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THE WORLD BANK

Washington, D.C.

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R2002-036 Other #: 21 Box #: 186471B

President Wolfensohn - Briefings Books for Presidents Meetings - Meeting Material
Prince of Wales - Photo Op - July 18, 1996

Meeting: Prince of Wales

Thursday, July 18, 1996

10:30 am - 12:00 pm

Carlyle Hotel

- Environment
- Agriculture - in Barbados
- action research
- City Planning - Architecture
- Corruption
- Culture

Archive Management for the President's Office

Document Log

Reference # : Archive-00706

1288

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: MEETING: PRINCE OF WALES // PHOTO OP

Venue: CARLYLE HOTEL / PRESIDENTIAL ROOM

NOTE: PHOTO WILL BE TAKEN AT INITIAL GREETING AND AT BEGINNING OF MEETING

CONTACT: MS. ELSPETH WALKER AT 44-171-930-4832 // FAX: 44-171-930-0119

IN ATTENDANCE:

HIS ROYAL HIGHNESS THE PRINCE OF WALES

MR. ROBERT DAVIES, Chief Executive of the Prince of Wales'

Business Leaders Forum

MR. STEPHEN LAMPORT, The Deputy Private Secretary to

HRH The Prince of Wales

MR. JAMES WOLFENSOHN

MR. ISMAIL SERAGELDIN

MR. RICHARD FRANK

EXC: ATSUKO

DATE: 07/18/96

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

NEW
DIRECTIONS
AND NEW
PARTNERSHIPS

James D. Wolfensohn

President

The World Bank Group

Address to the
Board of Governors
Washington, D.C.
October 10, 1995

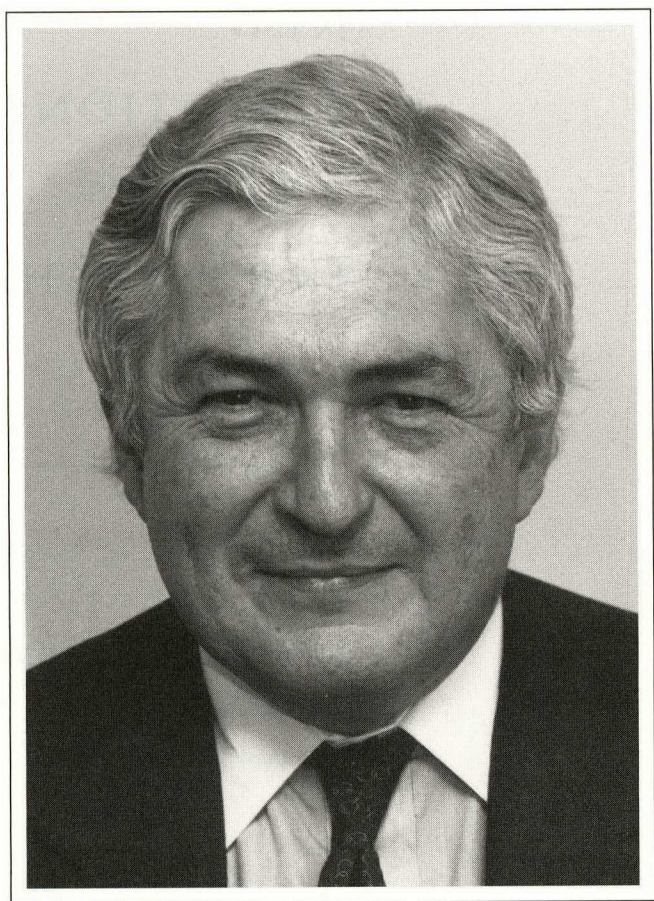
NEW
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AND NEW
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It gives me great pleasure to welcome you to Washington for these Annual Meetings of the World Bank and the International Monetary Fund—my first as president. I extend a very special welcome to the delegation from Brunei, which today becomes the Bank's 179th member country.

I am greatly honored by my appointment as president of the World Bank Group, and I wish to thank you for the confidence you have shown in electing me to this position. Elaine and I pledge to work hard and, with your help, to make a contribution to the dream that we all share: a better world for our children.

Let me say at the outset that I feel greatly privileged to be working with my friend Michel Camdessus, who is giving me so willingly the benefit of his immense experience.

The Bank Group has a distinguished record of achievement. Since my arrival four months ago, I have visited many countries and projects and have been gratified and encouraged by the strong partnership that exists between us, our clients, and our member governments.

I have learned that development is a tough and complicated business. After fifty years of operation, and with new leadership, now is a good time for the Bank Group to take stock. The world around us has changed, and its expectations from, and demands on, our institution have become ever more complex. I regard this as a difficult period, but one of enormous opportunity.

One thing is clear: we must continue to act—so that poverty will be alleviated, our environment protected, social justice extended, human rights strengthened, and women's rights advanced, all in the cause of a more just and peaceful world. We must ensure that our organization functions at the highest level to achieve these goals.

In embarking on this task, I am very conscious of the sadness we all feel at the tragic loss of my predecessor, Lewis T. Preston. Lew was a great banker and humanitarian. He loved the Bank, and he and Patsy worked hard to improve its effectiveness and enhance its reputation. We are grateful for all that Lew gave to the institution, and we would like Patsy and the family to know that he will always be remembered with affection. In particular, Lew's belief that educating girls is the best investment a country can make is recognized in the Lewis T. Preston Education Program for Girls, recently established in his honor.

What are you expecting from me after my first few months with the Bank? Weighty pronouncements? Massive reorganization plans? Headline news? Instead, I am about to give a progress report, an indication of my approach to my new responsibilities, and some insight into the direction in which I would like to lead the Bank.

A SENSE OF DIRECTION

To gain a sense of that direction, I have spent about a third of my time in these past four months traveling to our borrowing and lending countries—talking and listening to government leaders, business people, activists in nongovernmental organizations (NGOs), farmers, trade unionists, students, mothers, and children. My wife and I have visited dozens of the projects that the Bank is supporting, and a number of images have stayed with me:

- The woman entrepreneur whom I met in the small town of Katwe, Uganda, converting banana peels into charcoal briquettes and using the proceeds from her sales to improve her community. She had all the pride of the chairwoman of a multinational company as she shared with me her pencil-written records.
- Villagers in the arid province of Gansu, China, to whom a Bank-financed project delivers water through a 50-kilometer system that traverses mountains and valleys. Those villagers are using their own resources—in partnership with government experts—to invest in agriculture, roads, and education for their children.
- Slum dwellers in Port-au-Prince, Haiti, and in Salvador, Brazil, working—with our help—to install clean water and sanitation facilities and thus contribute to their own health and productivity while protecting their environment.

I saw enormous challenges. The monumental power and fragility of the Amazon and the damage done by people in need of land—and in need of hope. Schools in Africa, with ninety children in a class, working ten to a book and two to a pencil. The appalling conditions facing the people of Gaza, where incomes have been stagnant for a decade, yet where investment and job creation must be part of any

lasting peace. The islands of the South Pacific, where our environment is under attack as foreign entities seek to destroy natural forests for profit without any long-term concern for the future of the islanders.

Although my odyssey is not complete, I have learned of the tremendous diversity among the Bank's clientele: dynamic growth in East Asia and parts of Latin America, but not enough growth in much of Africa; the unique challenges of transition in Eastern Europe and the former Soviet Union; and the special needs of states that either are failing or are struggling to be born—from Burundi to Bosnia.

I have learned that the real test of development can be measured not by the bureaucratic approval process but by the smile on a child's face when a project is successful. I have learned of the power of development when people are given the chance to participate in it. Most of all, I have learned that there is nobility and capacity in the people we are trying to assist—and that there is a vital need for the World Bank Group to help with the huge, unfinished development agenda.

The developing countries deserve our support for moral and social reasons. But they also need our support because they represent future growth for us all. And equitable growth means stability for our planet.

If the Bank Group is to be as effective as it can be in contributing to this goal, it must adjust to new conditions. And the key questions guiding change are these: What do you, our members, need from us today, next year, and five years and more from now? Where can we make the crucial difference?

As I attempt to give a sense of my current thinking, let me organize my remarks along the following lines:

- What is the context in which the Bank operates today?
- What is the role of the Bank in development—now, and in the coming years?
- What can the Bank do to achieve its objectives in an effective and accountable manner?
- What immediate and early initiatives are we taking?

THE CONTEXT: A CHANGING WORLD

We are, of course, operating in a context that is vastly different from that of ten or even five years ago. The post-Cold War era has witnessed perhaps the most momentous changes in economic history:

- Country after country has moved away from command-and-control to greater reliance on markets.
- The rapid expansion of trade and technology has accelerated global integration, with the developing countries contributing 75 percent of the growth in world exports in recent years.
- There has been a transformation in private capital flows, which now total three times official development assistance.
- As democracy has swept the world, a host of new players have added their different strengths to the cause of development—in the private sector, among NGOs, in local communities, and in civil society.

All this has raised expectations of development and made the potential for development greater than ever before. Yet the challenges, too, are growing.

We have made good progress on poverty reduction in several areas—in East Asia and some parts of Latin America. But there are still 1.3 billion people living on a dollar a day or less. Adequate sanitation and electricity remain beyond the reach of two-fifths of the world's people.

This shocking poverty is fueled by continuing rapid population growth of more than 80 million people a year, 95 percent of them in the developing countries. And it is

compounded by the threat to biodiversity and the environment, with continued profligate waste in the industrial world and new challenges in the developing world.

Given current population and urban growth rates over the next generation, industrial output and energy use in the developing countries will increase fivefold, carrying a risk of irreversible environmental damage. We must heed the warnings of the Rio Earth Summit and act to protect the world for our children.

I have been encouraged by the high priority now being given to the environment by more and more developing countries and by their increasing requests for the Bank's assistance in this area. The richer nations, since they are the greatest polluters, must share this burden. Progress is being made—through collaboration on the Global Environment Facility, for instance. But much more remains to be done. Without environmental protection, development can be neither lasting nor equitable. My commitment to the task is unequivocal.

The fundamental problems of equity between rich and poor nations also exist in regions that are growing dynamically. In Latin America the poorest 20 percent of the population receives less than 4 percent of the income and has even less of the assets. In other regions too, the gap between rich and poor is getting worse. The distribution of the benefits of growth presents one of the major challenges to stability in the world today. Social injustice can destroy economic and political advances. This is a challenge that must be addressed by the governments and leaders of the countries with which we work.

We must learn more about the why and the how of income distribution. We must measure progress not only in gross domestic product per capita but also in social and environmental benefit per capita, as we are seeking to do in some of our most recent work. And we must be aware of the close relation between peace and development. We cannot ignore crises such as those in Bosnia, Gaza, and Rwanda and the challenges they present to the world development community.

**The
Challenge
to IDA and
the Need
for a New
Compact**

It strikes me as bitterly ironic that just as we are reaching a consensus on how to address these challenges in our changing world, the threat to development assistance has never been greater. I refer here specifically to the funding crisis facing our concessional affiliate, the International Development Association—IDA.

As you know, IDA's basic constituency is the world's 3 billion poorest people. Ninety percent of IDA's lending goes to countries with per capita incomes below \$600. Using its global experience, IDA advises the poorest countries on their economic reforms. It is the largest investor in their education and environmental programs and in other vital areas, such as helping to combat AIDS.

With the help of IDA-supported projects, in the past several years alone malnutrition among infants was cut by half in 6,000 villages in India. Over 6 million textbooks were distributed to primary schools in Africa. And millions of women and children in Central America received basic nutrition.

In these ways and more, IDA is the backbone of the international effort to help the world's poorest nations help themselves. And yet, despite the record, there is a serious question about the fulfillment of some donor commitments under the tenth replenishment of IDA (IDA-10). Budget cutting by the U.S. Congress has led to delays and perhaps to large reductions in the size of the contribution by IDA's leading donor. And for every dollar cut by the United States, IDA could lose a total of five dollars as other nations reduce their contributions proportionately.

This means that if congressional estimates of a U.S. cut of approximately 50 percent materialize, overall donor contributions to IDA in the coming twelve months could be reduced from \$6 billion to under \$3 billion. Achieving an adequate IDA-11 for the next three years will be extraordinarily difficult if IDA-10 is reduced so drastically. This is not only a threat to IDA; it is a threat to the long-term viability of multilateral financing for development.

As Michel Camdessus has pointed out, if IDA is seriously underfunded, we will be faced with a world of increasingly unstable nations. Some of the ministers here today will have to abandon plans for building human resources, expanding education for girls, increasing the supply of clean water, investing in infrastructure, or moving soldiers out of the barracks and onto small farms. There are so many urgent tasks.

The donor community needs to understand the costs of an underfunded IDA. We must explain that world citizenship has a price and that IDA is central to the whole development process. National budget-cutting exercises in the industrial countries must give due weight to international considerations. Money saved now for domestic purposes will lead to huge costs later. It is in the donors' own self-interest to maintain an adequate level of support.

Obviously, IDA and its partners in government and civil society must be accountable and must be seen to spend scarce resources wisely and well. There must be a compact: in return for the donor community's ensuring that IDA has adequate resources, recipient countries and the Bank must ensure that those resources are used even more effectively. Projects must be well managed, and corruption must be eliminated. In addition, we need to provide better information about the benefits of this important work to donor governments—and to their voters.

The Problem of Debt

In addition to resource constraints, some of the poorer countries face serious problems of overhanging debt. Yes, private capital flows have exploded, but more than 80 percent of these flows has gone to about a dozen countries. Private investment is not yet the answer for the poorer countries.

We know that there is no universal solution to the problem of overhanging debt. A case-by-case approach is necessary. With current instruments, we are already providing

resources to help the majority of indebted countries meet their needs for both debt service and repayment. But for a small number of countries, the debt overhang remains just too great. And as it grows, new lending becomes less effective.

Roughly a quarter of the poorest countries' debt is owed to multilateral institutions. We must, therefore, review the options for addressing the problem of the countries that cannot escape from their debt overhang. You all know that the Bank and the IMF are studying the issue. Together, we expect to make some recommendations to our Boards and to bring our conclusions before the Development Committee at the spring meetings. The issue is difficult, and the options are many. But we believe that the problem merits serious attention and deserves a clear indication of what the Bank and the Fund can recommend.

Let me repeat: the crucial need to free up more resources—whether by reducing multilateral debt or by replenishing IDA—must be matched by the track record and by the commitment of the recipients to sound policies and effective, transparent implementation. This must be our compact.

THE ROLE OF THE BANK IN DEVELOPMENT

What is the Bank's role in this compact, now and in the future? As you know, the Bank has evolved throughout its history, from an agency for postwar reconstruction fifty years ago to a global development institution today. Recently I visited Japan, where evidence of the Bank's assistance is manifest—as it is in over two dozen other countries that have “graduated” from requiring our help.

As the needs of our members have changed, the Bank has changed to meet them. The Bank Group of institutions is one result. I have already talked about the crucial importance of IDA. But there is more to the Bank Group than IDA. And there is more to the Bank Group's work than just lending.

There is the International Bank for Reconstruction and Development—IBRD—whose original genius remains as valid, if not more valid, today as five decades ago: to borrow on the financial markets in order to fund long-term development through loans to governments; to use its guarantee power to mobilize additional private capital; and to transfer the lessons of development experience across countries. Like my predecessors, I am committed to sustaining IBRD's triple-A status as a borrower—because that is the bedrock of our effectiveness, allowing us to play our triple role as lender, adviser, and partner to our clients whose projects we assist.

There is the International Finance Corporation (IFC), which last year made loan and equity commitments of close to \$3 billion to help develop the private sector in sixty-seven countries. For every dollar the IFC invested, six additional dollars were leveraged from other sources. But this is far from being the only measure of the IFC's effectiveness. The range of its services is growing dramatically, from advice

on capital market development in Viet Nam to assistance with the privatization of agriculture in Russia. And it continues to push ahead on "frontier" issues of private finance: support for small businesses in Africa, or establishing a biodiversity fund for Latin America. Looking to the future, I believe the IFC can extend its reach—and expand its development impact.

There is also the Multilateral Investment Guarantee Agency (MIGA), founded in 1988, whose goal is to stimulate private investment by insuring against noncommercial risk. In six short years of operation, MIGA has leveraged total investment of close to \$9 billion in thirty-six countries. The only constraint on its doing more is its very conservative capital and gearing ratio, which I would hope to take up with our shareholders at a future point.

IBRD, IDA, the IFC, and MIGA are seeking to develop new products and instruments so that we can maximize the benefits for our clients. We have demonstrated our flexibility in a number of dramatic ways during this past year, from helping to strengthen Mexico's financial sector during the peso crisis to assisting with the creation of a new microfinance program for the world's poorest. To be even more responsive to our clients' diverse needs, however, we need to strengthen our organization along "group" lines—to take advantage of our collective services and experience. And that is one of my priorities.

From our past experience, we have found in country after country that sound economic policies are essential for stimulating growth, creating jobs, and helping the poor. We have learned that investing in people, particularly through education programs, is the principal engine of social and economic progress. We have seen the power

of the contribution of women, as the main agents for change in their families and communities. We know that infrastructure—power, transport, and telecommunications—is essential, and we will continue to support it as appropriate. At the same time, we have realized how critical it is to protect the earth's fragile environment—our land, our forests, our water. And we recognize the great present dangers of drugs and organized crime.

For me, the big lesson from a review of our history and from my travels is that there is no single solution. I have seen how interlinked are the pieces of the development puzzle. Our programs have to be part of a comprehensive development strategy that is rooted in a country's individual needs. It is in this context that our experience can be critically important to our clients.

Let me take one example which I saw in a village in Mali. There, an IDA-supported agricultural project has helped farmers increase their yields. Still, they need storage capacity and transport to market. They need a marketplace that is fair and a distribution system that is not monopolistic. They need access to credit and training in how to run their own small businesses. Beyond this, they need a legal system to protect their rights, assistance in setting up facilities for education and health, and a stable economic and political climate.

The government of Mali understands all this. But each part of the puzzle poses different problems and imposes different demands on capacities—both financial and managerial.

What I have seen has brought home to me the complexity of development and the benefits that can be realized when all the pieces fall into place.

Learning from others' experience is one of the keys. The Bank Group, because it is global, is uniquely placed to assist with the networking of development experience: agricultural extension from India to Uganda; private pension funds from Chile to the Czech Republic; macro-economic lessons from Malaysia to Ghana.

The ideas are legion. The lesson is straightforward: advice is as important as money. And one of the Bank's greatest strengths is that our advice is independent. Governments trust us.

Looking to the future, I see the Bank Group's central role as helping to bring all this together in a systemic approach to development: the ideas, the financing, the people—and a knowledge of all these components and of what it takes to build a successful development program. There is an extraordinary opportunity for this institution to leverage its unique capacity to integrate development and make it truly sustainable.

GREATER EFFECTIVENESS AND ACCOUNTABILITY

Although we have had notable successes in the past, the Bank's senior management and I agree that we can be even more effective in the future by sharpening our focus on the issues we are tackling and by judging our performance according to impact in the field. Of course, orderly process in the consideration of projects is critical. But results are what matter. I believe we can strengthen the rigor of both our analysis and our implementation. We must be prepared to be held accountable—and to reward our colleagues by the tests of the marketplace.

This will help us, in turn, to be more effective in achieving our basic mission: to reduce poverty and improve the quality of people's lives. You have heard me say that we can judge development impact by the smile on a child's face. We must organize ourselves—whether it be in our private sector work, including that of the IFC and MIGA, or in our activities on environment and human development—to deliver on that smile.

We must also acknowledge that we operate in the new world I have tried to describe—with new clients and new demands. Some of our clients have access to new alternative sources of money and advice. We think this is terrific. Our job is to make sure that we complement these alternatives—and stay relevant.

To do that, we have to change the way we do business. We must focus on our clients and results and break the armlock that, I sense, bureaucracy has placed on this institution. If we do that, then we will create a more profound change than any structural reorganization. I am talking here of liberating the talent and commitment of our wonderful staff—and harnessing that directly to development. In short, creating a results culture.

Let me outline some of my early thinking on how to get there:

- Externally, we can and must build stronger partnerships.
- Internally, we can and must be a center of excellence.

The Power of Partnerships

From my experience in the private sector, I know the power of partnerships. This was reaffirmed during my recent travels.

On the Loess Plateau of China I saw peasants working with government specialists, as well as with the Bank, to protect this immense part of the global commons. I saw partnerships too, in Chiapas, Mexico, where history has cruelly denied many people the chance of an adequate life. Working with the federal and provincial authorities, the Inter-American Development Bank, the private sector, research institutes, and NGOs, we are making a new effort to alleviate poverty and relieve social tensions. In the West Bank and Gaza I saw our expanding involvement with the United Nations and the European Union in helping to build the bridge between peace and development.

I know that the Bank is already an experienced partner. But I believe we can go much further. And we can start by working more closely with our shareholders and donors. Here, our Executive Directors play an indispensable role.

We must also deepen our collaboration—as we have begun to do—with the UN system, the IMF, and the World Trade Organization. We can expand our cooperation with the private sector, which plays an increasingly important role in development. And we can do much more to reach out to NGOs and civil society. Let me also pay tribute to the regional development banks with which we work, and to their leaders who have given me so much advice and help.

To be a good partner, we must be ready to listen to criticism and respond to constructive comment. There is no place for arrogance in the development business. I want to have a Bank that is open and ready to learn from others and that holds itself accountable. In that context, I regard our independent Inspection Panel as a valuable asset.

We must listen as we formulate our plans of action. Our friends are a great help. We cannot be fully effective, however, if our critics will not listen to us before they assess our positions and actions. Unconstructive and vitriolic criticism from outside does not help the people we are trying so hard to assist, and it creates a climate of resistance inside the Bank.

Everywhere I have traveled, I have met with representatives of the NGO community and civil society. We are really interdependent. But we must build mutual trust. I am committed to this endeavor.

Of all our partnerships, we must remember that the most important are those with the governments to which we lend—and the people whom they serve. It is a point worth repeating: we must get closer to our clients. This will mean continuing to strengthen our field presence while maintaining a very strong base at the center. At the same time, we must be mindful that the projects we finance are not World Bank projects—they are Chinese, Haitian, or Malawian projects. It is for the Bank to support them and advise on them. But it is for the countries to own them and be responsible for them.

Our commitment can only work with your commitment. Partnership is the key.

Excellence

Let me turn from the Bank's search for new partnerships to the search for excellence.

As I see it, there has been too much emphasis on lending volume and not enough on results on the ground; too much focus on economic reports and not enough on the effectiveness of the policy dialogue. Sometimes we have thought that solutions to our clients' problems lay in Washington rather than in the field. Making development impact the measure against which we want to be judged—and to judge ourselves—is my most important task.

As a step toward this goal, we must review our personnel and reward policies and invest more time and money in education and training for management and staff. I know that we have a long history of facilitating learning for our clients. Last year alone, our Economic Development Institute reached 7,000 people from 137 countries through its seminars and programs—and a multiple of that number through its training of trainers.

But much, much more can and will be done to create an internal learning culture—through exchange of best practices and through expanded training in educational institutions and businesses throughout the world. It is also my intention to increase opportunities to enrich our culture inside the Bank through more appointments to management and staff from outside the Bank on both a permanent and a medium-term basis.

We will accept nothing less than absolute standards of excellence. We wish to be the best in our business. Continual renewal of skills and constant focus on the needs of our clients will enable us to meet those standards.

OUR IMMEDIATE INITIATIVES

I have spoken of four main themes:

- The need for a new compact to ensure that resources are sufficient to meet the needs of the world's poorest people—and to ensure that those resources are used with maximum efficiency
- The need to take an integrated approach to development, bringing together its different strands to ensure sustainability
- The need for the Bank Group to strengthen and expand its partnerships, both global and local
- The need for us to develop further our institutional culture—to focus on excellence and results.

If that is the general direction, here are some of my immediate priorities for the coming months:

First, I will do everything in my power to ensure that IDA's funding is sufficient to meet the essential needs of its recipients—and to prevent an irretrievable setback to the global effort to reduce poverty. I ask for your exceptional help in that effort—in both IDA-10 and the planning for IDA-11.

Second, we will work with the IMF and others to help resolve the issue of multilateral debt for the most highly indebted, poorest countries.

Third, we will accelerate and deepen the effort to work with existing and new partners—with specific measures for reaching out to the private sector, NGOs, and civil society.

Fourth, we will launch the process of institutional change.

Fifth, we will enhance our work with clients to attract private and public investment in high-quality projects. This will include capacity-building initiatives for governments, the strengthening of legal and accounting systems and property rights, the marketing of opportunities, and the assurance to investors that they will have no nasty surprises in carrying out their plans.

Sixth, we must anticipate and organize for postconflict economic development programs, when war is replaced by peace.

I see the Bank itself, fundamentally, as a partnership—because it belongs to the world, to all of us. We who work here offer you our hard work and commitment. In return, we need your support.

Once again, let me say how proud I am to head the Bank Group and how much I appreciate the opportunity to contribute to the dream that we all share—of a better, more peaceful and more just world.

Together, we can make it a reality.

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

DATE: 06-Aug-1996 06:54 EST

TO: ISMAIL SERAGELDIN

(ISMAIL SERAGELDIN @A1@WBHQB)

FROM: Josie Bassinette, EXC

(JOSIE BASSINETTE)

EXT.: 80240

SUBJECT: Please See Attached: Prince Charles and Croatia

Ismail: I got a call late last week from Prince Charles' office re: a project in Mljet, Croatia that the Prince was visiting. This call was obviously a result of the relations forged when JDW, Richard and you met with the Prince a few weeks back. Michele de Nevers has taken care of the substantive contact. I am forwarding her EM to you for information in case you are keeping track of the emerging partnership (and also because of your interest in historic preservation).

Josie

CC: MICHELE DE NEVERS

(MICHELE DE NEVERS @A1@WBHQB)

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

DATE: 05-Aug-1996 16:23 EST

TO: JOSIE BASSINETTE

(JOSIE BASSINETTE@A1@WBWASH)

FROM: Michele De Nevers, EC2AR

(MICHELE DE NEVERS@A1@WBHQB)

EXT.: 38607

SUBJECT: Croatia

Josie,

I spoke this morning with John Lavorel of the Prince of Wales' office. Prince Charles is going to visit Mljet as part of some initiative to restore the ancient monastery on the island together with a group of high level representatives of organizations interested in this project. He wanted to know if anyone from the World Bank could join the group. The entire visit is 2 hours. I told him that no one could join but that we would be happy to consider financing an eventual project proposal. I also sent him documents for a forestry rehabilitation project we are financing on the coast of Croatia for his interest. He said he'd get back to me if there were any interest in Bank financing.

Michele

CC: ILHAM ZURAYK

(ILHAM ZURAYK@A1@WBWASH)

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

DATE: 21-Jun-1996 01:17pm

TO: See Distribution Below

FROM: Atsuko Horiguchi, EXC

(ATSUKO HORIGUCHI)

EXT.: 84256

SUBJECT: PRINCE OF WALES

Geoff, Jean-Francois, Amy

Further to all the EMs, please be advised that we will adhere to the originally proposed meeting in New York on July 18. Rachel will call the Private Secretary and discreetly address concerns from our end. We will follow up with details.

Many thanks and have a good weekend

Atsuko

DISTRIBUTION:

TO: Geoffrey Lamb
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TO: AMY HORNG
CC: Rachel Lomax
CC: Richard Frank
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CC: LAI FOONG GOH
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(GEOFFREY B. LAMB)
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(JANE HOLDEN)

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

DATE: 21-Jun-1996 12:42pm

TO: Atsuko Horiguchi (ATSUKO HORIGUCHI@A1@WBWASH)

FROM: AMY HORNG, FPDVP (AMY HORNG@A1@WBHQB)

EXT.: 31598

SUBJECT: RE: Prince of Whales

Good afternoon, Atsuko:

I asked Robert Davies (CEO, Prince of Wales Business Leaders Forum or PWBLF) for clarification about the proposed July 18 meeting in New York. He noted they were flexible as to meeting format, but thought having a small group of WB key officials and NGOs would facilitate a substantive discussion on the WB's work on partnership building and how the Prince of Wales with his strong NGO community ties may be able to help extend our efforts.

In terms of which NGOs they may consider inviting, Robert suggested three but would welcome our thoughts:

1. ActionAid - the WB considers ActionAid's adult literacy project in India to be a good partnership model and wants to scale it up
2. Peggy Dulaney - head of Synergos Institute, daughter of David Rockefeller
3. PWBLF - we (FPD) have worked with them for 2 years on building partnerships with business and have an extensive joint work program.

For your information, I have attached to this note my earlier EM to Geoff Lamb and his response.

Best regards,
Amy

CC: Geoffrey Lamb	(GEOFFREY B. LAMB@A1@WBWASH)
CC: Rachel Lomax	(RACHEL LOMAX@A1@WBWASH)
CC: Richard Frank	(RICHARD FRANK@A1@WBWASH)
CC: JEAN-FRANCOIS RISCHARD	(JEAN-FRANCOIS RISCHARD@A1@WBHQB)
CC: Mark Malloch Brown	(MARK MALLOCH BROWN@A1@WBWASH)
CC: ALLISON TSATSAKIS	(ALLISON TSATSAKIS@A1@WBHQB)
CC: LAI FOONG GOH	(LAI FOONG GOH@A1@WBHQB)
CC: Jane Holden	(JANE HOLDEN@A1@WBWASH)

The World Bank/IFC/MIGA
O F F I C E M E M O R A N D U M

DATE: June 21, 1996 05:23am EST

TO: AMY HORNG

(AMY HORNG@A1@WBHQB)

FROM: Geoffrey Lamb, EXTLD

(GEOFFREY B. LAMB@A1@WBWASH)

EXT.: 32936

SUBJECT: RE: Urgent: Prince of Wales & Mr. Wolfensohn: Proposed meeting

Amy --

Yes, I know about the proposal that JDW meets the Prince of Wales in NY on July 18 -- Robert Davies had discussed it with me, and I have the invitation letter.

I do not think JDW should meet the PoW when he's in London July 1 and 2. I am keeping his program very light, as he asked me, and it is focussed on parliament.

On balance, my advice is that we should explore the President meeting Prince Charles on July 18 --if that can be done without badly bending JDW's schedule out of shape. The logistical problem is that the PoW can't come to the US capital without a whole fandango involving the White House, the British Embassy, etc. etc. There is advantage in the presence of the Prince-linked NGOs, especially the business-oriented ones. If the decision is to hold the meeting, we would be able to influence who was included on the NGO side, I think.

Geoff

CC: Jean-Francois Rischard
CC: Elkyn Chaparro

(JEAN-FRANCOIS RISCHARD@A1@WBHQB)
(ELKYN CHAPARRO@A1@WBHQB)

The World Bank/IFC/MIGA
O F F I C E M E M O R A N D U M

DATE: June 20, 1996 01:32pm EST

TO: GEOFFREY B. LAMB

(GEOFFREY B. LAMB@A1@WBWASH)

FROM: AMY HORNG, FPDVP

(AMY HORNG@A1@WBHQB)

EXT.: 31598

SUBJECT: Urgent: Prince of Wales & Mr. Wolfensohn: Proposed meeting

Geoff:

On 6/4 the Prince of Wales wrote to Mr. Wolfensohn suggesting a meeting in New York on July 18. The meeting, to take place at his hotel, would include 3-4 NGOs working with HRH and a small group of WBG officials if they are available. (I believe PWBLF faxed you a copy of this letter on 6/11.)

Could you please advise how best to respond? Would it be better for HRH and Mr. Wolfensohn to meet privately first, without having NGOs and other WBG officials present? If so, should we propose that Mr. Wolfensohn, accompanied by you, meet with HRH when he is in London at the end of the month? If the first meeting goes very well, then we can arrange for a larger, more public meeting in future.

I've also left a phone message for you in case you are near your mobile phone, and look forward to hearing from you.

Thank you,
Amy

CC: Jean-Francois Rischarde
CC: Elkyn Chaparro

(JEAN-FRANCOIS RISCHARD@A1@WBHQB
(ELKYN CHAPARRO@A1@WBHQB)

17-07-1996 15:42

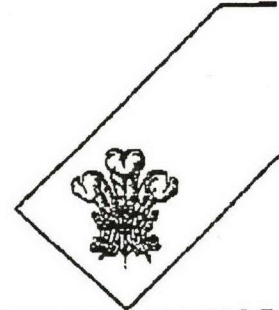
FROM Business Leaders Forum

TO

NOTICE FOR PRESS

Contact:

James Newsome,
Forum Press Secretary
Tel: (44) 171-467 3653
and (44) 171-467 3600



THE PRINCE OF WALES
BUSINESS LEADERS
FORUM

17 July 1996 - release immediate

HRH The Prince of Wales to meet World Bank chief in New York, 10.30am, Thursday 18 July

The Prince of Wales is to meet the President of the World Bank, Mr James Wolfensohn, and senior officials, for discussions on international issues of concern to the Prince and business leaders.

The Bank, which is funded by governments, is the world's most important economic and social development institution. The Prince is keen to use his experience during the last 6 years as President of The Prince of Wales Business Leaders Forum to explore new ways in which the power of the world's leading companies can be harnessed by the Bank to assist the former Soviet Union, Asia, Africa and other regions. The promotion of stability and democracy in these regions will be of immense benefit to British and international business.

Since the Prince founded the Business Leaders Forum in 1990, he has travelled with company executives to Mexico, India, Egypt, Hungary and many other countries to encourage them to help tackle environmental and social problems. The Forum now includes Sir David Simon of BP, Jan Leschly of SmithKline Beecham, Neville Isdell of Coca-Cola and Percy Barnevik of Asea Brown Boveri amongst over 40 senior executives worldwide. It is now the largest co-ordinated business assistance programme in Central Europe and has initiated over \$100 million of enterprise development and community support in 16 countries.

The 90-minute meeting in New York is private, but a further press statement will be available afterwards. Mr Robert Davies, Chief Executive of the BLF, who will attend the meeting, is available for interview.

