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THE FUTURE OF THE WORLD BANK: AN INSIDE VIEW FROM THE OUTSIDE

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CONTENTS

EXECUTIVE SUMMARY

The World Bank has performed its three main roles as a financial intermediary, as a purveyor of infrastructure investment, and as a processor of information, policy researcher and adviser, quite creditably and innovatively in the past. In each of these roles it is now facing unprecedented challenges to which it must respond vigorously if it is to retain a useful role in the promotion of economic development in the future.

As a financial intermediary, it has lost its status as a pre-eminent lender to developing countries: the volumes of requirements are simply too large for one institution to provide and world capital markets are responding to these demands with some success. But these private flows are concentrated in a few sectors and to a group of only about 20 countries. Thus there is need for the World Bank to respond to this new situation in a variety of different ways. The World Bank must transform its role from being a direct borrower and lender to one of facilitator of capital flows. It should act as a catalyst to facilitate the flow of private capital flows to a broader set of sectors and, increasingly, to a larger group of countries. It should seek to find methods for stretching the maturity of lending instruments in world capital markets for lending to developing countries. It can also function as an impartial referee and provider of information to facilitate greater capital flows. It must use its own high level of credit quality to leverage a much larger volume of capital flows from developed to developing countries. It should therefore become a wholesaler of funds. It could increasingly use its resources as equity like flows which are utilised to leverage greater volumes of funds for international investments. In its direct lending activities it should focus more on countries which are not yet benefiting from these flows. Greater regional and sectoral specialization will provide great benefits in its role as a financial intermediary.

In the area of concessional flows to the least creditworthy countries, the World Bank must arouse the world's conscience and launch a global initiative in the form of a new plan, the *Wolfensohn Initiative for Africa* in the twenty first century. This could be associated with a substantially expanded replenishment of I.D.A. For this *Initiative* to become a reality it is necessary to forge a new consensus, both political and intellectual, on the desirability of a large special programme for Africa. The use of concessional funds for the development of backward regions is a commonplace in developed countries, the prime example being the use of 'structural' funds in Europe. Thus an intellectual basis for IDA like funds exists in developed countries themselves. This must be built upon. Consensus would also be easier to achieve if greater thought is given to more accountability in the delivery of funds and effective implementation of projects, including the necessity for new institutional forms. A renewed emphasis on capacity building in government and outside is also necessary as part of this Initiative.

As a result of the debt crisis, its own emphasis on fast disbursing policy based loans over the past decade and more, and because of inefficiencies of past infrastructure investment, the World Bank's role as a promoter of infrastructure investment has declined significantly. Here, too, some of the gap has been filled up by private capital and institutions, but these again are concentrated in some sectors and countries. The World Bank must strive to enlarge this set of sectors and countries. Innovative methods will have to be sought for facilitating private capital flows even to sectors which exhibit greater risk and are subject to long pay back periods. One technique could be for the World Bank to finance such projects for their initial inherently risky construction and stabilisation period; and then to invite private long term financing once the projects are stabilised, risks reduced and income streams assured. The multiplicity of long term institutional funds that now exist in ageing rich countries would then be quite likely to buy such assured income streams. A key need is also for the development of appropriate regulatory institutions in sectors such as power, telecom, toll roads, and the like. The World Bank needs to provide advisory services in this area: but it would have to enhance the capability of its own staff to this end.

The backlog in infrastructure that has built up in the 1980s and 1990s is large, and the emerging requirements even greater. The need now for the World Bank (and IDA) is to indicate its commitment to promoting infrastructure investment much more strongly : what is required is both regional and sectoral specialisation, and also a search for innovation and investment to cater to the needs for the future. Thus the World Bank should once again tilt its portfolio to infrastructure investment—a need that has become enhanced as a consequence of infrastructure neglect during structural adjustment in the developing world over the past decade. Infrastructure investment for urbanization is a particular need.

It should promote more institutional accountability in the delivery of infrastructure services. This would involve acceptance of greater accountability on its own part: it must be ready to share more risk in projects and programmes that it funds once again even if it means some amendments to its Articles of Agreement. Particular attention must be given to the development of institutions and indigenous expertise and capability in developing countries. It should also turn its attention to the possibility of developing countries leapfrogging to high technology in various infrastructure sectors such as high speed railways, intelligent ports and the like. This could be one way of accelerating their transition to becoming modern self-sustaining economies. Specific effort must be made toward the enhancement of human resource development at all levels. Whereas greater importance should be given to the expansion of primary and secondary education, it is also necessary to fund higher education facilities which are necessary for the new requirements of global competition. This would enable the World Bank to leverage its own funds to generate the flow of much greater resources for infrastructure investment in developing countries.

