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Briefs — WDR Press Conference Brief

July 5, 1990



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Administrative Files: Briefs - World Development Report (WDR Press Conference, July 5, 1990 - Brief)

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BARBER B. CONABLE  
OPENING STATEMENT FOR WDR PRESS CONFERENCE  
THURSDAY, JULY 5, 1990

THANK YOU VERY MUCH ACCEPTING OUR INVITATION  
TO COME HERE. I AM PLEASED TO SEE SO MANY OF YOU HAVE  
RECOVERED FROM YOUR FOURTH OF JULY HOLIDAY.

THE WORLD BANK'S PURPOSE IS TO HELP POOR  
COUNTRIES DEVELOP ECONOMICALLY AND SOCIALLY. IN THE  
ANNUAL WORLD DEVELOPMENT REPORT, OF WHICH I HOPE YOU  
HAVE A COPY, WE ASSESS HOW DEVELOPMENT IS PROGRESSING  
AND WHAT WE THINK ABOUT THIS COMPLEX PROCESS. EACH YEAR  
WE ADDRESS A PARTICULAR SUBJECT. THIS YEAR'S SUBJECT IS  
POVERTY.

THE NECESSARY ENGINE OF DEVELOPMENT IS ECONOMIC GROWTH. DEVELOPMENT MEANS LITTLE, HOWEVER, IF ITS COMPANION IS NOT DECLINING POVERTY. THE RAISON D'ETRE OF THE WORLD BANK, THE SUBSTANCE OF OUR MISSION, IS TO ATTACK POVERTY WITH *every aspect of our institutional strengths* ALL OUR MIGHT. IT IS A MISSION TO WHICH I AM DEEPLY COMMITTED. STRIVING TO REDUCE POVERTY SHOULD BE ONE OF THE INTERNATIONAL COMMUNITY'S FUNDAMENTAL OBJECTIVES IN THE 1990s. THIS WORLD DEVELOPMENT REPORT IS ABOUT HOW TO MEET THAT OBJECTIVE.

IT IS A FORMIDABLE TASK. MORE THAN ONE BILLION  
PEOPLE, <sup>roughly</sup> ~~AT LEAST~~ A QUARTER OF HUMANITY, LIVE ON LESS  
THAN A DOLLAR A DAY. BETWEEN NOW AND THE END OF THE  
CENTURY <sup>at least</sup> ~~ANOTHER~~ 850 MILLION SOULS WILL BE BORN. EVEN <sup>with</sup> ~~ON~~  
RELATIVELY SANGUINE ASSUMPTIONS, THERE IS A DANGER THAT  
THE NUMBER OF POOR PEOPLE IN SUB-SAHARAN AFRICA WILL  
INCREASE <sup>appreciably</sup> ~~CONSIDERABLY~~ OVER THE NEXT DECADE. <sup>And</sup> INADEQUATE  
POLICIES OR UNEXPECTED INTERRUPTIONS TO ECONOMIC GROWTH  
COULD HAMPER THE DECLINE OF POVERTY IN ASIA AND LATIN  
AMERICA.

NEVERTHELESS, THIS WORLD DEVELOPMENT REPORT SHOWS HOW POVERTY CAN BE SUBSTANTIALLY REDUCED. THE INDISPENSABLE CONDITION IS THAT COUNTRIES ADOPT POLICIES WHICH PROMOTE SUSTAINABLE ECONOMIC GROWTH WITH EQUITY. THE LONG RUN LINK BETWEEN GROWTH AND POVERTY REDUCTION IS IRREFUTABLE. THIS MEANS THAT GOVERNMENTS MUST ENCOURAGE THE PRIVATE SECTOR, ELIMINATE UNNECESSARY PUBLIC SPENDING, ALLOW REALISTIC PRICES TO EMERGE FOR FARM PRODUCTS, FOREIGN EXCHANGE, AND IMPORTS AND EXPORTS, TACKLE BUDGET AND BALANCE OF PAYMENTS DEFICITS, AND CONTAIN INFLATION.

AGAINST THAT BACKGROUND, WE PROPOSE A TWO-PART STRATEGY. FIRST, THE POOR'S MOST ABUNDANT ASSET IS THEIR LABOR. THE MOST EFFECTIVE WAY OF RAISING THE INCOMES OF THE POOR, OF ALLEVIATING POVERTY, IS A GROWTH STRATEGY WHICH UTILIZES THAT LABOR. MARKET INCENTIVES, SOCIAL AND POLITICAL INSTITUTIONS, AND INFRASTRUCTURE AND TECHNOLOGY SHOULD BE MOBILIZED FOR THIS PURPOSE.

SECOND, THE POOR ARE OFTEN UNABLE TO GRASP OPPORTUNITIES BECAUSE OF ILL-HEALTH, INADEQUATE SKILLS, OR LACK OF EDUCATION. SO WE THINK IT IS ESSENTIAL TO PROVIDE BASIC SOCIAL SERVICES SUCH AS PRIMARY HEALTH CARE AND EDUCATION, NUTRITION, AND FAMILY PLANNING. WOMEN BENEFIT ESPECIALLY FROM THESE SERVICES.



IN OUR JUDGEMENT, THIS TWO-PART APPROACH TO  
POVERTY WILL FOSTER GROWTH AND EFFICIENCY. INEVITABLY,  
HOWEVER, SOME PEOPLE WILL NOT BENEFIT, OFTEN THROUGH NO  
FAULT OF THEIR OWN. GOVERNMENTS <sup>therefore</sup> SHOULD PROTECT THE MOST  
VULNERABLE -- YOUNG CHILDREN, THE OLD, THE CHRONICALLY  
SICK, VICTIMS OF NATURAL DISASTERS -- BY MAKING DIRECT  
INCOME TRANSFERS AND PROVIDING SAFETY NETS.

WE ESTIMATE THAT THIS BROAD STRATEGY COULD  
REDUCE THE NUMBER OF POOR PEOPLE BY 300 MILLION BY THE  
YEAR 2000, DESPITE A RISING WORLD POPULATION. IT IS NO  
PIPEDREAM. ELEMENTS OF THE STRATEGY HAVE BEEN TRIED AND  
TESTED IN COUNTRIES AS DIVERSE AS COLOMBIA AND  
INDONESIA, CHILE AND BOTSWANA. NOR IS IT EXPENSIVE.  
MODEST INVESTMENTS IN REDUCING POVERTY CAN YIELD  
HANDSOME RETURNS, WHETHER MEASURED BY THE THE EXTENT OF  
POVERTY ALLEVIATION, THE PRODUCTIVITY OF INDIVIDUALS,  
OR THE INCREASE IN HUMAN HAPPINESS.

TRANSLATING THE STRATEGY INTO REALITY WILL REQUIRE THE INVOLVEMENT OF GOVERNMENTS AND INTERNATIONAL AGENCIES ALIKE. DEVELOPING COUNTRIES MUST DIRECT THEIR RESOURCES EFFICIENTLY AND CARRY <sup>the incentives of</sup> THEIR PEOPLES WITH THEM. DEVELOPMENT AND POPULAR PARTICIPATION ARE INSEPARABLE. INDUSTRIAL COUNTRIES MUST TARGET THEIR ASSISTANCE PROPERLY AND PRESERVE A FAVORABLE WORLD ECONOMIC CLIMATE BY ESCHEWING PROTECTIONISM, INFLATION, AND HIGH INTEREST RATES. FURTHER DEBT RELIEF IS VITAL. SUSTAINABLE DEVELOPMENT AND POVERTY REDUCTION ENTAIL REVERSING THE DEGRADATION OF OUR GLOBAL ENVIRONMENT. WE MUST ALL MONITOR CAREFULLY THE CONNECTION BETWEEN DEVELOPMENT ASSISTANCE AND POVERTY REDUCTION. COUNTRIES WHOSE POLICIES DO NOT ADDRESS THE POOR EFFECTIVELY CANNOT EXPECT AUTOMATIC HELP.

*Obviously this is not*

~~I AM NOT OFFERING~~ A MIRACLE CURE. DEVELOPMENT IS A LONG, ROUGH, PASSAGE. REDUCING POVERTY CAN TAKE MANY YEARS. SOME COUNTRIES, EVEN IF THEY PURSUE THE RIGHT POLICIES, WILL REQUIRE AND DESERVE AID FOR THE FORESEEABLE FUTURE. IT IS INEXCUSABLE THAT THE AMOUNT OF AID FROM INDUSTRIAL COUNTRIES IS STAGNATING. AS THEIR ECONOMIES CONTINUE TO PROSPER AND THE COLD WAR WANES, DEVELOPED COUNTRIES CAN AFFORD MORE AID. IF DEVELOPED COUNTRIES CUT THEIR MILITARY SPENDING BY A MERE 10 PER CENT THEY COULD DOUBLE THEIR AID.

POVERTY'S DARK SHADOWS ARE MISERY AND  
INEFFICIENCY. I PROFOUNDLY BELIEVE THAT POVERTY IS  
MORALLY AND ECONOMICALLY INTOLERABLE. REDUCING POVERTY  
BY AS MUCH AS WE CAN IS ONE OF THE MOST COMPELLING  
CHALLENGES THE WORLD FACES IN THE CLOSING YEARS OF THE  
TWENTIETH CENTURY. I AM VERY GLAD TO SEE IN OUR WORK  
AND IN THE RECENT CONTRIBUTIONS OF OTHER ORGANISATIONS,  
FOR EXAMPLE THE UNITED NATIONS DEVELOPMENT PROGRAMME,  
THE OUTLINE OF A COMMON STRATEGY FOR ATTACKING POVERTY.  
I SINCERELY HOPE THAT GOVERNMENTS AND INTERNATIONAL  
AGENCIES WILL JOIN FORCES FOR A DECISIVE ASSAULT ON  
THIS SCOURGE OF HUMANITY.

THANK YOU.

LYN SQUIRE'S  
STATEMENT

## OUTLINE FOR WDR PRESENTATION

### Introduction

Mr. Conable has set out the basic thrust and recommendations of this year's World Development Report. What I would like to do is provide a reader's guide to the report. What are the key conclusions and where can they be found? There are five areas I'd like to cover.

### Estimates of poverty

The first is our estimate of the number of poor. The Report uses a poverty line of \$370 per person per year. I won't go into the details of how we arrived at this number (they are available from Figure 2.1 on page 27) but will simply note that this is representative of poverty lines found in the poorest countries of the world. Using this standard, the Report estimates that 1.1 billion people in the developing world live in poverty.