THE WORLD BANK GROUP

ROUTING SLIP		DATE: July 22, 1996	
NAME		ROOM. NO.	
To Richard Frank		D 11-097	
cc: Caio Koch-Weser		D 10-093	
Atsuko Horiguchi		E 12-29	
Jean Francois Rischard		G 8-099	
☐	URGENT	☐	PER YOUR REQUEST
☐	FOR COMMENT	☐	PER OUR CONVERSATION
☐	FOR ACTION	☐	NOTE AND FILE
☐	FOR APPROVAL/CLEARANCE	☐	FOR INFORMATION
☐	FOR SIGNATURE	☐	PREPARE REPLY
☐	NOTE AND CIRCULATE	☐	NOTE AND RETURN
RE:			
REMARKS: Mr. Frank: Ismail faxed these follow up documents from the meeting with the Prince of Wales from Bucharest for your review.			
FROM Michael Cohen <i>McC</i>		ROOM NO. S7-027	EXTENSION 31015



Record Removal Notice



File Title President Wolfensohn - Briefing Book for President's Meetings - Meeting Material - Prince of Wales - Photo Op - July 18, 1996		Barcode No. 30485536		
Document Date November 7, 1996	Document Type Facsimile			
Correspondents / Participants				
Subject / Title Meeting between HRH The Prince of Wales and the President and Senior Executives of the World Bank New York - Thursday 18 July 1997 (1030-1200hrs) Draft - Proposed Topics for Discussion				
Exception(s) Information Provided by Member Countries or Third Parties in Confidence				
Additional Comments		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group. <table border="1"><tr><td>Withdrawn by Diego Hernández</td><td>Date March 13, 2025</td></tr></table>	Withdrawn by Diego Hernández	Date March 13, 2025
Withdrawn by Diego Hernández	Date March 13, 2025			

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

ISMAIL SERAGELDIN
Vice President
Environmentally Sustainable Development

July 21, 1996

Mr. Richard Frank

Richard,

I attach herewith a draft of my notes from the meeting with the Prince of Wales. I would appreciate your reviewing them for accuracy and adding whatever I may have missed.

I also attach a draft letter for JDW that addresses the issue of housing in South Africa.

I am writing Robert Davies separately to follow up on the organization of the meeting we discussed. I will consult with FPD on that.

Please let me know if you and/or JDW want me to do anything else as a follow-up. I am now in Bucharest addressing the World Congress on Rural Sociology. I can be reached at the Intercontinental in Bucharest till Tuesday evening, after which I will be back in Washington.

Cheers!



Notes on a meeting with HRH the Prince of Wales.
New York, Carlyle Hotel, July 18, 1996 10:30 AM to Noon.

Present: HRH The Prince of Wales, Stephen Lampert (?), Robert Davies. From the World Bank: JDW, R. Frank, T. Serageldin.

The meeting followed along the lines anticipated in the brief. The Prince started with overall impressions that NGOs have about the Bank. JDW explained about the new Bank, and the current program of renewal.

The Prince then explained about the PWBLF, the Youth Trust and other interests specifically giving examples about St. Petersburg and South Africa. He also mentioned the involvement of business in education, and explained the comparative advantage of the PWBLF primarily as brokering a partnership between private business, NGOs and local communities. Robert Davies supported these points, especially about the brokering function. They highlighted some of their activities that could be of interest in establishing collaboration with the Bank. These included:

- Intermediate technology Group (mostly active in Peru and Zimbabwe).
- Environmentally sound tourism development (which was bound to come up with Maurice Strong at the meeting on voluntary guidelines being attended by Jane Nelson of the PWBLF on Friday 7/19/1996).
- Entrepreneurship and management training in eastern Europe.
- Affordable housing in South Africa, involving both architectural and financing and management aspects. Could it be expanded to include architects trained at the institute and sensitive to working with local youths in the vernacular tradition?
- Expansion of the Youth Trust activities (National Trust Organizations) to support community leaders in establishing employment creating programs for youth in disadvantaged communities around the world (links with CGAP and micro-finance).

In addition, the issue of corruption came up, and the Prince was delighted to know that JDW will be addressing the issue at the annual meeting speech. The issue of a code of ethics for businesses also came up. Richard Frank explained some of the contacts and activities concerning the Bank, PSD and the NGOs. JDW emphasized the Bank's unique position to help take exceptional localized efforts to a global scale.

We explored how focused collaboration could take place. The key conclusions: to pick four or five areas, thematically and geographically defined, and work at them. A future meeting with Robert Davies and colleagues coming to the Bank soon would define these more clearly. In addition JDW promised briefing papers to the Prince.

Key follow up actions:

- JDW to answer the Prince on whether we can do anything on Housing in RSA -- IS to draft letter.
- Meetings with Robert Davies and colleagues to be arranged. topics to include code of behavior, micro-enterprise, environment, corruption, housing and historic cities (including looking at possible collaboration on St. Petersburg) -- IS to contact Davies and coordinate with Rischard and Frank.
- BP chairman will come to address annual meeting Private Sector Forum on Saturday September 28th -- R. Frank to follow up.

Draft for JDW letter to the Prince of Wales:

HRH the Prince of Wales,
London,
UK

Sir,

It was a real privilege to meet with you in New York last week. My colleagues and I were very pleased with the meeting of minds between your Business Leaders Forum (BLF) and ourselves on so many points. I believe that we can and should find ways of establishing a more direct collaboration where the Bank could assist in carrying the excellent work by the BLF under your leadership to a global scale.

I look forward to the occasion when your schedule will permit a visit to the World Bank. In the meantime, I am most appreciative of the willingness of the Chairman of British Petroleum to address our seminar on September 28, 1996. I and my colleagues are following up with Mr. Davies concerning an appropriate meeting to cover the specific follow up on the various points we discussed.

One point that I had personally promised to clarify was the issue of housing in South Africa. As I recalled, we do not have any active programs or anticipated lending in this sector for the immediate future. We do, however, have a substantive dialogue with the government on urban as well as rural issues and could therefore participate in any discussions short of a physical project.

I look forward to further meetings and an intensified and constructive collaboration.

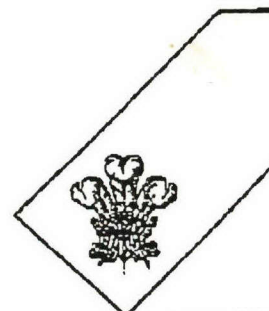
With highest regards,

JDW

NOTICE FOR PRESS

Contact:

James Newsome,
Forum Press Secretary
Tel: (44) 171-467 3653
and (44) 171-467 3600



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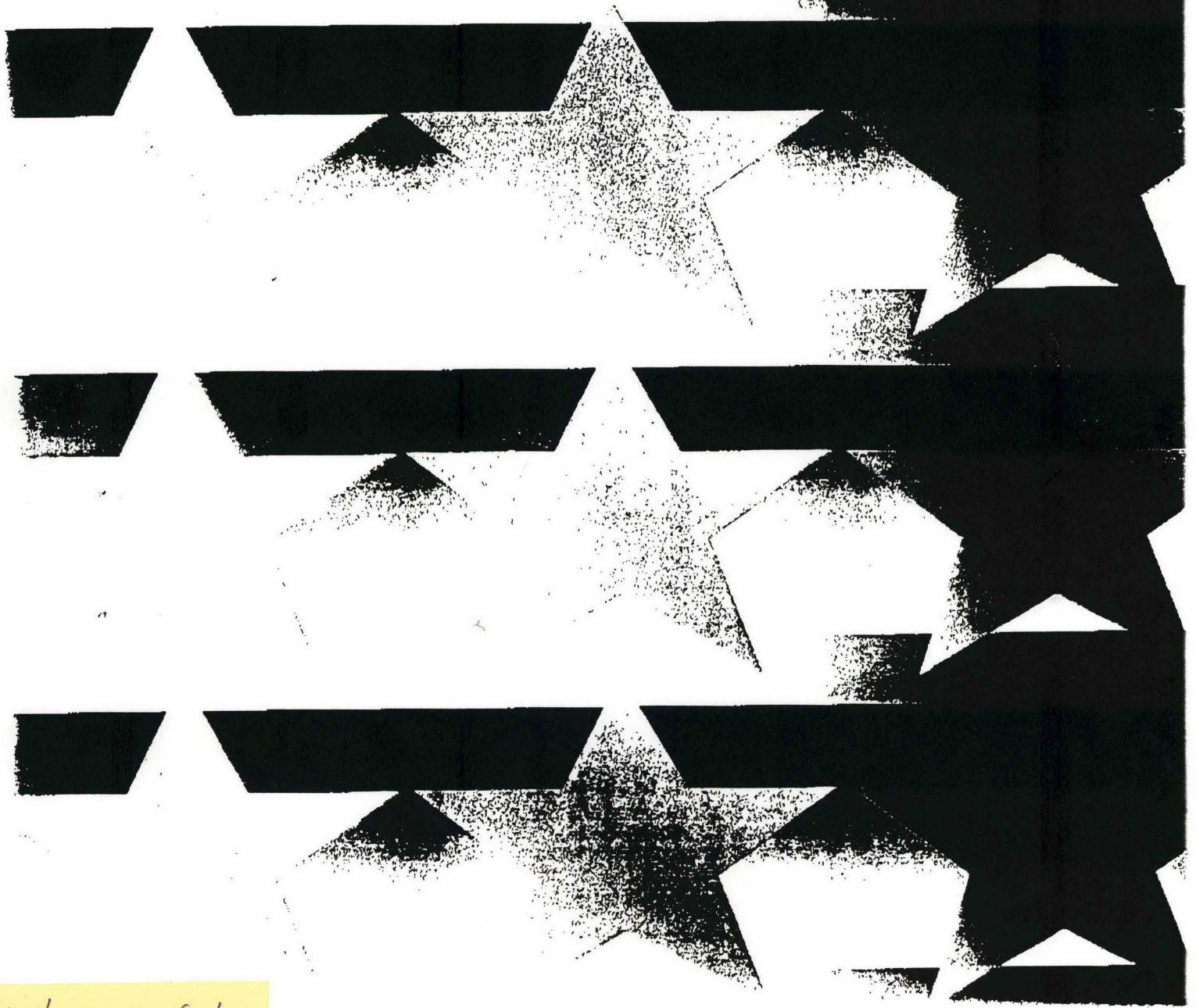
The 90-minute meeting in New York is private, but a further press statement will be available afterwards. Mr Robert Davies, Chief Executive of the BLF, who will attend the meeting, is available for interview.

ENVIRONMENT STRATEGY AMERICA

1995/96

PRACTICAL SOLUTIONS TO ENVIRONMENTAL PROBLEMS

Edited by William K Reilly



At the request of the
Prince of Wales' office
for any public statements
on the environment,
these have been faxed,
along with the Annual
Meeting speech GB

The Environment For Sustainable Development

The new President of the World Bank assesses the prospects of accelerating economic progress in the developing world and protecting the environment

JAMES WOLFENSOHN
is President of the
WORLD BANK

The past few years have witnessed a sea-change in our understanding of the linkages between economic development, technology and the environment. The old-fashioned "development-versus-the-environment" paradigm has given way to a new view of "environmentally sustainable development" in which economic development and the environment are not enemies, but allies. Putting this new paradigm into practice is the challenge today for policymakers worldwide. I have informed our client countries that the World Bank will be an active partner in meeting this challenge.

The central issue

For some time we've known that economic growth tends to worsen some environmental problems and improve others. Figure 1, which is drawn from empirical cross-country analysis undertaken at the World Bank, shows that economic growth, left alone, can seriously exacerbate environmental problems of pollution and waste, but at the same time can also help finance cleaner water, better sanitation, and the technology required to reduce pollution. The trick of good policymaking is to harness the positive impacts of economic growth and break the negative ones.

This is easier said than done of course. The experience of most countries to date has been either to pay too little attention to the environ-

ment (so that economic growth leads to sharply-worsening problems, as in the first panel in the figure), or to apply heavy-handed regulation which costs too much in terms of income growth.

For the 130 countries that are the active clients of the World Bank, continued – even accelerated – economic growth is not an option. It's imperative. The key question, of course, is can their growth be maintained while avoiding the heavily damaging stages of early industrialization (the upward part of the hump in the third panel), and the growing environmental problems of affluence (the top panel)? In essence, can they avoid the mistakes – as well as emulate the successes – of today's industrial countries?

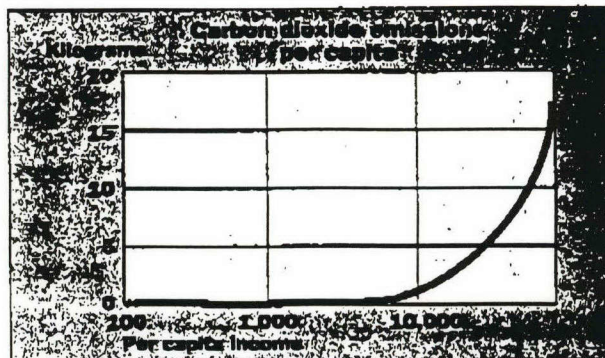
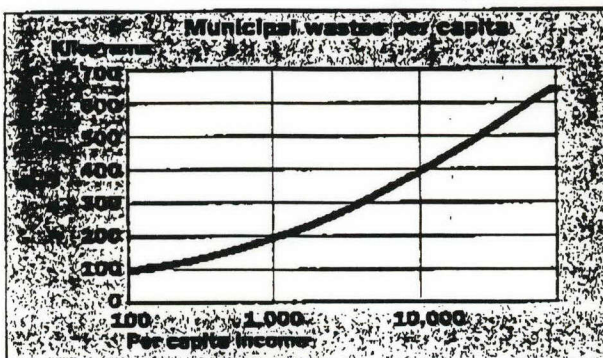
The good news is the technologies exist in almost every realm of economic endeavor to sharply reduce negative environmental impacts at relatively low cost. The challenge is to set the right policies and ensure adequate finance to facilitate the adoption of these technologies. The World Bank stands ready to support its member countries in both these areas.

The Road from Rio

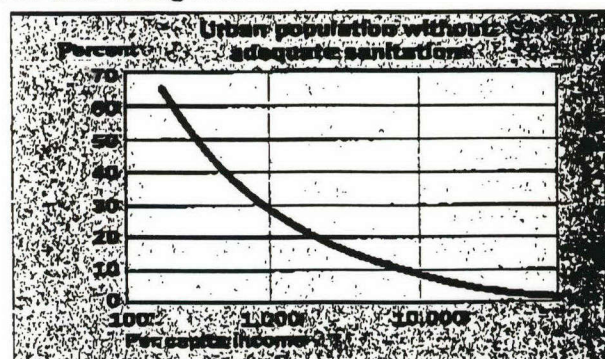
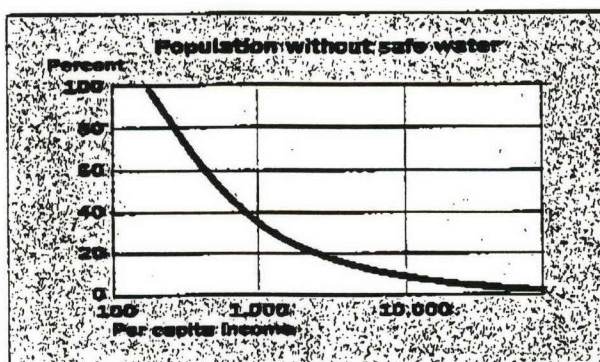
There are already some very encouraging trends. In the three years since the Rio Earth Summit, about 70 developing countries have prepared national strategies for the environment, and countries are increasingly putting their own resources and are willing to borrow funds to invest in the environment. The World Bank, for example, is currently financing investments specifically targeted towards improving the environment in 63 countries. Each of these loans – which combined, total \$10 billion – seek not only to provide finance for environmental technologies, but also to help

**Figure 1: Economic growth can hurt or help the environment
(Environmental indicators at different country income levels)**

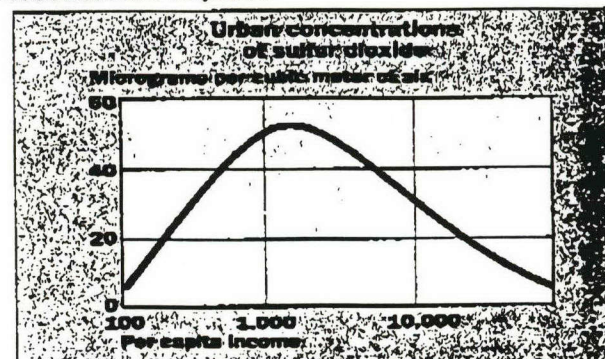
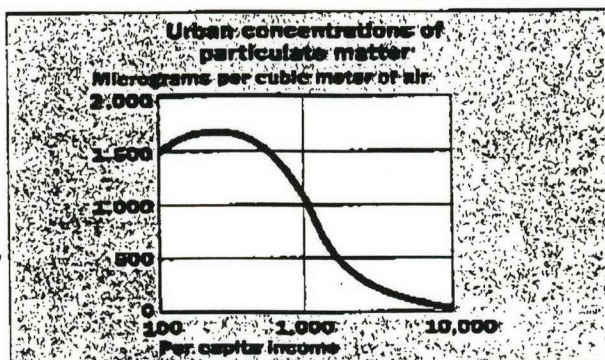
Some problems tend to worsen with rising incomes



Some problems improve with rising incomes



Some problems worsen...then improve



Source: World Bank and Oxford University Press

governments put in place the policies and institutions that support growth and environmental improvement. Looking across these countries in the vanguard of new thinking on sustainable development, an interesting picture is beginning to emerge. Scarcity of financial and administrative resources is encour-

aging a new type of environmental policy, that brings together the "sharp pencil" of technical and economic analysis with the commitment of local involvement and the initiative of the private sector. The box (overleaf) lays out some of the emerging principles of this "new environmentalism."

The Road Ahead

While there are encouraging signs that the new environmentalism is beginning to take hold, I believe we are still scratching the surface. The challenge for the coming years will be to learn from the many experiments underway around the world, and to actively support the replication of best practice. The World Bank joins with its member countries to face this challenge. But it does need to be a partnership. At the national level, the most successful governments at implementing the new paradigm are those that do so in close collaboration with the business community and the wider civil society. So too at the international level we need less lone actors and more genuine partnerships.

With the growing scarcity of public funding and the increased complexity of the chal-

There are signs the new environmental ethos is beginning to take hold

lenge, we need all hands on deck. Official development funding will need to be leveraged more effectively with private investment. And the know-how of the business and environmental communities will need to be integrated into the programs of the international agencies. We do not have a monopoly on ideas and we need to share insights, experiences and new initiatives.

The effectiveness of these partnerships in turn will need to be judged not by the elegance of the design, but their effectiveness on-the-ground over time. Today there are 1.5 billion people suffering dangerous air pollution, 1 billion without clean water, 2 billion without sanitation, and hundreds of millions of farmers suffering serious deterioration of their land. These are our clients and they need our experience and our help. ♦

Principles of the "New Environmentalism"

As developing countries struggle to forge development paths that provide for both prosperity for their citizens and good stewardship of the environment, they are searching for new approaches to the environment. Among the successful principles for effective action are those listed below:

1. Set priorities carefully. Not all problems can be addressed at once. Priorities need to be set using a combination of modern valuation techniques and participatory input for citizens and experts.
2. Go for win-win options first. While trade-offs exist, there is often scope for improving the environment by adopting policies and investments that are justified for reasons other than the environment. These "free-lunches" need to be exploited carefully.
3. Insist on cost-effectiveness. As demonstrated by recent work in countries like Mexico, Chile and Eastern Europe, there are huge opportunities for saving resources by careful analysis of costs. This has often not been the practice in industrial country policymaking.
4. Use market incentives where feasible. A growing body of evidence, some supported by World Bank projects, point to the gains from market-based instruments. Thailand, Malaysia, Poland, Chile and Hungary are examples.
5. Economize on administrative and regulatory capacity. Administrative and enforcement capacity is often as scarce as money. In these cases, blunter instruments (with fewer points of intervention), and self-enforcing policies (eg deposit-refund schemes) can help. So too can involving local communities and NGOs in enforcement and monitoring.
6. Set realistic standards and enforce them. The old approach of adopting Western standards, failing to meet them, and thus undermining the credibility of the government's commitment, is giving way to a new approach whereby realistic and phased targets are set, and enforced.
7. Work with, not against, the private sector. Much of the investment required to improve the environment will come from private businesses and farmers. A shift in attitude is required, (and in many places is occurring), with an emphasis on incentives, consultation, good business "citizenship", and public disclosure.
8. Recognize that local involvement is crucial. Success or failure often depends more on the commitment of local communities than of central government. Protecting natural habitats, forests and even river basins requires genuine community involvement in planning and implementation. Many successful examples are emerging.
9. Build constituencies for change. Sustained improvements in environmental policymaking, which will usually involve losers as well as winners, is more likely with a well-informed public and active support from citizens. The most effective governments are actively building such constituencies for change - through education and awareness programs and through promoting an active civil society.
10. Incorporate environment from the outset. Prevention is usually much cheaper than cure. Environmental concerns need to be built in not only at the beginning of each investment, but also into the fabric of economic policymaking, including tax and regulatory policy, and even into the national accounts.

Since becoming President of the World Bank last year, I have spent an extensive amount of time travelling to countries throughout the developing world. I have witnessed the many problems city dwellers face: rapid population increase, crumbling infrastructure, increasing violence and crime, growing inequalities between rich and poor, and urban services that do not reach those who need them most. But I have also witnessed a tremendous strength and resourcefulness: entrepreneurs in Katwe, Uganda, earning resources for community improvement by turning banana skins into charcoal for sale; slum dwellers in Haiti, El Salvador and Brazil working together to obtain clean water for their communities. Everywhere in the world, I have witnessed how those who live in cities convert despair into hope and improve their lives through collective inventiveness and effort.

Cities are crucibles of development. By the early 21st century most of the world's population will live in urban areas – a predicted 60 per cent by the year 2020. Since 1950, the urban population of developing countries has grown from under 300 million to over 1.7 billion, and this figure is likely to double in the next 25 years. In cities, diverse ethnic, religious and occupational groups are pressed into close proximity, and must decide how they will live together. They are the centres of global finance, industry, culture and communication; yet the modern co-exists with poverty and broken-down services. It seems inevitable that cities are where the key issues that determine national change will be decided.

Nothing is preordained. Cities contain enormous problems that could eventually overwhelm civic institutions; or they could generate ideas, the social compacts and the technologies that ensure human welfare. They present tremendous cause for concern: they contain enormous opportunities for the future welfare of the planet. Much depends on how we think and plan *now* for the future growth of the world's cities.

The problems facing the world's urban areas require *immediate* action. All those concerned with development

Crucibles of development

JAMES D. WOLFENSOHN outlines issues and priorities in the developing countries



Panos Pictures

must treat urban issues as a high priority. The World Bank has provided substantial support to cities in the developing world from its inception. Nearly 25 years ago, urban lending became a special focus of our work, and since then we have lent over \$15 billion for over 250 urban projects. Many billions more have been lent in support of education, social services, power and industrial development for urban areas. As the largest international contributor to urban

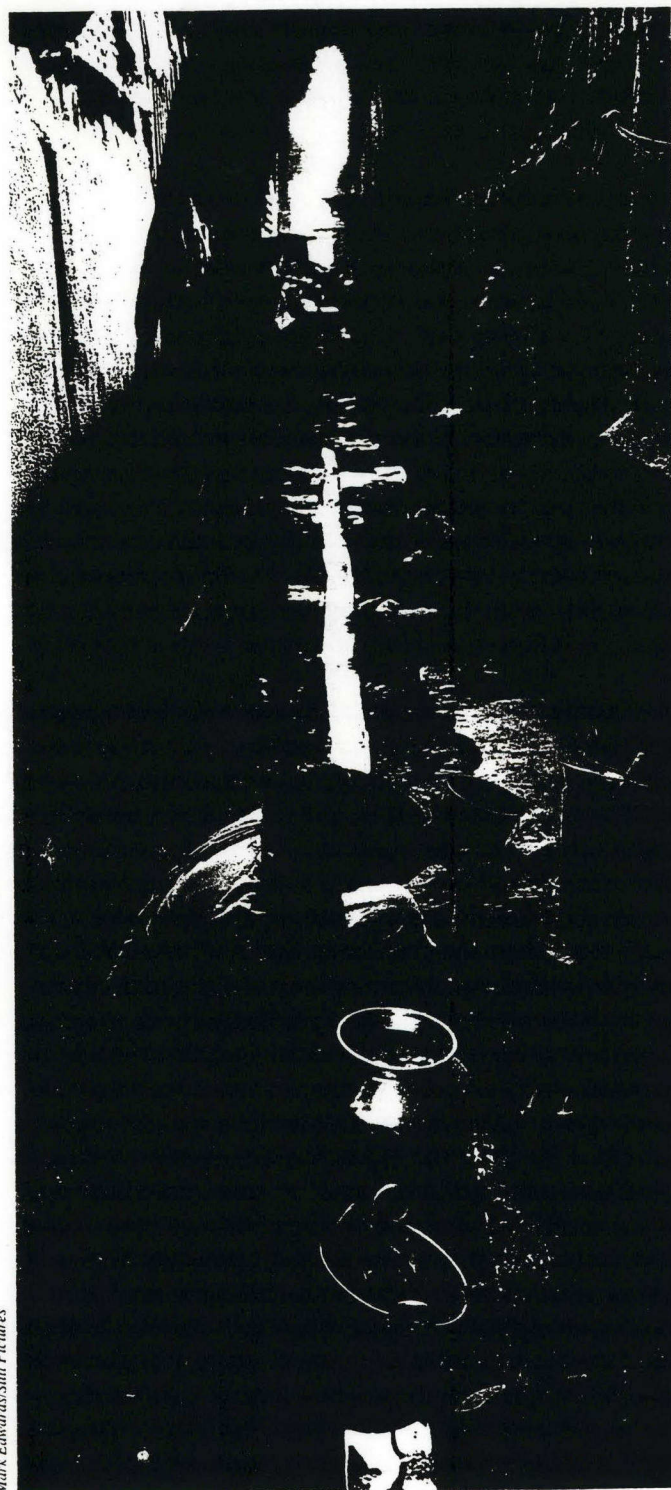
development, the World Bank is currently working in literally thousands of cities and towns around the globe.

What do we consider to be the key issues in urban development as we approach the 21st century?

Reaching the urban poor. The central mission of the World Bank is to reduce poverty. An estimated 25 per cent of urban populations – over 400 million people – live in poverty, and this proportion is expected to remain steady over the next 20 years. The poor suffer disproportionately from failures in urban services, from water and sewerage provision to urban transport. Regulations governing land use, housing standards and economic activities often bar the poor from the opportunities that would allow them to improve their circumstances. The challenge is to raise the living standards of the urban poor and bring them into the mainstream of productive urban economies. Addressing the needs of the poor is the starting point for the design of urban projects supported by the World Bank.

Building capacity for urban management. The explosive growth of urban populations places a huge strain on the ability of governments and municipal agencies to meet the needs of city dwellers. Urban growth creates demands for housing, transport, water, sanitation, power, education and health facilities. Yet public services typically lack the resources, the skilled managers, the trained personnel and the technical capability. In order to redress these problems, it will be important to strengthen the skills of both management and staff in municipal government: decentralize responsibility for community development; and utilize the private sector where it can provide urban services more efficiently than the government. The Bank has supported a highly successful effort to improve municipal services in several French-speaking African countries of the Sahel sub-region through the AGETIP programmes. Non-profit, non-governmental agencies under contract to governments execute public works programmes and other urban infrastructure projects. In Senegal, the AGETIP programme has handled 330 projects in 78 municipalities. It hires local consultants to prepare and implement all phases of these projects. An evaluation of the AGETIPs shows that they have completed projects largely on schedule and at much lower cost than government agencies performing similar work.

Making urban finance work better. Resources are scarce in the cities of developing countries. This fact is made worse by tremendous inefficiencies in the way resources are mobilized and used. For example, the poor pay water vendors many times the price of piped water in countless developing country cities. In Lagos, Nigeria, one-quarter of the capital costs of small enterprises is devoted to investments to make up for failures in the power supply provided by the state monopoly utility. In many cities, tax assessment and collection is entirely inadequate. Making urban finance work



Mark Edwards/Still Pictures

is a complex business. It will require greater accountability of local authorities in collecting and allocating resources, establishing fair cost recovery mechanisms that do not harm the access of the poorest to urban services, and reforming tax mechanisms.

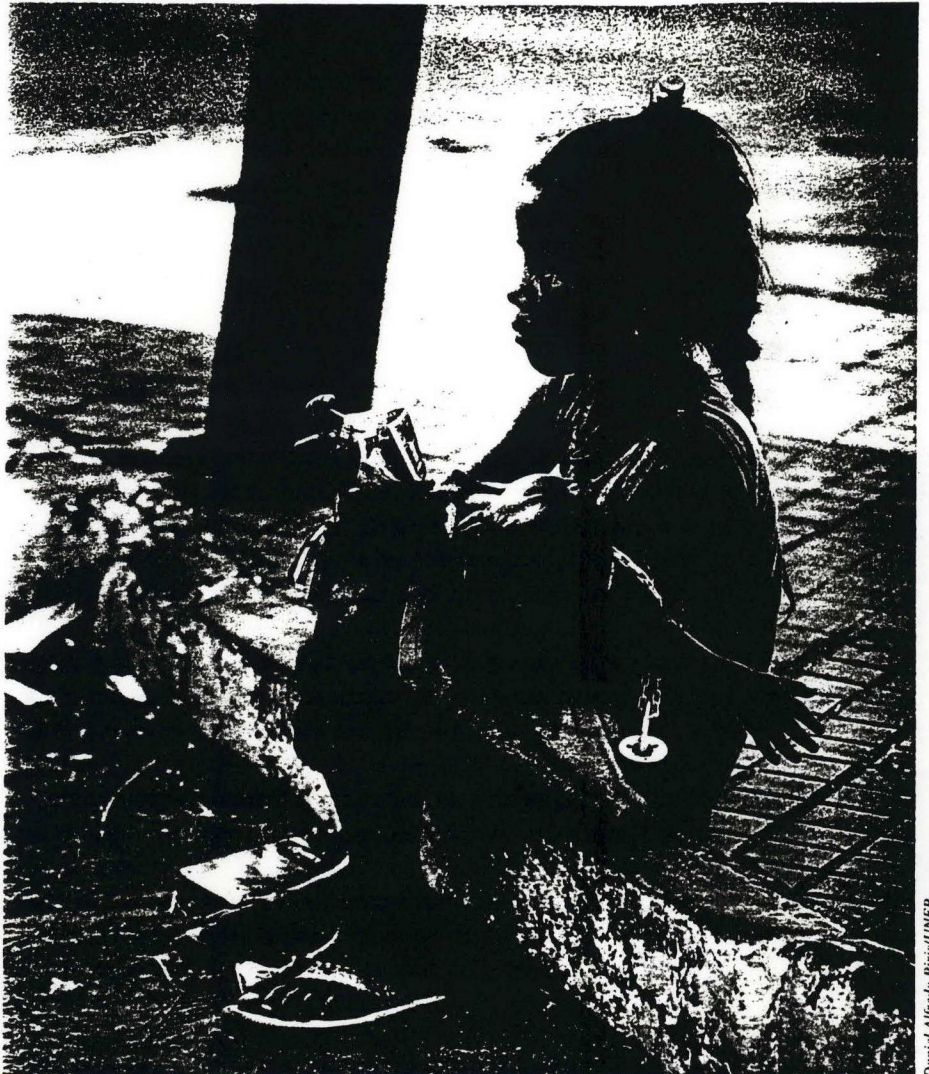
Participation. The participation of those who live in urban communities has proved to be critical to the successful design and implementation of projects that improve their conditions. It allows communities to take initiative, ►

be creative, learn and assume responsibility for their own development. Often the urban poor have learned to distrust the outsiders and government officials who arrive in their communities with plans to upgrade services. Once they are asked to play a role in the design, implementation and maintenance of such projects there is a world of difference in the results. We are making participatory approaches the norm for projects in all aspects of the Bank's work, including municipal development. Participation gets results. For example, when a Bank-funded water and sewerage project in the slums of Rio de Janeiro was failing in the early 1990s, the project team approached community organizations, and particularly women's groups, to ask for their input into design and decision-making. Once the community itself was asked to play the leading role, the project turned around and became a major success. We have found that our urban projects throughout the world are accomplished more effectively and often at lower cost when communities participate in the process.

Improving the urban environment.

The rapid expansion of cities has caused major problems of noise, traffic congestion, air and water pollution and related environmental problems. In Bangkok, high lead exposure from cars has been found to reduce the average child's IQ by four points. In Mexico City, air particulate contributes to 12,500 deaths a year. In São Paulo and Accra, infant mortality and diarrhoea-related diseases are high in neighbourhoods lacking water and adequate sanitation. These and other cities will be proving grounds for our ability to deal with global environmental problems, including carbon dioxide emissions and ozone depletion. Addressing environmental problems in urban areas is a top priority in the Bank's approach to urban development.

Partnership. Working in partnership with local governments, non-governmental organizations (NGOs) and other international development agencies is critical to producing strategies that work. In today's climate of decreasing support for international aid, it is all the more essential that available resources be concentrated and their use governed by well-coordinated planning involving all partners in the development process. This is the reason the



Daniel Alfredo Piris/UNEP

City Summit meeting, HABITAT II, in Istanbul, is such an important event. It will provide an opportunity to harness the already growing collaboration among donors, NGOs and governments.

The World Bank is committed to addressing the problems of urban areas, but we know we do not have all the answers. This is why it is so important that we and other development agencies seek to learn from each other, as well as from the people who live in the communities we are trying to help. It is through partnerships involving stakeholders and donors that we will find our way forward.

The fate of urban areas could go either way: they could become human and environmental disaster areas, or they could become centres of global creativity, prosperity and growth of the human spirit. In many ways, how we approach urban development is central to the broader challenge of development, because cities concentrate all problems and all opportunities. Working in partnership, I am convinced that we can ensure that cities of the 21st century become arenas of opportunity and hope for mankind •

James D. Wolfensohn is President of the World Bank.



ENVIRONMENT DEPARTMENT DISSEMINATION NOTES

TOWARD ENVIRONMENTALLY AND SOCIALLY SUSTAINABLE DEVELOPMENT

Number 23

June, 1995

Participation in Forest and Conservation Management

The participation of local communities and other stakeholders in managing forestry and conservation projects can help to improve forest productivity, alleviate poverty, enhance environmental sustainability, and make rules governing forest access more enforceable. Introducing participatory management depends on government commitment; and it requires time and resources to develop consensus among stakeholders, establish new institutional arrangements, decentralize finance and administration, ensure appropriate rules and incentives for local involvement, and build organizational capacity at the local level.