Third, its role as policy researcher and adviser needs restructuring and rebuilding. Its very prominence in the 1980s and 1990s has contributed to its problems in this role. It has to rebuild confidence in the perception of its research and policy advice being unbiased and well informed. It has to undo some of the bitter residue left by heavy handed structural adjustment programmes and move toward a more participative form of policy research and advice. There is need now to develop new governmental mechanisms and institutions which can respond to the new imperatives constantly thrown up in a world of open economies, fluctuating exchange rates, and unprecedented electronically driven massive capital movements. Technical policy making capability needs to be developed within countries. It is to this need that the World Bank should turn its attention in the future.

The World Bank must expand its role as an information processor and exchange for developing countries by coordinating in a much better manner the different research, training and policy segments within the World Bank. It should become the OECD for non OECD countries. For accomplishing this objective it is essential that the World Bank staff is made more broad based, more outward looking and more process than end oriented. As more developing countries become democratic, the practice of policy advice will have to adapt itself to democratic styles of decision making. World Bank staff would gain by greater exposure to government processes within their own countries—developed or developing. As government deregulate and withdraw from the business of business, and as economies become increasingly market oriented, there will be a corresponding need for building institutions for regulating such economies. The World Bank could have a huge market for policy advice in these areas for the foreseeable future: but only if it has enough and appropriate expertise itself. Finally, it is now time that it shift its attention in policy research to the needs of good government as distinguished from its recent pre-occupation of reducing government.

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THE FUTURE OF THE WORLD BANK:
AN INSIDE VIEW FROM THE OUTSIDE

I. CONTRIBUTIONS OF THE WORLD BANK

The Bretton Woods institutions, the World Bank and the International Monetary Fund, have recently celebrated 50 years of their existence and very significant changes have taken place in the global economy since the late 1 980s. A new President of the World Bank is also about to take office. Thus this is an opportune time for making an assessment of their functions and performance over the last half century and to give serious thought to what should be their most appropriate role in the half century to come. This paper is focussed on what the future of the World Bank could be. It does not address the role of the International Monetary Fund. it also does not intend to make a detailed assessment of its performance in the past, which has been dealt with extensively in a series of papers brought out by the World Bank itself (see the References). However, before outlining some of the changes that could be considered in redefining the World Bank's role in the next 50 years of its existence, it is useful to recall some of the major roles that the World Bank has performed over the last 50 years.

Financial Intermediary

The first 50 years of the twentieth century were punctuated by a number of major political and economic dislocations. The First World War, the Russian Revolution and ensuing Soviet default on Russia's foreign debt, the Wall Street crash of 1929, the ensuing great depression in the capitalist world, the bond failures of the 193 Os, and the Second World War, all occurred in rapid succession within a period of about 30 years. One significant consequence of these dislocations was the collapse of the global capital market which had otherwise developed well in the latter part of the 19th century and in the first decade of this century. Parallel developments on the international trade front were the successive use by most governments in developed as well as developing countries of different kinds of trade barriers and tariffs which restricted international trade during this whole period prior to the l950s. Similarly, exchange rate regimes also became restrictive thereby imparting considerable rigidity in the settlement of international payments.

The situation at the end of the Second World War was such that a number of actions were required to get the international economy moving again. Capital markets were not functioning well in most countries except the United States; trade flows were being hindered because of the breakdown of international payments systems and shortage of dollars for effecting payments; the economies of Western Europe and Japan had been devastated and required extensive reconstruction. Simultaneously, the imperial colonial order dominated by European countries prior to the Second World War was breaking down and a wave of independence spread through the former colonies. A heightened expectation of economic development arose alongwith the widespread increase in the number of countries obtaining independence. These countries had suffered long from low or zero growth in the previous half century. Thus, both in Europe and in Japan, and later in the newly independent countries, there was need for reconstruction and development. This required the mobilization of external savings and their intermediation to bolster investment in these countries. This enhanced investment in reconstruction and development was also expected to lead to significant trade deficits which required financing.