Even more worrying than this global number is the fact that poverty is concentrated in certain regions. This is shown in Table 2.1 on page 29. It reveals that poverty is most severe in South Asia and Sub-Saharan Africa where around 50 percent of the population is poor. Other measures of wellbeing confirm the terrible deprivation in these regions. Child mortality in South Asia exceeds 170 deaths per thousand compared with fewer than 10 in Sweden. Life expectancy in Sub-Saharan Africa is just 50 years; in Japan it is almost 80.

### How to reduce poverty

These are staggering numbers. But a careful review of the

last 25 years reveals enormous progress in most parts of the world. It is this review of experience that provides the basis for the Report's key recommendation on how to reduce poverty. This is the second area I want to cover.

Whether the poor are small farmers, urban casual laborers, or landless agricultural workers, they all rely on their labor. So the two-part strategy outlined by Mr. Conable is designed, first, to generate better income-earning opportunities for labor and, second, to improve the capacity of the poor to respond to those opportunities.

Indonesia illustrates the potential of this approach. In less than a generation, Indonesia reduced the share of its population in poverty from almost 60 percent to less than 20 percent. This remarkable achievement and the resulting change in the everyday lives of villagers in Java is documented in Table 3.2 and Box 3.1 on page 41. This, and the experience of other countries, demonstrates that significant progress can be made within acceptable time horizons.

To implement the first part of the strategy, countries like Indonesia have encouraged broad-based growth through incentives for those kinds of agriculture and manufacturing that employ large numbers of poor people, through widespread provision of basic infrastructure (especially in rural Java where most of the poor live), and through dissemination of new technologies to the poor.

Implementing the second part of the strategy requires overcoming the obstacles such as ill health, lack of skills, and



illiteracy that prevent the poor from taking advantage of new income-earning opportunities. Where countries have made adequate provision for social services in their national budgets, and where delivery systems have reached the poor, these obstacles have been overcome. Colombia, for example, managed to reduce child mortality from 135 deaths per thousand to 42 in just 20 years.

Where both parts of the strategy have been implemented, the poor have participated fully in the benefits of economic growth. In fact, not only have they participated in growth, they have contributed to it. On this basis, the Report is able to conclude that stimulating growth and helping the poor are not contradictory objectives.

Millions of poor people can benefit from this strategy. But many others will not. For the old, the sick and disabled, and for those vulnerable to drought, famine, and other disasters, Chapter 6 advocates a system of targeted transfers and safety nets to supplement the basic strategy. Formal social security schemes rarely reach the poor in developing countries but other mechanisms can be effective. For example, public works programs in South Asia have proven successful in preventing famine during periods of drought. Boxes 6.3 and 6.5 on pages 97 and 100 demonstrate that these schemes can also work in Sub-Saharan Africa.

### Structural adjustment

The third area that I want to touch on is how the poor fared during the so-called "lost decade" of the 1980s. Two points emerge from examination of the evidence in Chapter 7.

First, for most of the world's poor living standards continued to improve during the 1980s. This is because most of the poor are located in Asia, and this region enjoyed sustained growth. But in Latin America, Sub-Saharan Africa, and Eastern Europe, poverty increased. Box 7.3 on page 108 analyses the East European experience.

And second, the policy reforms being undertaken as part of adjustment programs are designed to move economies in a direction consistent with the two-part strategy. Decisive action on key variables such as the exchange rate and the fiscal deficit as in Cost Rica, and maintenance of social services for the poor as in Chile are the most effective means of regaining poverty-reducing growth and protecting the poor in the short run.

#### Aid

The fourth area that I want to draw your attention to is the role of aid discussed in Chapter 8. Based on a review of experience, including that of the World Bank (on which you might like to look at Boxes 8.5 and 8.6 on pages 131 and 132), the Report concludes that aid flows should be linked to a country's observed commitment to the reduction of poverty. Thus, large flows of aid should be reserved for those countries that are pursuing policies consistent with the reduction of poverty. It is in these circumstances that aid can contribute most to the reduction of poverty.

But what about countries that are not committed to the reduction of poverty? These, of course, are precisely the

countries where poverty is going to increase. But they are also the countries where aid is likely to be least effective. The Report's proposed solution to this difficult problem is to target limited amounts of aid to the most vulnerable people in such countries.

Where countries are seriously committed to the reduction of poverty, the Report calls for increased flows of assistance. It argues that greater flows could be mobilized at little cost to the industrialized countries. Cutting their military expenditures by just 10 percent could pay for a doubling of aid. Increasing aid to achieve the widely accepted international target of 0.7 percent of GNP would allow concessional assistance flows to increase from their 1988 level of \$51 billion to \$144 billion by the year 2000. Box 8.4 on page 129 shows that many countries remain well below this target.

#### Prospects for the poor

The final area that I want to mention is Chapter 9's assessment of what will happen to the poor over the course of the next decade. The starting point is the projections of GDP growth set out in Table 1.3 on page 16. This shows moderate growth in the industrial countries of 3 percent a year and fairly strong growth of 5.1 percent in the developing countries.

But, as in the 1980s, performance is projected to vary tremendously among regions. Asia will continue to grow rapidly. But Sub-Saharan Africa, burdened by a very rapid rate of population growth, could see income per capita increase at only 0.5 percent

a year from now until 2000.

Table 9.2 on page 139 shows how these differences in performance affect the regional distribution of poverty. The number of poor is projected to fall by more than 200 million in East Asia by the year 2000. If this happens, poverty would be virtually eliminated from the region. South Asia is also projected to see a dramatic decline. But slow GDP growth combined with rapid population growth is very likely to lead to increasing numbers of poor in Sub-Saharan Africa. As a result, Africa could double its share of the world's poor from 16 percent in 1985 to 32 percent by the end of the century.

To avoid this unacceptable prospect the Report adopts as its goal for the year 2000 preventing the number of poor in Africa from increasing while reducing the number elsewhere by 400 million. This is an ambitious but not impossible goal for the end of the century. Even if this is achieved, however, 700 million people would still be living in abject poverty at the start of the 21st century.

Thank you.

QSA (CULLEN)

## WDR QUESTIONS AND ANSWERS

1. **What is new in this WDR?**

Although the ideas have been discussed before, this is the first time they have been brought together as a coherent strategy. It's also the first time we have been able to compile convincing empirical evidence that the two part strategy works.

2. **How does WDR differ from UNDP's Human Development Report (HDR)?**

Although HDR does not explicitly talk about a two-part strategy, I think its message is similar. Like WDR, it acknowledges the importance of growth to meet "essential human needs" and it points out that some countries have had growth without making adequate provision for social services.

3. **Will the World Bank adopt the Human Development Index (HDI) as part of its monitoring activities?**

The Human Development Index (HDI) is an interesting measure but by combining three indexes -- life expectancy, literacy and income -- important information can be obscured. For example Brazil has done well in increasing GDP but not in providing social services; the reverse is true for Sri Lanka, but they both have the same score on the HDI. We monitor all three indices separately which is a more useful approach in determining where to target our operations.

4. **Wouldn't the HDI be a better measure than GNP per capita for determining IDA eligibility?**

There are two issues here: eligibility and allocation. In determining eligibility for IDA resources, GNP per capita -- a measure of a country's own resources -- is a practical index. For allocating resources to eligible countries, however, the Bank must be sure they will be used effectively. This is assessed by looking at many aspects of country performance, including progress on improving social indicators and commitment to poverty alleviation as advocated in the WDR.

5. **What are the implications of WDR for Bank operations?**

The report argues that all development activities affect the poor either directly or indirectly. Thus it suggests that in addition to the periodic studies of poverty we have always undertaken, poverty analysis should become an integral part of routine economic reporting. This should provide a better base to prepare assistance strategies and keep poverty concerns in the forefront of all Bank operations.

6. **Projections of the number of poor are greater in HDR than in WDR. Why?**

The WDR defines as poor those with an income below \$370 per year. It's projections are based on existing income distribution; GDP growth rates and population growth rates; and changes in the distribution of income based on historical experience. Since HDR does not indicate how it defines poverty nor the assumptions that underlie its projections, it's not possible to explain the difference in projections.

7. WDR frequently points to Indonesia's success in reducing poverty. Wasn't Indonesia able to do this through oil revenues?

Although Indonesia's oil resources have helped its economic growth, other countries that found oil have been less successful in alleviating poverty -- Nigeria is an example. It's also important to remember that Indonesia's sound policies have enabled it to sustain progress in poverty reduction despite the falling oil prices of the 1980s.

8. Can the Brady Plan help developing countries overcome their debt problems?

The Brady Plan can help remove constraints to growth and creditworthiness. Some countries, Mexico is a good example, have already negotiated significant debt relief and are showing signs of recovery. But there are limitations. Some debtor countries lack the credible stabilization and adjustment programs necessary as a basis for negotiating debt relief. This is largely a political problem. They are still seeking a stable political environment before they feel able to commit to these economic reforms. The second limitation is that the financial resources currently committed to the program may be inadequate depending on the number of countries that seek debt relief and the financial requirements they have. Greater flexibility on the part of commercial banks may be necessary as well as more financial backing from the international community.

9. What major changes to the world trading system can be expected from the Uruguay Round?

The Uruguay Round presents a unique opportunity to establish more open and mutually beneficial trade relations between industrial and developing countries and between developing countries. More developing countries are involved in negotiations than ever before; and more merchandise and service categories are covered than ever before. Although several areas of disagreement remain, significant progress is likely. The most important areas for the developing countries are agricultural products and textiles, the two areas that account for a large proportion of low-income developing country exports.

10. What are the causes of regional differences in economic performance in the 1980s?

Chapter 1 points out that both sub-Saharan Africa and Latin America experienced a decline in real standards of living whereas other regions experienced real growth. The pattern is not across the board -- there were some successful countries in both regions and there have been poor performers outside of these regions.

Latin America suffered from prolonged debt overhang and difficulties in adopting structural reforms that would encourage domestic investment and growth of the traded sector. These, compounded by large fiscal deficits, high inflation, and political instability have further undermined confidence in the region and provoked capital flight.

In sub-Saharan Africa a downward cycle of low savings and investment, declining export performance, deteriorating physical infrastructure coupled with severe distortions in the domestic economies has been deepened by poor governance and regional conflicts.

The common denominators of both regions are combinations of the lack of political will, economic mismanagement, and inadequate resources resulting in negative growth.

11. How can this trend be reversed?

It will require efforts from national governments and the international community. In sub-Saharan Africa there is a clear need for additional international assistance -- foreign aid, debt relief, and technological assistance. But this must be in conjunction with sound economic frameworks conducive to restoring growth and supporting social sector investments that will reach the poor. In Latin America, where levels of industrial and infrastructural development are much stronger, the potential for sustainable growth depends on the capacity to stabilize domestic economies and undertake credible adjustment programs.