There has been a fundamental shift over the last decade in approaches to forestry and conservation—from a focus on centralized planning and management by government agencies to a more participatory approach which balances social, environmental and economic objectives. Reflecting this shift, between 1991 and 1994, Bank investment in forestry projects classified as social and environmental increased from US\$ 834 million to US\$ 1.2 billion, or 27% of all lending in the forestry sector.

Key differences between the two approaches are outlined in Box 1. Under most centralized forest policies, large scale management units are oriented to a single-use objective (such as timber production or policing a conservation site), and the rights of local users are limited to low value secondary products and temporary concessions. In contrast, participatory forest projects are based on a broader valuation of forest resources, taking into account the multiple values of forests and the social and economic needs of local forest users. Access and use rights to forests, and conflicts arising between competing users, are locally defined and managed. The structure of incentives and the choice of technologies are geared to environmental sustainability over the long term.

Benefits

Cooperation

In practice, one of the most compelling reasons for seeking the participation of forest users in the management of forest resources has been the inability of governments to police forest areas effectively and enforce their own rules of access and use without local public support. When local communities and private companies share in the design, benefits, costs and management responsibility of forestry projects, they have incentives to cooperate in enforcing rules which they have themselves agreed upon.

Poverty Alleviation

The majority of the people who occupy forest areas, or the agricultural fringes that surround them, are poor and vulnerable populations. Many are indigenous peoples, or landless people who have migrated from other areas. Enabling these people to share in the benefits, as well as the management, of forestry development and commercialization helps to alleviate their poverty and diversify their sources of income.

Forest Productivity

With the benefit of local knowledge and participation, the value of non-timber forest

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Box 1
Contrasting Forest and Conservation Management Approaches

	Centralized Government Approaches	Participatory Approaches
Objectives	Timber production or other single-use objective (e.g., watershed protection; short-rotation fuel-wood). Protection of biodiversity paramount over other uses.	Usually multiple production and biodiversity conservation objectives involving all stakeholders; developing local skills for forest and conservation management.
Scale	Large-scale management units based on natural biophysical or political boundaries.	Micro management units corresponding to self-selected or residential units.
Local Use Rights	Usually very limited and frequently ambiguous or temporary.	Extensive, clearly defined rights for local users.
Protection	Policing by forest service guards and fencing; often ineffective and expensive.	By local community, frequently using <i>social fencing</i> ; higher local costs but low government costs; local accountability.
Typical Plan	Long rotation of even age stands for economies of scale in management and industrial supply; centralized management of protected areas and conservation sites.	Short rotation of uneven age stands designed to supply diverse products for continuous income and subsistence needs; community management.
Harvesting Contracts	Generally large government contracts with administrative pricing mechanisms and subsidized supply arrangements.	Generally combine multiple household marketing arrangements with small-scale contracts for higher value products.
Technical Basis	Based on results of scientific research and single product optimization models.	Based on combination of traditional knowledge and use patterns with forest and conservation service guidance.
Planning Process	Centralized management planning process carried out by forest and conservation service staff.	Plans drawn up by community or household participants with guidance and approval from forest and conservation service.
Plan Revisions	Generally little flexibility in management prescriptions without cumbersome bureaucratic approvals.	High flexibility in management prescriptions to adapt to changing conditions and needs.

products to different users—for food, fiber, medicines, oils and gums—can be more fully exploited (Box 2). Indigenous productive technologies, based on close knowledge of local ecological conditions, can enrich scientific research and serve as potential sources of new products.

Sustainability

While still seeking to generate economic benefits from forest resources, policymakers are increasingly aware of the important role played by forests in preserving biodiversity and protecting critical watersheds. Especially in regions with large and growing populations, participation is often the only viable way to conserve forest areas for sustainable use or for their intact environmental values.

Costs and Limitations

There are some circumstances in which participatory approaches have proven unworkable: (i) when conflicts over forest resources are particularly intense; (ii) when forest resources are abundant relative to a small, dispersed population in the forest vicinity; (iii) when powerful interests at the national level are opposed to policy reform in the sector or to decentralization of authority; or (iv) when extreme social inequalities at the local level reinforce the control of forest benefits by local elites.

Even in favorable circumstances, time and resources are needed to establish effective participatory processes. Costs are incurred in three

broad areas: (i) identifying key stakeholders and creating the conditions for effective consultation; (ii) establishing appropriate institutional arrangements, including intermediary organizations with the skills and incentives to address environmental and social objectives; and (iii) building the organizational capacity of local communities to manage large forest areas.

Conditions for Success

Bank experience provides a number of lessons concerning the conditions for successful participation in forestry and conservation management, and the measures which have helped to establish these conditions.

Government Commitment

Success depends first and foremost on government commitment to broad stakeholder participation in determining forest sector and conservation objectives. Measures by TMs to facilitate policy dialogue have included: sponsoring international or regional meetings at the ministerial level, enabling policymakers to benefit from other countries' experience in devolving authority to forest users; holding donor meetings to coordinate initiatives and assist government in defining the agenda; using forest sector reviews and biodiversity conservation strategy work to initiate policy discussions with decisionmakers and key stakeholders; and supporting the preparation of issues papers by experts from stakeholder groups.

When government is actively involved in discussions with stakeholders, forestry reforms are easier to introduce. For example, the multisectoral stakeholder workshops held in Mexico and Zimbabwe were helpful in identifying key reforms in forest tenure policy, regulations on marketing

of non-wood products, and delineation of protected areas for biodiversity conservation.

Decentralization

A wide range of different institutional arrangements, from private contractual agreements to joint public/private partnerships, have been used to devolve authority over forest management to the local level. In most cases, some restructuring of government agencies has been called for as well as changes in procurement and other administrative procedures.

Methods of ensuring the availability of funds at the local level have included increasing private sector involvement—by opening up lines of credit, underwriting private sector forestry investments, or endorsing joint contractual management of forests—as in forestry projects in Indonesia, Zambia, the Philippines, Bangladesh and Costa Rica. In other cases, direct funding to NGOs has proved the best means of delivering funds directly to communities. For example, under the Bank/GEF financed Conservation of Priority Protected Areas Project in the Philippines, a grant is made to a consortium of NGOs for implementation of conservation programs. Trust funds have proved useful, as in Bhutan and Uganda, when returns to investments occur over the very long term.

Stakeholder Analysis and Consultation

Identifying and consulting stakeholders at the earliest possible stage is important not only for ensuring that all the important issues are addressed but also for strengthening commitment to implementing the necessary reforms. Gender analysis can be used to assess the differential impact of proposed policies on men and women, and measures taken to ensure that women share in decisionmaking and project benefits (Box 3).

Box 2

Learning from Indigenous Practices to Increase Local Participation and Improve Forest Productivity

Using Under-exploited Tree and Crop Species in Africa. Trees in agroforestry systems in Africa provide many other products and services such as food, fiber, medicines, oils, and gums which are used by many indigenous groups (e.g., *Elaeis guineensis* for oil, wine, thatch and mulch; *Moringa oleifera* as source of edible flowers and leaves and fodder; *Xylopia aethiopica* as tobacco substitute and fuel in most of Kenya and the Farlo regions in Senegal). The annual harvestable production from leaves and fruits is about 300 kg/ha in the typical Sahel areas and over 600 kg/ha in the Sudano-Sahel.

Crop-Livestock-Fallow Rotations. In the Zimbabwe and Haiti Bank financed forestry projects, rotations of crop cultivation, grazing, and tree-shrub fallow are permitted as a result of documentations of indigenous crop-grazing systems. The rotations involve two or more sub-populations in the project site but often just one piece of land. Because lands are appropriated on the basis of kinship and ethnic affiliation, several families have use-rights to the land over a certain period of time. This multiple use arrangement encourages participation of other user groups.

Box 3

Women's Participation in Bank Financed Forestry Projects

Kenya: Women Participating in Forest-Sharing Agreements. With the assistance of an international NGO (CARE), the Kenya Forestry Development Project solicited the help of women in devising an agreement between the government and local users regarding distribution of agroforestry or intercrop benefits, since most of the village agroforestry lands were controlled by women. During project implementation, women were in charge of recording households that received harvest shares and they were key actors in resolving conflicts over forest benefits.

India: Women as Members of Forest Protection Committees (FPCs). In the West Bengal II project, the Bank worked with the state forestry agency and NGOs to permit and encourage the recording of women as FPC members. This allowed women to participate fully in decision making and thereby receive a more equitable share of timber harvests. When women were given responsibilities in these committees, the project gained wider support and spread rapidly to other villages.

Security of Tenure

Because of the long gestation period of forestry and conservation investments, security of tenure is particularly important as an incentive for community investment of time and resources. Existing regulations frequently restrict access and undermine local or indigenous claims to resources. However, overlapping claims by government, different groups of forest users, and industry, can make adjudicating tenure rights a very complicated process. In Bank-financed projects in Nepal and India (Box 4), publicly endorsed written agreements have been instrumental in resolving tenure conflicts.

Equitable Rules and Incentives

Forestry projects have the best chance of succeeding when the costs and responsibilities of each stakeholder are closely related to rights and benefits. Arrangements for the sharing of costs, benefits and management responsibilities, and mechanisms for resolving conflicts between groups, are most likely to motivate participation if they are widely understood and agreed upon by all stakeholders through an open negotiating process. Special measures may be needed to ensure that women, indigenous groups, and landless households are not excluded.

Appropriate Technology

Appropriate forest management technologies provide important incentives for participation. The participation of local users is encouraged by an annual flow of income from non-timber products such as agricultural intercrops, fodder or thatch grass, and commercially valuable seeds or leaves. This can only occur in plantations with wider spacings and multi-tiered, more diverse tree and shrub species than are found under conventional even-age management. Technologies defined by the community on the basis of local knowledge are

often more effective in terms of forest productivity and sustainability. Moreover, the entire community understands the management rules and has an incentive to monitor and enforce them.

Local Capacity

Most Bank and GEF/Bank-financed forestry and biodiversity projects involve a capacity building component, often contracted to NGOs, to strengthen management capacity at the community level. The role of NGOs may include training of forest service staff and local leaders; village level publicity and extension; developing micro-planning tools and facilitating plan formulation; improving forest marketing information networks; facilitating the formation of women's groups and farm forestry associations; and technical support to forest product processing, energy alternatives or village-based conservation inventories. One of the most effective tools for building local capacity is the study tour, enabling stakeholders to visit and question their counterparts on projects where participatory management has already been established.

Box 4

Tenure and Access to Forests in Nepal and India

The Bank-financed Nepal forestry project allowed user communities to take over forest management. Forest users received certificates ensuring long-term rights to forest benefits. The only control the Nepal state forestry agency retained over forests was through approval of village forest management plans. However, the project had to reconcile the multiple, and often conflicting, rights to forests by local villagers before long-term tenure could be recognized.

In the Bank-financed West Bengal II forestry project in India, written agreements between the state and villages established ownership and use-rights to forest protection committees. However, to maintain rights over forests, each committee had to provide evidence of sustainable forest use.



ENVIRONMENT DEPARTMENT DISSEMINATION NOTES

TOWARD ENVIRONMENTALLY AND SOCIALLY SUSTAINABLE DEVELOPMENT

Number 20

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Participation in Poverty Assessments

The Bank's approach to country poverty assessments (PAs) is increasingly stressing the involvement of stakeholder groups, with the aim of building in-country capacity to address the problems of the poor. The participation of government and other institutional stakeholders in all aspects of the work increases sensitivity to poverty issues, enhances analytical skills, and builds allegiance to the measures proposed for poverty reduction. In addition, conventional statistical analysis is complemented by qualitative information from participatory social assessments, known as "PPAs", which reveal the concerns voiced by the poor. Some early lessons for task managers have already emerged from this experience.

Rationale

Poverty assessments (PAs) are now an essential component in the Bank's country economic and sector work, contributing to the wider process of poverty related analysis and the formulation of all aspects of country strategy. Making PAs participatory requires more time and resources but can yield important benefits.

Involving a range of stakeholders, including the poor themselves, can help

- improve understanding of the cultural, social, economic and political dynamics which perpetuate poverty in a given country;
- ensure that strategies identified for poverty reduction reflect the real concerns voiced by the poor;
- promote ownership of the proposed solutions by a variety of stakeholders; and
- build in-country institutional capacity for ongoing analysis of poverty and the design of measures to reduce it.

A distinction is made between "participation in poverty assessments"—the subject of this paper—and "participatory poverty assessments", known as "PPAs". The latter term has come to refer to the use of specific qualitative research techniques to discern the perceptions and attitudes

of the poor themselves. PPAs, however, are only one component of the wider PA. This paper argues that most components of the PA—from defining the agenda and designing the research program, through data gathering and analysis, to report writing and formulating policy prescriptions—can benefit from broad stakeholder participation.

Making the PA More Participatory

The methods used to broaden stakeholder participation in PAs have varied enormously, depending on the time allowed, the funds available, the local research capacity and the level of government interest in discussing poverty issues. It has also become clear since the initial flurry of poverty assessments in 1993, that to increase participation, task managers (TMs) need somewhat more time and resources to complete the PA.

Involving Institutional Stakeholders

It is the institutional stakeholders—from senior government officials and a variety of actors in civil society to service providers and development workers at the community level—who are responsible for defining poverty reduction policies and for translating them into programs and services. The collaboration of these groups at each step of the PA helps to promote consensus, ownership and commitment to the strategic conclusions among those whose support

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Box 1

Broad Stakeholder Participation in Cameroon

Cameroon's Poverty Assessment was carried out with extensive Cameroonian participation, involving the National Statistical Office in preparing the poverty profile and the Centre for Nutrition Research in addressing food insecurity issues. The PPA was carried out by local NGOs and research institutes.

To share the research results and broaden participation in dialogue on the policy implications, a four-day technical workshop was sponsored by the government and the Bank, with financial support from several key donors. Participants included representatives of donor agencies and some 45 Cameroonians with interest in related research and civic or government activities—from the government, university, research and advocacy groups, journalism and NGOs. Women participants were funded by UNICEF. Despite the breadth of different interests represented, some important areas of agreement emerged, including the potential benefits of decentralizing decisionmaking. By the end of four days, there was agreement on the form the recommendations should take and considerable enthusiasm for the final report.

The workshop was followed by a one-day conference to provide wider exposure of the findings to both government and the general public. The immediate impact of this conference was to raise consciousness concerning poverty issues, to generate widespread public interest and concern, and to put poverty reduction higher on the public policy agenda.

will be needed for effective implementation. It also helps to build the institutional capacity for ongoing, iterative policy analysis and formulation for poverty reduction.

So far, most institutional stakeholder involvement in Bank PAs has been limited to government officials and local researchers. Innovative approaches such as those used in Cameroon (see Box 1), are needed to involve other actors, including opinion leaders, journalists, civic or religious leaders, public interest groups and indigenous NGOs in preparing the PA.

The scope for collaboration in defining the research agenda depends on political and institutional conditions in the country concerned. Especially in the early PAs, it was also constrained by tight deadlines facing TMs for completing the work. Close consultation and agreement between the Bank and the government from the outset can reduce the risk of later misunderstandings and acrimony over politically sensitive issues, especially the controversial question of establishing a poverty profile and poverty line to serve as benchmarks against which progress can be measured.

Drawing as widely as possible on local skills and knowledge in the analytical work of the PA, contributes to the quality of the conclusions. It also spreads the ownership base. Analytical studies and report writing have been contracted to local researchers and/or assigned to collaborative teams of Bank and local researchers. To broaden participation, TMs have also used workshops or retreats, and established in-country task forces or steering committees.

Box 2

Policy Formulation in Peru

In the Peru Poverty Assessment, the Bank team opted to hold back on defining a poverty alleviation strategy, waiting until the government produced their own strategy. Two things which helped this approach to work were: (i) that most of the survey analysis had been done in Peru, making it easier for Peruvians to incorporate the results into a policy document; and (ii) government officials were aware that presentation of their strategy for poverty alleviation would be key to an effective Consultative Group meeting, which was to be hosted by the Bank to raise funds for social programs. Bank staff worked closely with government staff on drafts of the strategy. The resulting government document is quite strong, setting specific goals in several areas, and should serve as a good base for measuring progress in reducing poverty in Peru.

Collaboration in formulating policy prescriptions can be more difficult and most TMs have faced the quandary of how best to reconcile the interests of senior officials and vocal stakeholders with the results of research and analysis. The most participatory PAs in this respect have been those for Peru (see Box 2) and Morocco: in each case, the PA was presented as supporting research and analysis to help the government in the policy formulation process; the government took full responsibility for preparing the policy document, discussing successive drafts with Bank staff before final publication; and the Bank has integrated the government's poverty strategy in the lending program of the country department as a whole.

Incorporating the PPA

The participation of the poor and other groups through PPAs can contribute to the overall PA by complementing, informing or validating the results of more conventional analysis based on household survey data and government statistics. To date, PPAs have been designed specifically to:

- enrich the poverty profile by illustrating local experience and understanding of poverty and vulnerability;
- improve understanding of the impact of public expenditure by eliciting the perceptions of the poor on the accessibility and relevance of services;
- expand analysis of factor markets by illustrating the operation of constraints on disadvantaged social groups to realizing market based opportunities;
- contribute to policy prescription on the economic and regulatory framework by demonstrating the impact of regulations on poor households and communities;
- support policy analysis of "social safety nets" by examining local experience of the operation of formal and informal safety net systems and the coping strategies used by the poor;
- assess the capacities of the poor to act independently through community organizations. (Box 3 provides an example from Kenya.)

The participation of the poor has been elicited through various data gathering and consultative mechanisms. The main methodologies—*beneficiary assessment* and *participatory rapid appraisal*—share many core techniques, including conversational and semi-structured interviews, focus group interviews and participant observation. Participatory rapid appraisal, which focuses on analysis at the community rather than household level, also uses thematic mapping, wealth and preference ranking, institutional diagramming and other techniques by which participants generate their own analyses of key elements of their livelihoods.

The choice of methods has depended in practice on the particular experience of the TM or supporting specialist, as well as on available resources and the role intended for the PPA within the overall PA. The costs have ranged from well under \$50,000 to over \$150,000. Achieving reasonable coverage for a national scale

Box 3

PPA Highlights Potential of Women's Groups in Kenya

The coping strategies of the poor (the vast majority of whom do not have access to credit) depend on diversifying their livelihoods and on the strength of their social networks and informal groups. Because their livelihoods are so diversified, no single employment program will reach the poor. The informal groups and associations, on the other hand, engage in a wide range of economic and social welfare activities. The PPA in Kenya highlighted the untapped potential of these groups to reach the poorer segments of society.

The PPA study estimated that there are at least 300,000 groups and associations in rural Kenya, including more than 23,000 registered women's groups. It found that every village had from 5 to 17 different types of groups, and more than one active or defunct women's group. The following are some of the findings which emerged about these women's groups.

- During discussions of coping strategies at the individual, group and community levels, women's self help groups were mentioned frequently in every district. They were a particularly important part of the coping strategies of female headed households.
- In addition to income generation, group objectives frequently included welfare activities: raising cash to pay school fees, meet hospital expenses or assist with transport costs to bring the dead back to the villages for burial.
- Most groups levied membership fees and monthly contributions.
- Although the poor were excluded when membership fees were high, many groups targeted their activities specifically to assist the poor with food, schools fees and housing construction.
- Women's groups were often formed along clan or kinship lines, and often had men as members. Generally, they were supported by village men and the community at large.

Based on the findings of the PPA, proposals to reach the poor through strengthening women's groups include legal registration so that groups are eligible for credit; technical and business management training of group members; and the extension of micro-enterprise credit to groups.

assessment to investigate a range of issues typically requires at least six to nine months work. Rapid appraisal, using less than one month of field work, has been used in five of the 22 countries where PPAs have been undertaken.

Some early lessons have already emerged from this experience. In defining objectives of the PPA, there is a temptation to overload the agenda with a large number of questions important to the PA as a whole. Most TMs feel in retrospect that results of the PPA would have been richer if the research

focus had been narrower. The PPA can provide an important new perspective on the issue of poverty, complementing but not substituting for quantitative data. The key challenge is to integrate the two approaches within the PA framework, appreciating the limitations of each.

Identifying and selecting field sites and participants (a representative sample of "the poor") is a critical issue for the PPA, especially when societies and the communities within them are highly stratified. This can be approached either through participatory methods, using local perceptions of key groups for analysis, or through sampling based on household survey results. Researchers need to be clear about which they are using as results may differ.

There are good reasons for selecting a broad range of people, from different technical and institutional backgrounds, for the PPA research teams. Including NGO and government staff as well as academics broadens ownership and enables the team to draw on wider institutional experience. However, the more diverse the backgrounds of team members, the more vital is a rigorous training input to generate a unified and coherent approach.

Another lesson learned on the early PPAs is that it is easy to underestimate the time and skills

required for analysis and synthesis of qualitative research material. TMs should plan for some of the analysis to be carried out in the field and also allow for inputs from experienced social scientists (from within or outside the Bank).

Since the PPA is only one of the inputs influencing the recommendations of the PA, and since the PA document, in turn, is only one of the factors influencing actual policy change, it can be difficult to measure the policy impacts of specific PPAs. Nonetheless, policy relevance should be the guiding criterion in the design of methodology and process for the PPA. Evaluation by the Country Department of the impact of the Zambia PPA, as summarized in Box 4, has found that the PPA strongly influenced both the conclusions of the PA, especially the Action Plan, and national policy formulation.

Evaluation of the Zambian experience (the first national-scale PPA to be completed) also points to some measures which could have increased the value of the PPA in policy formulation: a stronger focus on the institutional mechanisms by which needs and problems could be resolved; completing the PPA earlier, to allow for follow up of the priority areas identified; and sharpening methods to investigate local perceptions on specific policy issues, such as food marketing.

Box 4 **Policy Impact of Zambia PPA**

The impact of the Zambia Participatory Poverty Assessment on the conclusions of the Poverty Assessment was clearly strong—especially on the Action Plan. Specific elements which influenced the Action Plan included the emphasis on rural infrastructure investments (roads and water), and on urban services (mainly water supply). Other parts of the Poverty Assessment which drew heavily on the findings of the PPA included the Poverty Profile (especially for community-based identification of the ultra-poor) and the chapter dealing with coping strategies, safety nets and targeted interventions.

The Task Manager for the PA gave the following assessment of the overall impact of the Zambia Participatory Poverty Assessment on policy formulation in Zambia to date:

- Government has been influenced by the priorities expressed by the poor in ranking exercises in the PPA (through reinforcing the current emphasis on agriculture and health, stressing the importance of rural infrastructure and environment issues to the poor, and emphasizing ongoing problems with the delivery of education services).
- The Ministry of Health has been using the results of the PPA and the Poverty Assessment as a whole extensively in policy development. For example, one of the authors of the PPA has been participating in a committee looking into the issue of exemption from user fees for the poor.
- Observations from the PPA related to the timing of school fee payments (which coincide with the period of maximum seasonal stress for most rural communities) have contributed to ongoing work in the education ministry on school fees. A new policy is in preparation which will address these issues.
- The very positive feedback from communities in the PPA on the functioning of the emergency safety net during the southern Africa drought of 1992 influenced policy recommendations on ongoing provision for the vulnerable in the Poverty Assessment.



ENVIRONMENT DEPARTMENT DISSEMINATION NOTES

TOWARD ENVIRONMENTALLY AND SOCIALLY SUSTAINABLE DEVELOPMENT

Number 19

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Participation in Social Funds

The newest Bank supported social funds are designed explicitly to increase the participation of beneficiaries in identifying and managing microprojects, with the aim of making project activities more relevant and sustainable. Features which support participation are built into the design of the funds' management structure and of the microproject cycle. Additional time, management and training resources are needed to assess and build the necessary capacity of local organizations; and special measures may be required to enable the most marginalized groups to participate.

Social funds have spread rapidly in developing countries since the well known Bolivia Emergency Social Fund was launched in 1987. The first large scale funds were designed as temporary institutions to mitigate the adverse impact of structural adjustment by creating employment and delivering emergency social programs. As objectives have evolved over time, funds are now also used more generally to support development in the social sectors and poverty reduction at the local level.

Social funds are typically set up as autonomous institutions, to provide funding to local organizations (community based organizations, NGOs or local governments) in a more rapid, flexible and transparent manner than line ministries. The funds do not themselves identify or implement microprojects; instead, they respond to requests generated by local groups, appraise projects for funding, supervise implementation of projects and monitor their effectiveness.

Because most social funds have been temporary, and because they have not provided for recurrent costs, fund managers have often faced difficulties in sustaining large numbers of dispersed microprojects. Strategies to involve beneficiaries in cost sharing were developed initially in response to these difficulties. Currently the World Bank is funding about thirty projects to support social funds and the newest of these—including the Gambia Social Recovery Fund and

the Ethiopia Social Rehabilitation Fund—are designed explicitly to increase beneficiary participation in microproject identification and management as well as costs.

Benefits

The involvement of beneficiaries in consultation, cost sharing and decision making can improve the outcomes of Bank supported social funds by ensuring that the microproject is relevant to beneficiary needs, and by generating commitment to sustaining project activities and benefits beyond the life of the fund.

Increasingly, beneficiary participation is also sought as an end. There are main two reasons. First, when communities are given the responsibility and capacity to identify, implement and supervise microprojects, they are better prepared to involve themselves in future development activities. Second, social funds can serve as models for participatory processes, demonstrating to governments and other intermediaries the feasibility and utility of participatory approaches.

Costs

Promoting participation in social funds involves costs as well as benefits. Building the capacity of beneficiaries to assume responsibilities throughout

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Box 1

Flexibility at the Regional Level - Mexico

The National Indigenous Institute of Mexico (INI) and its regional Indigenous Coordinating Centers (CCI) which are located in remote zones, launched the Funds for the Development of Indigenous Peoples (FRS) in 1990.

CCIs requested that each indigenous organization or community interested in receiving funds send representatives to regional assemblies organized throughout the country. At these assemblies, the organizations elected five to nine member leadership councils, which in turn were formed into subcommissions to oversee the administrative, financial and technical aspects of the funds.

Once formed, INI transferred funds to the FRS, which then received, appraised and approved loan requests from indigenous organizations for productive projects which these organizations designed and their members implemented.

the microproject cycle can increase management and training costs as more staff and equipment are needed to reach beneficiaries and to build organizational capacity. Some of these expenses can be absorbed by the microproject, but it is likely that some will have to be covered by the social fund.

In addition, social fund managers face two potential conflicts. First is the conflict between the need for rapid microproject implementation and the time required for consultation and capacity building. Second, since demand is expressed first by communities with the skills necessary to prepare proposals and gain access to the fund, the demand driven nature of social funds may have to be supplemented by special measures to

enable the poorest and most marginalized among intended beneficiaries to participate.

Because the implications of these trade-offs are so important, fund designers must clarify and integrate priorities from the outset.

Building Participation into Fund Design

Stakeholder Groups

The participation of all stakeholder groups in social fund design—central and sectoral ministries, the NGO community, municipalities and local governments, as well as community based organizations and beneficiaries—builds ownership and commitment to beneficiary participation among all parties on whom implementation will depend.

In preparing the Armenia Social Investment Fund, efforts to cultivate wider government support included conducting seminars for senior government officials, taking them to the field to observe beneficiary participation first hand, involving them in targeting selection, and sharing reports with them. To support consensus building, national debates involving parliaments, the press and NGO communities, were promoted prior to establishing social funds in Zambia, Guatemala and Honduras. In Albania and Armenia, pilot phases were used to introduce and demonstrate the concept of participation.

Appropriate tactics for disseminating information on social funds are outlined in Box 2.

Box 2

Tips for a Successful Social Fund Media Campaign

Media campaigns should be designed to increase the awareness of the population and the direct beneficiaries of the social fund; to sensitize and encourage community participation; to enhance a continuous dialogue with beneficiaries; and to maintain the flow of information about the running of the social fund. Tactics which have proven successful include:

- Consulting government agencies and NGOs which have run media campaigns to determine the optimal strategy to reach the bulk of the population. Use of written media, like newspapers and leaflets, reaches mainly the literate, who may be a minority of the population.
- Using visual media like posters and stickers to promote themes similar to those broadcast on radio or in other media.
- Disseminating information through institutions, individuals and avenues (such as traditional singers and dramas) that are accepted and integrated into daily cultural practices; this will reduce the potential mistrust of the messages communicated.
- Using radio spots on popular music radio stations to reach urban youth who tend to lose interest in more traditional channels.
- Linking themes among different outlets to reinforce messages.
- Enabling communities to express their own ideas, as through radio phone-in programs.

Institutional Structures

When the fund is intended to be a temporary institution, design must incorporate mechanisms for transferring the participatory elements to regular government ministries. The Bolivia Emergency Social Fund developed a program for training ministry staff in management information and cost control systems during microproject appraisal and execution, and this training will be extended to cover appraisal and monitoring procedures. Similarly, the Ethiopian Social Rehabilitation Fund is training local government staff to work with communities in a participatory way.

Decentralization of fund management to regional offices encourages managers to pay greater attention to participation related issues, although it may also expose them to local political pressure. Regional offices have been established or are planned for fund management in eight countries (including Mexico, Box 1), sometimes for purely logistical reasons, but sometimes to decentralize responsibility for consulting with communities and for contracts with local organizations.

Beneficiary participation in project activities is best promoted by assigning full time staff to multidisciplinary teams. In Guyana, for example, a multidisciplinary team is able to integrate services needed by the community, while continuity is ensured by having the same team appraise, supervise and evaluate a microproject.

The Microproject Cycle

At every stage of the microproject cycle, strategies can be employed to enhance participation. For example, in the identification of target groups, participatory data collection techniques (including beneficiary assessment and participatory rural appraisal) have been used to enable communities themselves to identify the neediest.

Piloting can help point to adjustments needed in promotional strategies. In Ethiopia, it was learned in the pilot phase that cultural and time constraints and illiteracy had prevented women's groups from submitting proposals; as a result, in the next phase of the fund, promotional activities will target more women's groups, and preference will be given to females in hiring community organizers.

Box 3

Zambia: Beneficiary Assessment in a Social Fund

Phase II of the beneficiary assessment conducted for Zambia's Social Recovery Fund employed conversational interviews, participant observations and focus groups discussions. The combination of these research tools with a multidisciplinary research team from the Rural Development Studies Bureau of the University of Zambia helped to remove biases, strengthen the quantitative database, and obtain qualitative information.

The specific objectives of the study were to identify, examine and assess the factors affecting project implementation and community participation. Such factors included: the allocation of responsibility for maintenance; the perceived impacts and benefits of projects; the views of beneficiaries and project committee managers on the performance of the Microprojects Unit (MPU) and regional office; and governance issues such as transparency and accountability.

Key findings on community and intermediary organizations were as follows:

- In a minority of cases, communities had no say in the selection of the project committee.
- The average female representation on project committees was less than 20 percent. Among the factors explaining this were social attitudes and women's lack of time due to other duties.
- Factors constraining community participation included:
 - lack of transparency and accountability (54 percent of projects);
 - domination of the committee by one or two individuals or an NGO (16.7 percent);
 - other agencies doing the work, the committee being ornamental (7.5%);
 - contracting builders from outside rather than within the project area.
- Mobilization was constrained by suspected misuse of funds and materials.
- In three projects, donor funds discouraged cash and labor contributions as it was felt that donor funding was sufficient and that sacrifices should not be made by the poverty stricken community.

The findings of this assessment led to specific recommendations and actions to improve fund administration and enhance community participation. Actions included: improvements in accountability procedures; development of a bookkeeping module for the project committee training manual; confirmation of community cash and kind contributions as mandatory conditions for MPU support; strengthening of regional offices to speed communication and disbursement; simplification of application forms; and initiation of project launch workshops in communities to ensure information dissemination.

Clear and well publicized microproject selection criteria which "measure" participation can be used to signal to all stakeholders the fund's commitment to beneficiary participation. Such an approach, prioritizing microproject selection according to intensity of participation, is planned in the Gambia.

When beneficiaries, especially marginalized groups, are to take responsibility for preparing projects, documents can be simplified and funding provided for technical assistance to help community groups prepare proposals and carry out technical feasibility studies. In addition to training, one of the ways to prepare beneficiaries for a role in microproject implementation or supervision is to ensure that they are involved from the earliest stages of the microproject cycle, enabling them to learn about the technical aspects of the project. In particular, project design needs to take account of the technical capabilities of the community.

Various approaches have been used by managers both to monitor and evaluate microprojects in a participatory manner and to monitor participation itself. The Zambia Social Recovery Fund has conducted three beneficiary assessments to date (Box 3), using participatory research tools to gather qualitative and quantitative data. The beneficiary assessment can be integrated as a permanent mechanism by, for example, assessing ten percent of completed microprojects every year. In Guatemala, annual monitoring procedures stipulate that interviews be carried out in communities which have not submitted proposals as well as those which have, in order to identify problems in communicating fund goals, and to ascertain how and by whom decisions are reached.

Intermediary and Community Organizations

Because of the important roles delegated to intermediary organizations, it is becoming common to allocate resources at the initial stages of a social fund for assessing and strengthening their capacities—in terms of both development effectiveness and beneficiary representation. Implementing agencies are evaluated during regular appraisal of a microproject, on the basis of selection criteria (Box 4) which also serve to

highlight where training is needed for capacity building. In addition, assessment after the fact during impact assessment studies or annual and midterm evaluations is designed to yield lessons for future fund strategy and mechanisms.

The capacity of community organizations may be assessed as early as the targeting stage, as in Bolivia; more often this is done at the time of microproject appraisal. Providing training for community organizations can empower beneficiaries to identify and prioritize their needs and to develop strategies to meet them. The key to such training is to make it community centered rather than project centered, avoiding a top-down, expert approach and respecting indigenous knowledge.

Box 4

Characteristics of Intermediaries that Successfully Support Participation

- Participation is an institutional objective.
- Field presence.
- Staff incentives and training which support participation.
- Iterative planning in consultation with local communities.
- Bottom-up accountability mechanisms.
- Contribution of cash, labor, raw material or local facilities by local communities which makes the communities clients of the intermediary.
- Horizontal and vertical linkages to other institutions.
- The agency has prior experience in the community where the microproject is to be implemented and is aware of local conditions.
- The community/beneficiaries have a positive perception of the agency.
- The agency and its personnel have keen understanding of and sensitivity to issues concerning women and minorities and towards the environment.
- The philosophy of the agency on community participation is reflected in other microprojects it has undertaken, and the strategy for participation in the present proposal is in line with the fund's strategy.