It was in this context that the International Bank for Reconstruction and Development was founded as an intermediary for mobilizing American savings for investment in Western Europe in the initial stages, and then savings in developed countries in general, later: “To assist in the reconstruction and development of territories of members…… and the encouragement of the development of productive facilities and resources in the less developed countries…… thereby assisting in raising productivity, the standard of living, and conditions of labour in their territories” (World Bank, 1994). If the capital markets had not broken down, many of the European countries could have mobilized external savings directly. In the case of developing countries, since they were generally not regarded as creditworthy it would have been difficult for them to raise resources in external capital markets. A specific problem was the requirement for long term finance for investment in infrastructure in Western Europe and in Japan in the immediate aftermath of the war, and in developing countries a little later in the 1950s and beyond.

Because the countries requiring investment were not regarded as creditworthy, there was need for the creation of an intermediating institution which would inspire enough confidence in capital markets to induce them to lend long term funds at the lowest possible market rates. In view of the state of capital markets at the time, the credibility of such an institution depended crucially on the quality of support it was seen to get from its richest stockholders and, initially, of the United States alone. It was felt that this institution could only be one which had the support of the ma] or western countries alongwith all others who could be persuaded to be part of it. It was desirable for the equity base of such an institution to be contributed by all member countries. Furthermore, in order to provide 100 per cent risk cover to lenders it was necessary that the equity base of the institution be always greater than its borrowings at any given time. The gearing ratio had to be no greater than one. By doing this, all lenders would always be fully covered for any possible risk. But, if the institution was to be a significant intermediary of capital, this level of an equity base was obviously too large for it to be feasible for member countries to contribute. This was made possible by using the notion of callable capital for leveraging the resources that member countries were willing to invest in the new institution.

The idea of callable capital is like the nuclear deterrent. It is designed never to be invoked. By this device member countries were originally asked to contribute only 20 per cent of their share in the equity base while the other 80 per cent would forever remain as callable capital, to be invoked only when there is danger of default by the World Bank to its lenders. As a consequence of subsequent capital increase, the paid in proportion has got reduced to 7 per cent as of now. If the callable capital was ever to be called it would, in fact, signal the end of the World Bank. Thus an actual debt equity ratio of 5:1 originally, and about 13.5: 1 now, was effectively converted to a maximum debt equity ratio of 1:1 backed by collective sovereign guarantees of all member governments thereby providing the highest possible insurance to bond holders.

How well has this device worked in enabling the World Bank to function as an effective financial intermediary? An actual commitment of a mere $ 10.7 billion in shareholder funds has, over the years, enabled the World Bank to raise and commit $ 250 billion in loans to its member countries. It has effectively been able to apply the sovereign credit of its richest stockholders to the credit of the institution in raising funds (Kenneth Lay, 1994). However, it is interesting to note that even with such sovereign support, it was only in 1959, that it established a triple A credit rating in capital markets, more than a decade after its founding. To begin with, lenders were not convinced of the financial security offered by the Bank.

Thus, as a financial intermediary, the World Bank has effectively used the proceeds of its higher quality obligations to lend to less creditworthy borrowers. This has been the key benefit obtained by its borrowers. Second, its less creditworthy borrowers have also benefitted from a further cross subsidy at the expense of its more creditworthy borrowers, for the World Bank has had a consistent policy of lending at the same rate to all its borrowers at any given time.

In the initial years (1947-1952) the transfer. of resources was essentially from the United States to European countries, including France, the Netherlands, Denmark, Luxembourg, Belgium, Italy, mostly for the purposes of reconstruction (Caroline Doggart 1994). Most of these loans enabled the import of dollar dominated imports for reconstruction. However, European needs for reconstruction were far greater than what the World Bank could have catered for: it was really Marshall Plan aid which provided the bulk of resources required. This massive aid ($13 billion in 1948-52) was provided by the United States after receiving commitments from European countries to liberalise their trading and investment regimes and to move toward economic integration. As the Marshall Plan came into operation, the World Bank turned its attention towards development lending and its first loans went to finance projects in Chile, Mexico and Brazil, in Latin America, India in Asia and Ethiopia in Africa.

