

Opening Address

Mats Karlsson

Thank you, colleagues. I am pleased to be attending this conference and to have been asked to make the opening address. I recently joined the World Bank, but my real home—my community—is the same as yours: the community of development economists.

In the late 1970s, inspired by Amartya Sen, I studied philosophy and economics. But I was soon drafted into the aid business and moved to Africa, where I spent years struggling to make sense of structural adjustment. I argued for structural adjustment in terms of its political economy, as a means of fighting corruption and fighting for social justice. And I guess that is what I am still doing.

I would not be doing this job if I did not believe that development economics addresses humankind's most important challenges. Through it we face key questions on poverty and prices—questions that often have excruciatingly difficult answers amid a frustrating political reality. To succeed, we must be clear about the values that drive us. Economics is a powerful science, and I know that many of you have been prime movers inside and outside the Bank. But with that power comes responsibility.

Over the past few days the Bank was besieged by protestors. It was intellectually challenging to hear, try to make sense of, and debate some of what the protestors said. Not that there was much intellectual rigor in what was being said on the streets, but on television or in an auditorium of restless students, important questions were posed. Why, after so many years and so much money, have we failed to reduce poverty in Africa? If economic reforms often fail to deliver or even to be sustained, why can't we think of better approaches? How important to economic performance are democracy and participation? We have all heard these types of questions, and we need to come up with better answers.

Interestingly, the demonstrators might have done us a favor. With so many attacks on the Bank the demonstrators have focused many commentators on development

Mats Karlsson is vice president for external and United Nations affairs at the World Bank.

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issues. As a result we have received some extraordinary support from the media and, of course, from our shareholders.

Globalization and the Role of Development Economics

The Bank and the International Monetary Fund (IMF) are needed institutions in this global era, and that need will grow as globalization continues to pick up speed, making the world increasingly interdependent. But confusion is likely to grow as well. Does globalization create poverty and exclusion? Is trade bad for people, or at least for everyone except major corporations? There is not even agreement on what globalization is. We talk about it as a single phenomenon, but don't we know better? Isn't the real question how we shape globalization?

I believe that globalization refers to a number of interrelated economic, technological, social, political, and cultural changes that together have so intensified interdependence that anyone who wants to exercise control over her future must do so with others locally, nationally, and globally. But that definition is not exactly easy to communicate to a wide audience.

In fact, I think we would be better off not using the word *globalization*. We need to communicate clearly so that local, national, and global actions can be better aligned. As fear, confusion, and other emotions come into play, we need to develop ways to interact other than those seen during the protests. The people in this room will undoubtedly play a crucial role in this process—a role even more important and powerful than that played by the protestors on the streets. We need to dissect the concept of globalization to explain the phenomena that feed into it. We also need to create a better common space in which to discuss it. That is why we come together to address global issues. And we can succeed only if the debate respects other views.

There is nothing more compelling than the product of intensive research, developed with nothing else in mind than finding an enlightened approach to the objectives we want to achieve. And this conference is a golden opportunity for furthering such research.

Poverty, Policies, and Partnerships

Given the number of guests attending this conference from outside the Bank, I think it is important to address where the Bank stands on three vital issues: poverty, policies, and partnerships.

Poverty

On poverty, the World Bank has just one goal: achieving a world free of it. Over the past generation there has been a lot of progress in developing countries. Hundreds of millions of people have moved out of poverty, with a drop in the share living on less than \$1 or \$2 a day. Per capita income has doubled. The number of children in school has jumped from half to three-quarters. Infant mortality

is down 50 percent, and life expectancy is up 10 years. These achievements prove that progress is possible.

But business as usual will not eliminate poverty. Progress on primary education has stalled. Some 125 million children are not in school, and more than 500 million women are illiterate. About 1.5 billion people lack safe water, and every day 40,000 people die of preventable disease. One woman dies for every 260 live births—which I think translates into a woman a minute.

AIDS has already killed more than 20 million people, and today 34 million people are living with HIV/AIDS—23 million of them in Africa, 11 million of them orphans. Every day another 15,000 people are infected. Moreover, the disease has a dynamic in Asia and Eastern Europe that we do not yet understand. And around the world, the epidemic is having a huge effect on GNP. AIDS is more than just a health crisis—it is a development crisis, and beyond that a security crisis.

We know that trade can create wealth. Yet 80 countries containing a third of the world's population are being increasingly marginalized, and over the past 20 years developing countries' share of global trade fell from 0.8 to 0.4 percent. There are more Internet connections in Manhattan than in all of Africa. The bottom line is that 3 billion people live on less than \$2 a day, and 1.2 billion live on less than \$1 a day. We will not achieve international development goals with business as usual. And over the next 25 years the world's population will increase by 2 billion people.

So what have we learned? The Bank's *World Development Report 1990* offered a comprehensive assessment of poverty and offered three tools to reduce it: growth, education and health, and social safety nets. While these are all essential, we have overestimated the impact this strategy would have on poverty.

The 1990s taught us three important lessons about poverty reduction efforts. First, growth is crucial—but it is not enough. Second, markets free up creative capacity—but they can also be corrupt and captured. Finally, financial flows bring benefits—but the East Asian crisis revealed the vulnerability of existing systems. Alongside these lessons we have had the openness revolution (in terms of developing countries opening their political and economic systems) and the information revolution.