ENVIRONMENT DEPARTMENT DISSEMINATION NOTES

TOWARD ENVIRONMENTALLY AND SOCIALLY SUSTAINABLE DEVELOPMENT

Number 17

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Designing Community Based Development

When properly designed, community based programs can be highly effective in managing natural resources, providing basic infrastructure or ensuring primary social services. Participation in community based development (CBD) depends on reversing control and accountability from central authorities to community organizations. Successful design requires tapping into local needs, understanding and building on the strengths of existing institutions, and defining the changes needed in intermediary implementing agencies to support community action.

Costs and Benefits

There are two persistent myths about community based programs: first, that they cost more than conventional programs and, second, that they take longer. Additional costs may be incurred at the outset in building capacity at the local level; however, these costs are significant only when community level organizations have been so eroded that substantial time and resources have to be devoted to capacity building. And even when initial costs are high, they are more than offset by subsequent gains.

Evidence increasingly indicates that, *when the institutional framework is right*, participatory community based programs actually cost less (see Box 1) and are quicker to implement. In Bank funded projects, the typical pattern has been a slow build up period, when time is invested in community organization and setting the rules for interaction, followed by speedy disbursements.

Once the participatory process is established, the benefits of community based development include increased efficiency and cost effectiveness. Furthermore, when the success of projects depends heavily on changes in behavior at the community level, promoting participation in community based programs may be the only means of meeting objectives. The examples in Box 2 indicate the potential benefits of a community based approach

in three broad areas—managing natural resources, providing basic infrastructure and ensuring primary social services.

Conditions for Success

From time immemorial, communities have organized themselves to take care of collective and individual needs. And yet, in the last fifty years, so many attempts at getting people to participate and take responsibility for community based development have failed. Experience provides some clear lessons about what works and what does not work in CBD. Prominent among the failures have been attempts to achieve results on

Box 1

Does Participatory Community Based Development Cost More?

In Pakistan's Orangi Pilot Project, which provided sewerage facilities to nearly one million people in a poor area of Karachi, costs were one-eighth of conventional sewerage provided by city authorities. This was due to changes in technical design and the elimination of pay offs to intermediaries (Khan, 1992).

In Brazil's PROSENEAR project, a ceiling of \$120 per capita has been imposed on sanitation expenditures. Within this cost limit, engineers and community development experts are encouraged to work with communities to devise the most appropriate solutions. Through this process, projects have been designed for as little as \$50 per capita (Vijay Jagannathan, 1994).

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Box 2

Community Participation Yields Significant Results

In Gujarat, India, during the 1980s, an average of 18,000 forest offenses were recorded annually: 10,000 cases of timber theft, 2,000 grazing, 700 fires, and 5,300 other offenses. Twenty forestry officials were killed in confrontations with communities and offenders, and assaults on forestry officials were frequent. In response, an experiment in joint management with communities was initiated by the conservator. This included community meetings, widely publicized creation of forest protection committees, and profit sharing of 25 percent of timber returns with local groups. As a result, conflicts between officials and community groups diminished, community groups assumed responsibility for patrolling forests, and productivity of land and returns to villages increased sharply. In one year, one village of eighty-eight households harvested and sold twelve tons of firewood, fifty tons of fodder, and other forest products, while also planting and protecting teak and bamboo trees (Pathan, et al, 1993).

In Côte d'Ivoire, a national rural water supply program established community water groups which managed maintenance of 13,500 waterpoints and reduced breakdown rates from 50 percent to 11 percent at one-third the cost. The shift to community level maintenance was managed by taking away the responsibility for rural water supply from the sector agency, supporting private sector involvement in spare parts distribution, retraining technicians, and signing contracts with village groups and the water directorate. The results were sustained in those villages which had high demand for the rehabilitated water point and where well functioning community organizations already existed (Hino, 1993).

In Tamil Nadu, India, a community based nutrition outreach program in 9,000 villages resulted in a one-third decline in severe malnutrition. A group of twenty women interested in health issues was hired in each village as part time community workers accountable to the community. The women's groups, formed initially to "spread the word," subsequently branched off and started food production activities on their own. Earlier programs focusing only on the creation of health infrastructure were unable to make any difference in the nutritional status of children (Tamil Nadu Integrated Nutrition Project, 1990).

a wide scale through the infusion of external management, funds, and technology, controlled from distant places. A fundamental prerequisite of successful participatory programs at the community level is the *reversal of control and accountability* from central authorities to the community level.

Experience also points to a series of common elements in the design of successful programs. The first ingredients are knowledge and understanding of local needs, and of the existing network of social interaction at the household, group and community level. This knowledge provides the basis for defining the changes needed, both in existing local organizations and in external agencies, to meet specified objectives.

Changes at the Community Level

If a community group is to function successfully, several criteria must be met: the group must address a felt need and a common interest; the benefits to individuals of participating in the group must outweigh the costs; the group should be embedded in the existing social organization; it must have the capacity, leadership, knowledge and skills to manage the task; and it must own and enforce its own rules and regulations. Whether strengthening or modifying existing organizations or establishing new ones, steps

need to be taken to ensure that these conditions are in place.

What may seem an obvious point but is often neglected is that a group functions only because it is *addressing a felt need of its members*. A fundamental design flaw in a natural resource management project in the Philippines, for example, was the assumption that upland farmers were interested in forest management. In contrast, the need to solve what is perceived as an urgent problem may bring different class and power groups together. In South India, for example, the entire village manages community based irrigation systems and has developed a monitoring system to discourage water theft. Groups continue to function so long as the benefits of participation to their members continue to outweigh the costs (see Box 3). Hence project design must be based on knowledge of community demand and must ensure that incentives to participation are in place.

In any community, inherited networks of organized reciprocity and solidarity form the basis for individual trust and cooperation. New community based programs need to use and build on this existing stock of social capital and, wherever possible, to *work through existing organizations*. In Nepal, for example, when government policy prescribed the creation of

farmer associations, assistant overseers found many informal groups of farmers organized around irrigation systems. Rather than creating new organizations, these existing groups were encouraged to register themselves as official farmer associations.

Sometimes, notably when existing social organization is highly inequitable, creating new groups is the only means of promoting the participation of disadvantaged people. Many successful projects that specifically target women or the poor have formed special organizations such as the Grameen Bank, the Self Employed Women's Association of India, and women's farmer groups in Nigeria and Gambia. These new organizations are the creation of their members, drawing as much as possible on what is already in place. Attempts to speed up a community development process, by circumventing existing institutions and investing in new externally designed organizations have frequently failed in their aims. They also carry the danger of undermining existing institutions, diminishing the capacity of community members to cooperate and organize effectively for other purposes.

An important reason for building on indigenous principles of organization is that, to be effective, *a group must own and enforce its own rules* defining membership criteria, the allocation of responsibilities, contributions and benefits, and the mechanisms for ensuring accountability and resolving conflicts. If these rules are dictated from outside, people do not feel obliged to follow them, free riding becomes common, conflicts escalate, and the group becomes ineffective (see Box 3).

Depending on the tasks the group is designed to manage, and the existing capacity of the group, *investment in training* may be needed over a period of several years to build the necessary management and technical skills. Groups have failed because too much was expected of them too soon without supportive training.

Changes in Implementing Agencies

Designing an appropriate outreach strategy to support the community development process often involves difficult *changes in the structure and orientation of the implementing agencies*. The technical personnel in engineering agencies are commonly reluctant and ineffective community

Box 3

The Benefits Must Outweigh the Costs

In the Philippines, farmers actually negotiated an *increase* in their irrigation fees because they had worked out a formula with the irrigation agency through which they would benefit from imposing and managing the collection of higher fees (NIACONSULT, 1993).

If the group does not undertake new tasks as old ones are accomplished, there is no new benefit flow and the costs begin to outweigh benefits. In Indonesia, water user groups that took on new tasks and provided additional benefits (such as individual household toilets and food security) continued to thrive while others that did not functioned at a low level or not at all (Narayan, 1989).

In Pakistan, 14,000 water users associations (WUAs) were hurriedly created to become active in water course improvements. However, when construction was completed, the WUAs did not move on to broader irrigation management tasks because they saw neither a purpose nor a benefit to continued existence. Instead, they reverted back to the traditional *warabandi* system, which was already well established and hence involved lower transaction costs (Byrnes, 1992).

organizers. Merely adding more community workers makes no difference unless the overall incentive environment rewards staff for responsiveness to clients and support to community workers. Incentives for performance are easier to institute when agencies are required to be financially viable, have autonomy to manage themselves, and have control over hiring and firing of staff.

An alternative to restructuring existing agencies is to *contract out the needed services* to NGOs (as in rural water supply in Kenya), the private sector (in agriculture in Malaysia), other government agencies (public health workers for a water and sanitation project in Brazil), or multi- or bilateral agencies (UNICEF in low income housing in Guatemala). In Mexico, the National Water authority has an in-house group of senior social scientists and communication specialists who design the strategy for community outreach, applied research and communications. This is then subcontracted to the private sector.

The choice of *outreach approach needs to match the goals of the program*. The extension approach, in which the field agent acts primarily as a channel of information and inputs, and remains accountable to the agency rather than the community group, is not appropriate when the

objective is community initiative and responsibility for management. When the success of a program hinges on participation through strong local groups, an empowerment approach is called for, where the field agent is a community organizer acting in liaison with technical agencies. It may be essential to introduce female agents to ensure the participation of women.

The role of the agency and its relationship with community groups needs to be supported by appropriate *changes in legislation*. Key issues include the mandate of agencies, funding mechanisms, accountability systems, the registration requirements and legal status of community groups, and use and tenure rights over assets (particularly over natural resources). Many rules and regulations may also need to be changed, from the required qualifications for community workers, teachers or health educators, for example, to procurement rules.

Implementing the institutional and legislative changes necessary to support large scale community based programs inevitably meets resistance from powerful vested interests and needs strong *political support* to see it through. Many Bank projects that implement institutional reform are led by reform minded senior civil servants with access to the country's top political leaders.

Box 4 Checklist: Steps in Designing Large Scale Projects

- Clarify and prioritize objectives. Link objectives to outputs.
- Identify the key stakeholders at the community and agency levels. Assess their capacity and interests.
- Assess (do not assume) demand, bearing in mind that demand is influenced by the confidence people have in the service provider.
- Establish eligibility criteria for community groups, so that communities can select themselves into projects, rather than projects selecting communities.
- Structure subsidies that do not distort demand.
- Restructure fund release to support demand.
- Learn by doing, adjusting plans annually on the basis of experience.
- Invest in strengthening social organization to increase local participation in decision making.
- Institute participatory monitoring and evaluation and feedback loops.
- Redefine procurement rules to support community level procurement where appropriate.

Box 5 Shared Control and Benefits: CAMPFIRE in Zimbabwe

The incentive for Zimbabwe to protect its wildlife resources is high. Wildlife activities such as safari hunting, game cropping, tourism, and live animal sales contribute over \$250 million annually to Zimbabwe's national economy. Most wildlife, however, is outside parks on tribal or communally owned land. The Department of National Parks and Wildlife Management has recognized that wildlife resources will only be conserved if private and communal landowners derive economic benefit from protection of the resource and are given responsibility for conservation and management. The return of benefits to local communities from wildlife resources is the basis of Zimbabwe's Communal Areas Management Programme for Indigenous Resources (CAMPFIRE).

Using the CAMPFIRE approach and philosophy, the Chikwarakwara community of approximately 150 households in the remote Beirbridge area of Zimbabwe has taken over proprietorial management authority for wildlife resources from the district council. After a series of negotiations focusing on community membership, household definition and revenue sharing procedures, the council devolved management responsibilities and access to revenues derived from safari hunting activities to the community. The benefits accrued to the community as a result of this responsibility have included a new school, a new grinding mill, and a Z\$200 cash payment to each household. The Council has benefitted through an 11.7 percent levy, and the central government has benefitted through an increase in taxable revenues.

The CAMPFIRE approach has not worked where communities have not been involved in rule formulation or where sharing of benefits with communities is minimal. In Nyaminyami District in the Zambezi Valley, for example, there are inequities in the distribution of benefits and in the management responsibilities between the district council, the ward, and the villages. The basic issue of whether the Nyaminyami Wildlife Trust, which was created by the district council to develop institutional capacity for wildlife management, should be an income-earner at the district level or a grassroots wildlife management program has yet to be resolved. (Scoones and Matose, 1993.)



ENVIRONMENT DEPARTMENT DISSEMINATION NOTES

TOWARD ENVIRONMENTALLY AND SOCIALLY SUSTAINABLE DEVELOPMENT

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Participation in the Irrigation Sector

The irrigation sector provides a rich source of experiences and lessons in user participation. Participation by farmers in system design and management helps to ensure the sustainability of the system, reduce the public expenditure burden, and improve efficiency, equity and standards of service. Mobilizing support at all levels and establishing the participatory process, however, involves costs; it also demands knowledge of the incentives facing each group of stakeholders, and of the essential elements in building effective users' organizations.

Benefits

Efforts to increase user participation have been spurred by the poor performance—in terms of efficiency, equity, cost recovery and accountability—of many large scale irrigation systems managed by government agencies. Greater participation by farmers, through water users' associations, has helped to overcome many of these problems.

System Performance

The overriding reason for increasing participation in irrigation is to improve system performance. Clear gains in efficiency and in the standards of service are achieved when design and management of the irrigation system are transferred to farmers. System design benefits from local knowledge. And farmers have the means and incentives to minimize costs and improve services. For example, irrigation user associations can reduce labor costs by paying lower wages than government agencies; local farmers can provide closer supervision of staff than distant agency supervisors; and breakages and waste are reduced when farmers feel a greater sense of ownership. In Senegal, for instance (Box 1), electricity requirements were reduced by half. Ultimately, as a result of more timely water delivery and repairs, farmers' yields are higher. In the Philippines (Box 2), dry season rice yields increased by 12 percent and farmer net income by 50 percent.

Public Expenditure

One of the most noted effects (although this has nothing to do with farmers' motives for participation) is the reduction in government staff and expenditure requirements, due to farmer management and contributions of cash, labor and materials. Farmer associations have proved more effective collectors of user fees than government agencies. It is not unusual for farmers to be willing to pay more than the original user rates after transfer of the system to their control. However, increased collection of fees does not motivate farmer participation. Participation must also result in direct benefits to participants.

Sustainability

Building irrigation systems which are wanted, supported and owned by users themselves provides the best assurance of sustainability. Physical and fiscal sustainability of the irrigation system beyond the project is enhanced when operation and maintenance costs are met from user fees rather than high levels of government subsidy.

Equity

More equitable organizational arrangements and water delivery have been noted when participatory approaches are followed. A contributing factor is the socioeconomic status of the leadership, which tends to be closer to that of

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Box 1

Senegal - Creating Incentives for Farmer Participation

Early efforts in Senegal to transfer irrigation system management to farmers by establishing village units showed little success because of unclear plans, timetables, and provisions for transfer, and because of the failure to provide control or incentives for the farmers.

Recognizing these problems, the 1990 Bank-assisted Irrigation IV Project required total transfer of operation and maintenance (O&M) to farmers as a precondition for financing rehabilitation works. Getting farmers to agree to take over these systems required considerable negotiation, particularly because they perceived existing irrigation fees as too high, let alone the additional costs and responsibilities of covering full O&M.

Increasing the control of farmers over irrigation services was the key factor which convinced them to agree to assume responsibility for system management and cost recovery. Farmers demanded the right to hire their own staff, choosing agency operators only if they had performed well, and even then reducing their salaries from the full civil service package. Following the transfer to farmers of ownership of rehabilitated operating systems with their infrastructure, agency staff would be allowed to enter the schemes only with farmers' permission. To improve farmers management capacity, manuals were prepared for each system; and training in basic literacy as well as technical and financial skills for organizational leaders was incorporated. Farmers were willing to pay at least part of the training costs.

Although the long-term sustainability of the project is difficult to assess at this stage, the accomplishments to date are impressive. Before the transfer, assessed fees covered only 17 to 21 percent of maintenance and replacement costs, and less than a quarter of these were actually collected (Nguyen, 1994). As a result, maintenance suffered, electricity often was not paid for, and system reliability was very poor. After the transfer, farmers paid fees four times as high, covering full O&M and a replacement fund for capital. The benefit to the farmers was greatly improved irrigation reliability. Moreover, because they were able to monitor the pump operators and had an incentive to save on energy costs, electricity requirements were reduced by half. Savings to the government included huge reductions in agency staff costs, as farmers took over functions.

the ordinary member, involving more tenants and small farmers than in non-participatory systems.

Spillover Effects

The transformation of water users from beneficiaries to partners in irrigation development can have a widespread impact, as farmers become trained and organized. It can increase local capacity to coordinate input supplies, for example, and to deal with other government agencies involved in rural development.

Costs and Risks

Establishing user participation involves costs in mobilizing field staff, training and organizing farmers and carrying out socioeconomic research. However, these additional costs are usually offset by subsequent savings in construction costs and higher loan repayment rates.

A bigger problem can be the additional time needed to establish a participatory approach and get the project off the ground, especially in the absence of existing local institutions for cooperation. Developing farmer organizations is often a slow process, less under the project's control than constructing dams or delivery

structures. Once the participatory approach has been established, however, it is not unusual for participation actually to reduce the implementation period. The kinds of problems which typically delay the implementation of non-

Box 2

Evidence from the Philippines

The first and best documented nationwide program to build in participation as a cornerstone of irrigation policy occurred in the Philippines. Beginning with a pilot project in 1976, the approach was expanded in 1980 to cover all communal systems, and even extended to large scale national irrigation systems. The National Irrigation Authority has evolved from an agency primarily concerned with construction to one committed to developing and supporting the management capacities of farmer irrigation associations.

A 1993 study of three irrigation systems reported substantial improvements in performance after ownership and management responsibility were transferred to farmers: collection efficiency for service fees increased from 45% to 74%; recurrent maintenance costs were reduced by 60% and personnel costs by 44%; dry season rice yields increased by 12%; and, taking costs and labor contributions into account, farmers' net income increased by 50%. These gains were most dramatic for tail end farmers who saw major improvements in water delivery.

participatory irrigation projects—such as difficulties in negotiating rights of way, or obstruction by farmers or local politicians—may be avoided or solved through effective participatory processes.

Conditions for Success

Mobilizing Support

User participation changes but does not eliminate the role of government agencies in irrigation development. Building support from policymakers and agency staff as well as farmers and other water users is essential for successful participatory projects and involves paying close attention to the incentives relevant to each group. The greatest receptivity to participation is often found in crisis situations, as was the case in Mexico (Box 3), when management problems or revenue drains are most apparent.

In building the confidence of policymakers and senior agency staff, pilot projects have been used effectively to demonstrate the capacity for

farmer management, the potential improvement in system performance, and potential saving in government expenditure and improvement in cost recovery rates. Building alliances with supportive individuals in government has been facilitated by participatory economic and sector work, by enabling task managers to spend several years working in a country, and supporting them with good social analysis.

Project implementation rests ultimately with agency staff. Internalizing support for participation within irrigation agencies often involves structural changes, to link agency budgets firmly to farmer contributions instead of government allocations, and to promote a more service oriented approach. Since agency staff typically come from engineering backgrounds and are not oriented toward dealing with farmers, incentives for them to support farmer participation need to be backed up by training programs. Study tours to farmer managed irrigation districts can be particularly effective, not only for their demonstration effect but also

Box 3

Mexico - Rapid Change in a Crisis Situation

Mexico experienced rapid and widespread incorporation of user participation in the irrigation sector. The objective was to make the national irrigation system financially self-sufficient as well as to obtain full cost recovery over time for major works already constructed. The cornerstone of this policy was the transfer of irrigation management to Water User Organizations.

Crisis situations in irrigation system financing and management provided the impetus for sweeping changes. By the end of the 1980s, an estimated 1.5 million ha (out of 6.1 million) of irrigated land went out of irrigated production because of lack of funding for completion of infrastructure and operation and maintenance (O&M). Bank management was influential in pointing out the need and direction for change, and the Bank provided a loan (co-financed by the Inter-American Development Bank) for the Irrigation and Drainage Sector Project. The three pillars of this project were decentralization and transfer of irrigation districts to Water User Organizations, self-sufficiency in fee collection to cover full O&M costs, and efficiency in budget allocation.

The transfer is done in two stages. The first gives producers, organized in Water User Organizations (covering 5,000 to 18,000 ha), responsibility for operation and maintenance of large lateral canals and drains. In the second, these organizations take responsibility for the main irrigation and drainage canals and the machinery and equipment required for O&M through the creation of an enterprise or *Sociedad*. Farmer groups are set up as organizations, rather than less formal associations, so that, under Mexican law, they can operate as legal entities and obtain loans. These organizations are meant to become financially self sufficient through collection of water charges. Each organization hires a professional team to carry out O&M, including a manager and a group of water masters (one for approximately 3,000 ha) and a chief of maintenance (all graduate engineers) as well as their support staff.

To educate farmers about the changes and convince them to support the program, Mexico relied heavily on mass media campaigns prepared by communications specialists from FAO, along with universities and industry. These were followed by detailed training of the staff of farmer organizations in, among other subjects, computer applications and use of maintenance machinery. Districts in the best financial condition were transferred first (after deferred maintenance was done) to ensure a successful start and build confidence.

The process of transferring management to farmers already has exceeded targets. Since 1991, thirty-three irrigation districts covering 2.3 million ha have been transferred, and an additional eleven are in process. O&M cost recovery rates have increased from 18 to 78 percent.

in raising the prestige of participation, exposing staff to new possibilities and creating a bond amongst participants.

The strongest opposition to farmer participation is often encountered at the field technical level, especially where civil service unions are strong. When field staff perceive the proposed changes as a threat to their jobs and livelihood, these vested interests can retard or even sabotage participatory projects. Clear directives are needed from policymakers, supported by performance measures linked to bonuses and promotions, to encourage greater accountability to the farmers. The new ethos can only develop gradually. Sudden cuts into the status quo should be avoided and the composition of staff allowed to change gradually.

Building Effective Farmers Organizations

Teams of trained specialists acting as community organizers have proved to be the most successful catalysts in participatory irrigation projects. Wherever possible, existing organizational capacity should be built upon, as in Nepal (Box 4), for example. In cases of very hierarchical social structure and inequitable distribution of assets, it may be unrealistic to expect fully democratic local organizations. To control vested interests, the varying incentives of different categories of farmers should be identified and accounted for in project design (for example, in defining water rights), along with the resulting problems of achieving collective action.

Appropriate incentives are needed if farmers are actively to support the user associations which are essential channels for participation, and to assume the additional costs in time, materials and fees (as experience in Pakistan has demonstrated). The most important of these incentives are improved irrigation services, and a voice in management decisions through a user organization which is fully accountable to its members. The support of farmers is most likely to be sustained, and organizational capacity developed, when they are involved from the beginning in decisions on system design, and when their organization has full ownership and management control of the system. It is essential, for example, that specialized staff be selected by and accountable to the farmer organization, even if they have been trained by government agencies.

To be successful, farmer organizations must interact constructively with government agencies and technical experts. This relationship works best when consistent rules and procedures are established, and supported by government regulation, for the turnover of responsibility to farmers throughout the project or sector. Building the necessary organizational capacity for this turnover involves training farmers for a variety of new functions, from basic literacy, accounting, how to hold meetings, and how to deal with agencies, to legal regulations, and possibly even computer applications, as well as water management and operation of equipment.

Fundamental to meeting all these conditions, a strong and transparent legal framework for the organization is needed from the outset, providing farmers with rights and benefits as well as duties and responsibilities. This framework should also be flexible enough to allow farmers to evolve their own organizational structure, and to permit the organization's responsibilities to grow in line with its capacity.

Box 4

Nepal - Building on Traditional Strengths

Nepal has a long tradition of direct farmer participation and cooperation in irrigation development. About 70,000 farmer managed irrigation schemes, ranging in size from very small to thousands of hectares, account for 70%-80% of the country's irrigation. In general these systems achieve high levels of performance over long periods of time without government cost or involvement. However, such systems are frequently damaged by landslides and floods beyond the capability of farmers to repair alone, and most can be improved substantially with modern materials and construction techniques.

The Bank's Irrigation Line of Credit (ILC) was designed to assist these schemes by building on the farmers' traditional capabilities to organize and cooperate together. To participate under the ILC, farmers had to form legal Farmer Irrigation Associations, agree ahead of time to contribute to capital costs, pay full operation and maintenance costs, and maintain full control and responsibility for all decisions regarding their irrigation schemes. Such stringent requirements had never been attempted before under a Bank project in Nepal. But in practice these requirements simply formalized the farmers' traditional mode of irrigation development and provided an avenue for Bank assistance which would strengthen rather than destroy the traditional farmer institutions. The ILC approach proved highly successful, has become strongly demand driven, and is now being expanded to government managed projects.



ENVIRONMENT DEPARTMENT DISSEMINATION NOTES

TOWARD ENVIRONMENTALLY AND SOCIALLY SUSTAINABLE DEVELOPMENT

Number 15

June, 1995

Participation in the Water and Sanitation Sector

The participation of users—in designing and implementing projects and managing water and sanitation (W&S) services—is now being built into Bank funded projects with the aim of increasing efficiency, equity and cost recovery and facilitating the extension of service coverage to poor communities. Success depends on establishing the necessary institutional arrangements for participation and project delivery. In addition, task managers (TMs) have to spend more time in the field, and adapt Bank procedures to support appropriate models for financing and procurement.

Challenges for the Sector

Prior to the last decade, the business practices of water and sanitation utilities hardly ever involved consumers in decision making or management. More recently, with concern that agencies are still failing to reach more than a billion of the poorest in developing countries, moving people center stage in W&S projects has become an important theme.

Despite massive investments between 1980 and 1990—the International Drinking Water Supply and Sanitation Decade—the needs of the rural and urban poor are still largely unmet by formal public services while, in many areas, private vendors charge 10 to 1,000 times the official tariff rates. Pervasive inefficiency on the part of overstuffed agencies providing subsidized urban services has resulted in financially unsustainable services that benefit only a small portion of the population.

At the same time, competing user needs have not been well balanced and many water resource interventions—large dams and irrigation projects in particular—have misallocated water resources, and caused social and environmental disruption.

To increase responsiveness to user needs, improve cost recovery and service management,

and to incorporate financial, environmental and social concerns into project design and management, services should be based on demand.

The Role of Participation

Participation plays a central role in meeting these challenges. An example from Kenya (Box 1) shows how involving users in the design and management of W&S services provides a means of revealing demand, and of ensuring that services match what people want, are willing to pay for and will strive to maintain. The rationale for user participation is summarized as follows:

- user participation makes services and service providers more responsive and accountable to beneficiaries;
- cost recovery and the sustainability of services improves when technology choices and services correspond with what users want and are willing to pay for; and
- management of services is more effective when institutional arrangements are tailored to local practices.

Demand based approaches can also help resolve conflicts over water resource allocation between competing sectoral uses. Increased participation by primary stakeholders—whether

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Box 1
**Community Mobilization for Sanitation
in Kenya**

The village of Maina is an informal settlement within the boundaries of Nyahururu town in Kenya, where DANIDA executed a Sewerage House Connection project between 1988 and 1991. In the first year of the project, a trunk sewer and a few lateral sewers were constructed, without any participation by the residents. The consequences were predictable: villagers did not understand the project motives and resisted collaborating with project teams when the plans indicated that the layout of some plots would be altered to make room for roads, storm drains and toilet units. Villager apprehensions were based on a valid concern that engineers' plans would result in large-scale alterations to existing houses and structures.

A DANIDA review mission in 1989 recommended that, before any further investments were made, the physical plan be revised with community participation. A site committee was formed, involving residents in the process of determining what the project components would be. Extension workers with government ministries, and staff from a leading Kenyan NGO, were selected as facilitators. The results were striking. Communities began mobilizing labor and materials for construction, and also began participating in the operation and maintenance of constructed facilities.

By the time the project came to an end, the community groups, with support from the NGO, had charted a completely different course for the project and were able to engage the Municipal Council in a productive dialogue on where and when other infrastructural facilities—such as roads, a police station and a post office—should be located within the village.

through consultation or through the purchase of water rights in regulated water markets—helps ensure that choices are anchored in demand and are not unduly influenced by contractors, consultants and other secondary stakeholders.

Most of the experience with participatory W&S projects so far has been by NGOs and, with a few notable exceptions, mostly on a small, experimental scale. While stakeholder participation is well accepted in the Bank's work in this sector, and is seen as especially vital in extending services to the poorest communities, participatory W&S projects are relatively new—mostly either still under implementation or under preparation. Much is yet to be learned about ways to optimize participation in large-scale projects but a number of important lessons are already emerging.

Conditions for Success

Promoting the participation of water users is not equally appropriate and feasible in all W&S projects. It is better suited to the provision of feeder than trunk infrastructure. Adverse political and institutional conditions may make it very difficult to establish participatory processes. And in the poorest countries where capacity is very weak, the cost of expatriate facilitators to promote institutional intermediation may be very high.

The critical question is to understand what rules and institutional arrangements are useful

in supporting stakeholder participation in the sector, and under what circumstances they are appropriate.

Working with Governments and Sector Agencies

Support from higher levels of government is essential to the success of demand driven projects. It was crucial, for example, in overcoming line agency resistance to plans for beneficiary participation through an autonomous fund for rural W&S projects in Nepal. Cultivating national level support for participation in W&S can be

Box 2
The Risks of a Multi-Agency Approach

In a rural water project in a country in Asia, the central government did not provide adequate resources to the Department of Local Government which was the agency responsible for setting up rural water associations with community involvement. The Public Works Department, on the other hand, received its budget allocations on schedule and went ahead procuring well drilling materials before communities had been consulted on what types of facilities they wanted and were willing to pay for. In response to political pressure from provincial politicians, the Public Works Department distributed budget allocations evenly over all the provinces, spreading project investments too thinly. The project was driven by drilling companies and politicians rather than, as envisaged in the project, by the community based Rural Water Associations. These pitfalls could probably have been avoided if community participation had been established before the hardware was procured.

tackled from two ends: by country economic and sector work, through which support is generated before projects are begun; or through individual participatory projects whose lessons change sectoral policies at the national level. Where consensus or political support at the national level is weak, it may be easier to begin by demonstrating the move from projects to policy work. Most of the demand driven projects reviewed in this paper, however, emerged from earlier sector work that laid the basis for, and created the interest in, trying this new approach.

Finding agencies capable of carrying out participatory projects may be difficult. Several strategies have been used in cases where the sector agency is not qualified or interested in involving primary stakeholders more actively: using multiple agencies in project implementation; cultivating reformers within the larger resistant agencies; bypassing the agency by creating a new agency or fund; and designing the project to include an expanded range of secondary stakeholders as partner organizations, to prevent capture of project benefits by water utility staff and contractors.

Each of these approaches has its own drawbacks (an example is described in Box 2) and, in all cases, the challenge remains to convince engineers trained in applying industrial country standards to consider alternative technologies,

leave their drawing boards and consult with primary stakeholders. Investment in training staff in community participation by itself cannot remedy the situation unless career rewards are linked with success in implementing demand based projects. Lower level staff often have more accepting attitudes toward community involvement and are better equipped to interact with poor beneficiaries. And staff with experience from other agencies involved in extension work can adapt easily to play an intermediary role between consumers and W&S service providers; in a project in Brazil, for example (Box 3), responsibility for rural water has been placed with the public health agency, with good results.

In Bank funded projects where existing sector agencies have had few qualified community mobilization staff, specialists hired as project consultants have added up to ten percent to total investment costs. The best outcome—in terms of community participation, beneficiary satisfaction and per capita costs for water and sewage—resulted from having the detailed engineering design done jointly, under one bid, by consulting teams consisting of engineers and community participation specialists.

Designing Stakeholder Participation

Most projects set up community councils or water users associations through which beneficiaries can influence decisions concerning

Box 3

Learning about Participation Models

The PROSANEAR project is being implemented in several states in Brazil. Each state water company has been free to incorporate participation, using its own procedures. In practical terms, what has emerged are models of participation that differ depending on how the water company and the project design consultants worked out the "rules of the game".

In the **engineer-activist** model, the engineering consultant was also a dedicated social activist. The rules permitted beneficiaries to negotiate a wide range of topics with the state water company, such as levels of service, physical layouts, sequencing between water supply and sanitation investments, prices, billing, etc.

In the **participation specialist** model, professional community participation facilitators work jointly with design teams led by engineers. In one variant of the model, the water company decides on engineering design in advance, and allows communities to negotiate the organization of billing, assignment of operational responsibilities, and group contributions of labor. In the other variant, negotiations are restricted to assigning operation and maintenance responsibilities among the beneficiaries, user groups, and the water company.

In the **hygiene education** model, health educators focus on a more conventional set of interventions aimed at changing knowledge, attitudes and practices, rather than iteratively working out or negotiating any aspect of service provision. The assumption of this model is that there is no need to build any explicit negotiation mechanism into the choice of service level.

The extent of conflict has been greatest in the participation specialist model and nil in the hygiene education model. Per capita investment costs were highest in the hygiene education model. After project construction is completed, it will be possible to evaluate the effect of each of these models on service sustainability.

the type of service to be provided, play a role in project implementation, and channel their contributions of cash, labor and materials. Long term community participation in operation and maintenance of systems may also be sought, although this is more difficult and experience is still limited.

Project design must allow time to discover workable structures. Flexibility in community level project design allows institutional arrangements to be adjusted as needed to match what community members feel comfortable with. It also permits changes to be proposed by beneficiaries during the course of project implementation—in rules and procedures, in management structures, in the assignment of responsibilities between alternative organizations or firms, or in the type of service to be provided.

Demand driven projects allow beneficiary communities choice over the type and level of water and sanitation service they want, based on their needs, priorities and financial situations. To make informed decisions, they must receive sufficient information about options, their respective costs, and other implications. The range of service options may be limited by

settlement density, resource availability, hydrological or geographic factors. Typically, however, a number of options exist and the key factor is motivating the engineering staff to be innovative in searching these out.