12. What is the outlook for Eastern Europe?

Although the tremendous changes they have undergone will be disruptive to these countries' national growth in the short run, in the long run they will set the stage for strong gains in productivity and output. As the economies adjust to more market-oriented systems, productive resources will need to be reallocated between and within sectors. Workers previously dependent on the state for jobs, housing, and subsidized goods will be sharply affected although gains in efficiency and expanded market ties to Europe and expected to more than make up for these losses. In the meantime, it will be important for governments to provide social safety nets.

13. The report argues that poverty is higher in big families. Is this an argument for population control?

We don't know whether poverty is a cause or an effect of large family size. But we do argue that improving access to family planning is necessary for couples to plan and space births and to improve their standard of living.

14. The report emphasizes economic growth. Are you endorsing a trickle down approach?

The report emphasizes economic growth in which the poor participate. The two-part strategy is aimed at creating income-earning opportunities for the poor while increasing their capabilities. In this way the poor both participate in and contribute to economic growth.

15. The report argues that the key tradeoff is between the poor and the non-poor. How can the tradeoff be minimized?

Although increased social services have to be financed and switching to a greater use of productive labor may change the distribution of income, all this takes place within the context of overall growth. Thus the non-poor do not suffer cuts compared with past incomes, only cuts relative to some hypothetical future income. Moreover, countries such as Korea, Malaysia, and Indonesia show rapid increases in income for all members of society.

16. Doesn't a pro-labor, pro-agricultural policy condemn developing countries to slower growth and discourage industrialization?

No. Strong support for agriculture can go hand-in-hand with rapid overall growth, industrialization and technological change. Thailand and Malaysia are good examples. Kenya and Cameroon favored agriculture and have also made advances in industrial and overall growth.



17. The report does not deal adequately with land reform. Isn't this essential for poverty reduction?

Land reform brings major benefits to the poor and the Bank supports it when a government is prepared to undertake it. But political barriers to land reform exist in many countries; in our experience faltering reforms rarely work. Though desirable, land reform is not necessary as Colombia illustrates.

18. WDR calls for policies that provide employment yet advocates removing minimum wage and job security programs. Why?

These regulations, while well-intentioned, reduce the demand for labor and provide income protection only for the formal sector. Thus they tend to indirectly increase poverty. Excess profits at worker's expense are undesirable but these are best tackled by a competitive market structure.

19. The informal sector is encouraged in the report. But how can governments encourage their growth?

We need to know more about how policies affect the informal sector. In some countries excessive regulations are holding it back, in others it is a shortage of finance or inadequate infrastructure. While the informal sector is important it is essentially demand-driven and cannot be the engine of economic growth.

20. The WDR advocates market interest rates, surely the poor cannot afford to pay them?

Programs intended to help the poor--such as subsidized interest rates or targeting the poor--have had dismal results, both financially and in reaching the poor. The alternative is often no credit or even higher interest rates. The report therefore suggests some market-rate programs successfully used in different countries that may be replicated in others.

21. The Report (Chapter 5) delivers a strong message on the need to expand and improve basic social services to the poor. What does this imply for future World Bank lending to the social sectors?

Social sector lending is expected to grow at a rate of 10% a year in real terms during the period FY90-92. The largest increases are planned for population, health and nutrition, followed by education and water supply/sewerage. (See also answer to question 23 and the attached table on IBRD/IDA for education and PHN.)

22. How can the Bank incorporate in its operations the priority to be given to financing the social sector? As a development institution, what means does it have to influence borrowing governments to reduce their expenditures?

As part of its ongoing dialogue with borrowers, the Bank periodically reviews the public expenditure and investment programs of governments. While the final decision is ultimately that of the government concerned, the Bank attempts to ensure that public expenditure patterns reflect the country's economic priorities. In addition, many SALs and SECALs require the rationalization of government expenditures and the reallocation of these expenditures to priority sectors that most benefit the poor.

23. The report calls for more investment in infrastructure in health and education, especially in the rural areas. However, with the increasing emphasis on adjustment, hasn't the Bank over the years moved away from investment lending?

The Bank's medium-term lending program envisages substantial expansion in lending for the social sectors. The expected average annual lending for education during FY90-93 (\$1,580 million) will represent a 95 percent increase over the average for FY85-89 (\$809 million). This fiscal year, the share of total lending for education to Africa is expected to reach 20 percent (\$339 million) as compared to 9 percent (\$88 million) in FY89.

Similarly, PHN lending is expected to increase from \$550 million in FY89 to \$918 million in FY90. More than half of the PHN projects identified in the lending program for the next three years will be in Africa.

24. What is the Bank doing to increase women's access to social services?

Over the last three years, the Bank has considerably expanded and strengthened its capacity to address women and development issues in its operations. The Women in Development (WID) Division provides operational support to the Regions, and an important aspect of this effort is the preparation of country assessments and action plans covering key sectors that are important to women. Inevitably, recommendations for expanding female access to the social services--particularly to education and PHN--feature prominently in these reports. WID coordinators have been assigned in Regions to help translate the Bank's WID objectives into projects or project components.

Education--the Bank strongly believes that educating women may be the single most effective intervention to enhance the role of women in development. There are now more projects that incorporate particular measures to promote female enrollment and reduce drop-out rates.

Population, Health and Nutrition--the issues of female access to PHN services is addressed in almost all the Bank projects in the sector. (Six out of the eight projects approved in FY88 and ten of the eleven in FY89.) The projects provide family planning assistance, maternal and child care services, and PHN-related training for individual women and women's organizations.

25. The Bank has been criticized by UNICEF and others for undermining the social conditions of the poor during adjustment. What measures is the Bank taking to monitor and address the social costs of adjustment?

The Bank believes strongly that in the long-run orderly adjustment supported by Bank lending is less costly for most of the poor than disorderly adjustment or absence of adjustment. The inevitable short-run costs need to be addressed to protect segments of the population that are affected during the transition period. SAL operations are increasingly being designed with particular emphasis on protecting the poor in the short-run and sustaining the reform in the long run. Structural adjustment moves the economy in a direction consistent with a two part strategy.

26. What is the Bank doing to encourage participation of the private sector in the delivery of social services?

The Bank is increasingly relying on the capabilities of community groups and non-governmental organizations to deliver basic social services to rural areas. The institution is making a special effort to identify new opportunities for operational collaboration with NGOs.

27. Isn't increased targeting just a way in which to cut back public expenditures on social welfare/food security/etc...?

Many of the poor do not benefit from existing public expenditures while many of the rich do. A food subsidy scheme in one country, for example, resulted in a transfer to the poor of only 20 cents out of each dollar. Since some governments are rightly trying to cut down on overall spending, one way in which to do so without hurting the poor is through improved targeting.

28. With populations projected to age considerably in many countries, what is WDR recommending to help the aged?

Not all the aged are poor. It is important to note that we do not want to target the aged per se, but rather the aged poor. In most countries formal social security schemes have not effectively reached the poor, especially in rural areas. One possibility is to target transfers on the basis of need, getting local communities to verify need.

29. Is WDR recommending that all food subsidies be stopped?

Many food subsidy programs could raise and protect the living standards of the poor much more cost effectively through improved targeting. Because it is politically difficult to dismantle benefits to the poor, the WDR also cautions countries against implementing untargeted general food subsidy schemes.

30. Isn't removing food subsidies intrinsically anti-poor?

Food subsidies are usually an inefficient way of effecting transfers to the poor. The report sees much greater promise in employment programs that effect transfers to the poor in a macroeconomic crisis. Where there is strong fiscal action elsewhere, temporary increases may make sense, but this is generally the exception.

31. Aren't public employment schemes simply unproductive "make work" schemes?

The objective of public employment schemes is to transfer income to poor individuals who identify themselves through their willingness to do unskilled work at low wages. However, well designed schemes and carefully chosen projects have also often been quite productive (such as by raising yields on farms which benefit from infrastructural development as well as increasing employment opportunities for the poor). If both outcomes can be achieved the schemes are even more attractive.

32. Weren't the 1980s a "lost decade" for all the world's poor?

Not at all--there appears to have been an acceleration in progress in both India and, at least until the middle of the decade, in China. And much of the rest of Asia did relatively well despite macroeconomic difficulties.

33. Are there example of countries that have both successfully adjusted and protected the poor?

Yes. Indonesia and Malaysia both used effective macroeconomic policies and appropriate shifts in public spending to do this--the bulk of the poor in both countries, especially in rural areas, experienced income growth in periods of effective macroeconomic adjustment. In Costa Rica a sharp

recession was unavoidable, and the poor suffered in the short run, but effective macroeconomic policies and continued support for social services quickly got the economy back onto a poverty-reducing growth path. In Chile there was particularly effective targeted social spending and a well-targeted public employment program that provided some income protection for the poor, despite vigorous fiscal correction. And Ghana has finally achieved rapid growth in incomes through radical reform measures.

34. Poverty can only be tackled if debt is reduced--what's the report's view of that?

We certainly agree that foreign inflows play an important role in supporting adjustment, including moderating costs to the poor--and reducing debt is one way of doing this. For low-income countries, aid is equally important--this is the essential rationale for the Special Program for Africa. But we place greater emphasis on good policy.

35. The WDR argues that additional debt relief measures are needed, especially on behalf of low-income countries. What is the World Bank doing to facilitate this?

In fiscal 1990 the Bank is contributing \$100 million in funds from its annual profits to a debt-reduction facility for IDA-only members countries. It has worked closely with both bilateral official creditors and commercial lenders to structure debt-reduction packages. Its assistance to governments in designing policy reform packages has helped countries qualify for debt relief from both official sources and private creditors.

36. How can debt relief help the poor in poor countries? Won't it simply help the rich who contracted the debt in the first place?

Debt relief should: (1) contribute to a restoration of investment, which will in turn facilitate growth, which--as the Report argues--will in turn help to reduce poverty; (2) restore consumption levels of the poor which have been severely depressed because of the need to repay debt by "squeezing" consumption; and (3) provide funds for the supply of social services to the poor--in many cases cut as a result of austerity efforts. Of course, much will depend on governments using the resources derived from debt relief appropriately and effectively.

37. The WDR is highly critical of foreign aid for development. Why does it advocate more aid if past aid has been so unsuccessful?