During this whole period the World Bank has created associated new organizations in order to respond to different needs as they have arisen. The International Finance Corporation was established in 1956 “to support private enterprise in the developing world through the provision and mobilization of loan and equity financing and through its advisory activities related to capital market development...” All its lending has to be done without the government guarantees which are essential for other World Bank lending. Thus the IFC can only lend to corporate entities which are individually creditworthy. The International Development Association (IDA) was founded in 1960 in response to a felt need for concessional financing to countries and to projects or programmes which may not be creditworthy. IDA is funded from grants that it receives from donor countries and the contributions that are made from IBRD profits. IDA has been a very important source of funding for projects and programmes in the poorest countries with large shares going to South Asia and Africa in earlier years. China has been a large recipient since the early 1980s. Project evaluation and other lending procedures for IDA projects do not differ significantly from general World Bank procedures, and there is no separate staff (unlike the IFC) for IDA. Two other agencies were founded in 1966 and 1988 - the International Centre for Settlement of Investment Disputes (ICSID) and the Multilateral Investment Guarantee Agency (MIGA) respectively - to support private foreign investment in developing countries. The ICSID provides conciliation and arbitration services for disputes between foreign investors and host government, whereas MIGA provides non-commercial investment risk insurance and technical services to help promote investment flows. Taken together, the IBRD, IFC, IDA, ICSID and MIGA, as the World Bank Group, provide services which help in conveying financial resources from the more developed world for investment in different segments of developing countries.

Over the years, as countries have succeeded in their reconstruction and development activities, they have successively graduated out of borrowing status from the World Bank. Japan joined the World Bank in 1952, took its first loan in 1953, and ended its borrowing status in 1966, after which it could borrow successfully in international markets directly. The most recent graduate is South Korea. As different groups of countries, the Western Europeans, Australia, Japan, and East Asian countries have successively graduated out of the World Bank, it has turned increasingly to developing countries in Latin America, Central Europe, Southern Europe, Asia and Africa. More recently with the collapse of the Soviet bloc, the World Bank has shifted its attention with great alacrity to Eastern Europe and to the Commonwealth of Independent States. Similarly, as the poorer countries have increased their incomes they have also successively graduated out. of the IDA to World Bank (IBRD) borrowing.

While expanding its activities as a financial intermediary in this fashion it has often had to enhance the quality of its assets to keep its own credit at high quality levels. For example, when it made its first loan to Chile in the late 1 940s, it found that bond holders of defaulted Chilean bonds of the 1 920s had first to be placated: it successfully brokered an agreement between Chile and the bond holders. Similarly, before lending to Japan could be started in 1952-53 the Japanese government had to agree with representatives of pre-war sterling and dollar bond holders to resume payments and settlement of all interest and principal in arrears.

In summary, the World Bank has performed an important role in enhancing credit flows from the world's capital markets to countries with low or non existent credit ratings. It has done this by laying an emphasis on reducing risks, principally the financial risks associated with managing assets and liabilities. The World Bank can now deliver to developing countries large volumes of funds at costs less than half a per cent higher than the funding costs of its most creditworthy member. It has successfully intermediated its higher quality obligations for lending to lesser credits — which is the quintessential role of a financial intermediary. In addition it has acted as a conduit for aid funds donated by member countries for lending on concessional terms through the IDA. Developing countries represented at Bretton Woods had been concerned that post war reconstruction would absorb most of the Bank's resources and that their less defined needs would be crowded out. Partly because of the Marshall Plan and partly because of the rapid success of European reconstruction these fears proved to be unfounded.

What has changed now to call for a reassessment of the World Bank's functions? The major change that has taken place in the 1 990s is the re-emergence of global capital markets which can be accessed relatively easily by private firms, institutions and governments of many developing countries. Gross private capital flows to developing countries rose from about US $ 20 billion in 1985 to US $ 42 billion in 1989, $ 113 billion in 1992 and $173 billion in 1994, an almost nine fold increase in nine years. These flows are now about three times of official development assistance. But these flows are concentrated in about twenty of the more creditworthy countries and, moreover, are still relatively high cost. But a new feature is the large proportion of equity flows among these funds. About half of this $ 173 billion transferred in 1994 consisted of foreign direct equity and another fifth of portfolio investment. The World Bank's own annual commitments (including IDA credits) have stagnated at about US $ 21 billion over this period since the late 1980s. In terms of the volume of resource transfers to developing countries its own transfers are becoming, small relative to the total transfers taking place. This of course, is more true for the middle income countries than for the lower income countries (excluding China and India). The needs of the lower income countries have also expanded suggesting a much expanded role for IDA, particularly in Sub Saharan Africa. These developments suggest a significant change in the functions of the World Bank from being a direct borrower and lender to that of a facilitator of such capital flows to a wider set of countries.