To limit the influence of local elites, effective beneficiary participation also requires accountable leaders who make decisions on the basis of transparent rules. In Paraguay, the combination of easily understood program rules and clear information about costs and benefits, has produced a very effective rural sanitation program for larger villages. The government's sanitation agency offers the program to any community that can set up a committee and supply 15 percent of the investment costs. The community repays another 15 percent in cash or labor and materials at the time of implementation, and a further 30 percent over ten years, contributing to 60 percent cost recovery for capital costs. The community is expected to cover 100 percent of operational costs. The success of this program, in terms of cost recovery and the effectiveness of local organizations, owes much to the clear rules for entry and for division of responsibilities.

Box 4 **Tips for Task Managers**

Financing and Procurement

Standard bulk procurement procedures are rarely appropriate for demand driven projects. Alternatives include: direct procurement by communities or agencies from prequalified, small construction firms and consulting engineers, using a schedule of standard materials and labor costs; multiple procurement procedures, depending on the size of the project; and geographic clustering of subprojects, to allow limited packaging of specific elements.

Project Preparation

Sector work can help clear the way for participatory projects. An essential part of preparation is the time spent by TMs in the field. Especially at this learning stage for the Bank and borrower countries, preparation and supervision of participatory water and sanitation projects require more financial resources and staff time than conventional projects.

Supervision, Monitoring and Evaluation

Monitoring, evaluation and fine tuning of project design becomes an iterative, consultative process, involving TMs, sectoral counterparts, project managers and beneficiaries. Personal field visits by TMs are essential. Staff time for supervision in participatory water and sanitation projects has varied from 20-45 weeks a year.

Mobilizing Additional Resources

TMs have mobilized extra funding for preparation from the Japanese Trust Fund, Japanese Grant Facility and Project Preparation Fund. Bilaterals, UNICEF, regional development banks, and local and international NGOs working in country have been useful sources of experience, information and innovative approaches.

The Role of Consultants

Almost all projects involve consultants promoting participation in some capacity. The key issue is how the community participation specialist and the engineering design specialist can be encouraged to coordinate their efforts. One solution is to invite bids proposing both together, forcing consultants to form consortia of engineers and social activists.



Participation in the Education and Training Sector

Operations in the education sector can be greatly improved by increasing the participation of government officials, education professionals, local communities and the private sector. Such participation can increase the relevance and quality of education, improve ownership and build consensus, help to reach remote and disadvantaged groups, mobilize additional resources, and build institutional capacity. Participatory operations involve risks and costs, however, and certain preconditions are necessary for success.

Potential Benefits

Many Bank-assisted and other education projects have promoted the participation of stakeholders—from government officials and education professionals to community members, parents, students and employers—in design and implementation. Such participation can contribute in a variety of ways to meeting the challenges facing education systems in developing countries: to improving quality, promoting equitable enrollment, and controlling public costs.

Improving the Relevance and Quality of Education

In a sector where demand is often poorly understood, a fundamental rationale for increased stakeholder participation is to improve the relevance, effectiveness and sustainability of projects by ensuring that learning programs match the needs of the populations they are serving.

Efforts to make the provision of **basic education** more responsive to community needs have included education vouchers for families, fund transfers to school boards, and various models of school or community based management. Colombia's *Escuela Nueva* program (Box 1) and the Baluchistan community support process (Box 2) provide two examples. The involvement of parents and other community members in decision making has, in many cases,

Box 1

Student and Community Participation in Colombia

Colombia's *Escuela Nueva* program was created in the mid-1970s to overcome curriculum, training and administrative deficiencies in multigrade rural schools. The program incorporates a number of innovative components, including participation of students in school government, and community participation in designing and supporting the school curriculum.

In each learning task, self instruction books guide students to identify examples, cultural elements from their own experience, and local materials to be accumulated in the learning centers. Teachers are encouraged to organize meetings with parents and discuss the material prepared by the students. Children also participate in health, sanitation and nutrition activities. In this way, the school gradually becomes a resource center for teachers; for agencies operating in other sectors and, eventually, for the community itself.

In addition, *Escuela Nueva* children are introduced to civic and democratic life through student councils. Students organize into committees to take care of discipline, cleaning, maintenance, sports, school garden, newspaper and library. They also cooperate in the instructional process by helping slower students. This is seen as an essential part of the curriculum as it creates linkages between the school and the community.

Evaluation of the program, which has expanded rapidly to some 20,000 schools, suggests that educational achievement and civic behavior compare favorably with the output of traditional schools, at similar costs per pupil.

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made the curriculum, teaching materials and school calendar more appropriate to local conditions and improved teacher and student attendance rates. The result has been to boost morale, reduce drop out and repeater rates, improve achievement scores, and expand enrollment demand.

In **nonformal education**, there has been a relatively long history of student and community participation. Programs have proved more effective in terms of attendance rates, learning achievements and behavioral change when learners help identify their needs, design and manage learning programs, and participate in developing learning materials. Not only are such programs more relevant to the knowledge and interests of the students, but also the participatory activities themselves support the learning process.

Similarly, the motivation and achievement of students in **vocational and higher education** have been enhanced when students and community based organizations participate in designing and managing programs to meet their needs. In these sectors, the participation of private sector employers has been particularly important

for improving technical standards and linking training to real employment opportunities.

Building Ownership and Consensus

In a sector as socially, politically and culturally sensitive as education, stakeholder involvement in policy dialogue helps to define the values on which policy is based and to develop consensus between competing interest groups. It also helps to ensure that proposed changes have the understanding and support of all the groups on whom successful implementation will depend.

In some cases where major policy reform has been envisaged, Education Commissions have elicited relevant information and views from many sections of society. Techniques for facilitating dialogue among stakeholders in policy or project design have included focus groups, workshops, conferences and, as in Botswana, innovative use of video technology. The Philippines (Box 3) is one of several countries where EDI workshops have been the catalyst for participatory education sector work.

Reaching Disadvantaged Groups

Participatory methods have often been successful where formal education systems have

Box 2

Mobilizing Community Support to Primary Schools in Pakistan

The community support program in primary education in Baluchistan provides a remarkable example of what can be achieved in adverse conditions through participatory methods.

Beginning with a pilot project in 1992, the community support program has already succeeded in establishing 198 new community girls schools in remote rural villages which had no government school and no tradition of parental involvement in schools. Enrollment of girls is 100 percent in many of these villages, with very high attendance rates.

To begin the participatory process, community workers went door to door, urging parents to form an association. In each of the villages, education committees have been created, responsible for selecting a site for the school, identifying potential teachers, and monitoring teacher attendance and student enrollment.

A local girl, educated at least to eighth grade, has been identified and trained as teacher for each school. After she demonstrates her commitment by teaching for three months on a voluntary basis, mobile teacher training teams are sent to her home village to provide intensive three-month pedagogical training. This home training is needed because of cultural barriers that prevent girls from travelling far. Following the training, the teacher becomes a government employee: government rules, which normally require teachers to have matriculated, have been stretched to accommodate the program.

The pilot project resulted from the initiative of a Pakistani consultant. The Bank task manager, with whom she discussed her plans, recognized the potential of this approach and was able to organize USAID funding for the pilot. The consultant subsequently formed a small NGO in order to qualify for funding from other sources, which now include local and international NGOs, USAID, UNICEF and the government of Baluchistan, through a World Bank loan.

At the project preparation stage, when the pilot was tried, there was no way of knowing whether the approach would work or not. The success of the pilot led to full acceptance and ownership of the program by the government, and the government itself is now funding the program on a province-wide basis using IDA credit. Because of the experimental nature of the project, World Bank support to the program has only been possible through the new lending approach which supports the entire primary education program rather than selected components.

proved least effective—in serving the needs of girls (see Box 2), remote communities and marginalized groups. Participatory social research, as used in the Gambia to investigate the reasons for low attainment of girls in primary schools (Box 4), can help identify the policy measures needed to counteract the bias against disadvantaged groups. Expertise in bringing educational opportunities to the poorest communities, and in promoting the education of women, is found in NGOs which have experience in working with community based organizations and the necessary flexibility to adopt participatory methods.

Mobilizing Resources

The experience of participation through cost sharing in education has been mixed. Efforts to generate community contributions of cash, materials or labor to school construction, for example, have tended to be most successful in remote areas where the influence of central government bureaucracy is weak. They have been least successful when communities have not participated in decisions concerning location, design, construction, school management or education priorities. The support of parents and other community members, through fees or voluntary contributions, is motivated by their having a voice in such decisions and confidence in the value to them of the school or program.

Building Institutional Capacity

As in other sectors, participation by stakeholders in designing and managing programs in the education sector can also yield substantial long term benefits beyond the individual project, by strengthening the institutional capacity for sustained development. The process of participation empowers individuals and enhances their ability to contribute to the wider development process as new skills are learned and new norms adopted. Although these external benefits are very difficult to measure, they can be inferred from many of the project reviews.

Costs and Risks

Evidence in the education sector suggests that higher initial costs may be incurred in participatory projects in order to carry out the necessary social research and community work, to disseminate information or organize

workshops. Furthermore, project costs may be understated when the opportunity cost of voluntary time and effort is very high. These additional costs, however, are generally offset by subsequent gains in efficiency.

There is some risk that the allocation of costs may be inequitable, or place an excessive burden on the poor, in participatory projects where substantial community contributions are sought. For example, even the contribution of labor in school construction has been found to be beyond the means of some of the poorest communities. Estimating the ability and willingness of communities or individuals to share in costs needs to be approached on a case by case basis, in the context of equity objectives.

Difficulties which have been encountered in participatory projects include delays in implementation, and dependence on charismatic project leaders. The risk of abuse by individuals, local elites or interest groups also has to be borne in mind, as does the potential for misuse of funds.

Commitment to a process of dialogue among groups of stakeholders involves its own risks, which must all be taken into account: the timing and possibility of reaching consensus are uncertain; political conflicts are liable to be

Box 3

Building Borrower Commitment in the Philippines

The participatory process used in education sector work in the Philippines is reported to have called for much more time and patience on the part of Bank staff than would have been the case with a more traditional Bank approach, but it is hoped will pay off in terms of government commitment.

This work started with an Economic Development Institute workshop, focusing attention on the characteristics of effective schools, how schools improve, why schools were not working well, and what the priorities of reform should be. This was followed by another national seminar on the same subject. A method of broad stakeholder involvement, through a participatory workshop for project design (the ZOPP methodology), was used with 40 people from each broad geographic zone. From these participants and other stakeholders, a team was selected to draft a national implementation plan. Having secured ownership in the sector, the exercise is now being extended to the central agencies where the decision to borrow or not ultimately lies.

exposed; and there is a risk of generating social unrest by raising unrealistic expectations among participants.

These costs and difficulties notwithstanding, the risks of very expensive failure in participatory projects are judged to be much smaller than in a typical, top-down education project, where lack of sustainability may not be recognized until after significant investment is complete.

Conditions for Success

The most important preconditions for success in participatory projects are political will on the part of central government and commitment by key actors. In cases of weak political will, support for participatory approaches has been generated by sustaining dialogue and demonstrating potential benefits through pilot projects.

Institutional conditions may make participation more or less difficult to achieve, while simple scarcity of management and communication skills may be the main constraint to increasing participation in some of the poorest countries. It is often necessary, therefore, to build an education or training component into a participatory project in any sector to overcome skill shortages. Information sharing and dialogue

are also important to success; in demand driven education projects, communities must have access to the best possible information on technical options, costs, benefits and opportunities.

Because of the need to respond flexibly to developments as the project evolves, making education projects participatory calls for additional skills and greater tolerance of uncertainty on the part of the task manager; and it puts a greater onus on the quality of project preparation, clarification of objectives and project supervision.

Task managers who are promoting participation in education projects say that success depends on attention to the following critical elements:

- early stakeholder analysis and involvement;
- information sharing and dialogue among stakeholders;
- flexibility in the funding, timing and scale of projects;
- institutional strengthening; and
- appropriate systems of monitoring and evaluation, and mechanisms for ensuring accountability.

Box 4

Participatory Research in the Gambia

An innovative approach was used in a recent survey in the Gambia to gain a better understanding of the reasons for low enrollment and high drop out rates of girls in primary education. In addition to conventional survey methods (including questionnaires in schools, teacher interviews and parent focus interviews), the techniques of Participatory Rural Appraisal (PRA) were adapted to education, to counteract the bias against disadvantaged groups and provide a voice to people who are not usually heard.

Thirteen local researchers, including statisticians, Ministry of Education staff and teenage girls (to interview their peers) were trained in PRA methods. After trials in three villages, the team carried out a series of projects in seven villages and seven urban schools. Focus group discussions were held, where community members were asked to explain their problems and how education related to those problems. Villagers constructed matrices of community and educational problems, drew seasonal diagrams on income and expenditure, constructed social-educational "maps" of the village, identified households with girls of school age, and provided a wealth of socioeconomic information.

One of the most startling results was the discovery that one quarter of all the school-age girls (those who were pregnant, married, or about to be married) had remained "hidden" from enrollment statistics since they had not been counted by villagers in the initial census. Costs to parents, including indirect costs, and the coincidence of school fee payments with the season of lowest income, were seen as the biggest problems associated with education. As a result of this research, various measures have been introduced, including a change in the timing of fee payments.

The work was followed up by a second project, working with two rural communities to examine practical, community based solutions to the problems identified in the first project, and to assess available community resources for implementing such solutions. Options deemed by the community to have the highest chance of success were included in a Community Action Plan. Women in one of the villages, for example, decided to start a communal farm and to devote half the income from sales of farm produce towards school costs for girls.



Newsletter

THE CONSULTATIVE GROUP TO ASSIST THE POOREST
[A MICRO-FINANCE PROGRAM]

DEAR READERS,

This is the first newsletter for CGAP, the Consultative Group to Assist the Poorest—A Micro-Finance Program. This newsletter is a quarterly publication, and will be one of our key dissemination vehicles to a wide audience of governments, donors, practitioners; and private sector institutions on best practices in micro-finance. Future issues will contain the following features: an article or a viewpoint from a member of the CGAP Policy Advisory Group, an article from the Secretariat, contributions from CGAP member donors on micro-finance support activities, and contributions from practitioners in the field.

We would appreciate your comments and suggestions for future issues.



MR. ISMAIL SERAGELDIN, CGAP CHAIR,
AND DR. MUHAMMAD YUNUS, PAG CHAIR

TOWARDS CREATING A POVERTY-FREE WORLD

— Muhammad Yunus

It has been a long way from a tiny village in Bangladesh to the meeting rooms of The World Bank. Our journey began in 1976. What has happened in the villages of Bangladesh and other countries in the last nineteen years has converted many non-believers into firm believers.

Today in Washington, DC and other capitals of the world, the world's leading financial decision-makers are taking micro-finance programs seriously. That is how the Consultative Group to Assist the Poorest (CGAP) was born.

It is a mystery to me why more than a billion people in the world live malnourished, sick, and without hope. It remains a bigger mystery why in an age when we are learning to care for the environment, we remain indifferent to the plight of a vast multitude of our fellow humans. Why is it that when confronted with poverty and hunger we cannot think of anything better than hand-outs? Why is our knowledge expanding with unprecedented speed in some areas but suffering paralysis when coping with poverty and hunger?

The prime responsibility of our civilization should be to ensure human dignity for each and every member of society. It is clear we have failed to meet this challenge.

continued on page 4

THE VIEW OF THE CHAIR

— Ismail Serageldin

Over one billion people continue to live in abject poverty, despite all the advances on the development front. Some seventy percent of them are women. Every day some 40,000 people die of hunger-related causes.

Recognizing the need to alleviate hunger and poverty, The World Bank in collaboration with other agencies organized a conference on Overcoming Global Hunger from November 30-December 1, 1993. From the start, this event was conceived as an action-oriented initiative that would yield concrete recommendations for a strategy to combat hunger. It was intended to underline the urgency to promote collaborative efforts to overcome extreme poverty and hunger. Above all, it attempted to reconcile the various approaches advocated by the different groups involved (governments, international organizations, NGOs) and to search for a common ground where institutions could work together to have greater impact.

As a result, three separate but complementary initiatives were undertaken. First, the Bank reviewed its policy on issues of poverty and hunger and published *The World Bank's Strategy for Reducing Poverty and Hunger: A Report to the*

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THE CONCEPTUAL UNDERPINNINGS OF CGAP—A MICRO-FINANCE PROGRAM

— Mohini Malhotra

Since its inception in June, the Consultative Group to Assist the Poorest (CGAP) has expanded from a partnership between nine donor agencies in the field of micro-finance to eighteen. The launch of this initiative poses a basic question: What is CGAP?

Its objective is to improve and increase poor women and men's access to financial services, to enable them to improve their livelihoods. CGAP's four key purposes are to: strengthen donor collaboration in the field of micro-finance; disseminate lessons on micro-finance 'best practices' to a broader audience; act as a catalyst to improve and increase donor activities and funding in this area, in particular, those of The World Bank; and work with a select number of micro-finance institutions to advance knowledge and learning in this field.

Through this joint venture, donors plan to coordinate policies and procedures for support of micro-finance institutions, thus stretching donor resources farther. CGAP intends to develop 'industry performance standards' to measure progress in building strong institutions dedicated to serving poor households.

CGAP will disseminate lessons—on the role of micro-finance in poverty alleviation and in financial sector development, and on ways to build financial systems and institutions for the poor—to a much wider audience than currently reached. The idea is to leverage untapped resources and support for micro-finance from a larger set of actors, including the private and financial sectors.

By 'mainstreaming' micro-finance as a development strategy into the operations of The World Bank, and improving the quality of donor programs in this field—CGAP aims to be a catalyst that improves the use of existing resources and encourages more resources for these efforts. CGAP is not intended to be a self-contained 'special program' for micro-finance, but a unit with spill-over and seepage effects into the broader funding operations of The World Bank and other donor agencies.

Through the micro-finance facility, CGAP will support a number of strong micro-finance institutions in each region. These institutions are intended to have a demonstration effect on policy makers and other institutions, and add to the current wisdom on best practices in delivering financial services to poor households.

CGAP has sought the advice of micro-finance practitioners to develop its strategy. A group of fifty practitioners who participated in a forum held for the CGAP launch recommended that CGAP should focus on: linking micro-finance institutions with capital markets in developing and developed countries; bringing commercial banks into the market and equipping them with the methodologies to serve this market segment; helping those NGOs that wish to transform themselves into banks with the process; and influencing the legal and regulatory framework underpinning financial service delivery.

The 11 leading practitioners of the Policy Advisory Group (PAG) to CGAP,

advised CGAP to build on what has been done, and disseminate what is known to a broader audience of key actors, especially in the first year. In the words of Dr. Yunus (Chair of the PAG), "CGAP should fertilize and irrigate the seeds of wild rice that have been planted, and proliferate their growth." For operating the fund facility, the PAG advised CGAP to take an entrepreneurial and proactive view, and to focus on a few institutions in each region to increase their outreach and scale, rather than simply disperse scarce resources over a wide number of institutions.

The Secretariat sees CGAP as a vehicle through which to create a resounding chorus from previously dispersed voices in the field of micro-finance. The launch of CGAP coincides with a new juncture in the micro-finance field. The traditional view of the poor as charity recipients needing hand-outs has been overturned by the poor, who have demonstrated their role as active economic agents ready to pay for services tailored to their needs. The practitioners have expanded from grass-roots institutions in developing countries to include commercial and investment bankers in developed countries. The donors actively involved in micro-finance support have grown from a few to many, including The World Bank.

The focus of CGAP is clear. It must advance the "common wisdom" on deepening and broadening the reach of financial systems to include the poor majority. As evidenced by the millions of poor women and men barred from access to financial services, the "common wisdom" is as yet, not all that common.

"CGAP should fertilize and irrigate the seeds of wild rice that have been planted"

THE CGAP SECRETARIAT



(left to right)

Nathalie D'Ambrosio-Vitale, *Language Staff Assistant*

Joyita Mukherjee, *Program Analyst*

Ira Lieberman, *Chief Executive Officer*

Mohini Malhotra, *Operations Manager*

Richard Rosenberg, *Senior Advisor (USAID Secondment)*

Carmencita Clay, *Budget Officer*

Michael Goldberg, *Program Analyst (Dutch-funded position)*

Rica Bowyer, *Budget Officer, PSD*

Valerie Chisholm, *Program Assistant*

Anne-Marie Chidzero, *Program Analyst (Part-time on CGAP)*

continued from page 1

My nineteen years at Grameen convince me that poverty is not created by the poor; nor is it sustained by them. The roots of poverty lie in our institutions, concepts, and theoretical frameworks.

When we started the Grameen Bank, pessimists told us again and again that what we were attempting could not be done. Our detractors said the poor were not credit-worthy; and that commercial loans could not be made to “indigents.” We dared question the entire principle of collateral, and today after disbursing over US\$1.5 billion to the poorest in Bangladesh and maintaining a recovery record of over 98 percent, we would like to pose a radically different question. “Are conventional banks people-worthy?”

We were told by economists, planners, and experts that even if it were possible to lend money to a handful of poor in half a dozen or so villages and get the money back, surely this could not be scaled-up to reach any significant number of villages. Today we work in 35,000 villages throughout Bangladesh—more than half the total number of villages in the country—operating through 1,048 branches with a staff of over 12,000.

We were told that if we wanted to help poor families we should lend money to the male head of household. Instead we targeted women who generally had no experience with finances whatsoever. Destitute women turned out to be our strongest and most determined weapon against poverty. True freedom fighters! Today 94 percent of the 2 million borrowers at the Grameen Bank are women.

We were told that minuscule loans (around US\$140) would not create enough income to alter the poverty status of a family; that poverty was far too

**“We have started believing the
unbelievable—namely that the
elimination of poverty is feasible
and that there is no reason
whatsoever why anyone should
be poor on this planet.”**

P O L I C Y A D V I S O



entrenched to be affected by such loans. Today studies show that Grameen borrowers steadily improve their lives and that within a decade, half of them rise above the poverty line. Another quarter comes close to crossing it. Studies also show that our borrowers are far better off than other families with regard to nutrition, child mortality, use of contraceptives, and availability of safe drinking water and sanitation. Our housing loans have provided homes to 325,000 families; another 150,000 have built houses with incomes from their Grameen-funded enterprises.

We were told that the Grameen Bank would always be a sick institution dependent on grant money and limping along on the subsidies of donors. Yet by making our branch-level credit operations profitable we have proved that ours is a sustainable enterprise. In fact, Grameen is the most sound financial institution in Bangladesh.

These are only a few examples of what highly-respected naysayers and prophets of doom forecast for us and how wrong they were. We have started believing the unbelievable—namely that the elimination of poverty is feasible and that there is no reason whatsoever why anyone should be poor on this planet.

I firmly believe that the alleviation of poverty is a matter of will. If poverty is unacceptable to us, it can be removed once and for all from the surface of the earth. We can make the twentieth century the last century to know poverty. One day our children will visit museums and read books to learn about the conditions in which we allowed our fellow human to subsist, and they will be horrified.

R Y G R O U P

Seated (left to right)

Renée Chao-Beroff	Centre International de Développement et de Recherche
Maria Otero	Accion International
Ela Bhatt	Self-Employed Women's Association
Nancy Barry	Women's World Banking

Standing (left to right)

Maria Nowak	Caisse Française de Développement
Lawrence Yanovitch	Foundation for International Community Assistance
Kimanthi Mutua	Kenya Rural Enterprise Program
Dr. Muhammad Yunus	Grameen Bank (Chair of PAG)
Martin Connell	Calmeadow
Kamardy Arief	Bank Dagan Nasional Indonesia
Klaas Kuiper	International Agency for Economic Development

CGAP NEWSLETTER

Please send contributions (between 600 and 700 words) to: The CGAP Newsletter, c/o the Secretariat. Photographs of programs and activities are encouraged. All submissions must be received one month before publication. Future issues will be on the 1st of March, June, and September 1996.

CGAP ONLINE

The CGAP Newsletter, FOCUS Notes, and general information about CGAP is accessible through the World Wide Web at:

<http://www.worldbank.org/html/cgap/cgap.html>.

FOCUS NOTES SERIES

FOCUS is a series of four-page notes on key policy issues, research findings, lessons from practitioners, and tools for practitioners and policy makers. Approximately 10-12 notes will be published a year. To coincide with The World Bank/IMF Annual Meetings held in Washington, DC (October 10-12, 1995), CGAP launched the first three notes in the FOCUS Series:

- 1 Consultative Group to Assist the Poorest, A Micro-finance Program**
Joyita Mukherjee, CGAP Program Analyst
- 2 Maximizing the Outreach of Micro-enterprise Finance: The Emerging Lessons of Successful Programs**
(Synthesis of a USAID paper)
Christen, Rhyne, Vogel, McKean.
- 3 The Missing Links: Financial Systems that Work for the Majority**
Nancy Barry, President, Women's World Banking, CGAP Policy Advisor

Australia

Canada

Denmark

Finland

France

Germany

The Netherlands

Norway

Sweden

Switzerland

United Kingdom

United States

African Development Bank

Asian Development Bank

**Inter-American
Development Bank**

**International Fund for
Agricultural Development**

**United Nations
Capital Development Fund**

**United Nations
Development Program**

The World Bank

OPENING STATEMENT AT THE JUNE 27 MEETING OF CGAP

[AN EXCERPT]

— Fawzi Al-Sultan

washington

Poverty eradication is the integrating theme for IFAD and in this regard rural credit is perhaps the most important single weapon to overcome rural poverty.

Tangible capital assets are a crucial developmental factor of production. No other instrument in the hands of the poor can lead to asset creation with the same efficiency as credit to the poor.

IFAD's experience shows that the rural poor can be bankable, and that well-managed credit can make a major difference to their economic and social advancement. We have developed a strategy for providing financial service to the poor with a very simple overall objective: to meet the justified need for financial services by our clients in the field.

In Indonesia, group credit to the poor was introduced through self-help groups and linked to a commercial bank. The loans to small farmers and the landless were accompanied by technology packages and extension services, and resulted in exceptionally high repayment rates throughout the project life. This project is known in the country as P4K, and the government has recommended it for wider replication using local resources.

In Benin, a very recent project completion report by The World Bank documented a highly successful IFAD

credit component to small farmers through the regional savings and loan cooperative system. The IFAD line of credit is sustainable, and the rural poor show exceptional commitment to the micro-finance institution.

In Sri Lanka, IFAD's early support to Thrift and Credit Cooperatives showed impressive results in terms of outreach to the poor and the piloting of a cost-effective mechanism for rural poverty alleviation.

In the Maldives, IFAD promoted an outreach strategy of a local commercial bank to the poor with a strong impact on the incomes of project participants. In addition, we are testing new models to strengthen credit delivery to the very poor, through instruments like village development funds all over Africa, and special credit lines to rural women.

Our experience demonstrates that much of the success and failure of credit institutions lies not only in their management and systems, but also in the external policy environment. Housing the Secretariat in The World Bank provides CGAP with the opportunity to draw on the significant skills present in the Bank in financial sector development. The synergies between the policy dialogue of the Bank and our efforts to make financial services to the poor more accessible can be considerable.

I believe that CGAP offers the unique combination of experience and skills to disseminate lessons learned, and

DONOR ACTIVITIES

make individual donor experience available more widely for the benefit of our clients—disadvantaged households in developing countries. It can be a strong and effective mechanism for collaboration among different donors. CGAP offers a timely opportunity to reverse 'top-down' projects and ensure local institutional development. It provides us with an excellent opportunity to interact with key players at the grassroots level and to learn from their experiences. There is already considerable knowledge and experience within the micro-finance institutions and NGOs, on which successful donor programs can be based. IFAD and others have demonstrated that there is ample scope for improving financial services to the poor.

IFAD is keen that CGAP succeeds in spreading the message which has been the central theme of our operations from the very beginning—that the poor are bankable and must be provided with credit support. I hope that The World Bank will put its full weight behind this joint venture and that the donor community will strongly support the CGAP initiative and enable it to tap fully the productive resource potential of the rural poor.

INTERNATIONAL FORUM ON MICROENTERPRISE HOSTED BY CIDA IN OTTAWA

— Gilles Lessard

ottawa

On 21-22 August 1995, the Canadian International Development Agency (CIDA) hosted an International Forum on Microenterprises that brought together roughly forty microenterprise practitioners, senior government officials, and representatives of Canadian commercial banks and NGOs.

The main purpose of the forum was for participants to share their international and national experiences, and to discuss key issues pertaining to microenterprise and micro-finance development. The forum also provided an opportunity to draw lessons from successful experiences in developing countries and assess their adaptability to unemployment and poverty issues in industrial countries like Canada.

Huguette Labelle, President of CIDA, chaired the forum and The Honorable Christine Stuart, Secretary of State for Africa and Latin America, was keynote speaker. Ms. Stuart said that the very real contributions made by microenterprises to poverty reduction, economic and social improvement, and the empowerment of women, places them at the forefront of development activities. She pointed out that microenterprise development activities play a key role in CIDA's poverty reduction strategies. CIDA's objectives

in microenterprise development support are: to strengthen existing microenterprise development institutions; and to fund innovative activities that will contribute to advancing the frontiers of this field. In this spirit, CIDA joined CGAP as one of the founding member donors.

Participants agreed that micro-finance institutions should aim to provide full financial services—credit and savings—to their clients. They also concurred that there was a need to provide non-financial business services, such as access to information and markets. The question of whether the same institutions should provide both financial and non-financial services remained unanswered. Participants at the forum emphasized that sustainability related not only to the lending institution but to the entire microenterprise system. There was strong consensus that the success of microenterprise development institutions would be furthered by government, the private sector and microenterprise institutions pooling efforts to create a synergistic effect, rather than operating in isolation of each other.

Another issue discussed was trade-offs between economic and social goals—i.e., was it more desirable to reach male microentrepreneurs who have a greater tendency to grow their business by ploughing back profits, or to support women whose profits are invested in improved household welfare?

Some valuable best practice lessons for micro-finance institutions highlighted at the forum were:

- The need for a clear vision with respect to the clients to be served, the products or services to be provided, and the institutional development to pursue
- The need for high quality leadership that includes a carefully chosen board of directors and competent management to ensure the efficient delivery of services
- The need for institutional development in order to scale up activities for increased outreach.

On the whole, participants viewed microenterprise finance as one of the greatest success stories in the field of development. Low delinquency rates; operational and financial sustainability achieved by micro-finance institutions; and the relationship of trust and respect built with poor clients by these institutions are some of the measures of success. After being exposed to lessons from developing countries in microenterprise development, participants from Canada planned to hold a forum to discuss the applicability of these lessons from the South to similar problems of unemployment and poverty in Canada.

THE INFORMAL SECTOR AND MICRO-FINANCE INSTITUTIONS IN WEST AFRICA

[IMPLICATIONS FOR THE WORLD BANK]

— Leila Webster

west africa High population growth rates, shrinking public budgets, and urban migration have all increased the demand for jobs in West Africa. This demand cannot be met by the formal enterprise sector, and informal sectors across West Africa have absorbed a significant share of job-seekers. As a result, informal sectors account for roughly a third to a half of GDP and a third to three quarters of total employment.

Convinced of the importance of this sector but unclear as to how it could

best assist, the Industry and Energy Division of the Africa Region of The World Bank commissioned a Private Sector Development Department (PSD) team to come up with an appropriate strategy. Several questions were key to formulating a strategy. First, we needed to learn more about these informal sectors. What kinds of backgrounds, skills, and motivations are found among informal sector entrepreneurs? What are the major barriers to the growth of their micro-businesses? Second, what types of institutions are assisting these entrepreneurs and what kinds of services are offered? Which of these institutions might be appropriate partners for Bank operations? And third, how should the Bank approach work in this area?

To answer the first question, PSD staff researched and wrote overviews



ENTREPRENEURS WITH LOAN OFFICER, DUBREKA, GUINEA

Photograph by Pierre-Olivier Colleye

of the informal sectors in 12 West African countries based on fact-finding visits and on secondary sources. Major findings from these studies include the following:

- Sectoral concentrations among trade, services, and manufacturing vary a great deal by country
- Women are major participants in all informal sectors
- Key constraints include saturated and/or stagnant markets, inadequate access to credit and savings services, weak technical skills, limited information, and poor physical infrastructure
- Microentrepreneurs rely mainly on family, friends, moneylenders, and tontines (informal rotating savings and credit schemes) for financial services
- Microenterprise assistance programs are numerous but unevenly distributed throughout the region and they are of varying quality.

To learn more about the types of assistance institutions on the ground and how we might best work with them, the PSD team selected nine micro-finance institutions with reputations of excellence for in-depth reviews. The objectives of these case studies were: to learn more about micro-finance operations in this region, to assess these institutions' practices in the context of global best practices, and to identify ways in which the Bank could be of assistance.

The major conclusions from these case studies were the following:

Institutions receive high marks for outreach as most are providing financial services to very poor, underserved people in remote rural areas. The scale of operations has remained fairly small in most cases (under 10,000 clients), in part because of the difficulties of scaling up in sparsely populated areas. The quality of financial services is high:

- Terms and conditions of loans are well-tailored to the needs and capacities of clients
- Borrowers can obtain small loans (on average, US\$50) using simple procedures
- Requirements for loan security (character-based guarantees, collateral and savings deposits) are appropriate for local conditions.

The nine institutions fared less well when indicators of sustainability are examined. Revenues cover 30-40 percent of operating expenses on average; high administrative costs inflate transactions costs; and expatriate expenses often are a drain on program funds.

Several implications for the Bank emerged from this work. The main business of the strongest micro-finance institutions, both globally and in the countries surveyed, is delivery of financial services to low-income people. Under the assumption that financial systems ought to be able to serve low-income as well as middle- and high-income people, the Bank's work in the area of micro-finance delivery belongs most appropriately to financial sector operations. A larger number of Bank staff should

acquire the skills needed to work effectively in the area of micro-finance. The same minimum operating standards for financial intermediaries should be applied by all Bank teams that are active in microenterprise assistance in any given country. Moreover, Bank staff could better coordinate across the many functional divisions that are active in microenterprise assistance, e.g., human resources, finance and industry, agriculture, urban and infrastructure.

In directly assisting micro-finance institutions, the Bank's work should focus on helping them increase their outreach and move more quickly toward sustainability. Options would include: funding training activities for staff of micro-finance institutions, possibly involving study tours to other, more successful institutions, and helping managers of micro-finance institutions to improve their management information systems.