The record of aid is mixed--with many success and many failures as well. The WDR argues for substantially increased volume of aid only if two things happen--(a) the recipients of aid demonstrate through their policy actions that they are serious about reducing poverty and use aid more effectively toward this end and (b) the donors of aid also demonstrate that they attribute greater importance to reducing poverty in developing countries instead of supplying aid for many non-developmental purposes. The WDR does not argue for an increase in aid for its own sake or as an end in itself.

38. Is the World Bank itself prepared to adopt the aid strategy outlined in the WDR?

To a considerable extent the World Bank is already pursuing the strategy. For example, about 95 percent of IDA lending goes to the poorest countries. In countries that appear to lack a commitment to poverty reduction, the Bank is increasingly following a strategy of directing limited amounts of aid in a highly targeted fashion toward the poor.

39. The outlook for Africa is bleak. Can more be done? What is the downside if the "most likely" forecast suggests the number of poor people in the region will increase to 265 million by the year 2000?

Clearly more can be done--and more will need to be done--to prevent the number of poor expanding by 85 million, as forecast in the Report. The attack on poverty in Africa must come from several directions. Many countries in the region have been undertaking significant adjustment programs in an effort to improve resource allocation, mobilize assistance and remove constraints to growth. These efforts need to be strengthened and encouraged in other countries through international assistance to support reform efforts and mitigate the burden of debt and falling export prices. However, foreign aid must be made more relevant to African development needs and directed at supporting programs that advance poverty reduction objectives.

IBRD/IDA Lending

I. EDUCATION

	<u>FY89</u>		<u>FY90</u>	
	<u>US \$ million</u>	<u>Percent</u>	<u>US\$ million</u>	<u>Percent</u>
AFRICA	88	9	339	20
ASIA	484	50	903	53
LAC	140	15	245	14
EMENA	<u>251</u>	<u>26</u>	<u>228</u>	<u>13</u>
TOTAL	964	100	1715	100

II. PHN

	<u>FY89</u>		<u>FY90</u>	
	<u>US \$ million</u>	<u>Percent</u>	<u>US\$ million</u>	<u>Percent</u>
AFRICA	81	15	191	21
ASIA	290	53	200	22
LAC	99	14	477	52
EMENA	<u>80</u>	<u>18</u>	<u>45</u>	<u>5</u>
TOTAL	550	100	918	100

Q&A (SQUIRE)

## Questions and answers for WDR press conferences

### General

1. What is new in this WDR?

The ideas in this WDR have been discussed before. What is new is that for the first time they have been put together as a coherent strategy. Moreover, for the first time we have been able to compile convincing empirical evidence that the two-part strategy works.

2. How does this report differ from the Human Development Report?

The Human Development Report does not talk explicitly about a two-part strategy. Nevertheless, its recommendations can be read in that way. Thus, it acknowledges that growth is "absolutely necessary to meet all essential human objectives". It also points out, however, that some countries have had growth without making adequate provision for the social services. This is very consistent with the two-part strategy which says that one needs economic growth to generate income-earning opportunities for the poor and one needs social services to increase their capacity to respond to those opportunities.

3. Will the World Bank adopt the Human Development Index as part



of its monitoring activities?

The World bank will probably not adopt the Index but will continue with current practice which, of course, implies reporting separately on the three component parts of the Human Development Index. This is an important distinction. The key message of the Human Development Report, and a point also made in the WDR, is that countries have performed differently with respect to different indicators. Thus, some countries such as Brazil have done well in increasing GDP but not in providing social services. Others such as Sri Lanka have done well in improving the social indicators such as life expectancy but have had only slow growth in GDP. And yet these clearly different countries--Brazil and Sri Lanka--have the same score for the index. In this sense, the index obscures information that is revealed if the component parts of the index are reported separately.

4. Isn't the Human Development Index a better measure than GNP per capita for deciding IDA eligibility?

It is important to distinguish between eligibility and allocation. Since IDA's objective is to provide resources, GNP per capita, a measure of a country's own resources, is an obvious and sensible index for judging eligibility. But being eligible does not necessarily imply actual transfer of resources. For that to happen, the Bank has to be assured that the funds will be used

effectively. This is assessed by examination of a number of aspects of country performance including progress on improving social indicators. Thus, GNP per capita is used to determine eligibility while other measures are examined to determine the size of the allocation.

5. What are the implications of the Report for Bank operations?

The Report argues that all instruments affect the poor either directly or indirectly. It is important, therefore, to ensure that poverty receives adequate attention in Bank economic work and in formulating country assistance strategies. This suggests several modifications to Bank operations. For example, at present poverty studies are done as independent exercises at discrete intervals depending on the availability of data. These are very important and should be continued. But the WDR argues for analyzing poverty on a regular basis as part of routine economic reporting as well as in special studies. In this way, poverty is integrated much more fully into our regular economic reporting and thus provides a much better base for the preparation of assistance strategies.

6. How can the Bank monitor poverty systematically in the absence of large-scale household surveys?

The WDR suggests the use of intermediate indicators. For example, the WDR shows that changes in the real wage for unskilled

labor are often good indicators of what is happening to the incomes of the poor. Wage rate data can be collected by means of market-based rather than household-based surveys. They can also be collected on a weekly or monthly basis so that very up-to-date data are available for the purpose of monitoring changes in the incomes of the poor during adjustment. The real wage, however, is only one example; the choice of indicator will depend on country characteristics. Other indicators would also be required to monitor progress in providing social services.

7. The UNDP report projects much greater numbers of poor than the WDR. What causes this difference?

I can't answer this question because the UNDP report never presents its definition of poverty nor does it indicate what assumptions underlie the projections. For the WDR, those with incomes less than \$370 a year are counted as poor. The projections are then based on the existing distribution of income, the GDP growth rates described in Chapter 1, the population growth rates as shown in the annex of development indicators, and changes in the distribution of income based on historical experience.

8. The Report does not say much on politics/urban poor/women. Why?

The report is organized mainly by policy instrument so that

it is difficult to have a separate chapter that deals with politics/urban poor/women. Instead this issue is dealt with throughout the report:

For example, the political feasibility of the two-part strategy is discussed in Chapter 3 when the strategy is first introduced. Similarly, the political feasibility of structural adjustment is dealt with in Chapter 7. And so on.

For example, the number of poor is discussed in Chapter 2 where it is shown that most of the poor still reside in rural areas. And where the majority of the poor are found in urban areas, the incidence of poverty is still higher in rural areas. Chapter 4 deals specifically with policies for encouraging growth in urban employment including employment in the informal sector. And Chapter 7 treats explicitly the special problems encountered by the urban poor during adjustment.

For example, women are obviously central to the discussion of family planning and maternal health care in Chapter 5. But the report also examines their role as income earners. Box 4.8 describes the provision of technology to women farmers, Table 4.4 shows the access of women to certain credit schemes, and Box 6.4 discusses their participation in public employment schemes.

9. The Report often mentions Indonesia's success in reducing poverty, but wasn't this just because of its discovery of oil?

That helped. But other countries also found oil, such as

Nigeria, and were less successful in channeling those resources into a pattern of growth beneficial to the poor. Indonesia has also been able to sustain its progress in poverty reduction in spite of rapidly falling oil prices in the 1980s. That requires good policies.

A. Possible answers to deflect off-the-wall questions

(for one-off questions)

- That's a good question, but I'm afraid it doesn't really have much to do with the report and I'm not well-equipped to answer it.

- That's an interesting question, but it's really about general Bank policy/practice and not this report. Perhaps my colleague would be in a position to answer?

(or if we think we have something to say)

- I'll only give a summary answer to that since it's not really to do with this report, but, in my view/the general Bank experience is.....

(or for a barrage of questions)

- These questions, while quite legitimate, don't have much to do with the relationship between economic policy and poverty. I suggest we just spend five more minutes on this/I take one more question... on debt reduction/the Bank's support for big dams... and then confine the questions to the analysis of this report.

## Chapter 1

1. What can the Brady Plan accomplish? Where does it leave the Debt Crisis in the 1990s?

The Brady Plan has provided an important step towards removing the constraint which debt poses for growth and creditworthiness of some developing countries. The framework that underlies the Plan is based on debt relief negotiated between the debtor countries, creditor banks, governments, and multilateral institutions, and rests critically on the presence of a viable macroeconomic stabilization and structural adjustment program in the debtor countries. Some countries have already negotiated for significant debt relief and are showing signs of recovery (Mexico is the most advanced of these).

The limitations of the Brady Plan come from two main sources; the absence of credible macroeconomic stabilization and adjustment plans in the debtor countries, and possibly with the adequacy of financial resources currently committed to the program. The first of these problems is to a large extent political. Several of the severely indebted countries are still seeking a stable political environment in which credible commitment to economic reform can be undertaken and used as a basis for negotiating debt relief. The second problem, of financial adequacy, will depend on the number of countries seeking debt relief under the plan and the cumulative financial requirements of these programs. More international

financial backing and greater flexibility on the part of commercial banks may be necessary.

2. What major changes to the world trading system can be expected from the Uruguay Round of the GATT? (also a ch.8 question)

The Uruguay round of the GATT presents a unique opportunity to establish more open and mutually beneficial trade relations between industrial and developing countries, as well as between developing countries. More developing countries are seriously involved in the negotiation process than ever before and the product coverage of the negotiations covers many merchandise and service categories that have been excluded in the past. Several areas of disagreement are still in the process of being resolved, but significant progress is likely in several areas. The most important among these for developing countries will likely be in the area of agricultural products and in textiles, previously regulated under the Multi-Fibre Arrangement. These two areas cover a large proportion of low-income developing country exports.

3. What are main causes of 'divergence' in the world economy?

The divergent trends noted in the title of chapter 1 refer to the sharp differences between performance observed in different regions of the world during the 1980s. Both Sub-Saharan Africa and

Latin America experienced a decline in their real standards of living on average whereas other major regions experienced real growth. This pattern is not monolithic--there were of course more successful countries in both regions and there have been poor performers outside of these regions. However, within these regions the causes of decline reveal important similarities. In Latin America the main constraints to growth have been the prolonged problem of debt overhang and the difficulty of adopting structural reforms that encourage strengthening of domestic investment and growth of the traded sector. Problems have been compounded by large fiscal deficits, high inflation, and political instability further undermining confidence in the regional economies and provoking capital flight. In Sub-Saharan Africa the downward cycle of low savings and investment levels, declining export performance, deteriorating physical infrastructure, coupled with severe distortions in the domestic economies has been deepened by poor governance and prolonged regional conflicts. In both these regions it is the combination of political will, economic management, and the adequacy of resources that has resulted in negative growth.