Promoter of Infrastructure Investment

The role of the World Bank as a promoter of infrastructure investment can be distinguished from its role as a financial intermediary, even though its objective in acting as a financial intermediary was clearly for the purpose of accelerating infrastructure investment in its client countries. According to the World Bank's charter, loans were to be given "for the purpose of specific projects of reconstruction and development." Other loans, such as program loans and the more recent structural adjustment loans are covered by provisions for "Special circumstances." But its role in infrastructure has gone beyond that of a normal financial intermediary.

The development of public service infrastructure and investment in infrastructure projects requires considerable institution building. In this area the World Bank has contributed to the establishment of a whole range of institutions connected with infrastructure development. Most of these institutions have been in the public sector. As might be expected, developing countries have suffered from inadequate availability of technical competence for the execution of large infrastructure projects. The World Bank (including IDA) assisted significantly in developing technical competence for project preparation, project appraisal, project operation, supervision and monitoring, in government and parastatal agencies in developing countries. Although the public sector institutions so developed have fallen into disrepute lately, in particular with their original parent, the World Bank. Their contribution to infrastructure development cannot be denied. With the Bank's emphasis on reduction of risk, required for keeping its credibility with its bond holders, capacity creation for project appraisal has been its major contribution. Where this has not been possible, as in many African countries (Ishrat Husain, 1994), it has contributed to these activities from its own staff expertise and from the funding of international consultants.

The role of the World Bank in infrastructure investment has also been very significant in acting as an "honest broker" for providing technical assistance in developing countries. Its status as an inter governmental body which is widely perceived to be impartial has been important. This has been so in a context where former colonies were otherwise obtaining most of such technical assistance from their former colonial masters, which was then accompanied by some degree of mistrust and suspicion. The World Bank succeeded in assembling a dedicated and competent international staff which has been widely respected for its professionalism and impartiality. The standard cycle of World Bank projects from pre-appraisal, appraisal, negotiation, supervision and evaluation has contributed to the adoption of such rational procedures in infrastructure investment in a wide range of developing countries which have been World Bank clients. Technology transfer which has accompanied the infrastructure investment process may not otherwise have taken place in as significant a manner.

A problem common to many developing countries is that of political instability. It has therefore often been difficult for governments in some countries to be able to invest in projects with long gestation periods because of inherent political instability. As governments change there is associated with them a concomitant change in priorities. Many infrastructure projects requiring significant investment are not able to survive changes in governments. One unintended function, therefore, of the World Bank has also been to provide the financing and supervisory continuity in projects which otherwise might not have survived changes in governments. For this reason, it has not been unusual for some government authorities and officials to seek World Bank funding for infrastructure projects for the purpose of ensuring continuity and completion of projects.

Industrial development in many developing countries has also benefitted from the establishment of development finance institutions which have served as financial intermediaries within countries. Once again some of these institutions are no longer viewed positively but most have served a useful purpose in the initial years of their existence. In this, the World Bank has had a very significant role.

Finally in the area of infrastructure investment, as some of the problems arising from earlier, practices started emerging in the late 1 970s and 1 980s, the need for sector wide policies necessary for continued growth of infrastructure investment became evident. The World Bank adapted to these new circumstances and its staff made major contributions in the development of rational sectoral policies in most of the infrastructure areas in which it had been investing for long. In this process some shifts took place in infrastructure lending from projects to sectoral policy loans.

Alongwith the ascendency of structural adjustment loans and other fast disbursing vehicles of World Bank lending, the traditional sectors of infrastructure (energy, telecommunications, transportation, and power) have lost their earlier pre-eminent share in Bank lending. The constrained fiscal circumstances of most developing countries have also contributed to the decline in traditional infrastructure investments in 1980s and 1990s. Thus there is now a backlog of infrastructure requirements in most developing countries, in addition to the fast emerging needs for the future. The World Bank has yet to respond to these new requirements.

Although the World Bank insisted on lengthy preparation, appraisal, supervision and evaluation procedures for its projects, many of the project entities created have not performed well from the financial viewpoint and have contributed to the external debt problems of many developing countries. A key problem in the World Bank project methodology has been the lack of accountability at different levels. The World Bank only lends to governments in return for sovereign guarantees. Thus there is no real nexus between project success or failure and loan repayment. Similarly, with the existence of sovereign guarantees, the public sector project entities are also typically free from the burden of debt repayment. Thus there is great room for improvement in this regard.

