for FOE in France (where he keeps up with some of his old work on the Bretton Woods Institutions) and Andrea Durbin has joined the FOE staff to take over Bank-related work on specific projects and sectors (particularly transport and energy). With the addition of such specialists, Brent himself has moved away from detail work, but maintains a FOE leadership role on issues of dams, and the "governance" of the Bank. He is also a strong spokesperson on US policy. In a recent press statement calling for reform of US aid procedures, for example, he said that the result of State Department and Treasury's power over US aid resources has been "the undermining of sustainable development around the world".

FOE was one of the founding members of the Fifty Years is Enough (FYE) campaign in 1993, and is represented on its steering committee by Ms. Torfs. FOE and Greenpeace (between whom there is considerable rivalry) are the two most active members of FYE which have large memberships.

Brent's father was an Episcopalian Minister, and this has clearly been very influential in providing both a strong moral underpinning and a fervor to his campaigning. His style can be deceptive, however. In meetings he usually comes across as soft-spoken and reasonable - someone to do business with, but his lobbying and testimony are aggressive, as if he just wants to close down the Bank. For example in 1993 there was a major meeting between the Environment Department and leading NGOs (including Brent) to discuss issues of the urban environment. It was a very positive exchange at which he was congratulatory about the

Bank's work, but within days was unreservedly castigating the institution on similar issues, with no reference to the meeting.

Summary

He is one of the best connected lobbyists on the Hill

He is technically very well versed on issues of large dams

His campaigning approach derives from a strong moral perspective

John Clark, May 15, 1995

DR. BRENT BLACKWELDER
PRESIDENT, FRIENDS OF THE EARTH
September, 1994

Present Position: President of Friends of the Earth United States, a member of Friends of the Earth International, the largest network of campaigning organizations in the world with member groups in 51 countries.

Environmental Achievements: helped organize the campaign to reform the lending practices of the World Bank and the other multilateral development banks starting in June of 1983. Helped to enact a number of laws guiding the U.S. executive directors to the multilateral development banks, protecting tropical forests, promoting energy, and conserving biological diversity. Drafted the law calling for a change in the method of calculating Gross National Product to factor in depletion of natural capital. Worked in the 1970's and early 1980's to reform U.S. water policy, helping citizens to eliminate over 150 unnecessary and environmentally damaging dam and channelization projects and saving taxpayers over \$25 billion in the process. Blocked omnibus rivers and harbors authorizations for the Corps of Engineers for ten straight years (1976-86) until the Corps and the Congress agreed on cost-sharing reforms to curtail pork barrel projects.

As Vice President for Policy at Friends of the Earth, established the first full-time position among environmental organizations to monitor federal appropriations and the first full-time position to deal with environmental changes in the Tax Code.

Organizational Activity & Membership:

A founder of the Environmental Policy Center in 1972 to provide eyes and ears for hundreds of independent citizen organizations across the nation who were concerned about critical environmental and energy legislation. Helped form a tax deductible affiliate, the Environmental Policy Institute, two years later. In 1988 the Institute merged with Friends of the Earth and the Oceanic Society.

Member of the Board of Directors of the League of Conservation Voters, the nation's largest environmental political action committee; served as chair of the Board from 1980-1991.

A founder and board member of American Rivers, Inc., the nation's foremost river saving organization. Served as the first chair of the Board from 1973-1986. Since 1973 the number of rivers in the national scenic rivers system has increased from 8 to over 130.

A board member of 20/20 vision.

Awards: National Science Foundation Fellowship 1964
Woodrow Wilson Graduate Fellowship 1964
Outstanding Young Man of America (US Jaycees, 1979)

Education: BA Duke (Summa cum laude and phi beta kappa) 1964
MA Yale (mathematics) 1966
PhD Maryland (philosophy) 1975

Woodrow Wilson Fellowship Foundation Program at Black Colleges

Served as Chairman of the Mathematics Department at Philander Smith College in Little Rock, 1966-68, as part of this program. Prepared the Faculty Handbook on procedures to enable the College to obtain accreditation; obtained an athletic field for the College.

Publications (partial listing)

A Survey of Water Conservation Programs in the Fifty States/A Model Water Conservation Program for the Nation (1982), with Peter Carlson.

Bankrolling Successes: A Portfolio of Environmentally Sustainable Development Projects (1988), with James Barnes and Walter Reid.

"In Lieu of Dams," Water Spectrum, U.S. Army Corps of Engineers, Fall, 1977.

"Disasters in Water Development," sponsored by 13 national environmental organizations (1973).

"Disasters in International Water Development," Environmental Policy Institute (1984) with Peter Carlson.

"Alternatives to Traditional Water Development in the United States," Ambio, Royal Swedish Academy of Science, v.16, no.1, 1987, with Benjamin Harding and Theo Colburn.

"The Role of the U.S. in Shaping the Global Environment," The Environmental Professional, v.9, 1987.

Congressional Testimony: Over 75 appearances before the House and Senate.

Radio/Television: Numerous appearances on radio and television on a range of environment and energy issues.