4. What will stop it from continuing? Why not in the 1990s?

Reversing the pattern of the 1980s for these countries will not be easy. It will require the coordinated efforts of both domestic governments and the international community. In Sub-



Saharan Africa where the most pressing problems are found there is a clear need for additional international assistance through foreign aid, debt relief, and technological assistance. However, additional resources will not achieve significant or lasting improvement unless they are efficiently utilized and accompanied by a sound economic framework for restoring growth and supporting social sector investment that will reach the poor. In Latin America the levels of industrial and infrastructural development are much stronger. The potential for returning to a sustainable growth path depends particularly on the political capacity to stabilize the domestic economy and undertake credible adjustment programs supported by the international community. The forecast for growth in both regions (4.2% in Latin America and 3.7% in Sub-Saharan Africa) over the next decade is based on the assumption that efforts at stabilization and adjustment will be effective, and that the international economic environment will be broadly favorable for growth in these regions. If these improvements fail, due for example to continued regional conflicts in Sub-Saharan Africa, or weak demand and weak commodity prices in the world economy, then a perpetuation of negative growth and impoverishment is possible.

##### 5. What is the outlook for Eastern European development?

1989 and 1990 have seen tremendous changes in the region which

in the short run will prove very disruptive to national growth but in the long run should set the stage for strong gains in productivity and output. As these formerly socialist economies adjust to more market-oriented systems a substantial reallocation of productive resources between and within sectors of the economy will be needed. Many workers who had depended on the state for jobs, housing and subsidized goods will be sharply affected as the role of the state is reduced and subsidies are removed. Over time the gains in efficiency and expanded market ties to the rest of Europe are expected to more than make up for these losses. The role of the state to provide against dislocation of the workforce and social hardships will be very important over the next few years.

6. Will the demand for finances in Eastern Europe divert resources away from other developing countries?

This is a legitimate concern to the extent that resources provided to Eastern Europe are being taken away from previously approved funds for foreign assistance elsewhere. This is clearly not the case for some of the resources being directed to the region. The establishment and funding of the European Bank for Reconstruction and Development is being done with additional resources pledged by shareholding governments and not out of existing allocations to other multilateral institutions. However, it remains unclear whether bilateral aid flows will be redirected.

Every effort should be made to encourage governments to approve additional resources for assistance to Eastern Europe rather than divert them from other equally deserving regions.

7. How realistic are the growth projections for the 1990s? What are the major risks in the outlook presented in the WDR?

The growth forecasts presented in the WDR incorporate the macroeconomic information and projections made for over ninety developing countries by the World Bank. Expected developments in industrial country growth, world prices, and world trade performance are fully incorporated to make consistent medium-term forecasts of the 'most probable' economic performance over the next decade. Of course these projections are not certain, and it is possible that unforeseen developments will significantly improve the outlook for developing countries. There are also major risks faced by developing countries that cannot be ignored.

The downside forecast that is presented in Chapter 1 discusses three particular possibilities; poorer than expected growth performance in industrial countries with a contraction in demand for developing country exports, a continued decline in real commodity prices as experienced in the 1980s, and prolonged high real interest rates in world financial markets. In the event that these developments occurred in 'plausible' magnitudes, growth in the developing world would be reduced by between 0.5 and 1 percent

per year over the decade. This outcome would be the most difficult for Sub-Saharan Africa to sustain because of already low consumption levels and barely positive per capita growth forecast. However, this is not the 'most probable' outcome.

8. What impact will the single European market--Europe 1992--have on developing country prospects?

Considerable uncertainty surrounds the issue of what the net effect of integrating the European market will be on developing and other industrial countries. To a large extent it will depend on the types of external trade restrictions are adopted. To the extent that the single European market increases internal efficiency and growth this should be 'trade-creating', expanding European demand for imports from developing countries. However, 'trade-diversion' will also occur if European demand is switched to internal suppliers that were previously less competitive. In general, developing country industries that currently face competition from European suppliers in the European market are likely to experience more trade diversion than trade creation.

## Chapter 2

### 1. Isn't poverty all just relative?

In time, we may worry about relative poverty in developing countries but for now, while there are still more than one billion people living at unacceptable absolute levels, we must first be concerned about them.

### 2. People are all different and poverty has many facets. Can you really count the number of poor?

The Report argues that income poverty estimates should be supplemented with various social indicators to deal with the fact that poverty is multidimensional. But we only have reasonably reliable distributions of income and expenditure. Given all this information we can ask how many people have income or expenditure less than what is considered to be the minimum to escape poverty in the poorest countries of the world.

### 3. The rural poor often have more access to cheaper foods than the urban poor, and produce for their own consumption. Is rural poverty really worse than urban poverty or is this result due to measurement problems?

There are many difficult measurement problems. However, the

household surveys on which we have based this assessment include the value of consumption from own production, and the poverty estimates control for urban/rural price differentials. In terms of non income poverty, rural households also consistently exhibit worse social indicators (IMRs, CMRs, malnutrition, literacy, life expectancy) than urban ones. The incidence of malnutrition in Peru's rural Sierra is 5 times higher than in Lima, the rate of infant mortality in India is twice as high in rural than in urban areas (105/57).

4. Aren't female headed households among the poorest households?

It is true that female headed households are often over-represented among poor households, particularly in SSA and LAC. In Brazil, they account for 10% of all households, and 15% of poor households.

However, the key variables are lack of an extra able bodied adult and the presence of children to care for rather than whether the head is female or not.

5. The Report says that poverty is higher in big families. Doesn't this mean that we need more population control?

The relation between family size and poverty is complex. We do not know whether poverty is the cause or effect of a large family. This is debated. But the report does take the view that

providing improved access to family planning is necessary to enable households to plan and space births and so improve their standard of living.

6. Chapter 2 emphasizes the relationship between poverty and landlessness, and yet the Report is wishy washy on the question of land reform.

The importance of land to many of the rural poor in the world is undeniable. The Report argues that land reform should be strongly supported. However, it sees political constraints as a main barrier to successful major land redistributions in many countries. It further argues that poverty can be reduced even in the absence of land reform and that its absence should not be an excuse for avoiding action on other fronts. In particular, the Report suggests that an alternative, and possibly more feasible, way of increasing the assets of the poor is to invest in their human capital.

7. Why did the Report choose a poverty line of \$370 per capita?

Estimating a poverty line is extremely difficult and involves some arbitrariness. The fundamental notion of a level of income that is required to maintain physical health is clear enough in principle but operationalizing this concept is problematical. That is why the Report uses a range rather than a single line, the range

being chosen to embrace poverty lines that have been used in a number of low-income countries.

8. How were you able to estimate the number of poor in Africa where data are just not available?

We have data for only a few countries in Africa. For the rest we identified indicators that are generally very closely related to poverty and which are available even in Africa. The indicators included variables such as life expectancy. It is true, therefore, that our estimates for Africa are much less firm than for the other countries.



### Chapter 3

1. The Report emphasizes economic growth. Are you endorsing a trickle down approach?

The Report does emphasize economic growth but it is growth in which the poor participate. The first part of the two-part strategy is designed to create income-earning opportunities for the poor while the second part increases their capacity to respond. In this way, the poor not only participate in economic growth they contribute to it.

2. The Report encourages the use of the poor's labor. Isn't this simply condemning the poor to lives of hard, unproductive work? How will this help countries to modernize?

The two-part strategy is designed to provide productive opportunities for the poor to use their labor. It is not clear to me how else one can increase their incomes on a sustained basis. At the same time, the strategy involves heavy investment in their human capital. This will allow them to become more productive workers in the future and to move up the technological ladder. We've seen this happen in Korea, we're seeing it in Thailand, and its beginning in Indonesia.

3. You've said that the poor have participated in economic growth,

but what about the very poorest? Have they been left behind?

The answer is no. For the eleven countries with reliable data the poorest 10 percent of the population enjoyed bigger increases in income than the average citizen in nine of the countries. In the other two countries the inequality of income worsened. Even so the poorest 10 percent in Brazil still enjoyed an increase in income. Only in Costa Rica can we find evidence of a slight decline.

4. The Report argues that the key tradeoff is that between the poor and the non-poor? What can be done to minimize this tradeoff?

The strategy proposed in the WDR is designed with this tradeoff in mind. It does not eliminate the tradeoff especially in the short run. Increased spending on social services has to be financed. And switching to a pattern of growth that encourages the productive use of labor may also change the distribution of income. The key point in the strategy, however, is that all of this is being done within the context of overall growth. The non-poor do not suffer cuts compared with past incomes. They suffer cuts relative to some hypothetical future income. Moreover, the experience of countries such as Korea, Malaysia, and Indonesia points to rapid increases in income for all members of society.

5. The UNDP Report shows that some countries have achieved

considerable progress on social indicators at low levels of income and with low growth rates. Does this undermine the case for economic growth?

The same point is made in the WDR. Sri Lanka, for example, has extraordinarily good social indicators for a low-income country. This does not, however, undermine the case for growth. The question that countries like Sri Lanka have to confront is why has this investment in human capital not been translated into more economic growth in general and increases in the incomes of the poor in particular. The answer is that Sri Lanka has only succeeded on one part of the strategy--it has increased the capacity of the poor to respond to economic opportunities without providing the economic opportunities in the first place. Economic growth is required.

## Chapter 4

1. Doesn't a pro-labor/pro-agriculture policy condemn developing countries to slower growth and lack of industrialization?

It is likely to mean a different, less capital-intensive pattern of industrialization, but countries such as Thailand and Malaysia clearly show that strong support for agriculture can go hand in hand with rapid overall growth, industrialization and technological change. Even within Africa, countries that have favored agriculture, such as Kenya and Cameroon, have also done better in terms of industrial and overall growth.

2. Your report is all about getting the prices right and not at all about involving the poor in the growth process.

Not at all--we do consider the incentive structure be critical, but place equal emphasis on public interventions in infrastructure, extension services and social services and in designing such public interventions in a manner that takes account of the poor's conditions and involves them in decision-making--see box 4.8 for an example from Bihar.

3. Your report fails to deal adequately with land reform--isn't this essential for poverty reduction?

We fully agree that land reform can bring major benefits to the poor (eg Korea Japan PRC) and the Bank should support it (see box 4.5) when a government is prepared to undertake it. We are only pessimistic on the political realism of radical reform in most cases--and our review of faltering reforms show they rarely work. And while desirable it is not necessary for poverty reduction as Colombia or even Brazil show.

4. The report argues for pro-labor policies--how can it advocate removing protection for workers such as minimum wage or job security regulations?

Such regulations, while well-intentioned--served to reduce labor demand, thus providing some income protection for formal sector workers at the cost of reduced labor demand (e.g. India and Zimbabwe)--they thus tend to indirectly increase poverty. Excess profits are undesirable, but these can best be tackled by a competitive market structure.