Note: This article is based on a preliminary publication, *The Informal Sector and Micro-Finance Institutions in West Africa*, edited by Leila Webster and Peter Fidler, September 1995. Copies of this document can be obtained from:

Mary Dutch, PSD Department
The World Bank, 1818 H Street, NW,
Washington, DC 20433,
Tel: 202. 473 3209

SEPTEMBER 26-29, 1995

Workshop on developing village banking in the Northwest mountainous region of Tunisia

The Office de Développement Sylvio Pastoral de Nord Ouest Tunisie, The World Bank, GTZ, and the European Union sponsored a workshop in micro-finance in Tunis to guide stakeholders on best practice principles to be adopted in developing a village banking program for the Northwest mountainous region. The workshop was attended by roughly 70 participants including government officials, NGO representatives, commercial bankers, and microentrepreneurs. Anne-Marie Chidzero (CGAP Program Analyst) and Lawrence Yanovitch of FINCA International and CGAP Policy Advisor also participated in the event. As a result of the workshop, the following principles were agreed to be incorporated in the Tunisian village banking program: it should be run independently from the government; it must strive for institutional viability and financial sustainability; services should be adapted to the needs of clients; and a progressive and flexible approach should be used in implementation. The process adopted in Tunisia provides an important lesson in using a participatory approach to develop micro-finance institutions in countries with little experience to ensure that stakeholders endorse fundamental underpinnings of micro-finance operations.

OCTOBER 30-NOVEMBER 1, 1995

CGAP Policy Advisory Group meeting

The first CGAP Policy Advisory Group meeting took place in Washington, DC and was attended by all eleven members. PAG members helped define a one-year strategy for the CGAP Secretariat with

the objective that it operate in a proactive and entrepreneurial manner. Educating donors, governments, and the private sector on micro-finance to increase resource flows in the area was identified as an important role for the Secretariat. Holding seminars and policy forums for top government officials, including micro-finance in events such as The World Bank Annual Meetings, training staff in donor agencies on micro-finance, organizing exposure trips for senior donor agency officials, and active dissemination of best practice to a wider audience were some of the steps



E V E N T S



recommended by the PAG to engage these key players. PAG members also deliberated and recommended eligibility criteria for micro-finance institutions to receive funds from the CGAP funding facility. The Secretariat will release an announcement on these recommendations shortly.

Breakfast with US private sector foundations and PAG members

On November 1, Ms. Jan Piercy, US Executive Director to The World Bank, hosted a breakfast meeting for PAG members and eleven private US Foundations including the MacArthur Foundation, Citicorp Foundation, Ford Foundation, and The Calvert Social Group. Also, among the attendees were representatives from the Office of Vice President Gore and Comptroller of the

Currency (US Department of Treasury). The event was an important nexus between the private sector, public sector donors, and micro-finance practitioners.

Open Session and Q & A with the Policy Advisory Group to CGAP

On November 1, the CGAP Secretariat and the Sustainable Banking for the Poor Initiative (World Bank) organized an open session with the PAG in Washington, DC at the Capital Hilton Hotel. PAG members reported on recommendations made to the Secretariat on strategy, policy, and operational guidelines. The event was attended by 200 people from The World Bank, Inter-American Development Bank, US Agency for International Development, and the academic and NGO community.

NOVEMBER 27-28, 1995

Conference on Regulation and Supervision of Micro-finance Institutions in Latin America, The World Bank, Washington, DC

ACCION International hosted this conference with the co-sponsorship of The World Bank (via the CGAP Program), the Inter-American Development Bank, The United States Agency for International Development and the Corporacion Andina de Fomentos. Conference participants included bank supervisory agency representatives from sixteen countries in Latin America, staff from the sponsoring donor agencies, and micro-finance practitioners. Richard Frank, Managing Director, World Bank, and Michael Chu, President, ACCION International, inaugurated the conference. Keynote presenters included Robert Christen, Micro-finance Consultant, and Jacques Trigo, Superintendent of Bolivia. The proceedings will be forthcoming as part of the FOCUS notes series.

continued from page 1

Development Community, which details a coordinated program of actions that the Bank, in collaboration with other organizations, will promote. The study highlights that combating hunger effectively requires a wide range of actions, such as: investing in people, supporting agriculture, targeted nutrition and health programs, focusing on environmental sustainability and expanding participation for the very poor. Adjusting government policies to create an enabling environment for such actions is an obvious necessity.

Second, the Bank is working with NGOs and governments to conduct detailed in-country consultations on the best ways of alleviating hunger and extreme poverty. The first of these consultations was hosted by the Government of Mali in collaboration with local NGOs and the Bank to exchange views on different strategies, approaches and programs to fight hunger, and to explore ways to promote partnership. As a result of this first consultation, a tripartite participatory project will be implemented in Mali. The project will aim to: strengthen community participation in identifying priority needs and in designing and implementing interventions in partnership with NGOs, local authorities and national programs; improve living conditions of selected disadvantaged communities; and provide institutional support at the national level to help set up an appropriate decision-making structure to achieve this objective.

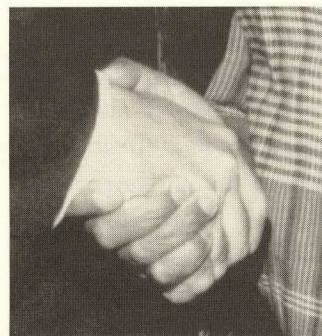
Third, the Bank has established CGAP. This initiative represents perhaps the greatest challenge for the donor community. For the first time, donors will join forces to systematically expand the level of resources available to the very poor, especially poor women, and deepen outreach in order to serve those who are in the greatest need.

The participation of the Bank in this collective effort will help orient its sectoral and policy dialogue towards creating an enabling environment for micro-finance institutions. This initiative will also complement ongoing efforts within the Bank to alleviate poverty.

Micro-finance is a proven instrument to assist the very poor. Studies have shown that the very poor, especially women, repay their loans at the phenomenal rate of more than 98 percent and that the benefits of such loans translate into improved conditions for the entire household, especially children. Very poor women can pull themselves out of poverty through successive loans of this type.

The success of this program rests largely on the willingness of the 18 member donors to vigorously commit to making a difference in the lives of those who we are trying to reach. Through collaboration and partnerships, we can achieve this objective. The Policy Advisory Group of CGAP is an essential vehicle to bring the voice of the practitioners into the decision-making of the CGAP and thus make it a more effective instrument.

The CGAP framework will allow donors to learn how best to support the expansion of successful programs so that they reach greater numbers of those in need, as well as the poorer segment of the population. It will allow donors, such as The World Bank, to mainstream the lessons learned into its regular operations; governments to learn how they can better create a climate in which



"Eradicating hunger and poverty is an attainable goal, but we can only achieve this through coordinated efforts at the international level ..."

NEWSLETTER CREDITS

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such successful micro-finance institutions can flourish; and practitioners to learn from each other. Through its efforts, CGAP aims to have an important multiplier effect.

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THE CONSULTATIVE GROUP TO ASSIST THE POOREST
[A MICRO-FINANCE PROGRAM]

Newsletter



THE CONSULTATIVE GROUP TO ASSIST THE POOREST
A MICRO-FINANCE PROGRAM

Note No. 1

FOCUS

October 1995

The Consultative Group to Assist the Poorest A Micro-finance Program¹

Micro-finance for Poverty Alleviation and Private Sector Development

Over the last decade, providing financial services to low-income entrepreneurs who run microenterprises (micro-finance) has proved effective in raising their employment, income, and living standards. In developing countries, the micro-enterprise sector employs an estimated 30 to 80 percent of the economically active population. This sector often absorbs excess labor during periods of economic restructuring and responds quickly to excess demand during periods of economic expansion. The lack of access to financial services, such as savings and credit, is a key constraint faced by microentrepreneurs. It is estimated that fewer than 10 million of the few hundred million people who run micro and small enterprises have access to financial services. The ability to procure loans and deposit savings by poor entrepreneurs helps build stronger micro businesses and leads to greater participation by the poor in economic growth. Higher incomes for the poor results in increased investments in education, nutrition, and household welfare leading to an improvement in the quality of life.

The field of micro-finance was pioneered by specialized NGOs and commercial banks such as BRI-Unit Desa (Indonesia), Grameen Bank (Bangladesh), K-Rep (Kenya), and Prodem/BancoSol (Bolivia) among others. They have demonstrated that populations traditionally excluded by the formal financial sector can in fact, be a market niche for innovative banking services that are commercially sustainable. Micro-finance represents a significant departure from earlier exercises in providing credit to the poor through finan-

cial institutions (often public institutions) at subsidized rates with little or no recovery rates. Successful micro-finance institutions are (largely) local organizations that reach an under-served market and are commercially viable.

What is CGAP?

The Consultative Group to Assist the Poorest (CGAP) — is a multi-donor effort to systematically increase resources in micro-finance to broaden and deepen the success of the work done by pioneer institutions in this field. It grew out of joint decision by a group of donors at the International Conference on Actions to Reduce Global Hunger held in 1993. CGAP's goal is to expand the level of resources reaching the poorest of the economically active poor by providing governments, donors, and practitioners with a vehicle for structured learning and dissemination of best practices on how to reach the poor with sustainable financial services, and by channeling funds through sound micro-finance institutions.

The objectives of CGAP are to:

- strengthen donor coordination in the field of micro-finance;
- increase learning and dissemination of best practice for delivering financial services to the poor on a sustainable basis;
- mainstream micro-finance within World Bank operations;
- create an enabling environment for micro-finance institutions;
- support micro-finance institutions that deliver (or are capable of delivering) credit and/or savings services to the very poor on a financially sustainable basis; and

The FOCUS Series is CGAP's primary vehicle for dissemination to governments, donors, and private financial institutions on best practices in microenterprise finance. Please contact FOCUS, CGAP Secretariat with comments, contributions, and to receive other notes in the Series at: 1818 H Street, N.W., Washington DC 20433. Tel: (202) 473-9594; Fax: (202) 522-3744; Email: CProject@Worldbank.org.



Founding Members of CGAP

Bilateral Donors:

Canada
France
The Netherlands
The United States of America

Multilateral Donors:

African Development Bank
Asian Development Bank
International Fund for
Agricultural Development
UN Development Program and
Capital Development Fund
World Bank

- help established providers of micro-finance to assist others start such services in under-served regions.

CGAP was formally constituted on June 27, 1995 with the participation of four bilateral and five multilateral member donors (MDs). The nine founding member donors pledged roughly US\$200 million to the CGAP portfolio. Of this, the World Bank's cash contribution of US\$30 million is the basis of a funding facility for eligible microfinance institutions. (US\$3 million of the US\$30 million will be used to cover the operating costs of the CGAP Secretariat.) The rest is in programs administered directly by each MD that has been placed within CGAP's portfolio for sharing experience and learning on best practice. In addition to Australia and the Inter-American Development Bank, other donor agencies are in the process of joining CGAP.

Structure of CGAP

CGAP consists of three main bodies:

- (i) The Consultative Group;
- (ii) The Policy Advisory Group; and
- (iii) The CGAP Secretariat.

The Consultative Group (CG)

The CG is composed of member donors (MDs) who make a minimum contribution of US\$2 million in cash or programs, and Funding Partners who pool their funds with the World Bank and entrust the latter to manage these funds. The CG elects its Chair to serve a one-year term, that can be extended. Ismail Serageldin, Vice President of Environmentally Sustainable Development (ESDVP), World Bank, was elected as the first Chair of the CG. The CG will:

- establish policies, approve the Secretariat's business plan, and review performance on an annual basis;
- develop criteria, operating procedures, and guidelines by which proposals from micro-finance institutions will be appraised and evaluated;
- assist the Secretariat to distill and disseminate lessons on operational and policy issues; and
- coordinate donor activity in micro-finance.

The Policy Advisory Group (PAG)

The PAG is comprised of 11 distinguished experts in the field of micro-finance. Elected by the CG, one-third of the members will be renewed every year to allow for wide representation while maintaining continuity. The main functions of the PAG are:

- to support and advise the CG and the Secretariat on policy and operational issues, and on the overall direction of CGAP; and
- to assure that the best practical knowledge is available to the CG and Secretariat.

The CGAP Secretariat

The CGAP Secretariat, responsible for implementing CGAP's mandate, is housed within the Finance and Private Sector Development Vice-Presidency (FDPVP) of the World Bank. Ira Lieberman, Manager, Private Sector Development Department (PSD) is Chief Executive Officer, and Mohini Malhotra, a micro-finance specialist, is the Operations Manager. The Secretariat is composed of staff seconded by a number of donors and will carry out the following functions:

Develop industry standards in micro-finance:

The Secretariat will develop standardized donor procedures for appraisal and evaluation of micro-finance programs to make them more consistent, streamlined, and user-friendly to micro-finance institutions. These procedures will be developed in consultation with experts and practitioners. Standardization of audit and reporting requirements will prepare micro-finance institutions to tap local capital markets by linking with the formal financial sector.

Distill and disseminate lessons learned on best practice:

The Secretariat will act as a clearing house on best practice information. It will distill lessons and disseminate information to: (i) the donor community, to improve and increase donor coordination and programming in this field; (ii) governments, to provide information on the role of public policy in micro-finance through financial and private sector development; and (iii) micro-finance institutions, to increase the overall knowledge base in the field. CGAP will contribute to new learning in micro-finance on issues such as: new technologies and instruments to reduce operating costs, expanding outreach to the very poor, linkages with the formal financial system, and prudential regulation and supervision. By jointly monitoring and evaluating investments in the CGAP portfolio with other MDs, the Secretariat will extract lessons and disseminate them

through: shortnotes on various policy and technical issues; audio-visual materials on activities of the micro-finance institutions and micro-entrepreneurs; a database on micro-finance institutions by country; a quarterly newsletter; and training modules.

Mainstream micro-finance within the World Bank:

The World Bank can play a pivotal role in working with governments to create an enabling business environment for micro-finance institutions, and linking them with the formal financial sector. For example, the Bank can provide assistance in improving the legal and regulatory environment for micro-enterprises, and in carrying out financial sector reforms that are conducive to sustainable micro-finance institutions. These reforms include removing interest rate ceilings and competing subsidized credit schemes, revising banking laws and prudential regulation and supervision to accommodate non-bank financial institutions, and changing property rights/collateral laws. The CGAP Secretariat will promote learning among World Bank staff on how to integrate micro-finance issues into lending operations and apply best practice lessons.

Fund eligible micro-finance institutions: The initial cash contribution made by the World Bank into the CGAP funding facility will be used to finance eligible micro-finance institutions. A variety of financial institutions such as NGOs, credit unions, coop-

PAG Members

Chair: Muhammad Yunus

Grameen Bank

Kamardy Arief

Bank Dagan Nasional Indonesia

Nancy Barry

Women's World Banking

Ela Bhatt

Self-Employed Women's Association

Renée Chao-Beroff

Centre International de Développement et de Recherche

Martin Connell

Calmeadow

Klaas Kuiper

International Agency for Economic Development

Kimanthi Mutua

Kenya Rural Enterprise Program

Maria Nowak

Caisse Française de Développement

Maria Otero

Accion International

Lawrence Yanovitch

Foundation for International Community Assistance

eratives, and banks will be eligible for financing. Inclusion depends on meeting established criteria, not on ownership status. Funds from the facility are meant to leverage other available donor/private sector resources to increase capabilities and reach of micro-finance institutions. Investments will be determined by the level of impact to be achieved in terms of program expansion, replicability and/or innovation; and where the learning agenda on the field can best be furthered. Disbursement of funds will be governed by the ability of the micro-finance institutions to absorb them cost-effectively and efficiently and consideration will be given to regional coverage and cross-fertilization in terms of best practice. Moreover, funds will be given to those micro-finance institutions that have women as at least 50 percent of their client base.

The objectives and terms of the investments will be agreed upon by the micro-finance institution and CGAP, specified in a Partnership Agreement. The facility will provide matching grants for eligible programs for a variety of purposes such as to: capitalize loan funds for on-lending; fund guarantee schemes that leverage funds from the formal financial sector; fund technical assistance provided by the micro-finance institutions to the very poor where such training is integral to the finance program; and fund institutional development designed to assist micro-finance institutions to scale up operations successfully. Funds from the facility will not crowd-out resources from the private sector, rather, funding will be tailored to the needs of eligible micro-finance institutions to facilitate the graduation of these institutions to the level where they can access funds from local capital markets through loans or equity.

Although the bulk of funding is expected to go to eligible micro-finance institutions in countries with annual per capital incomes of less than US\$800, CGAP will support eligible programs in other countries, particularly in those instances where unique learning opportunities exist. The primary objective would be to reach established institutions that are ready for expansion. A small portion of funds will be used to finance innovative start-up programs that may not comply with the eligibility criteria provided they are being implemented by institutions with a proven track record. In broad terms, eligible programs

will have to demonstrate that they are reaching large numbers of the poor, are operating on a financially sustainable basis or are moving in that direction, and that they are in sound positions to use additional funds effectively. More specifically, they should:

- have a proven track record of reaching large numbers of poor people;
- operate in a business-like way that includes a high degree of internal efficiency, sound financial policies, and high cost-recovery and repayment rates in their loan program;
- meet the test of the market by being able to put up matching funds, preferably not mobilized from donor sources;
- clearly demonstrate capacity to absorb additional funds and use them well;
- present a viable business plan that shows movement toward greater reach, full cost-recovery and a strategy to move toward full financial sustainability; and
- be a legally registered entity in countries of operation.

The Secretariat will not receive proposals for funding directly from micro-finance institutions. Instead, proposals will be sponsored by MDs. The Secretariat will screen and evaluate the proposals that it receives from the MDs and recommend programs for financing from the fund facility. It will also monitor and supervise the performance of micro-finance institutions receiving these funds. Other than funds from the CGAP funding facility (which currently consists of World Bank funds), MDs will provide funds directly to eligible micro-finance institutions in the form of loans or grants.

Rough estimates indicate that the total portfolio of micro-finance institutions world-wide today is US\$25 billion. Given that this represents only a small portion of total market demand, the potential for growth in the micro-finance industry is enormous. CGAP can play a seminal role in leveraging existing resources, and directing more public and private resources to help bridge the gap.

¹ This note was prepared by Joyita Mukherjee, Program Analyst, CGAP Secretariat. It is drawn from, "A Policy Framework for the Consultative Group to Assist the Poorest," September 5. A copy of the full document can be requested from the CGAP Secretariat.



THE CONSULTATIVE GROUP TO ASSIST THE POOREST
A MICRO-FINANCE PROGRAM

Note No. 2

October 1995

FOCUS

Maximizing the Outreach of Microenterprise Finance The Emerging Lessons of Successful Programs¹

The conventional view has held that microenterprise finance helps poor people and therefore is a desirable development activity but that it cannot be financially viable. Small loans, it is said, are simply too costly to administer, and the profits from such lending too meager to permit profitability. However, a study examining some of the best microfinance institutions concludes that this conventional wisdom is quite wrong. Micro-finance institutions can and indeed need to be self-sustaining if they are to achieve their outreach potential providing rapid growth in access to financial services by poor people.

Past efforts using subsidized and directed credit have left a distressing legacy of failed programs and created many skeptics. The weaknesses of past efforts to reach small farmers and other priority groups have been in three main areas: lending institutions have not been financially self-sufficient and usually became decapitalized quickly; funds have not reached the intended target group; and programs have distorted financial markets in ways that interfered with the efficient evolution of finance for broad sectors of the economy.

The recent performance of "frontier" microenterprise finance programs demonstrates that some learning has taken place from the mistakes of subsidized directed credit. Programs are increasingly charging interest rates and fees that cover the real cost of delivering financial services and are embracing financial self-sufficiency as a primary organizational goal. More and more institutions have crossed major hurdles in terms of out-

reach, raising resources on commercial markets, and increasing service to difficult-to-reach populations.

This study looked at recent developments in microenterprise finance from two perspectives, **outreach and financial sustainability**. Outreach refers to the central purpose of microenterprise finance - to provide large numbers of poor people, including the very poor and women, access to quality financial services. Financial sustainability embodies the institutional capacity to become independent of donor or government subsidies.

The performance of 11 microenterprise finance programs, selected on the basis of outreach and financial viability criteria, was examined in the study.² Criteria included loan size (a rough proxy for client income level), number of borrowers (a proxy for scale), and reputation for financial strength. A special effort was made to select at least one institution serving exclusively the very poor in each of the three major geographic regions. Standard accounting practices were used to make two major adjustments to the audited financial information. First, financial accounts were adjusted for inflation in each country. Second, adjustment was made for implicit and explicit subsidies, such as access to funds on a grant or soft-loan basis. These adjustments allowed each institution to be compared as if it operated on a fully commercial basis.

Key Findings:

Outreach to the Poor

Reaching the very poor. Clients were typically very small businesses that would otherwise be excluded from formal financial services. Six of the 11 programs cluster in the range of US\$200 to US\$400 average outstanding loan balances, with several well below that level. These institutions reach large number of women, either by design or by virtue of the market they serve. Programs offering small loans tend to serve more women.

Achieving significant coverage. Several institutions, notably in Bangladesh and Indonesia, have achieved major coverage on a national scale. The Grameen Bank covers almost half the villages in Bangladesh, reaching more than 2 million very poor clients. In Indonesia, the BRI Unit Desa's system has more than 2 million borrowers and 12 million savers, and the BKD systems cover 20 percent of villages in East Java with small loans. In Bolivia, BancoSol and PRODEM have reached 50,000 clients, about 10 percent of the potential loan market. Most other programs are growing rapidly and may soon be nationally important.

The study demonstrates that among high-performing programs there is no clear trade-off between reaching the very poor and reaching large numbers of people. Several very large programs (BKD, Grameen) have among the smallest loan sizes. Mixed programs, which serve a range of clients, not just those of a given



average loan size, have successfully reached very poor clients. It is scale, not exclusive focus, that determines whether significant outreach to the poorest will occur.

Experiencing rapid growth. The large numbers reached by some programs were the result of extremely rapid growth in the client base - rates ranging from 25 percent per year to 100 percent. The BRI program, with its 2 million borrowers and 12 million savers, is only a decade old. CorpoSol in Colombia increased its client base from fewer than 7,000 in 1990 to 32,000 by 1993. The keys to this rapid growth have been the ability to maintain financial viability - controlling bad loans, holding administrative costs to manageable levels, and developing a rapidly growing base of financial resources.

Providing high quality services. Dramatic annual growth in the number of borrowers, the loan portfolio, and, in some cases, savings deposits is evidence of strong client demand and overall satisfaction with the services received. Clients were willing to pay interest rates significantly above the rate of inflation and to repay loans on a timely basis, evident in low delinquency.

To motivate repayment, the programs examined used one of several approaches: groups, social pressure, or unconventional collateral. They emphasized short-term working-capital loans and graduated lending, whereby initial loans are small, and loans are renewed and increased on the basis of the borrower's repayment record. Turn-around time for loans was significantly less than 2 weeks, and lenders were located close to the borrowers' place of work. These features are all aspects of service quality tailored to the situation of poor entrepreneurs.

Operational Efficiency and Full Self-Sufficiency

Efficient, financially viable institutions can develop the scale and financial leverage to reach large numbers of poor people. These institutions have the potential to multiply contributions from donors by tapping funds from commercial non-donor sources. Donors have an opportunity to reach the very poor through sustainable institutions and to make their investment reach far beyond a dollar-for-dollar-effect.

Ten of the 11 institutions examined were operationally efficient. They fully covered the cost of day-to-day operations, including salaries and other administrative costs, with program revenues from interest and fees, while reaching large numbers of poor people. The programs achieved these goals in a variety of settings, ranging from rural Bangladesh to urban Bolivia, and with a range of clientele, with average loan sizes as low as US\$38. Five institutions were fully profitable, generating inflation-adjusted positive returns on assets. Program revenues covered both the nonfinancial "operating costs" and the financial costs of obtaining loanable funds on a commercial basis. These programs no longer rely on concessional funds or other subsidies (Table 1). Microenterprise finance institutions can achieve operational efficiency consistently in a range of settings and with diverse levels of clients.

Nearly all these frontier programs decided to be self-sufficient. They brought their cost structures in-line with spreads available in local markets, controlling for delinquencies and increasing productivity through client/staff ratios. They adapted credit methodologies to the demands of the market, contributing to efficiency. For 10 of the 11 programs, administrative expenses fell into a narrow range of 9 percent to 21 percent of the average loan portfolio outstanding.

Keys to Financial Viability:

Interest Rates and Salary Costs

Interest rates. Fully self-sufficient programs charged an effective real rate of interest high enough to cover all their costs, including the cost of capital fully adjusted for inflation. For instance, a fully self-sufficient program in Colombia, CorpoSol, charged an effective real rate of interest of 52 percent, the highest of the sample. Even in an inflationary environment, it sustained a 4.9 percent real return on total assets.

Salary Costs. The only other statistically significant factor for financial viability was the relationship of the program's average annual salary to GNP per capita. Programs paying lower salaries were more profitable than those that paid more. Programs with lower relative salary expenses, such as BKDs, FINCA, Grameen, and LPDs used local personnel to staff their operations, which gave them a distinct cost advantage.

Recommendations to Donor Agencies

- **Assess institutions' commitment to achieving operational efficiency and ultimately full self-sufficiency within a reasonable period.** Management commitment should be visible in concrete targets and credible plans. Indicators of effective performance include:

Operational efficiency. The institution should be working to develop an efficient, low-cost credit methodology; to control delinquency; and to rationalize its cost structure, particularly salaries.

Interest rate and fee policy. Costs of services should be adjusted for inflation and priced to support financial viability.

Reporting standards. Financial reporting should meet private sector stan-

Table One: Analysis of 11 Micro-Finance Institutions

SUMMARY DATA 1993	BKDs	LPDs	GRAMEEN	KREP	BRK	ADOPEM	FINCA	ACTUAR	BRI	BANCOSOL	ACEP
COUNTRY DATA											
GNP PER CAPITA	\$670	\$670	\$220	\$310	\$280	\$1,050	\$1,960	\$1,330	\$670	\$680	\$780
CURRENT INFLATION RATE	9.5%	9.5%	7.8	47.1%	0.4%	5.3%	9.0%	19.2%	9.5%	9.3%	6.0%
BASIC INSTITUTIONAL PROFILE											
NUMBER OF BRANCH OFFICES	5,345	651	1,030	6	14	6	1	13	3,267	21	19
NUMBER OF EMPLOYEES	16,035	4,913	10,452	60	34	47	19	355	16,067	335	31
TOTAL ASSETS (\$ in millions)	\$62.59	\$25.59	\$238.69	\$1.94	\$1.58	\$1.79	\$1.70	\$15.68	\$2.28	\$34.10	\$2.14
AVERAGE ANNUAL GROWTH TOTAL ASSETS	2%	34%	30%	116%	69%	99%	39%	131%	15%	190%	25%
CLIENTS-WOMEN	50%	40%	94%	60%	45%	100%	26%	50%	24%	71%	20%
PROFILE OF CREDIT SERVICE (*)											
TOTAL VALUE OF ALL LOANS OUTSTANDING (\$ in millions)	\$34.19	\$18.80	\$159.48	\$1.14	\$1.50	\$1.07	\$1.58	\$11.73	\$937.62	\$24.83	\$2.14
NUMBER OF LOAN CLIENTS	907,451	145,183	1,586,710	5,303	8,787	3,500	5,121	32,022	1,897,265	46,428	2,109
AVERAGE OUTSTANDING BALANCE	\$38	\$130	\$101	\$217	\$221	\$308	\$310	\$366	\$494	\$535	\$1,016
ANNUAL GROWTH RATE, LOAN PORTFOLIO	0%	25%	35%	213%	65%	92%	36%	134%	8%	182%	41%
AVERAGE LOAN TERM	4 mos.	10 mos.	12 mos.	12 mos.	10-13 mos.	4 & 12 mos.	12 mos.	5-12 mos.	24 mos.	4-12 mos.	12 mos.
EFFECTIVE RATE OF INTEREST	55%	36%	20%	38%	18%	72%	32%	71%	34%	55%	20%
CREDIT METHODOLOGY - Groups	0%	0%	100%	100%	80%	40%	100%	90%	0%	100%	2%
CREDIT METHODOLOGY - Individual Loans	100%	100%	0%	0%	20%	60%	0%	10%	100%	0%	98%
AVERAGE LOAN BALANCE/GNP PER CAPITA	6%	8%	48%	64%	138%	68%	16%	24%	81%	82%	135%
CAMEL ANALYSIS - CAPITAL ADEQUACY (**)											
EQUITY AS PERCENT OF TOTAL ASSETS	82%	20%	31%	89%	100%	18%	29%	16%	5%	16%	93%
CAMEL ANALYSIS - ASSET QUALITY (**)											
DELINQUENCY - Balance Loans Overdue > 90 days	10.3%	3.9%	2.0%	2.3%	20.0%	4.0%	1.7%	1.3%	6.5%	0.0%	3.0%
EFFECTIVE YIELD ON LOAN PORTFOLIO	37%	36%	20%	22%	9%	49%	24%	50%	28%	45%	27%
CAMEL ANALYSIS - STAFF MANAGEMENT AND PERFORMANCE (**)											
NUMBER LOANS/TOTAL STAFF	57	30	152	88	200	74	270	90	110	139	88
SALARIES/TOTAL ADMINISTRATIVE EXPENSE	69%	65%	64%	68%	69%	48%	65%	75%	53%	60%	55%
SALARIES/AVERAGE PORTFOLIO	11.5%	6.6%	9.3%	12.9%	10.1%	16.8%	8.7%	16.2%	4.5%	12.5%	10.6%
SALARIES/AVERAGE TOTAL ASSETS	6.3%	5.0%	6.1%	6.9%	9.7%	10.2%	8.2%	12.0%	1.9%	9.2%	6.9%
AVERAGE SALARY FIELDWORKER	\$1,100	\$1,150	\$687	\$6,000	\$3,354	\$5,750	\$6,192	\$8,573	\$2,567	\$3,300	\$4,367
AS MULTIPLE OF GNP PER CAPITA	1.8	0.7	3.3	17.6	20.6	12.7	3.3	5.5	4.2	5.1	5.8
CAMEL ANALYSIS - EFFICIENCY AND PROFITABILITY (**)											
OPERATIONAL SELF-SUFFICIENCY (**)	197%	148%	105%	106%	44%	94%	98%	124%	113%	107%	142%
FINANCIAL SELF-SUFFICIENCY (***)	118%	137%	79%	38%	43%	89%	75%	104%	110%	103%	100%
ADJUSTED RETURN ON AVERAGE TOTAL ASSET	3.2%	7.4%	-3.3%	-18.5%	-11.5%	-0.8%	-6.3%	4.9%	1.6%	1.0%	0.1%
ADMIN. EXPENSE/AVERAGE LOAN PORTFOLIO	16.7%	10.1%	14.5%	19.0%	14.8%	35.1%	13.4%	21.5%	8.5%	21.0%	19.1%
ADMIN. EXPENSE/AVERAGE TOTAL ASSETS	9.2%	7.7%	9.5%	10.1%	14.1%	21.3%	12.5%	16.0%	3.6%	15.4%	12.5%

(*) O; BASIS OF 1993 DOLLAR, ADJUSTED ACCOUNTS (**) Operational self-sufficiency - Operating Income/Operating Expenses (***) Financial self-sufficiency - Operating Income/Total Adjusted Cost

dards, and management should use such information effectively.

- **Invest in institutions with the potential to reach full self-sufficiency and significant outreach.**

Donors should focus on support that fosters movement to greater financial self-sufficiency. In considering whether support is warranted, donors need to take into account the time needed to achieve both operational and full self-sufficiency. Programs examined in this study typically required 5 to 10 years to become self-sufficient, often with substantial donor support.

- **In the early phases of start-up,** donor support should concentrate on helping programs achieve operational efficiency, including establishing a lending methodology and operational

strategy for service delivery. At this stage, donors are often a key source of start-up capital. However, start-ups should be granted a short time frame, such as one project cycle. If efficiency is not achieved, donors should cease support.

- Donors looking at **programs that have already achieved operational efficiency** should focus on institutions committed to tapping other sources of funds, with concrete targets and plans. Greater emphasis should be placed on improving financial performance reporting, given the higher standards required by investors, and financial skills, such as spread management and asset and liability management. In addition, attention should be directed at meeting the legal requirements to become a licensed financial intermediary or to tap other commer-

cial funding sources. Also important is mobilizing savings to enhance institutional development and provide valuable deposit services to clients. Within a reasonable period, such as one project cycle, assisted institutions need to demonstrate sustained improvement in financial performance indicators, such as operational efficiency, return on assets, and leverage (total liability versus total equity).

- **For top-performing programs,** donors should consider helping in the transition to full independence. Donor attention will most likely center on strengthening policy dialogue with the government regarding supervisory standards for microenterprise finance, increasing capitalization through retained earnings or equity investment, and mobilizing deposits.

Outstanding Issues

The importance of financial information. Even the frontier programs examined in this study had less than adequate standards for reporting on financial performance and outreach. Accurate financial information, based on generally accepted accounting principles, is critical for two reasons. First, such information contributes to better decision-making and greater efficiency. Second, external sources, such as commercial lenders, depositors, supervisory authorities, and even other donors, rely on accurate financial reporting to decide whether an institution is creditworthy or financially sound. This information determines whether the institution will gain access to additional sources of funds for expansion. Donors should promote the use of standard accounting practices, including transparent treatment of subsidy and portfolio quality (delinquency).

The challenge of mobilizing savings. Possibly the greatest challenge in microenterprise finance is to expand the provision of savings services to the poor. Access to credit by the poor has been emphasized, but research has established that the poor can also benefit from access to secure and liquid savings with adequate returns. BRI's highly successful voluntary savings program demonstrates that many poor clients will save through deposits at financial institutions.

However, most institutions lack the capacity to meet the technical requirements of offering attractive financial services and the stringent criteria of bank regulators. Donors should be cautious in promoting efforts at savings mobilization to ensure that institutions have the financial capability to manage resources of their clients prudently.

1 This Note was extracted by Mohini Malhotra, Operations Manager, CGAP Secretariat, from a summary prepared by James Fox of USAID's Center for Development Information and Evaluation of USAID Program and Operations Assessment Report No. 10, Maximizing the Outreach of Microenterprise Finance: An Analysis of Successful Microfinance Programs (PN-ABS-519) by Robert Peck Christen, Elisabeth Rhyne, Robert C. Vogel, and Cressida McKean. The full study is available from USAID/CDIE at 1500 Wilson Blvd., Suite 1010, Arlington, VA 22209-2404; telephone (703) 351-4006; fax (703) 351-4039; Internet docorder@disc.mhs.compuserv.com.