How should these lessons affect our work? Clearly, development requires more than just delivering money and advice, which may have been how we approached things in the past. A learning culture is needed. And we in the World Bank need to learn ourselves. To learn what development is and what delivers in development, we need to ask the poor.

So we did. In a unique collaboration, the Bank interviewed 60,000 people in 60 countries as part of participatory poverty assessments. The findings are now being published in the *Voices of the Poor* series, which is coming out in three volumes: *Can Anyone Hear Us?*, *Crying Out for Change*, and *From Many Lands*. The books are masterpieces of clear communication. If my purpose here was to engage you emotionally, I would not stop quoting from them. I advise you to read them if you have the time.

Let me run through just five conclusions of the series. First, poverty needs to be viewed in a multidimensional way. Hunger is part of everyone's understanding of poverty. But equally strong is the sense of powerlessness, voicelessness, and humili-

ation that comes with being poor. Poor people want access to basic services and infrastructure, but they know that education is their escape from poverty. Bad health is the opposite: a trigger that drags people deeper into poverty. Poor people do not just want an income or a subsidy. They know that they have to increase their assets—whether land, water, or knowledge—to get a better return on those assets.

Second, the state has been ineffective. People everywhere fear police, they hate corruption, and they trust only their own institutions. Third, nongovernmental organizations play a limited role. People rely on informal networks. Fourth, households are under deep stress. Gender relations are crucial to understanding poverty, particularly the position of men. Alcoholism is a major trap. Fifth, the social fabric is often poor people's saving grace—and it is under threat.

Taken together these findings paint a worrisome picture, and I think they partly explain why progress has not been better. *World Development Report 2000/2001* synthesizes many of these conclusions, including the three principles around which it is organized:

- Empowerment—with a pro-poor state and voice for the community.
- Security—against natural disaster, war, violence, and unforeseen changes in income and health.
- Opportunity—promoting assets and enhancing the return on them through public and private policies.

The concepts of empowerment, security, and opportunity augment our previous thinking on poverty. This thinking provides a powerful basis for moving forward with the policies needed to achieve international development goals. We can achieve those goals with more growth, trade, investment, and policies for equity and human development—and, critically, more freedom for the poor.

Policies

Thus the approach to policies must start from this broad understanding and not be based on a dogmatic approach of any kind. We must focus on results—and we know a lot about what delivers results. Such thinking underpins the Bank's Comprehensive Development Framework, which is country-led, participatory, long-term, and trying to ensure real coordination among our partners. Through it we hope to learn together, delivering development not just on the basis of money and advice.

The Bank has also tried to come closer to reality by decentralizing our operations. Today 45 country directors in the field oversee 75 percent of our lending. Lending policies have also shifted a lot since the 1980s. Take power, considered by many to be the Bank's archetypal investment activity. Twenty years ago power accounted for 21 percent of our lending. Today it is 2 percent. Twenty years ago the social sector—education, health, nutrition—accounted for 5 percent of our lending. Today it is 25 percent, or some \$5 billion a year in loans. And the total is much higher when one adds the loans we make for social protection, pension reform, labor market adjustment, social assistance, and social dimensions of adjustment.

Consider too our new ways of working with the private sector, not supplanting it but adding value. The new approach is visible in mining, oil, and gas, where the Bank does little lending but where we add value by raising environmental and other standards.

Finally, consider the surge in Bank activities involving knowledge, communication, and learning. Knowledge clusters have included InfoDev, the Global Knowledge Network, and the Global Development Network. Now we are preparing the Global Development Gateway, harnessing the Web to create a giant source of knowledge and information. This is something different, and the results are impressive. In all, this is an exciting time to be shaping the new Bank.

Partnerships

Almost none of the things I have mentioned can be delivered by the Bank on its own, especially in developing countries. The Comprehensive Development Framework, poverty reduction strategy papers, the new way we do country assistance strategies—these require partnerships at the country level and the participation of nongovernmental organizations. But at the global level something new is happening as well. Our work is becoming increasingly intertwined with the broader idea of delivering on global public policies and an emerging system of global governance.

Highlighting the many areas where the Bank is active would take too long. But in almost every field—whether promoting education for all, developing vaccines for tuberculosis or AIDS or malaria, taking a preventive approach to natural disasters, addressing the world's water crisis, or easing climate change—we are teaming up with the international community, with nongovernmental organizations, with the private sector, and with bilateral partners to deliver results in new ways.

These activities require new ways of working, and that is one of the main challenges facing the Bank. It is also crucial for you, as development economists, to help us deconstruct globalization and guide us forward.

Some of the protestors on the streets may consider the Bank to be a focus of global power. But nothing could be further from the truth. True, we deal with many actors, starting with governments. But in the modern world, power cannot rest in one locus. Whenever I have interacted with the Bank over the past 15 years, it has been a source of vibrant thought, knowledge, and learning—and that is how it should be. That is a critical global public good that the Bank can provide.

I wish you all success for the next few days of deliberation. Thank you very much.