5. Devoting two-and-a-half pages to the environment (71-73) completely fails to do justice to the environment-poverty nexus.

We certainly agree on the importance of the environment and of some of the links with poverty--as discussed in these page. There are some valuable lessons from particular cases--box 4.10 on the Loess plateau of China describes one, but it is too early to

draw as general lessons as we felt could be done in some of the other areas of the report.

6. Why not pursue a simple pro-growth policy as in Brazil?

Because the pattern of growth is important--as shown in chapter 3 poverty reduction would be have been greater in Brazil if it had experienced the reduction in inequality that occurred in Malaysia or Colombia. And while we didn't go as far as this in the report, I would argue that Brazil could have achieved as good or better growth performance in the 1960-90 period if it had less of an anti-labor bias.

7. The report argues that the informal sector is important, but how can a government get it going?

We still know much less about how policy affects the informal sector than, say, smallholder agriculture--in some countries excessive regulations are holding it back, in others shortage of finance or inadequate infrastructure. All of these have policy implications, but we need to know more. And while important, we believe its essentially demand-driven character means that it cannot be the engine of growth of the economy.

8. The poor simply cannot afford to pay market interest rates--how can the report advocate this?

The conclusion is based on examination of two kinds of schemes--those involving subsidized rates, often intended for the poor, and selected schemes that were specifically designed to reach the poor, but with little or no subsidies (except perhaps for startup costs). The former have a dismal record--both in reaching the poor and financial results--while the latter have promising results. And we also found that the alternative for the poor is characteristically either no credit or even higher interest rates. There is a diverse range of schemes (table 4.3) and there may be difficulties in replicating them, but there is clear potential for success.

## Chapter 5

1. The chapter delivers a strong message on the need to expand and improve basic social services to the poor. What does this imply for future World Bank lending to the social sectors?

Under the Bank's current medium-term lending program, social sector lending is expected to grow at a rate of 10% per year in real terms during the period FY90-92. Within the social sectors, the largest increases are planned for population, health and nutrition, followed by education and water supply/sewerage. (Ref. FY90 Budget Document). (See also answer to question 4 and the attached table on IBRD/IDA lending for education and PHN.)

2. The chapter rightfully states that in many cases more government spending on the social services, especially at the cost of military expenditures, would be justified. How can the Bank operationalize the priority to be given to financing the social sectors? As a development institution, what means does the Bank have to influence governments to reduce their military expenditure?

As part of its ongoing dialogue with borrowers, the Bank periodically reviews the public expenditure and investment programs of governments. While the final decision is ultimately that of the governments concerned, the Bank attempts to ensure that public expenditure patterns of borrowers reflect the country's economic



priorities. In addition, many SALs and SECALs require the rationalization of government expenditures and the reallocation of these expenditures to priority sectors that most benefit the poor.

3. The report elaborates on how the demand for health and education services by the poor is price sensitive and argues strongly for subsidizing public provision of social services for the poor. Does this imply a change in the Bank's stance on cost recovery?

In general the Bank encourages cost recovery to ensure the financial viability of the projects it finances, including those in the social sectors. Where the poor are unable to pay the full costs of social services, we argue for subsidies. That does not imply, however, that social services should be subsidized across the board. Rather, we call for improved targeting of government expenditures to the poor, together with cost recovery for those who can afford it.

4. The report calls for more investment in physical infrastructure in health and education, especially in the rural areas. However, with the increasing emphasis on adjustment, the Bank has over the years moved away from investment lending. For instance, the World Bank Annual Report shows that in FY89 alone lending for the education sector in Sub-Saharan African countries decreased by 50 percent over the previous fiscal year, whereas non-project lending

increased by 67 percent. (See The World Bank Annual Report 1989...Table 6-2). This occurred in the region where the challenge to expand social sector infrastructure is the greatest. Why should we now expect the Bank to practice what it preaches?

The Bank's medium term lending program envisages substantial expansion in lending for the social sectors. The expected average annual lending for education during FY90-93 (\$1580 million) will represent a 95 percent increase over the average for FY85-89 (\$809 million). This fiscal year, the share of total lending for education to Africa is expected to reach 20 percent (\$339 million) as compared to 9 percent (\$88 million) in FY89.

Similarly, PHN lending is expected to increase from \$550 million in FY89 to \$918 million in FY90. More than half of the PHN projects identified in the lending program for the next three years will be in Africa.

5. Various Bank documents draw attention to gender differentiation in access to social services. Yet this chapter does not adequately reflect this concern. What is the Bank doing to increase women's access to social services?

Over the last three years, the Bank has considerably expanded its state of knowledge on women in development and strengthened its capacity to address women and development issues in its operations. The Women in Development (WID) Division in the Population and Human

Resources Department promotes the participation of women in the economy by conducting analytic and sector work on WID related issues, undertaking research and providing operational support to the Regions. An important aspect of this effort is the preparation of WID country assessments and action plans covering key sectors of particular importance to women. Inevitably, recommendations for expanding female access to the social services -- particularly to education and PHN feature prominently in these reports. All country strategy papers, economic and sector reports, and project appraisal documents are reviewed to ensure that the Bank promotes the implementation of these recommendations in its dialogue with member countries and its lending operations. WID coordinators have been assigned in Regions to help operationalize the Bank's WID objectives.

Education. The Bank strongly believes that educating women may be the single most effective intervention to enhance the role of women in development. There are now more projects that incorporate particular measures to promote female enrollment and reduce drop-out rates. Examples include efforts to hire and train more female teachers, provide closer schools, provide boarding facilities for girls, promote teaching materials that reflect the circumstances of women in the community, and promote vocational training for women. The Bank is currently preparing guidelines for the design of cost-effective interventions in the education sector that better address the special constraints faced by women in the sector.

Population, Health and Nutrition. The issues of female access to PHN services is addressed in almost all the Bank projects in the sector. (Six out of the eight projects approved in FY88 and ten of the eleven in FY89.) The projects provide family planning assistance, maternal and child care services, and PHR-related training for individual women and women's organizations.

6. The Bank has been criticized by UNICEF and others for undermining the social conditions of the poor during adjustment. What measures is the Bank taking to monitor and address the social costs of adjustment?

The Bank believes strongly that in the long-run orderly adjustment supported by Bank lending is less costly for most of the poor than disorderly adjustment or absence of adjustment. The inevitable short-run costs need to be addressed to protect segments of the population that are affected during the transition period. Over the past three years there has been considerable expansion of both analytical and operational work on the "social costs of adjustment." SAL operations are increasingly being designed with particular emphasis on protecting the poor in the short-run and sustaining the reform in the long run. For instance, almost all SAL operations include specific measures to assist laid-off public employees with job retraining and self-employment initiatives and targeted social sector interventions to help vulnerable groups such as women and children. Social costs of adjustment are also being

addressed through self-standing multi-sector operations. The Sub-Saharan African countries are receiving assistance in these areas through the multi-donor supported Social Costs of Adjustment Program (SDA).

The Bank is assisting numerous countries in implementing Living Standard Measurement Surveys (LSMS) to monitor and evaluate the impact of reform policies at the household level. Countries where LSMS has been implemented or is in the field include Bolivia, Jamaica, Côte d'Ivoire, Ghana, Peru, Morocco, and Pakistan. Preliminary discussions are underway in several other countries. In addition, an important element of the SDA program is to assist Sub-Saharan African countries in building a permanent survey capability to monitor social progress.

7. In general the relationship between poverty and population growth has not been adequately addressed in the report. However, chapter 5 does mention that rapid population growth in some regions and aging populations in others add to the burden of delivering social services. What is the Bank's lending strategy for population? Does the Bank make any attempt to address the problem of the aged?

The Bank is committed to increase lending for PHN projects. During FY87-89, lending for PHN accounted for only 8 percent of total lending for social sectors. This percentage is expected to increase to 21 percent during FY90-92. The strategy that the Bank

is recommending to borrowers is that, in the long run, reduction of population is vital to reduce the burden on the delivery of basic social services. Assisting countries to reduce growth in population entails a lending strategy that integrates investments and technical assistance in the areas of family planning, health and nutrition (PHN). The expanded PHN economic and sector work focuses on issues of linkages within PHN and with other human resources subsectors, internal efficiency of PHN interventions, and efficient and cost-effective intervention to deliver PHN services at the periphery. Economic and sector work is also looking at changes in the age structure of the population in many developing countries to anticipate the implication for health care interventions.

8. While the public sector will remain the dominant supplier of social services, the private sector can also play an important role in many developing countries. What is the Bank doing to encourage the participation of the private sector in the delivery of social services?

The Bank is increasingly relying on the capabilities of community groups and nongovernmental organizations to deliver basic social services to rural areas. The institution is making a special effort to identify new opportunities for operational collaboration with NGOs. To assist with this effort, the Bank maintains a database on NGOs with 7000 entries.

## Chapter 6

1. Isn't increased targeting just a way in which to cut back public expenditures on social welfare/food security/etc...?

Many of the poor do not benefit from existing public expenditures while many of the rich do. Since some governments are rightly trying to cut down on overall spending, one way in which to do so without hurting the poor is through improved targeting. And other countries are not trying to cut aggregate expenditures but to reach the poor more effectively with those outlays.

2. With populations projected to age considerably in many countries, what is WDR recommending to help the aged?

Not all the aged are poor. It is important to note that we do not want to target the aged per se, but rather the aged poor. As there will be a greater proportion of aged people in the population it is likely that there will be more aged among the poor also.

In most countries formal social security schemes have not effectively reached the poor. This is especially true in rural areas. One possibility is to target transfers on the basis of need with the help of local communities in verification. One example is found in Kerala State in India. A pension scheme targets agricultural laborers over 60 who have self reported incomes below

a certain level. Local groups help to verify individual claims. Another possibility is to target transfers through health clinics.

3. Is WDR recommending that all food subsidies be stopped?

Many food subsidy programs could raise and protect the living standards of the poor much more cost effectively through improved targeting. Because they are politically very difficult to dismantle once they are in place and an expensive way in which to transfer benefits to the poor, the WDR also cautions countries against implementing untargeted general food subsidy schemes.

4. Aren't public employment schemes simply unproductive "make work" schemes?

The objective of public employment schemes is to transfer income to poor individuals who identify themselves through their willingness to do unskilled work at low wages. However, well designed schemes and carefully chosen projects have also often been quite productive (such as by raising yields on farms which benefit from infrastructural development as well as increasing employment opportunities for the poor). If both outcomes can be achieved the schemes are even more attractive.