2 Programs examined were Agence de Credit pour l'Enterprise Privee (ACEP) of Senegal, La Asociacion Dominicana para el Desarrollo de la Mujer (ADOPEM) of the Dominican Republic, Banco Solidario S.A. (BancoSol) of Bolivia, Badan Kredit Desa (BKD) of Indonesia, the Unit Desa System of the Bank Rakyat Indonesia (BRI), Bankin Raya Karkara of CARE (BRK) of Niger, Corporacion de Accion Solidaria (CorpoSol, formerly Actuar/Bogota) of Colombia, Fundacion Integral Campesina (FINCA) of Costa Rica, the Grameen Bank of Bangladesh, Kenya Rural Enterprise Programme (K-REP), and Lembaga Perkreditan Desas (LPDs) of Indonesia.



THE CONSULTATIVE GROUP TO ASSIST THE POOREST
A MICRO-FINANCE PROGRAM

FOCUS

Note No. 3

October 1995

The Missing Links: Financial Systems That Work for the Majority¹

In April 1995, ninety leaders of finance ministries, central banks, financial institutions, international development agencies, and Women's World Banking (WWB) participated in the WWB Global Policy Forum in India, to build actions that would open financial systems to the world's poor majority. The purpose was to pull together public and private financial leaders with the power to transform local and global financial systems in ways that will open access to millions of low income entrepreneurs. During the Policy Forum, leaders arrived at consensus on the approaches and actions needed, and committed to moving the recommendations into practice.

This Global Policy Forum was both the culmination and the beginning of a movement to transform development paradigms, policies and financial flows in favor of the world's poor majority. In January 1994, WWB convened a United Nations Expert Group on Transforming Financial Systems. Forty of the world's leading microfinance practitioners created a report and set of action recommendations. In September 1994, these recommendations were adopted by the Donors Committees on Small and Medium Enterprises and Financial Sector Development, as the guiding principles for funding. The paradigms, approaches, and recommended actions outlined in this report represent a strong consensus among the world's financial leaders who participated, the world's leading microfinancing institutions, and the world's low income entrepreneurs.

The Challenge

Over 500 million of the world's economically active poor people run profitable micro and small businesses. Microentrepreneurs have shown that they

repay market-based loans, and use the proceeds to increase their assets, their living standards and their roles in shaping societies. NGOs, other specialized financial institutions and some banks have shown that microlending can be a profitable business. Financial services to low income entrepreneurs may be the single most effective way to reduce poverty and achieve broad-based economic growth. Yet fewer than 2 percent of low income entrepreneurs and producers have access to financial services from sources other than money lenders. To fill this gap, policy makers need to move beyond the pendulum swings between structural adjustment and social expenditures. Economic participation of the bottom 50 percent needs to be placed front and center in the development agenda. Governments, financial intermediaries and funders need to adopt new paradigms and take on new roles in building financial systems that work for the majority.

Finance and enterprise systems that serve the majority can be the pivotal links and the levers, enabling the poor to share in economic growth and giving poor people the means to use social services. Macro reforms in financial systems need to be complemented by measures that encourage the institutions, instruments, relationships and financing arrangements geared to providing sound, responsive financial services to the majority of enterprises that have not had access.

If 10 percent of all low income entrepreneurs are to gain access to institutional finance by the year 2005, and 30 percent by 2025, financial systems will need to be transformed. Financial intermediaries' total portfolios in microloans, now about US\$25 billion, would need to be about US\$125 billion by 2005, and about US\$90 billion by 2025, serving about 180 mil-

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lion low income entrepreneurs. These rapid increases in lending levels are reasonable, and reflect growth rates that are lower than actual growth rates in the last five years. The main challenges will be in expanding the capacity and resources of those retail intermediaries committed to providing financial services to low income entrepreneurs.

How to Meet the Challenge:

Action Recommendations to Governments, Financial Institutions and International Funders

If these challenges are to be met, all major actors need to share the objective of providing sound, responsive, market-based financial services to the majority, in ways that are advantageous to both the clients and the institutions that serve them. The goal should be to provide access, not subsidies, to low income entrepreneurs. A wide range of retail-level financial intermediaries should be encouraged, not forced to provide these financial services. Intermediaries receiving financial incentives and support should meet high incremental and absolute standards on financial performance, client reach and business practices. Those institutions that meet the standards should have access to capitalization, loan funds, and effective capacity building support to help organizations at different stages move to sustainable scales of operation. Such support should be structured as a catalyst and complement to savings and other domestic resource mobilization measures by retail institutions. Legal frameworks, second-tier institutions and financing arrangements that balance promotion and prudence will be needed to encourage the development of sound, responsive retail institutions that serve the majority.

Build Dynamic Performance Standards

Incremental and absolute standards need to be established on financial performance, client reach, and business practices as eligibility criteria for accessing support. It is important that all actors, funders, second-tier institutions, retail intermediaries and clients understand, endorse and adopt the same principles, objectives, and bases for determining best practice

and accessing resources. The system should establish different thresholds as the bases for accessing different types and levels of support.

Financial Performance

- Excellent repayments with arrears under 10 percent of principle due and bad debts under 4 percent.
- Interest rates and fees that are high enough to cover finance and operating costs of an efficient microlender.
- Substantial progress and credible plans to cover operating and finance costs from internal revenues in a three to seven year period from the outset of operations. Diversity in portfolio by size and sector, to spread risks. A growing capital structure that can be used to generate investment income, can be lent, and can be used to leverage domestic resources.

Client Reach

- Market penetration for significant outreach to low income entrepreneurs.
- Strong savings mobilization directly or through other institutions.

Business Practices

- Sound governance and accountability structure, freedom from political interference.
- Competent staff, responsive loan systems.
- Sound institutional operations, effective management information systems, financial accountability.

Provide Access Not Subsidies to Clients

Experience around the world has shown that microentrepreneurs do not need subsidies and that microlenders cannot afford to subsidize borrowers. Low income entrepreneurs want rapid and continued access to financial services, rather than subsidies. Most microenterprise clients see the "market interest rate" as the rate charged by the money lender or curb market, which is often double the interest rate charged by microlending institutions. Subsidies often send the signal to borrowers that the money comes from government or donors who regard the poor as objects of charity, and borrowers see this as a signal

not to repay. Few low income entrepreneurs end up benefiting from subsidized programs, because these programs fail before they reach significant numbers.

Efficient financial intermediaries need to charge high rates to cover the costs of making small loans. Microenterprise financial intermediaries have learned that they cannot depend on governments and donors as reliable, long-term sources of subsidized funding. Commercial banks that are forced to make small loans at rates that do not allow them to cover their costs and make some profit will devise ways to circumvent mandatory allocations, or will lend and then ask government to cover losses by claiming on loan guarantees.

Support Institutions Not Projects

All actors need to find effective means to support the build-up of local intermediaries that have the commitment and competence to lend to micro and small businesses. If financial intermediaries are to move to the significant volumes in microfinancing that are needed to make these programs sustainable, early operations will need to be subsidized. NGOs and other specialized financial intermediaries, which are not in the position to cross-subsidize microenterprise lending while they build lending volumes, will need some form of institutional subsidy for a period of five to seven years. Specialized institutions that meet performance standards need capitalization and low cost, long-term loan funds, preferably repayable in local currency, while they expand their volumes to sustainable levels. Those commercial banks that see microfinance as a potentially profitable market will make a significant commitment to this sector only if, at early stages, they: get access to funds at lower than their average costs of funds; get some guarantee coverage; and are able to charge interest rates that enable a profit once volumes are reached. As institutions expand their microfinancing operations, they will need access to effective capacity building services. The main means will be practitioner training, institution-specific technical services, and benchmarking against best practice. The main sources of capacity building support will be practitioner networks.

Emphasize Savings and Domestic Resource Mobilization

Client-friendly savings mobilization services can be as important as loan services to microenterprises. Deposit mobilization can be one of the most effective means for intermediaries to mobilize resources. Savings mobilization makes financial institutions accountable to local shareholders. All financial intermediaries that lend to microenterprises should be encouraged to build savings mobilization arrangements for their clients, either by providing these services directly, or by making arrangements with another financial institution. Banking regulations need to be adapted to encourage those microfinancing institutions with the capabilities to legally mobilize savings from clients or the general public.

At the same time, it is important to recognize that not all institutions that are good lenders will be good at savings mobilization. Specialized financial intermediaries can mobilize equity, issue debt instruments, and borrow from banks as legitimate, long-term means to mobilize funds for lending. Financial intermediaries that serve microentrepreneurs need to view external grant and soft loan financing as complements and catalysts for domestic resource mobilization. These external infusions are important in the start-up and build-up stages, until the retail intermediary has achieved the scale and efficiency to attract domestic resources from the general public or from institutional sources.

Provide Financing that Fits the Institution

If governments and external funders are to help build financial institutions that serve the majority, they will need to adopt new funding approaches that provide and promote:

- small amounts of grant funds for promising new entrants to finance start-up operating costs and loan portfolios over a short period;
- capitalization for institutions that meet performance standards;



- access to refinance from development banks and other second-tier intermediaries; and
- partial loan guarantees to encourage the build-up of leveraged credit lines by local banks to specialized financial intermediaries. Once an institution has reached the scale and efficiency to cover costs and manage fully commercial sources, it will be able to access international commercial funds directly and through networks.

Where Appropriate, Utilize Second-tier Institutions

A second-tier institution is a financial intermediary or network that provides financial and institutional support services to retail intermediaries. Development banks and practitioner networks have major roles to play over the next five to ten years, as wholesalers of capitalization, refinance and institutional development support, in:

- building an agreed set of standards as the eligibility criteria for accessing support services;
- organizing performance benchmarking systems;
- encouraging exchange of experience among participating retail institutions;
- serving as a wholesaler or broker of seed funding, capitalization funds, refinance of loan funds, and institutional development support;
- encouraging mutually advantageous linkages between commercial banks and specialized financial intermediaries; and
- helping ensure that the appropriate legal, regulatory and supervisory structures and incentives are in place. To succeed in providing these services, the second-tier institution needs to be autonomous, and free from political interference; have the capabilities to mobilize funding; know the retail institutions intimately; and be able to motivate retail institutions while being tough in

the enforcement of standards and eligibility criteria for support.

Building the Regulatory and Incentive Framework

Governments have important roles to play in establishing a favorable policy, regulatory and incentive framework for microfinancing institutions. In building policies, regulations and incentives for financial institutions that serve the poor, several principles and practices are key:

- a range of institutions should be encouraged to enter and expand;
- microfinancing institutions that meet performance standards should be allowed to operate as recognized financial intermediaries;
- entry thresholds, such as minimum capital requirements, should be kept low enough so that specialized institutions can become part of the formal financial system;
- supervisory and reporting requirements should be kept simple, with a focus on key performance indicators;
- institutions lending to micro and small enterprises should be free to set their onlending interest rates; and
- attractive incentives should be provided to these intermediaries.

¹ This note was prepared by Nancy Barry, President, Women's World Banking, and CGAP Policy Advisor, as a summary of "The Missing Links: Financial Systems that Work for the Majority", Women's World Banking (WWB) Global Policy Forum, June 1995. Copies of this report are available from WWB, 8 West 40th Street, New York, NY, 10018, (212) 768-8513, (212) 768-8519 (fax).

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FROM: Vice President and Secretary

July 5, 1996

Consultative Group to Assist the Poorest (CGAP): Year One in Perspective

Attached is a report from the President entitled "Consultative Group to Assist the Poorest (CGAP): Year One in Perspective" dated July 3, 1996.

Questions on this report may be addressed to Mr. Serageldin (X34502).

Distribution:

Executive Directors and Alternates
President's Executive Committee
Senior Management, Bank, IFC and MIGA

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July 3, 1996

From the President:

Consultative Group to Assist the Poorest (CGAP):
Year One in Perspective

I. The Mandate

1. CGAP was established on June 26, 1995 in Washington, D.C., to accomplish the objectives listed in the policy framework document. Its launch was preceded by extensive consultations among the donor community and practitioners on the rationale, objectives, and implementation strategy. At the launch, the Consultative Group (CG) was established with nine founding donors, the Policy Advisory Group (PAG) of 11 leading practitioners was elected, and the workplan prepared by the Secretariat was endorsed by both groups. One hundred practitioners from 50 countries provided recommendations to the CGAP on strategy and implementation at the first Consultative Forum.

II. Year One Accomplishments

Operationalizing CGAP

2. The initial task in the first year was to set-up and establish the CGAP Secretariat - the implementing body for the Program. This involved hiring staff, developing policies, procedures, and systems for the Secretariat, building partnerships with member donors, the Policy Advisory Group (PAG), with the broader constituency of NGOs and practitioners at large, and the World Bank Group. A description of the Secretariat budget, staff, and systems for outreach are in the Annex to this report.

Chairman: Ismail Serageldin CEO: Ira Lieberman Operations Manager: Mohini Malhotra
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Donor coordination

3. One of the key objectives of CGAP is to harmonize donor policies and procedures in micro-finance, and create a common lexicon and more agile operational procedures between donors and practitioner institutions. The expansion of CGAP membership from the original nine founding donors to the current 23 in the first year is a significant step in the right direction. Several other steps, some of which are without precedent, have been implemented by the Secretariat towards meeting this objective.

4. Pledges: Total pledges to CGAP received to date from 13 Member Donors amount to \$391 million and represents a blend of committed and pipeline funds. These pledges provide information about the level of donor activity in micro-finance, and a global "map" to reveal regional and/or institutional concentrations. In addition, the Secretariat has also received cash contributions for the CGAP fund facility from Belgium, Luxembourg, and Norway totaling US\$5 million and bringing the total amount to \$32 million, which includes the World Bank's contribution of \$27 million. Staffing support in the form of secondments has come from IFAD, The Netherlands, USAID, and France.

5. Vetting CGAP Investments: Prior to making final decisions on funding by CGAP, the Secretariat vetted the list of institutions under consideration with all Member Donors, thereby allowing for coordination, avoiding over-funding, and creating opportunities for joint funding.

6. Joint Funding: The following joint efforts with member donors have taken place or are underway:

- (i) Developing common appraisal and performance based indicators agreed to by all parties, thereby eliminating redundant and inconsistent reporting on the part of the Participating Institution (PI);
- (ii) Hosting a conference for 16 West African countries in Mali;
- (iii) Participating in a roundtable on micro-finance in the City of London with private investors; and
- (iv) Providing a technical assistance package to the Viet Nam World Bank for the Poor.

7. Working Groups: CGAP member donors have formed into seven working groups to review, synthesize, and further knowledge on a particular topic, and to come up with concrete recommendations for actions by CGAP. Topics for the working groups are listed in Annex I.

CGAP Investments -- Funding Eligible Micro-Finance Institutions (MFI)

8. The purpose of the CGAP fund facility is to support micro-finance institutions that are moving towards financial sustainability; test a grant instrument within the World Bank to institutions not guaranteed by government; and develop and test new and

improved ways for donor and MFI partnerships. The criteria and procedures to operate the fund were developed in consultation with the PAG in October 1995. The Secretariat issued a funding announcement and receives proposals from institutions worldwide on an on-going basis.

9. Fifty-seven funding proposals were received by the Secretariat through the CGAP funding announcement and pro-active identification by the Secretariat. Thirteen institutions/projects totaling US\$3.26 million were approved for funding by the CGAP Investment Committee. These are listed in Annex I.

Mainstreaming Micro-Finance in the World Bank Group

10. The key rationale for housing the Secretariat in the World Bank was to have a catalytic effect on the World Bank's activity in micro-finance. The first year has demonstrated clear signs of such an effect: there is an upward trend in the World Bank's project pipeline (FY 1996-1999) of projects with micro-finance components and an increased number of seminars on micro-finance sponsored by various divisions and technical departments have taken place. Within the institution, the Secretariat has become a focal point or a one-stop information shop on micro-finance. It serves as a:

- Source and filter of information on literature, practitioner institutions, and experts;
- Driver of ideas on strategy, concepts, with the regions and other technical departments in the World Bank, and with EDI and IFC to define respective roles in this field, leverage resources, and jointly conduct activities, including coordinating CGAP investments with World Bank loans;
- Match-maker between practitioner institutions and the staff in the Regions;
- Peer reviewer of World Bank projects in micro-finance;
- Source of training for World Bank staff on micro-finance by co-sponsoring courses with PSD;
- Sponsor or co-sponsor of policy workshops and internal seminars with the World Bank regions and EDI; and
- Joint developer (along with the Sustainable Banking for the Poor Initiative) of a "tool-kit" on micro-finance for task managers.

Learning and Dissemination on Best Practice

11. The key audiences for CGAP are government, donors agencies, private sector (commercial banks) and micro-finance practitioners. The Secretariat has used policy

forums and publications to disseminate knowledge on micro-finance as a development tool and on micro-finance support strategies.

12. Best Practice Workshops/Policy Fora. CGAP has sponsored directly or co-sponsored 6 key best practice workshops and policy fora in the first year. (See attachment for list) The workshops have been a powerful instrument to bring together different players to address the issue of micro-finance at a policy/regulatory and operational level, and to put into motion processes for dialogue and policy reform. These workshops have launched important processes in each of the respective countries.

13. CGAP Dissemination products. The Focus notes series and the CGAP Newsletter are disseminated worldwide to over 5,000 institutions. The newsletter is also published in French and Spanish. The list of topics for Focus notes published and under preparation are in the attachment. The Secretariat has also developed an Occasional Paper series that will feature technical papers on key issues in the field. The first paper under this series is due for publication in July.

III. Conclusion and Future Steps

14. In Year One, activities under CGAP have focused on getting the program off the ground. Many of the objectives laid out in the workplan for the first year have been met including full staffing of the Secretariat and receiving secondments from some member donors. There have been significant accomplishments in terms of outreach and mainstreaming of micro-finance as demonstrated by the rapid expansion of the CG since the launch, the response from governments and practitioners to the various policy fora, the completion of the first funding round in analytically-sound and coordinated manner, and the pipeline of projects under preparation for subsequent funding. The following paragraphs highlights a few of the activities for the coming fiscal year.

Investment Pipeline

15. A second submission is under preparation for a September/October 1996 review by the Investment Committee. The estimated value of the proposals to be submitted is US\$8-10 million. Listed below are the names of some institutions under consideration for funding in FY97.

- Alliance de Credit et d'Epargne pour la Production (Senegal)
- Women's World Banking (5 affiliates in Latin America)
- Save the Children (Lebanon, Jordan, and West Bank/Gaza)
- CASHPOR Technical Service (South and East Asia)

Learning and Dissemination

16. In Year 2, the Secretariat anticipates roughly three country-specific best practice workshops (India, China, South Africa) and a regional 'road-show' on micro-finance for the Middle East Region. The production of four Focus Notes, two newsletters, and one or two occasional papers is also planned. Over the next two years, CGAP will also support the development of clear and efficient standards for MIS, accounting, and audit systems for micro-finance institutions (MFIs) and the development of a database on MFIs that may eventually serve as a form of a 'rating system' for the industry.

Mainstreaming in the World Bank Group

17. In collaboration with the Sustainable Banking for the Poor (SBP) initiative, CGAP is developing a tool-kit for task managers that will serve as a guide on developing micro-finance operations in the World Bank. The tool-kit is expected to be ready for field testing by early Fall. By pooling resources with PSD and FSD, CGAP will offer roughly two training courses to World Bank staff on conducting financial appraisals of MFIs, and basic issues in micro-finance.

James D. Wolfensohn
President

by Caio K. Koch-Weser

Annex I

A. CGAP Investments -- First Funding Round

Investments	Amount (US\$)	Region/Country
Workshop and study tour on village banking	15,000	Tunisia
Conference on prudential regulation of MFIs	15,000	Latin America
Workshop for INAISE	5,000	Global
Micro-finance roundtable for financial community	50,000	Global
Policy Forum for 16 West African countries	250,000	West Africa
DevCap	25,000	Global
Foundation for Development Cooperation	50,000	Asia
Credit and Development Forum	50,000	Bangladesh
Doveriye -- Opportunity International	50,000	Russia
Micro-Finance Network	150,000	Global
The Viet Nam Bank for the Poor	250,000	Viet Nam
Micro-finance industry standards database	345,000	Global
Asociación Programa Compartamos	2,000,000	Mexico

B. CGAP Secretariat: Structure and Outreach

1. Budget. In August 1995, the Board approved the transfer of US\$3 million from the World Bank's contribution of US\$30 million to cover the costs of the Secretariat. This transfer brought the total Secretariat budget covered by the World Bank to \$3.75 million for 3 years and allowed donors to join CGAP without having to contribute in cash to the costs of the Secretariat. The International Fund for Agricultural Development (IFAD) and the Government of The Netherlands contributed funds to cover the costs of two Secretariat members. USAID has provided for the secondment of a Senior Advisor for the Secretariat.

2. Staff. The Secretariat is fully staffed with a quality team of micro-finance specialists, budget and administrative staff. The team members include: Ira Lieberman, CEO; Mohini Malhotra, Operations Manager; Richard Rosenberg, Senior Advisor (USAID secondment); Michael Goldberg, Program Analyst (Dutch-funded position); Brigit Helms, Rural Development Specialist (IFAD-funded position); Joyita Mukherjee, Program Analyst; Anne-Marie Chidzero, Program Analyst (half-time on CGAP); Jennifer Isern, Program Analyst; Gregory Chen, Research Assistant; Carmencita Clay, Budget Officer; Nathalie D'Ambrosio-Vitale, Language Specialist and Program Assistant; Mimi Mogues, Program Assistant, and Kelvin Mims, Program Assistant.

3. Systems. CGAP has put in place systems to increase the Secretariat's outreach to the practitioner community, and to respond to the worldwide interest that the establishment of CGAP has generated. These include:

- On-line contact database of practitioner institutions worldwide, used for CGAP mailings and workshop participation, with over 1,000 names of practitioner institutions. This database is updated on an on-going basis.
- CGAP telephone and e-mail information line on which 50-75 information requests are received and responded to per day.
- Correspondence and response to 50-100 letters received per week in English, Spanish, and French.
- CGAP Home Page on the World Wide Web with links to other sites on micro-finance.
- Key CGAP documents and literature are on-line at the CGAP Website that receives roughly 4,000 readers a month.
- CGAP identity package including a logo and stationery.
- Hosting the first PAG meeting to advise CGAP on the CGAP learning and change agenda, on criteria and procedures for the funding facility, and on overall strategy.
- Monthly and as of January 1996, quarterly, progress reports distributed to the CG, PAG, Investment Committee, and internal World Bank PAG.
- Database systems on (a) key literature in the field; and (b) key experts on micro-finance issues.
- Three CGAP dissemination products: a four-page note series called Focus; a semi-annual newsletter; and an Occasional Paper Series.

- Establishment of two trust funds -- one for the administrative costs of the Secretariat and the other for program funds (investments). Trust fund agreements have been signed with those member donors making cash contributions to either of the two trust funds.

4. Tools/Products: The Secretariat is developing a set of tools that will increase the quality of financial and other information on micro-finance institutions (MFIs), and set in place common parameters for donors and MFIs to enter into partnership agreements for funding.

C. CGAP Member Donor Working Group Themes

5. All groups are chaired by member donors, with a member of the PAG as lead advisor, except for group (vii) which is a group of PAG members.

- (i) financial reporting and information;
- (ii) impact assessment methodologies;
- (iii) poverty yardsticks and measurement tools;
- (iv) private sector involvement;
- (v) mainstreaming and dissemination on best practice;
- (vi) financial instruments (savings); and
- (vii) donor structures, instruments, modalities as they apply to micro-finance and other poverty initiatives.

D. CGAP Best Practice Workshops/Policy Fora

6. CGAP has sponsored directly or co-sponsored the following 6 key best practices in the first year. Participants at these events have typically included Member Donors, practitioner organizations, private sector and governments. CGAP plays a critical role in constructing these events as a multi-donor body. The workshops have been a powerful instrument to bring together different players to address the issue of micro-finance at a policy/regulatory and operational level, and to put into motion processes for dialogue and policy reform.

- a workshop for bank superintendents from 16 countries in Latin America on Regulation and Supervision of MFIs (co-sponsored with ACCION, IDB, CAF, USAID);
- a workshop on rural banking in Tunisia followed by a study tour to rural village banking programs in Central America (in collaboration with the World Bank Region);
- a policy forum on micro-finance in collaboration with the World Bank Region and Government of Ghana;

- a workshop in Bosnia on micro-finance principles and best practices;
- a high level policy forum in Mali organized for 16 West African countries (in collaboration with the World Bank regional departments, UNDP, the Governments of France and Canada, Women's World Banking, CIDR); and a roundtable in the City of London for private investors and commercial bankers (co-sponsored with ODA and the Prince of Wales Business Forum).

E. Focus note series

Completed to date:

- (a) Consultative Group to Assist the Poorest -- A Micro-Finance Program;
- (b) Measuring the Outreach and Efficiency of Micro-Finance Institutions; and
- (c) Financial Systems for the Majority: Policy Recommendations to Governments and Donors.

Under preparation:

- (i) Prudential Regulation and Supervision of MFIs in Latin America;
- (ii) Calculating and Setting Micro-credit Interest Rates; and
- (iii) Reforming Existing Institutions - BRI and the Applicability of Lessons Elsewhere.

Mr. Wolfensohn:

HRH The Prince of Wales Meeting

Thursday, July 18, 10:30-noon

Carlyle Hotel, New York

- This meeting was set up at the request of the Private Office of HRH The Prince of Wales. Over the last five weeks, we have been in close touch with them directly, as well as through Geoff Lamb and Jean François's staff, about this meeting.
- HRH will be accompanied by:
 - **Mr. Robert Davies**, Chief Executive, Prince of Wales Business Leaders Forum
 - **Mr. Stephen Lamport**, Deputy Private Secretary to HRH
- As for their suggestion that 3-4 international NGO's be represented (Mr. Lamport's letter of June 4 -- *Correspondence* tab), we asked that the first meeting be kept as private as possible, so that you and HRH may have the opportunity to get to know one another. They were happy to accept our request.
- The purpose of the meeting is to get acquainted and to explore areas of common concern so that HRH "might make a future contribution."
- The focus will be on a "partnership approach to promoting environmentally sustainable development and social development during economic change." HRH is specifically interested in i.a. business-community partnerships, grass roots participation, literacy, agriculture, water, youth enterprise, community empowerment, environmentally sensitive design, corruption. HRH's own activities have focused on concrete action rather than "policy dialogue."
- HRH will have a sheet of paper of topics, through which he will move informally, "depending on how the meeting flows" (please see *Agenda* tab for more details).
- You will be accompanied (from Washington) by:
 - **Richard Frank** and **Ismail Serageldin**
 - Both Richard and Ismail have met with Mr. Davies in Washington.
- Jean François is unfortunately traveling elsewhere, though as the VPU who has the most comprehensive view of HRH's activities, his staff (Amy Horng) prepared the FPD brief (second tab).

cc: Richard, Ismaïl, Jean François (with attachment)

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Withdrawn by Diego Hernández	Date March 13, 2025			

= IDA

= HIPIC

= Agriculture Action Plan

= Ecosystems Fund - Central Fund
(24 countries)

- Environment
NGO. Bael Aée

As well

by NGO → by 6 weeks

BRIEFING FOR MR. WOLFENSOHN: MEETING WITH THE PRINCE OF WALES
July 18, 1996 (Thursday) – New York City

Purpose of Meeting

Prince Charles is meeting with you to learn about your vision for the WBG, understand how the WBG contributes to sustainable development, and explore ways to deepen our collaboration. The goal is to turn HRH into a champion of the Bank. This brief summarizes:

- (1) HRH and his interests;
- (2) points that his staff has informed us he may raise with you; and
- (3) the WBG's 2-year partnership with The Prince of Wales Business Leaders Forum (PWBLF).

Current WBG-PWBLF projects – including an inventory of good practice in corporate social responsibility, an Annual Meeting seminar, a partnership for children and mothers in Colombia, and support for CGAP – are explained on the next page.

HRH The Prince of Wales

HRH cares deeply about the environment, disadvantaged groups, and how technology and globalization will affect the culture, economic prospects, and social fabric of rural communities. He is well-respected in the NGO community. He is president/patron of myriad organizations, including the Prince's Trust (helping youths in enterprise in UK and now India), Prince of Wales Business Leaders Forum, Business in the Community, ActionAid, WaterAid, and the British Film Institute. Other interests include history, architecture, alternative and homeopathic medicine, polo, hunting and fishing. He holds an anthropology degree from Cambridge University and is 48 years old.

Points HRH May Raise & How They Are Reflected in Your Vision and WBG Work

<i>Points</i>	<i>Suggestions</i>
1. WBG's approach to partnerships and sustainable development	• your vision of partnership • WBG's work on incorporating social and environmental considerations into its project lending and advisory work • WBG is the largest funder of education, health, and social projects worldwide
2. How is the WBG working with NGOs?	• your initiative to engage NGOs worldwide in open and constructive dialogue • NGO liaisons in resident missions, monthly activity reports • Mr. Frank/Mr. Serageldin can elaborate on recent meetings, including latest meeting (June) with NGOs to explain the WBG's PSD activities
3. What could be done to help others learn from best practice in sustainable development?	• we want to listen, learn from others by working with them • WBG's increased commitment to building and brokering best practice worldwide through EDI, central vice presidencies, and specialized global funds such as CGAP (microfinance) and InfoDev (information technology)
4. How can HRH work with the WBG to scale up worthwhile partnerships?	• ask HRH to explain his work • endorse current WBG-PWBLF partnership and explore collaboration to scale up innovative projects in areas such as youth development, microfinance, information technology • * Invite HRH to visit the WBG.*

Purpose of Meeting
Prince Charles is meeting with you to learn about your vision for the WBG, understand how the WBG contributes to sustainable development, and explore ways to deepen our collaboration. The goal is to turn HRH into a champion of the WBG. This brief summarizes (1) HRH and his interests, (2) points that his staff has indicated as he may take with you and (3) the WBG's 3-year partnership with the Prince of Wales Business Leaders Forum (PWBLF) current WBG-PWBLF project, including an inventory of good practice in corporate social responsibility, an Annual Meeting seminar, a partnership for children and mothers in Colombia, and support for CCAI, are explained on the next page.

HRH The Prince of Wales
HRH comes deeply about the environment, and he is a strong advocate of sustainable development. He is well respected in the NGO community, is a past president of the World Wildlife Fund, and is a member of the British Council. He is also a member of the House of Lords. Other interests include the arts, the environment, and the British Empire. He is an ambassador for the Prince of Wales and is 48 years old.

Points HRH May Raise & How They Are Related to Your Vision and WBG Work

- | Points | Suggestions |
|--|--|
| 1. What is the WBG's vision? | <ul style="list-style-type: none">• your vision of partnership• WBG's work on incorporating social and environmental considerations into its project funding and advisory work• WBG is the largest funder of education, health, and social projects worldwide |
| 2. How does WBG work with NGOs? | <ul style="list-style-type: none">• your initiative to engage NGOs worldwide in open and constructive dialogues• NGO leaders in resident missions, monthly activity reports• Mr. Rumsfeldin Bergelbin can visit on recent meetings including last meeting (June) with NGOs to explain the WBG's PSD activities |
| 3. What could be done to make other NGOs best practice? | <ul style="list-style-type: none">• we want to learn from others by working with them• WBG's increased commitment to funding and brokering best practice worldwide through EDP, central case• presidential and specialized global funds such as I.O.P. (transformation) and InfoDev (information technology) |
| 4. How does HRH work with the WBG to help up worldwide NGOs? | <ul style="list-style-type: none">• ask HRH to explain his work• endorse current WBG-PWBLF partnership and explore collaboration to scale up innovative projects in areas such as youth development, agriculture, information technology• invite HRH to visit the WBG |

The WBG's Partnership with The Prince of Wales Business Leaders Forum (PWBLF)

Prince Charles launched his Business Leaders Forum (PWBLF) in 1990 to promote the practice of good corporate citizenship worldwide, as a natural part of successful business operations. PWBLF's goals include advocacy, brokering, and capacity-building. It works in 16 countries with a staff of about 30, and had an annual income of 1.8 million pounds last year (with a balance sheet strong enough to support program sustainability). PWBLF has over 40 corporate members from Europe, the Americas, Asia, and the Middle East, including ABB, BMW, CocaCola, Johnson Matthey, Itochu, Grand Metropolitan, 3M, TRW, BP, Wheelock & Co., SmithKline Beecham, Cable & Wireless, McKinsey, Levi Strauss, Toyota, BOC, Bajaj Auto (India), and the Fuji Bank (Japan). Since creating The Washington Forum in 1994 to discuss how the private sector can be a partner in sustainable development, the WBG and PWBLF have embarked on the following projects:

1. Inventory of Good Practice in Corporate Social Responsibility

PWBLF and WBG are building an inventory of good practice in corporate social responsibility to understand how business can partner with communities to foster sustainable development. Phase I of the research (now until July 1997) will profile 15 multinationals active in various industries worldwide, particularly those drawn from PWBLF's member companies (see companies listed above). This research fits well with IFC's review of environmental procedures (questionnaire to include questions on corporate involvement in the community) and ESD's work on the public-private sector interface. Regional roundtables will be held to discuss and disseminate findings throughout the year, beginning with the 1996 Annual Meetings Seminar (below).

2. 1996 Annual Meetings Seminar: "Corporate Responsibility: Does It Make Cents & Sense?" (September 28, 1996)

FPD and PWBLF are organizing a half-day program on corporate responsibility. This includes: (1) breakfast meeting between top-level CEOs and WBG officials to discuss WBG work on public-private partnerships, including the inventory on corporate social responsibility; (2) keynote session opened by you on corporate responsibility (organized by AM Secretariat); (3) seminar featuring testimonials from international business and community leaders on why corporate responsibility is good for development and good for business; and (4) lunch discussion on corporate involvement in programs for youth.

3. Colombia Partnership

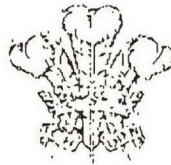
In November 1995, BP invited the WB and PWBLF to Colombia to explore and develop a multi-sector partnership in the Casanare region. The Bank (LAC and FPD) helped form a partnership among the oil companies, NGOs, and national and local government officials to provide health, nutrition and education services to children (0-4 years), pregnant and nursing mothers, and teenagers. This and other innovative projects will be discussed at a "Partnerships for Development" conference in Bogota (9/12-13).