5. If public employment schemes are to pay below market wages-- is this not exploiting the poor?



As Box 6.4 shows the poor benefit from public works schemes because the wages that are offered by the schemes are better than those available elsewhere. This is especially true in the agricultural slack season. At the same time, it is very important not to set the wage too high because this will attract the non-poor as well as the poor and will result in an unmanageable fiscal burden.

6. Why are formal social security systems not feasible in developing countries?

Formal social security schemes are feasible in developing countries and many countries have them. These schemes, however, rarely reach the poor. For administrative reasons the schemes are usually run through the work place so they tend to be concentrated on formal sector establishments and the public sector. But this is not where the poor work. In fact, its even possible that existing schemes hurt the poor if they are financed from general budgetary resources which may have come from taxation of the poor.

## Chapter 7

1. Weren't the 1980s a lost decade for all the world's poor?

Not at all--there appears to have been an acceleration in progress in both India and--at least until the middle of the decade in China. And much of the rest of Asia did relatively well despite macroeconomic difficulties. But there were setbacks in Lac, EE and SSA.

2. Adjustment policies such as devaluation, fiscal retrenchment and removing food subsidies are intrinsically anti-poor.

In most cases the countries face a choice of disorderly and orderly adjustment--where there has been a mix of swift action on the fundamentals of macroeconomic policy and measures to cushion declines in private consumption as in (see question 6) the adjustment tended to help the poor.

(Follow ups on the three policy areas)

3. What of devaluation?

This can often be actually pro-poor, especially when smallholder agriculture is important. This is illustrated in the modeling analysis in Box 7.2 and in the experience of Malaysia and Indonesia for example.

4. What of fiscal retrenchment?

Increasing evidence shows that attempts at restructuring--usually in a pro-labor redirection--if unfinanceable fiscal deficits aren't tackled. That's why we emphasize the necessity of fiscal action if the economy is to get back on a poverty-reducing growth path. But, as argued in pp 116 to 120, the pattern of fiscal reform can have a radical influence on the consequences for the poor (eg Chile and Indonesia as good cases).

5. What of food subsidies?

As the analysis of chapter 6 shows food subsidies are usually a quite inefficient way of effecting transfers to the poor. The report would see much greater promise in employment programs in effecting transfers to the poor in a macroeconomic crisis--as in Chile, Peru, Botswana, Ghana and Maharashtra. Where there is a strong fiscal action elsewhere temporary increases may make sense as in Malaysia, but this is generally the exception.

6. Are there example of countries that both successfully adjusted and protected the poor?

Yes. Indonesia and Malaysia both used effective macroeconomic policies and appropriate shifts in public spending to do this--

the bulk of the poor in both countries, especially in rural areas, experienced income growth in periods of effective macroeconomic adjustment. In Costa Rica a sharp recession was unavoidable, and the poor suffered in the short run, but effective macroeconomic policies and continued support for social services quickly got the economy back onto a poverty-reducing growth path. In Chile there was particularly effective targeting of social spending and a well-targeted public employment program that provided some income protection for the poor, despite vigorous fiscal correction. And Ghana has finally achieved rapid growth in incomes through radical reform measures, and has complemented this with an extensive restructuring of public spending to moderate the social costs of adjustment.

7. Poverty can only be tackled if debt is reduced--what's the report's view on that?

We certainly agree that foreign inflow play an important role in supporting adjustment, including moderating costs to the poor--and reducing debt is one way of doing this--as in the Toronto accord and the Brady Plan. For low-income countries aid is equally important--this is the essential rationale for the Special Program for Africa. But, as Peru illustrates, this is no panacea. That's why we place greater emphasis on good policy.

## Chapter 8

1. The WDR argues that additional debt relief measures are needed, especially on behalf of low-income countries. What, if anything is the World Bank doing to facilitate this?

The Bank has used its own resources in debt-reduction packages for Mexico, Venezuela, and other middle-income countries. In fiscal 1990 the Bank is contributing \$100 million in funds from its annual profits to a debt-reduction facility for IDA-only member countries. It has worked closely with both bilateral official creditors and commercial lenders to structure debt-reduction packages. Its assistance to governments in designing policy reform packages has helped countries qualify for debt relief from both official sources and private creditors. But the Bank's unique role in international finance prevents it from simply writing off the debts due it from its developing member countries.

2. How can debt relief help the poor in poor countries? Won't it simply help the rich who contracted the debts in the first place?

Debt relief should: contribute to a restoration of investment, which will in turn facilitate growth, which-- the Report argues-- will in turn help to reduce poverty; help to restore consumption levels of the poor which have been severely depressed because of the need to repay debt by "squeezing"

consumption; provide funds for the supply of social services to the poor-- in many cases cut as a result of austerity efforts. Of course, much will depend on governments using the resources derived from debt relief appropriately and effectively. Obviously, if all they do with the funds obtained from debt relief is to purchase military hardware this will not help the poor.

3. The WDR is highly critical of foreign aid for development. Why does it advocate more aid if past aid has been so unsuccessful?

The record of aid is mixed-- with many successes and many failures as well. The WDR argues for substantially increased volume of aid only if two things happen-- (a) the recipients of aid demonstrate through their policy actions that they are serious about reducing poverty and use aid more effectively toward this end and (b) the donors of aid also demonstrate that they attribute greater importance to reducing poverty in developing countries instead of supplying aid for many non-developmental purposes. The WDR does not argue for an increase in aid for its own sake or as an end in itself.

4. Is the World Bank itself prepared to adopt the aid strategy outlined in the WDR?

To a considerable extent the World Bank is already pursuing the strategy. For example, about 95 percent of IDA lending goes

to the poorest countries of the world. In countries that appear to lack a commitment to poverty reduction, the Bank is increasingly following a strategy of directing limited amounts of aid in a highly targeted fashion toward the poor. In countries judged to be following poverty-reduction strategies, the Bank is pursuing a diversity of lending instruments as outlined in the Report (for example, general budgetary assistance through such programs as the Special Program of Assistance for Sub-Saharan Africa as well as support for "time-slices" of public expenditure program). Moreover, the Bank has recently identified a set of core poverty activities and poverty-related initiatives, on a country-by-country basis, that are expected to account for a substantial volume of Bank lending over the next several years.

5. Regarding trade: won't the beneficiaries of trade liberalization be almost exclusively the middle-income countries with few poor people compared with low-income countries with lots of poor people?

It is true that middle-income countries are likely to be the primary beneficiaries of trade liberalization in the short run-- because they have the diversified production base in place to take relatively immediate advantage of it. But low-income countries also have a lot to gain from trade liberalization. Even in the short run, they would gain from the reduction or elimination of the Multi-Fibre Arrangement. Over the longer term, the gains to low-

income countries from trade liberalization could be even more substantial-- but only if these countries adopt appropriate policies to diversify their exports away from excessive reliance on a few primary commodities.



## Chapter 9

### 1. How were the poverty forecasts done?

Forecasts of both social indicators (under 5 mortality and net primary enrollment) and of the incidence of poverty are provided in Chapter 9.

Social indicators were forecast by examining the long term trends that each region has experienced over the past three decades and extrapolating these over the next decade. These forecasts differ from extrapolation based on short term trends (presented in ch. 5).

The poverty projections represent a much more complex exercise that takes into account six related elements:

- a. forecast income growth,
- b. growth in per capita consumption,
- c. projected trends in population growth for each country,
- d. the benchmark poverty count in 1985,
- e. the distribution of household consumption in 1985, and
- f. changes in distribution of consumption over time.

For several countries the benchmark poverty count and distributional data required use of an econometric model to estimate distribution based on the observed relationship between average incomes, growth, literacy, infant mortality, nutrition and other social indicators to the underlying distribution of income

in a control sample. The forecast of poverty was then based on per capita consumption forecasts while incorporating evidence from historical data (discussed in Chapter 3) on distributional changes over time.

2. What assumptions about government policies have gone into the forecasts?

The basic assumption behind the forecasts is that governments will pursue policies that broadly conform to the recommendations of the Report, ie. that efficient labor-intensive growth strategies based on appropriate market incentives will be implemented alongside provision of social services to the poor, supplemented by transfers where necessary to reach the sick and aged.

This is incorporated into the forecasts through the basic growth forecasts and the distributional changes with growth. In India and China this means maintaining the already broadly favorable distribution of income. In the context of Latin America and Sub-Saharan Africa it implies additional gains in poverty reduction through distributional improvement commensurate with experience of comparator countries.

3. The outlook for Africa is bleak. Can more be done? What is the downside if the 'most likely' forecast suggests poverty will increase to 265 million by 2000?

Clearly more can be done and more will need to be done to prevent the number of poor expanding by 85 million, as forecast in the Report. The attack on poverty in Africa must come from several directions. Many countries in the region have been undertaking significant adjustment programs in an effort to improve resource allocation, mobilize assistance and remove constraints to growth. These efforts need to be strengthened and encouraged in other countries through international assistance to support reform efforts and mitigate the burden of debt and falling export prices. However, foreign aid must be made more relevant to African development needs and directed at supporting programs that advance poverty reduction objectives. It will be possible to boost growth above the 3.7 percent forecast, (and some countries in the region have demonstrated this capacity despite external shocks) provided the adjustment programs are in place and resources are used appropriately to invest in social services, physical infrastructure, technology, and institutional development.



Mr. Conable:

Mr. Cullen thought it would be a good idea for you to have Mr. Qureshi's remarks in case you are asked questions about MAQ's statement during your Press Conference on WDR.

Jennifer



# World Bank

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**THURSDAY, JULY 5, 1990**

BANK NEWS RELEASE NO. 90/S37

Contact: Bill Brannigan  
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## FY'90 OPERATIONAL RESULTS

LONDON, July 5, 1990 -- In the fiscal year which ended June 30, 1990, new commitments from both IBRD (International Bank for Reconstruction and Development) and IDA (International Development Association) totaled \$20.7 billion, compared with a combined total in FY'89 of \$21.3 billion, the World Bank announced here today.

The amount of IBRD loans for FY'90 was \$15.2 billion while the total amount of credits from IDA for the past fiscal year was SDR 4.2 billion (\$5.5 billion equivalent). Respective totals in FY'89 were \$16.4 billion and \$4.9 billion.

Preliminary figures for disbursements indicate a total of \$14.0 billion in IBRD gross disbursements in FY'90, compared with \$11.3 billion the previous fiscal year and a total of IBRD net disbursements of \$5.8 billion, up significantly from a comparable figure of \$1.9 billion in FY'89. IDA gross disbursements in the fiscal year just ended were \$3.9 billion, up from \$3.6 billion a year earlier, while IDA net disbursements were \$3.7 billion, compared with \$3.4 billion in the previous fiscal year.

Adjustment program lending accounted for about 19 percent of the IBRD total for FY'90, compared with 32 percent of IBRD commitments in FY'89. Of the IDA total in FY'90, adjustment lending accounted for about 24 percent, as it did in FY'89.

Combined IBRD and IDA lending to Africa in FY'90 was \$3.93 billion, compared with \$3.92 billion in FY'89. The FY'90 combined total for Asia was \$6.40 billion, compared with \$7.83 billion a year earlier. New commitments from IBRD and IDA to Europe, Middle East and North Africa totalled \$4.41 billion in FY'90, compared with \$3.77 billion the previous year. Latin America and The Caribbean obtained \$5.96 billion in new IBRD and IDA commitments in the fiscal year just ended, compared with \$5.84 billion in FY'89.

HOLD FOR RELEASE

At 1700 HOURS in LONDON  
NOON in WASHINGTON  
THURSDAY, JULY 5, 1990

*PRESS CONFERENCE*

Moeen A. Qureshi  
Senior Vice President, Operations  
*The World Bank*

July 5, 1990

The fiscal year that just ended has seen the World Bank make considerable progress towards meeting its objectives in the face of new challenges and opportunities in these very rapidly changing times. Of historic importance has been the launching of our program in support of the needs of the Eastern European countries. Of equal significance have been the efforts to make headway in the implementation of the debt strategy, the protection of the environment, private sector development and financial sector reform, poverty alleviation, and human resource development.

Let me start with Eastern Europe. During the past year, we have all witnessed the extraordinary changes that have swept through that part of the world and the complex and courageous agenda for economic reform that many of these countries have adopted or are in the process of adopting.

We have put together the necessary intellectual and operational resources to do our part in supporting these efforts over the next few years, most importantly in the areas of lending, technical assistance and aid coordination. We have initiated lending to Poland for a total of some \$780 million, this fiscal year, including projects in the areas of export assistance,

energy restructuring and environmental management, and have continued our programs in Hungary, where a first Structural Adjustment Loan was approved by our Board this year. We will continue to build on the major start we have achieved in this area. In addition to expanding our activities in Poland and Hungary, we are preparing support programs for Bulgaria and Czechoslovakia, both of which are expected to become Bank members in the coming year, and are ready to resume our activities in Romania. In relation to these plans, I want to take this opportunity to make perfectly clear that these endeavors to respond to the momentous developments in Eastern Europe have not been and will not be undertaken at the expense of our efforts to assist any other region or country among our clients.

Our development strategy in Eastern Europe and, indeed, in all our developing member countries, has been marked during the past year by our continuing commitment to support our borrowers in their increasing efforts to promote market forces and free private initiatives. In this connection our focus has been directed at three areas which are vital to efficient private sector development. First, we support the legal and regulatory reforms required to create an undistorted business environment; such assistance was provided to 55 countries last year alone. Our private sector promotion project in Guinea, for example, will help the Government eliminate red tape, streamline procedures such as customs clearance, and protect property rights, and generally help create an enabling environment for a dynamic and competitive business sector. A second requirement for private sector development is access to finance, which in turn demands a financial system which mobilizes and allocates resources efficiently.



We are actively supporting financial sector reform combined with clear rules for lending through financial intermediaries to ensure that Bank financial operations support market-oriented financial systems. In countries as diverse as Kenya, Mexico, Pakistan and the Philippines we are supporting comprehensive programs designed to strengthen financial institutions, develop capital markets, liberalize interest rates and improve financial regulations. The third crucial area is our support to help governments reorient public expenditures towards more productive activities which complement rather than compete with private investment, including the design and implementation of divestiture strategies that turn loss-making enterprises into productive economic assets. Since 1983, the Bank has assisted some 40 countries in privatizing state enterprises. A Public Enterprise Reform project in Venezuela, for example, aims at reducing the dominance of the public sector in the economy, increasing the efficiency of public enterprises, and improving the competitive environment for the private sector. An operation in Nigeria supports their effort to privatize state enterprises through the stock market.

Increasingly we are helping countries establish all three prerequisites for private sector development simultaneously, through comprehensive programs. A noteworthy example is Mexico where a series of operations in the last few years have supported (i) deregulation in industry, transport and finance; (ii) public enterprise reform including divestiture as well as measures to improve the operations of firms which remain public; and (iii) financial sector reform. Similarly, in Indonesia a Private Sector Development Adjustment Loan approved last year and two earlier Trade Policy Adjustment loans supported efforts to

increase competition, remove barriers to entry, restructure banks and develop capital markets, and improve the legal framework for private sector development.

A complementing factor in our efforts to channel resources to the private sector lies in the role of the Bank in catalyzing flows from other sources. Last year, for instance, our Board approved a new cofinancing program, the expanded cofinancing operations (ECO) program, designed to adapt the Bank commercial cofinancing program to changing markets by providing flexible support to borrowers interested in tapping a broad variety of financial schemes. We expect to see the first results of this new approach very early in the new fiscal year.

Fiscal year 1990 also marked the first full year during which Bank support of debt and debt service reduction in the severely indebted middle income countries was put to the test. I am happy to tell you that there is good reason to take satisfaction in the results achieved.

Apart from our role in facilitating debt-reduction agreements in Mexico, Philippines, Costa Rica and Venezuela, we have had a direct participation in each of these agreements. In the case of Mexico, \$750 million have been set aside from adjustment operations for the purpose of principal reduction, and a \$1.26 billion loan for debt-service support was approved last January. In the Philippines, a \$200 million loan was approved to help the country buy back a portion of its debt. In Venezuela, \$350 million have been set aside from adjustment operations for the purposes of principal reduction. Finally, in Costa Rica, the Bank granted a waiver of negative-pledge clause for the interest

collateral. In sum, the Bank's financial assistance for debt and debt-service reduction amounts thus far to some \$2.6 billion. As for the near future, we feel quite confident about prospects for additional assistance for the Philippines and Venezuela, as well for new packages for such countries as Morocco, Brazil and Poland. Let me conclude this point by emphasizing that Bank support for debt and debt service reduction is a logical extension of its efforts to assist its severely indebted member countries sustain medium-term development programs and that, in this context, debt reduction is a means and not an end in itself.

Let me now comment briefly on our achievements during this past year with respect to some of the most significant aspects of the strategic priorities set some time ago by Barber Conable.

In the area of the environment, the past year has seen intensified efforts to integrate environmental concerns into the Bank's operations. Lending for free-standing environmental projects has continued to grow. They include a National Environmental operation in Brazil aimed at protecting the most important conservation areas and endangered ecosystems; and an Environment Management project in Poland aimed at providing the framework for developing policy, regulatory, institutional and investment actions to improve the environment.

In addition, we have completed the process of screening all the projects in our pipeline with respect to the type of environmental assessments they will require, a feature which is now part of our operational work. We have also completed the first phase of the Environmental Program for the Mediterranean,

carried out with the European Investment Bank, and we have embarked on the second phase -- preparation of specific country programs. Finally, during the past year, we have also initiated consultations with other international agencies aimed at establishing a facility which would provide funding to help developing countries address global environmental issues. Our expectations is that work in this area will be completed in the coming year.

In the past year, our efforts to alleviate poverty have intensified, particularly as regards the added emphasis we have given to the inclusion of poverty-reduction components in our adjustment operations. We have also begun putting in place core country poverty programs aimed at guiding and coordinating the various ongoing operational activities in this area. Our special poverty-reduction operations are increasingly being designed to utilize a multisectoral approach aimed at helping target groups in various ways. In Uganda, for example, a poverty-reduction project approved this past year includes the rehabilitation of more than 4,000 classrooms in especially disadvantaged districts, the upgrading of community health services, and assistance programs for children orphaned and women widowed by war or AIDS.

In the area of Human Resources, I am happy to report today that our lending for Education this past year reached a record level of some \$1.5 billion, which places us in a very strong position in relation to the medium-term goals for lending in this sector recently set by Barber Conable. The approved projects aimed at improving the quality of higher education or technical skills, addressing issues at both the primary and secondary levels, and supporting national reform efforts in this sector.

Two projects approved this past year incorporated innovative features designed to increase the participation of girls in schooling. In Bangladesh, a general education project includes measures to step up recruitment of women teachers, facilitate the physical access of girls to schools, and expand a scholarship program for secondary female students. In Pakistan, a primary education project is aimed at providing incentives for the recruitment of women teachers and thus eliminating parents' reluctance to send their daughters to school. During the past year, we have also increased our lending in the areas of Population, Health and Nutrition to a level of over \$900 million -- 50% more than last year -- reflecting the priority that we attach to these areas.

Finally, we have accelerated the process of integrating women in development initiatives into the mainstream of our activities, particularly in the areas where women's productivity is most affected, that is, Agriculture and Human Resources. An increasing number of projects in these sectors -- such as the two education projects I mentioned a moment ago -- include women-in-development components or specific recommendations. We have also put in place free-standing projects in this area such as the Women in Development project in The Gambia, designed to improve women's productivity and income-earning potential and strengthen the Government's ability to handle women's issues. In addition, during the past year we have prepared over twenty country-specific assessments and action plans focussing on women's potential role in development, the policy framework affecting their welfare and productivity, and the institutional obstacles standing in the way of progress. We will continue to pursue vigorously these and other activities in the years to come.

Let me close my remarks this morning by giving you the quantitative results of our activities which are contained in the news release you have been given. The overall level of new commitments approved by the Boards of IBRD and IDA in the fiscal year that just ended, that is, fiscal year 1990, was \$20.7 billion. This included \$15.2 billion for IBRD and \$5.5 billion for IDA. This level of lending has allowed us to support major policy changes and development efforts in a great number of countries. Conversely, where performance and policy change has not been adequate in our judgment, we have held back lending; this was the case with respect to a number of large operations this year, as a result of which total IBRD lending was not as high as we had originally envisaged.

As for disbursements, IBRD gross disbursements reached a record level of \$14.0 billion, up from \$11.3 billion last year. IDA gross disbursements were also up, at \$3.9 billion, from \$3.6 billion in the previous year. IBRD net disbursements amounted to \$5.8 billion, a significant increase from the level of \$1.9 billion achieved last year, when net disbursements were severely constrained due to large repayments by some of the member countries. IDA net disbursements were up at \$3.7 billion from \$3.4 billion last year. You will appreciate, I am sure, that all the disbursement figures that I have quoted are preliminary at this time and will only be firmed up in the next few days.