4. Support for CGAP (Consultative Group to Assist the Poorest)

After learning about CGAP, PWBLF and British ODA decided to host a June 12, 1996 conference for financial institutions in London to launch a discussion on microfinance initiatives and potential private sector involvement.

Prince Charles has met with Jean-François Rischard, Geoffrey Lamb (WBG resident representative in London) and Elwyn Chaparro (FPD). Jean-François also spoke at the 5-year anniversary of PWBLF in December 1995.

9449



ST. JAMES'S PALACE
LONDON SW1A 1BS

From: The Deputy Private Secretary to HRH The Prince of Wales

4th June 1996

Dear Mr Wolfson,

The Prince of Wales has asked me to say how grateful he was to receive your letter of 15 March. He was also glad to learn that, following your letter, Robert Davies was able to meet in Washington both Richard Frank and Ismail Serageldin.

His Royal Highness remains greatly attracted by your kind invitation to visit the Bank. Unfortunately, he simply will not have an opportunity to come to Washington this year given the difficulties of visiting Washington unofficially and informally. He has, however, asked me to put to you an alternative proposal which might make possible a meeting this summer, something we would particularly welcome at a time when some new approaches to partnerships for development are still being developed within the Bank.

The Prince of Wales wonders whether it might be possible to arrange a private meeting during the morning of 18 July, in New York, where he will then be staying briefly? He would be delighted to meet you in his hotel, together with a small number of your key officials engaged in the new developments in partnerships for the alleviation of poverty and for environmentally sustainable development. This would provide an opportunity for His Royal Highness to learn something of how the Bank's thinking is developing and to understand whether there are ways in which the work of his own organisations may be able to complement the work of the Bank.

For this second reason The Prince of Wales wonders whether such a meeting might be more productive if three or four representatives of international NGO's with which he has a close personal association, including his Business Leaders Forum, were also present. These organisations have first-hand experience of how activities can be

collaborative projects whose progress might be reviewed if, for example, a visit to Washington became possible at some later date.

His Royal Highness fully understands how busy you and your senior staff must be. But I make this proposal on his behalf following informal soundings by the Business Leaders Forum on how such a meeting might be arranged in a way which would be not only informative for His Royal Highness but also of some value in making progress towards some of the goals which you have set out in your own vision for the Bank. I should be very glad to know if a meeting along these lines would be possible and would of course, be happy to discuss these ideas further with you or your staff if this would be helpful.

Your sincerely,

Mauro Lulicani

P.P.

Stephen Lamport

Mr. James D. Wolfensohn

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

FILE COPY

JAMES D. WOLFENSOHN
President

March 12, 1996

His Royal Highness Prince Charles
The Prince of Wales
St. James's Palace
London SW1A 1BS

Your Royal Highness:

Thank you for your letter of February 20, 1996, and for your kind words of encouragement for the new openness of the World Bank.

I agree wholeheartedly that an increased role for communities in development, fostering self-sufficiency is fundamental to successful and sustainable development, and I welcome the opportunity of greater collaboration between the World Bank and the Business Leaders Forum on this important issue.

Last month, the World Bank Participation Sourcebook was launched by the Vice Presidency for Environmentally Sustainable Development (ESD) which, in addition to spearheading the Bank's efforts to address the environmental aspects of all of our operations, is leading the way in our efforts on participation. It is my intention to encourage full engagement of civil society in formulating each Bank financed project sent to me for approval.

The scope of work underway on participation includes: supporting the fuller participation of civil society in development processes; developing social assessments to better position Bank-financed projects in communities and attend to the concerns of vulnerable groups; supporting agricultural research to improve agricultural yields in, and scientific capacity of developing countries; and forming substantive partnerships to engage those from the private and NGO sectors.

One such partnership is the Consultative Group to Assist the Poorest (CGAP), established by the Bank last year to broaden and deepen microenterprise lending to the very poor. If CGAP is to succeed in amplifying the efforts of the Grameen Bank of Bangladesh, Women's World Banking and other pioneers in this field, closer collaboration with the business community on development issues will be essential. I am delighted to learn that the Forum was involved in the funding meeting last June.

Other examples of putting our participation initiatives into practice include the joint project to launch a research inventory of corporate best practice in social responsibility, and efforts in Latin America to broker partnerships among oil companies, NGOs, and the government in Columbia. In addition, a number of partnership arrangements are underway, including a two-year work plan with the International Union for the Conservation of Nature and Natural Resources (IUCN) and with the World Business Council for Sustainable Development (WBCSD). In addition, we have strengthened on-the-ground NGO liaison out of our resident missions in Africa and Latin America and the Caribbean.

We look forward to working with members of the Business Leaders Forum in the pursuit of partnerships for sustainable development. I believe there is a great deal we can learn from each other. To that end, I have asked the Vice President for ESD, Mr. Ismail Serageldin, to follow up with Mr. Davies and to keep me informed of progress.

I look forward to an opportunity to welcome you to the World Bank.

with my best wishes,
Sincerely yours,



James D. Wolfensohn

Enclosure



HIGHGROVE HOUSE

FEB 21 05

EXC 6580

20th February 1996

Dear Mr. Wolfenson,

Thank you so much for your kind invitation to visit the World Bank. I would like to take this up, particularly if you think that my visit could help in a useful way to further some of the ideas which are now being discussed for wider collaboration to tackle the challenges of sustainable development.

As you may know, I feel deeply about the threats to rural and urban communities around the world from, among other things, economic change, environmental degradation, technological change and mass movement out of the countryside. I firmly believe that there is a place for more widespread support for the role of communities themselves in development, and for partnership initiatives between business, NGOs and the public sector which can help strengthen this process.

Over the past few years my Business Leaders Forum, and several other voluntary organisations with which I am associated, have pioneered new forms of partnership initiatives which I believe could be relevant in many different countries. I have also encouraged business and other leaders to look, first hand, at what can be achieved through sustainable development programmes which involve communities working in partnership with others, rather than impose remedies which too often only undermine the long-term prospects of self-sufficiency. I know that you are open to these ideas and hope very much that you might be able to use your position in the Bank to help give them a wider currency. If I may say so, the new openness that you have brought to the leadership of the Bank and the willingness you have shown to engage the widest opinion in discussion about its role and activities is most encouraging. I have also been greatly encouraged by the contacts between my Business Leaders Forum and your Bank colleagues.

I fear, however, that it will not be all that easy for me to find an early opportunity to come to Washington. I therefore wonder whether it might be helpful if my visit could be preceded by a series of contacts between the Bank, my Business Leaders Forum, and the other organisations in this field in which I am involved, in which some of the best examples of sustainable development partnerships could be reviewed? On that basis, when I am able to visit Washington, we might already have established a useful degree of co-operation focusing on the challenges of communicating and extending best practice in this critical area....

If this is an acceptable idea, I would be happy for my office, Robert Davies of my Business Leaders Forum, and others to formulate a programme of contacts.

I very much look forward to meeting you again.

Yours sincerely

James

—

⑤ Prince Charles

The World Bank

International Bank for Reconstruction and Development
International Development Association
Multilateral Investment Guarantee Agency

1818 H Street NW
Washington DC 20433
USA

(202) 477-1234
Cable Address: INTBAFRAD
Cable Address: INDEVAS

Jean-François Rischard
Vice President

October 30, 1995

Mr. Robert Davies
Chief Executive
Prince of Wales Business Leaders Forum
5 Cleveland Place, St James's
London SW1Y 6JJ
England

via facsimile: (44-171) 321-6480

Dear Robert:

Thank you very much for your fax of October 12, 1995 to Mr. Wolfensohn. He is travelling at the moment and asked me to respond on his behalf.

Mr. Wolfensohn appreciated the opportunity to meet you on October 11, 1995 at *The World Bank Group and the Private Sector* kiosk during the Annual Meetings. He believes strongly in the power and potential of partnerships, as you know, and is highly supportive of the Bank Group's deepening partnership with The Prince of Wales Business Leaders Forum (PWBLF).

I have shared with Mr. Wolfensohn progress updates on our joint work, including our quarterly videoconferences of *The Washington Forum* and emerging partnerships in areas such as microenterprise development and information for development. He is very pleased that the October 12th breakfast may yield collaborative projects with corporate members of the PWBLF as well as with other companies.

On behalf of Mr. Wolfensohn and my colleagues, I would like to reiterate my invitation to HRH The Prince of Wales to visit the World Bank Group when his schedule permits it. As noted in my letter of August 9, 1995, we would be extremely honored to have HRH spend a day with us to see how we are pursuing sustainable development in all its forms. We would be delighted to facilitate the arrangements.

I look forward to seeing you on December 12.

Sincerely,



Cc: J. Wolfensohn, A. Horiguchi (EXC); C. Kleynhoff, E. Chaparro, A. Horng (FPDVP)

October 30, 1995

Mr. Robert Davies
Chief Executive
Prince of Wales Business Leaders
Forum
2 Cleveland Place, St James's
London SW1Y 6LL
England

via facsimile: (44-171) 331-6480

Dear Robert:

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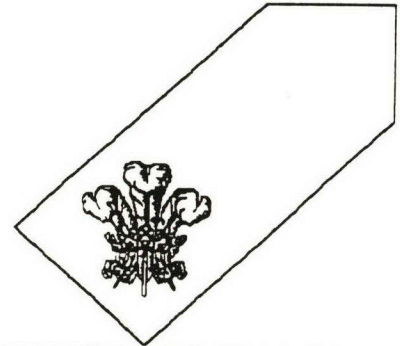
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I look forward to seeing you on December 12.

Sincerely,



Fax Message



**THE PRINCE OF WALES
BUSINESS LEADERS
FORUM**

To: Mr James D Wolfensohn
Of: World Bank
Fax No: 202 522 3031
Date: 12 October 1995

Sender: Robert Davies
Sender Tel No: 44 (0)171 321 6473
Sender Fax No: 44 (0)171 321 6480
Pages: this



I was delighted to have the brief opportunity to meet you yesterday at the exhibition stand of your Private Sector & Finance Division.

I am very pleased that the breakfast hosted for a group of CEOs from our member companies by Jean-François Rischard to meet and talk with leading officials from across the World Bank Group was very successful and of direct practical use to a programme of collaboration which we have with the World Bank Group to initiate partnerships for development in specific emerging economies.

You mentioned the idea of inviting HRH The Prince of Wales to the World Bank, and I am sure much of what you said in your excellent speech on Tuesday, not least the importance of testing success against effect at the grass roots, would find a positive response from him. I will show him a copy of your speech on my return next week. While I have only limited influence over his schedule, I am sure that anything that you could do to suggest that he visits earlier rather than later, not least because of the changes that are in motion on your approach to global development issues, would be timely.

Can I also record our commitment to working with you and your colleagues, if in a selective number of areas and locations, to realise your welcome call for a broader partnership. With all good wishes,

Robert Davies

Prince Charles treks into Borneo rainforest

BANDAR SERI BEGAWAN, July 16 (Reuter) - Britain's Prince Charles, dressed in camouflage army fatigues, braved heavy rain to trek into the Borneo rainforest on Tuesday to watch a demonstration of Gurkha jungle survival techniques.

Arriving at Seria near here the day after a London court began divorce proceedings between him and Princess Diana, the Prince of Wales inspected the 2nd Battalion of the Royal Gurkha Rifles.

After the inspection, a cheerful Charles met with soldiers' families and posed for group pictures.

Charles also watched a live firing exercise in a simulated attack on a camp with soldiers descending by rope from a helicopter.

He returned to the guest palace in the afternoon and was to take a midnight flight to North Carolina.

Charles arrived in oil-rich Brunei on Sunday for a three-day visit to attend the 50th birthday of Sultan Sir Hassanal Bolkiah, who has been rated by Fortune magazine as the world's richest man.

The Gurkhas have been in Brunei since 1962 when they were stationed here at the request of the then-Sultan Sir Omar Ali Saifuddien.

In 1971, Brunei and Britain signed an amended and revised version of a 1959 agreement giving Brunei full internal self-government.

The tiny sultanate gained independence on Dec. 31, 1983, and since then, another agreement was signed for the British Gurkha battalion to be stationed at Seria.

^REUTER@
Reut07:06 07-16-96

REULBviaNewsEDGE

KEYWORDS: BRUNEI-SULTAN-CHARLES
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Received by NewsEDGE/LAN: 7/16/96 7:16 AM

Royal divorce turns spotlight on Prince William

By Helen Smith

LONDON, July 16 (Reuter) - The divorce of Prince **Charles** and Princess Diana is likely to focus the media spotlight on their eldest son William amid suggestions, discounted by royal aides, that he could become Britain's next king.

"This divorce won't change our coverage of the royal family. Just think of the mileage we can get out of Prince William," said a journalist for one glossy U.S. magazine at Monday's court hearing where **Charles** and Diana were granted a decree nisi.

The 15-year-old prince has been largely shielded from press intrusion at the elite school he attends, although his blond good looks have already made him a favourite pin-up among teenage girls.

When he went to a disco recently, tabloid newspapers swooped on the girls who were there for their tales of how they danced with him and asked him for kisses.

Buckingham Palace has been keen to quash any speculation that the monarchy could skip a generation so that Prince William, instead of his scandal-hit father, would eventually succeed Queen Elizabeth.

But a poll in March said more than 50 percent of respondents believed **Charles** should not be crowned king if he decided to marry his long-time mistress Camilla Parker Bowles.

Press reports say that William is intelligent and mature for his age and has a warm, affectionate relationship with his mother, who tried to ensure his childhood was as normal as possible with visits to funfairs and hamburger restaurants.

He is also said to be her confidant and to have been instrumental in her reluctant decision to relinquish her title of "Her Royal Highness" as part of the divorce settlement.

"Mummy, I don't care what you are called," he told her, sealing her decision to give up the title when it became the only sticking point left in the divorce terms offered by **Charles**.

Diana is apparently keen for William to become king instead of **Charles**. She scandalised the royal family last year when she said in a controversial television interview she doubted **Charles**

could handle the responsibilities required of a monarch.

If Charles does succeed his mother, he will be the first divorced monarch for 200 years. But Queen Elizabeth, who is 70, is in good health and has made clear she has no intention of abdicating.

Charles has continued to see the divorced Parker Bowles despite the public hostility over their relationship and royal advisers are believed to be investigating ways in which they could marry without her becoming queen.

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Reut18:40 07-15-96

REULBviaNewsEDGE

KEYWORDS: BRITAIN-ROYALS (SCHEDULED)
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Received by NewsEDGE/LAN: 7/15/96 6:50 PM

Brunei-Sultan's Birthday, 1st Ld-Writethru, a0494,0477
Brunei Plays Host to Birthday Party for World's Richest Man

medal-covered jacket studded traditional Malay costume. Picks up 7th graf, 'The sultan...'

By GAVIN HILL=

Associated Press Writer=

BANDAR SERI BEGAWAN, Brunei (AP) What do you give the world's richest man for his birthday?

Prince Charles gave a walking stick and an ornamental silver box. Michael Jackson is giving a concert.

The two are among the dozens of VIPs who have flown in from around the world for Brunei's most lavish party the birthday bash of Sultan Hassanal Bolkiah, who turned 50 today.

The sultan has hired a London production company to make a wide-screen, state-of-the art digital home video of his party. Editing suites have been set up at the palace for the team of cameramen, editors and producers.

The 15-day celebration began today with an hour-long military parade in a stadium in the center of the town. In attendance were government officials, diplomats and the sultan's overseas guests, including the British prince.

Dressed in a medal-covered white jacket and dark trousers, the sultan arrived in a black Rolls Royce. Cannons boomed.

The sultan greeted Prince Charles with a grin. Jackson wasn't seen.

After the ceremony, Charles flew into the depths of Borneo's rain forests in one of the sultan's private helicopter to visit a nature project.

Jackson, said to be the sultan's favorite pop star, came to Brunei on a chartered flight Saturday to perform at a public concert on Tuesday. Fans won't have to pay to hear Jackson the sultan is picking up the undisclosed tab. Some 30,000 people are expected to attend.

Jackson's concert will officially inaugurate a multibillion-dollar amusement park, built by the sultan as a gift to his 200,000 subjects and tourists. Entrance to the park and rides are free.

The sultan can afford to be generous.

One of the world's few absolute monarchs, Hassanal presides over this tiny Borneo Island sultanate's vast oil income and foreign currency reserves, estimated at more than \$37 billion. Microsoft's Bill Gates, the world's richest private citizen, has an estimated fortune of only \$18 billion.

The sultan earns \$100 a second from investments and oil earnings, which amounts to \$2 billion a year.

Prince Charles, leaving behind a divorce settlement, arrived on Sunday and was driven to the 1,778-room Istana Nurul Iman palace on the banks of the Brunei River for an audience with the sultan.

The sprawling Islamic-style building, lit by giant floodlights,

glows like a giant pearl at night. All around, the capital is bedecked with tens of thousands of colored light bulbs, flags and buntings.

APWR-07-15-96 0848EDT

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Received by NewsEDGE/LAN: 7/15/96 9:01 AM

Prince Charles takes a break in Brunei

(ADDS details, background)

by P. Parameswaran

BANDAR SERI BEGAWAN, July 14 (AFP) - Britain's Prince Charles, looking relaxed and cheerful, arrived here Sunday to celebrate the Sultan of Brunei's birthday ahead of court proceedings in London to seal his divorce from Princess Diana.

The 47-year-old Prince of Wales reached the Brunei capital two days after the announcement of a settlement with Diana to end their tumultuous 15-year marriage.

Charles will be here for three days to attend the 50th birthday celebrations of Sultan Hassanal Bolkiah of Brunei, the world's richest man.

He was flown to Brunei on one of the Sultan's personal aircraft and will play a game of polo with the ruler during his stay.

Charles will also have an opportunity to seek peace and tranquility in the rain forests of Brunei on Borneo island during a trip there Monday when he will journey down a river by a long boat.

British scientists have done extensive research on Brunei's rich tropical rain forests, where a vast number of species of plants and animals are still waiting to be discovered, local officials said.

A beaming Charles flew into a brightly decked-up Bandar Seri Begawan on board the Sultan's Airbus A-340 on a rainy afternoon.

He was greeted in a VIP lounge at the airport by members of the Brunei royal family before being driven to the Sultan's palace for an audience with the ruler, who turns 50 Monday, officials and witnesses said.

A small group of British expatriates, airport workers, tourists and journalists were rewarded with a glimpse of the prince as his motorcade left the tight-security airport zone.

He waved to the group and flashed a broad smile.

Dressed in a grey suit and maroon tie, Charles later visited the British Council language training centre where he was met by Susan Mathews, manager of the council, and Robert Orton, head of the council's English language centre.

He saw two typical language classes in session at the centre, spoke to the mostly teenaged students, and gave away mementos to Brunei government officials to commemorate the 10th anniversary of the council.

The mementos included collections of microfilms of Malay manuscripts from the archives of various British institutions.

The manuscripts were selected because they were relevant to the history of the Brunei sultanate during its period of geographical expansion, a British council official said.

Charles looked relaxed and composed during the visit. "His Highness was in good form," Orton said.

The prince was last in Brunei in February 1984 when he represented the Queen at the oil-rich Sultanate's independence celebrations.

A "decree nisi" is expected to be pronounced in London on Monday ahead of a "decree absolute" in August that will seal his divorce from Diana, who has reportedly received a multi-million-dollar settlement.

The divorce will take effect just four weeks after the Prince and Princess of Wales' 15th wedding anniversary.

The couple officially separated in December 1992, but were already leading separate lives. It was Queen Elizabeth who, late last year, asked her son and daughter-in-law to finally end their marriage.

pp-akp/mms

AFP

AFP

AFPviaNewsEDGE

KEYWORDS: Brunei-Charles

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Received by NewsEDGE/LAN: 7/14/96 8:26 AM

Prince Charles arrives in Brunei

BANDAR SERI BEGAWAN, July 14 (AFP) - A beaming Prince Charles arrived in the Brunei capital Sunday for a three-day official visit, fresh from his agreement with Princess Diana to end their tumultuous 15-year marriage.

The Prince of Wales flew into the city on a rainy afternoon aboard a private jet provided by Sultan Hassanal Bolkiah of Brunei, whose birthday celebrations the prince will attend during his stay in Bandar Seri Begawan.

Charles was greeted in a VIP lounge at the airport by members of the Brunei royal family before being driven to the Sultan's palace for an audience with the ruler, who turns 50 Monday, officials and witnesses said.

A small group of British expatriates, airport workers, tourists and journalists had a glimpse of the prince, dressed in a beige blazer, as his motorcade left the tight-security airport zone.

He waved to the group and flashed a broad smile.

The prince's visit will include a number of public engagements, including a visit to the British Council language training centre later Sunday.

Prince Charles was last here in February 1984, when he represented the queen at the oil-rich Sultanate's independence celebrations.

His trip comes two days after an announcement that he and his estranged wife had agreed on the terms of their divorce, which will take effect in six weeks. The couple officially separated in December 1992.

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KEYWORDS: Brunei-Charles

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Received by NewsEDGE/LAN: 7/14/96 4:21 AM

Mandela greeted by carnival atmosphere in Brixton

LONDON, July 12 (AFP) - President Nelson Mandela arrived in south London's Brixton neighbourhood on Friday, to be greeted with a tumultuous reception from the residents of one of Britain's most volatile, racially-mixed districts.

As Mandela, dressed in a grey and green shirt, walked up the steps of the Brixton community centre, the crowd massed in the narrow street below him erupted into a huge roar.

"We want Nelson" they chanted, as sound systems from nearby pumped out a loud reggae beat. Hundreds of young black men dressed in trainers and gold necklaces thronged around.

A band of bare-chested black musicians playing samba and reggae added to the carnival atmosphere.

Mandela was due to spend 15 minutes in the community centre, and then tour the market in Brixton, where people were already massed, hoping to get the chance to shake the hand of the African hero.

Prince Charles was to accompany Mandela on his walkabout through Brixton, which was shaken by a string of race riots in the 1980s.

pip/ss

:SUBJECT: STMG PEOP A&E RIOT EDUC GOLD POL AFRC

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Received by NewsEDGE/LAN: 7/12/96 6:27 AM

Bavaria returns to royal past for prince's burial

By Gernot Heller

MUNICH, Germany, July 10 (Reuter) - Bavaria, the secret homeland of German monarchists, will revive its royal past for a day on Saturday when it buries Crown Prince Albrecht, the grandson of Munich's last King Ludwig.

Albrecht, who like his father Rupprecht never renounced his claim to one of Europe's oldest thrones, died on Monday aged 91 in his castle at Starnberg Lake south of Munich.

"If they had not overthrown his grandfather Ludwig III in 1918, Albrecht would have been King of Bavaria from 1955 until now," the liberal Sueddeutsche Zeitung noted on Wednesday.

"He will be buried like a king," the popular Abendzeitung reported in a front-page banner headline.

The 738-year Wittelsbach dynasty, which was toppled by a short-lived "soviet republic" in November 1918, is the crown jewel of a rich folk history that makes Bavaria stand out from Germany's other 16 states.

The Wittelsbach family decreed the 1516 purity law for German beer, founded vast art collections, launched the Munich Oktoberfest and built Bavaria's fairy tale castles.

The world's most famous beer hall, the Hofbraeuhaus in the heart of Munich, was their court brewery.

The Wittelsbachs are also descendants of the Stuarts, the last Scottish monarchs, and some blue-bloods contend Albrecht's title should have been not simply Duke of Bavaria but King of England, Scotland, France, Ireland and Bavaria.

Britain's royal heir Prince Charles, Sweden's King Carl Gustav and his German-born Queen Silvia and dozens of other European aristocrats have been invited to his funeral on Saturday.

The funeral Mass will take place in the baroque Theatiner Church that Albrecht's family had built near the Residenz, their city palace in the centre of Munich.

The prince will be buried in the family plot at Kloster Andechs, a monastery in the lake country south of Munich whose famous beer has made it a favourite tourist site.

Albrecht, who in later years wore a snow-white handlebar moustache, was born in 1905 and became a Royal Bavarian Army lieutenant during World War One when he was only 10.

Three years later, though, he had to flee with his family to Austria. They later returned and he studied forestry at Munich university, but could not graduate because he refused to join any Nazi organisations.

Under pressure from the Nazis, his family moved to Hungary in 1937. They were arrested by the Gestapo in 1944 and kept in concentration camps, including Dachau near Munich.

Although Bavaria fondly remembers the Wittelsbachs and many voters seem to prefer larger-than-life politicians, the monarchy as a political institution died in 1918.

The influential Roman Catholic Church tried but failed to win support to restore the monarchy in the 1920s. In 1946, United States occupying forces banned a "Bavarian Homeland and Royalty Party" that wanted to bring the Wittelsbachs back.

After the war, Albrecht shunned publicity, spending his time hunting and administering the two castles, art collections and part of the baroque Nymphenburg Palace on the outskirts of Munich that the post-1918 Bavarian government left his family.

^REUTER@

Reut09:16 07-10-96

REULBviaNewsEDGE

KEYWORDS: GERMANY-CROWNPRINCE (SCHEDULED) (CORRECTED)

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Received by NewsEDGE/LAN: 7/10/96 9:26 AM

London crowds hail Mandela as hero in visit triumph

(adds Mandela, Major Downing Street news conference)

By Gerrard Raven

LONDON, July 10 (Reuter) - Admiring crowds feted South African President Nelson Mandela on Wednesday, second day of a triumphant state visit to Britain, and he declared that his "batteries had been recharged" by the trip.

Mandela, at 77 the world's most respected national leader, danced in the early morning sun in a central London park, celebrating an enthusiastic reception from star-struck Britons that he called "beyond words."

Acclaimed like a hero in the British capital, Mandela caused an excited scramble when he arrived at Prime Minister John Major's office-residence. Staff left their desks to welcome him to Number 10 Downing Street, where Mandela was once branded a "terrorist" by Major's predecessor, Margaret Thatcher.

"In the 5½ years I have been in Downing Street, I cannot recall an occasion when all the people working here lined the corridor (for a visitor)," Major told reporters after hosting a lunch for the political prisoner-turned-elder statesman.

Earlier, civil servants in pinstripe suits stopped on their way to work to watch Mandela plant a tree in a London park, and he was given a rousing reception when he spoke to businessmen.

"I will be going back to my country like an old battery which has been recharged," Mandela said.

"I had expected to be warmly received, but nothing like what I have experienced. It is unprecedented as far as I am concerned," he added.

There was no trace of bitterness as Mandela spoke of his gratitude to people in Britain who had helped to sustain the anti-apartheid movement at home.

Asked about Thatcher's description of his African National Congress as a "terrorist organisation," he said: "I would like us to let bygones be bygones."

The South African president began the second full day of his first state visit to Britain by planting a tree in St James' Park, a short drive from Buckingham Palace where he spent the night under Queen Elizabeth's roof.

A crowd of several hundred turned up for the ceremony in aid of an appeal by heir to the throne Prince Charles to replant the royal parks following a hurricane in 1987.

African singers and dancers in traditional costume welcomed Mandela, dressed in an open necked shirt rather than the suit he wore for Tuesday's royal pomp and ceremony.

He walked over and joined in the dancing as the 55-strong troupe from all parts of South Africa chanted his name, to the delight of spectators some of whom had risen at dawn to see him.

On returning to the palace he met Labour opposition leader Tony Blair and the secretary-general of the Commonwealth, Emeka Anyaoku, before addressing industrialists at a conference on investment in South Africa.

Major, who later said the crowds to welcome Mandela were the largest he had ever seen for a state visit, told 500 potential investors at the conference that Britain would champion better access for South African goods to the European Union.

"South Africa can look to Britain as a friend in the European Union who will help South Africa achieve access for a wider range of products," Major said.

Since his visit to South Africa two years ago, the first by a British prime minister for 34 years, the two countries had built "a fellowship for the future" with cooperation in business, training, technology and promoting investment.

Major also announced a 60 million pound (\$93.01 million) aid package for South Africa to help education, health and police services and manufacturing and telecommunications sectors.

Britain sees a healthy South African economy as crucial to the growth of southern Africa as a whole.

Mandela renewed his government's pledge to restructure and privatise public corporations.

"Firm decisions have been taken to privatise some of them, to acquire strategic equity partners for others and to redefine the role of the remaining ones," Mandela said in a speech at the Confederation of British Industry (CBI) conference.

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Mandela kicks off historic state visit to London

by Philip Pank

LONDON, July 9 (AFP) - President Nelson Mandela was set for a hero's welcome Tuesday as London prepared for the first-ever state visit here by a South African president.

Queen Elizabeth II, the Duke of Edinburgh, Prime Minister John Major and a bevy of senior ministers were lined up to meet the South African leader at a colourful ceremony to mark the official launch of his four-day stay.

The pomp and ceremony of London's Horseguards Parade was to form the backdrop to the meetings. And all the pageantry of a Guard of Honour, gleaming in full ceremonial regalia, was to accompany the Queen and Mandela when a horse-drawn carriage takes them along the broad sweep of Pall Mall to Buckingham Palace.

But the traditional start to the state visit will provide a stark contrast with the latter part of his stay, an unconventional tour of the British capital that will take Mandela through the heart of London's Afro-Caribbean community.

On Friday, Mandela will be accompanied by Prince Charles when he walks through one of London's most volatile black ghettos, Brixton, which won notoriety after a string of race riots that shook the neighbourhood after the early 1980s.

The South African president told the BBC that he expected the tour of the south London community to be a high point of his stay in London. He said that he felt a personal need to thank Londoners for their support in seeking to bring an end to apartheid in South Africa.

"It is absolutely necessary to go and thank them for their contribution," the 78-year-old Nobel peace prize winner said.

"It must not be forgotten that the masses of people in this country and elsewhere, were in the forefront of the anti-apartheid struggle. And it is absolutely necessary, now that we have succeeded, to go and thank them for that contribution. And I am looking forward to going to Brixton," Mandela added.

He and the Queen were billed as guests of honour at a charity concert on Thursday night which will pull together the best of British and South African pop music, including Phil Collins and Hugh Masekela, the trumpet player.

Mandela, who at the weekend announced that he would step down at the end of his first term of office in 1999, was also due to woo British business leaders during a series of meetings and business seminars. Britain is the biggest international investor in South Africa.

Mandela said that he was optimistic about his country's economy. He expected money that was redirected overseas when the South African economy buckled under the weight of international trade sanctions at the height of apartheid to flow back to the African nation.

He nonetheless conceded it would be "very difficult" to predict when foreign investment in South Africa would reach its potential.

"All I can say is that we have dramatically changed the situation from a country of tensions and conflicts and tragedies in which human beings were

slaughtered by the security forces. We have effected this smooth transformation from an apartheid state, to a non-racial society," he said.

Mandela pointed to a "mood of confidence" in today's South Africa.

From 1985 until mid-1994, he said, some 51,7 billion rands (11.5 billion dollars) "left the country as a result of political uncertainty.

"In February of this year, 20 billion rand (4.5 billion dollars) of that amount had come back," Mandela said.

"I hope that this visit will help all round relations -- political, economic and others," the South African leader said.

Among the other events planned for his stay is the conferring of eight honorary doctorates, said to be a record number for a state visit. He will also receive the Freedom of the City of London and address a joint session of parliament during his visit.

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Prince of Wales to help Sultan of Brunei fete 50 years

LONDON, July 2 (AFP) - What sort of birthday present do you give to a man who owns 100 classic Rolls Royces, a Boeing 747, one of London's poshest hotels and just about anything else he ever wanted?

The Prince of Wales, who is trying to borrow money for his own divorce, faces that problem later this month when he attends the 50th birthday party of the Sultan of Brunei, reputedly worth 22 billion pounds (33 billion dollars).

Prince Charles is scheduled to carry out other public engagements during his July 14-16 visit to the tiny oil-rich Sultanate.

He was last in Brunei in February 1984 when he represented Queen Elizabeth II at a week-long celebration marking the sultanate's full independence from Britain.

Charles was this week reportedly seeking a 20 million pound (30 million dollar) bank loan to finance a divorce settlement with Princess Diana, and his mother, Queen Elizabeth II, was prepared to guarantee the loan.

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Ulster Nationalists protest Prince Charles visit

LONDONDERRY, Northern Ireland, June 27 (AFP) - The Prince of Wales, on a three-day visit to Northern Ireland, encountered a peaceful demonstration here Thursday by some 30 nationalists protesting his presence.

The demonstrators, including one in a Prince Charles mask, waved banners near a new primary school at whose opening Charles officiated.

Earlier in the visit, Derry's Bloody Sunday Justice Committee passed a letter to the Prince requesting a meeting.

An aide said Charles had read the letter and would send a response in the coming days offering sympathy to the families of the 13 republicans who died here on that Sunday 24 years ago when the British Parachute Regiment opened fire.

The Prince is Colonel-in-Chief of the British Parachute Regiment, which was involved in the shootings.

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Prince Charles opens longest bridge in Britain

LONDON, June 5 (Reuter) - Prince Charles formally opened Britain's longest river crossing on Wednesday, linking England and Wales across the Severn river estuary.

Charles, heir to Britain's throne, opened the English side of the three-mile (5.1 km) bridge in front of crowds waving British flags. He then crossed to the Welsh side to repeat the ceremony before hundreds of Welsh schoolchildren.

Security was tight just five days after the Queen was forced to cut short a visit to Wales after protests by Welsh nationalists raised concerns for her safety.

As Charles unveiled a plaque in the centre of the bridge, four aircraft flew over the bridge's 450-foot-high (137 metres) twin towers and 40 horn-blowing boats sailed underneath.

The new bridge -- called the Second Severn Crossing -- cost 330 million pounds (\$512 million), and is just three miles downstream from the original Severn Bridge, opened nearly 30 years ago by the Queen.

The new tolled crossing will cut two miles (3.2 km) off the 180-mile (290 km) journey from the Welsh capital Cardiff to London and is expected to capture about 75-80 percent of the traffic from the current Severn Bridge.

The old bridge, which has little wind shielding, suffers frequent traffic restrictions due to high winds.

The new crossing, which is protected from wind along its entire length, took four years to build. It was considered one of the world's greatest engineering challenges because of the exposed estuarial position, high winds and the second highest tidal range in the world.

Nearly two miles of link roads were completed just in time for the ceremonies and the crossing is expected to be open to traffic by Wednesday night, once all the white line markings have been completed.

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