Overall, the World Bank has had a role in infrastructure investment much beyond its role as a financial intermediary for investment in infrastructure. Here also many developing countries have achieved significant degrees of technical competence, developed suitable institutions and financial systems for infrastructure investment and, in many cases, have acquired the capability for developing appropriate sectoral policies. This constitutes a new imperative for re-thinking on the part of the World Bank on its role in infrastructure investment. Here also, significant change is taking place with the increasing introduction of private sector participation in infrastructure projects. But, in this process, many difficulties are being encountered in the actual closure of projects and in arriving at financial arrangements which provide adequate comfort to investors and lenders. A great amount of work needs to be done to facilitate much greater flows of resources for the burgeoning requirements of infrastructure. The World Bank must transform its role accordingly from being a direct provider to one of a facilitator in some countries, while expanding its infrastructure activities in others.

Policy Researcher and Adviser

Whereas financial intermediaries typically impose conditions and provide some policy advice particularly relevant for protecting their investments, they have not, as a rule, been significant as policy researchers and advisers. Although the World Bank was involved in providing policy advice to its borrower countries since its inception, it expanded its role as a policy researcher and adviser on development issues since the late 1960s with Mr. McNamara as its President. During the last two and half decades or so the World Bank has been the most significant contributor of research on development problems in the world. Its publications are widely available in developing countries to both researchers and policy makers. Through the years the World Bank has constantly had an able research staff of quality comparable with the best in the best universities in the world. Its research has therefore been large and significant. If anything, many would argue that both its research style and direction of policy advice has become overly dominating.

The research carried out in the World Bank has been on a number of different levels, ranging from relatively academic research into different aspects of broad development problems, to very applied research specific to particular projects being aided by the World Bank. Since about the early 1970s a central research staff, with few operational responsibilities, has always existed in the World Bank. This staff is probably bigger than any economic research institution in the world. In addition there has almost always been a central department housing staff devoted to conducting research into sectoral issues. These staff have had additional operational responsibilities which have themselves been very useful in adding a different dimension to the quality of research carried out. Third, the operational staff itself contains a large core of economists and other professionals doing work on issues of current interest in their respective sectors, countries and regions. These staff interacts very actively with the officials of country governments as well as with local researchers. Finally, a good amount of research also gets conducted in the context of design and implementation of the projects financed by the World Bank. Much of this research is farmed out to other organizations and consultants whereas some is done in house. Only a small proportion of this vast volume of research actually gets published in a formal manner, although the volume of publication of such research is now increasing because of the new norms of information dissemination that have been adopted by the World Bank recently.

The major difference between the kind of research that has been carried out in the World Bank and that which is generally carried out in research institutions is the close interaction of their staff with government officials, their generally superior access to information, and the availability of a large volume of resources. World Bank research and operational staff have closer involvement with country level policy making than researchers based in universities or research institutions. They also benefit from the kind of macroeconomic overview of problems and prospects of each country that is readily available in the World Bank, both in its country and research reports, and embodied in its research and operational staff. This kind of high level interaction with policy makers and overview is not easily available to researchers and academicians, both within a country and outside.

Although the Economic Development Institute (EDI) of the World Bank has always been on the periphery of World Bank activities, it has probably been quite significant in dissemination. This is particularly so because most of the participants in the courses of the EDI are government officials at all levels. As such, the transmission of knowledge from a theoretical perspective to practical application has been quite significant through osmosis. The World Bank has therefore operated as a giant information processing machine which has gathered large volumes of data and other information and massaged it into policy relevant messages. It has then provided what it regards as best practice advice to policy makers at all levels in developing countries. This process came in particular focus during the 1980s.

The consequence of the debt crisis of the 1980s was that a very large number of countries in the developing world had to undergo major structural adjustments in order to avoid debt default or to regain creditworthiness after having defaulted. Among the many causes which led to the debt crisis was the excessive expansion of the public sector without adequate accountability having been built into the system - as mentioned, often with World Bank assistance which itself was enhanced by the availability of sovereign guarantees to multilateral and even other lenders.

The International Monetary Fund and the World Bank were consequently pressed into service for providing policy advice for both short term stabilization and medium and long term structural adjustment to a very large range of countries in Latin America, Africa and Asia. In the 1 990s a similar process is being experienced by countries in Eastern Europe and the Commonwealth of Independent States. Although the World Bank had long experience in providing economic advice to countries, it had not really performed such a role on a comprehensive basis covering the whole economy. There was also no existing model or theoretical framework on which to base such far reaching and comprehensive policy changes. The whole activity was unprecedented and the Bretton Woods Twins had to innovate according to the task at hand.

The rapid change that the World Bank went through during this period is an example of its adaptability in responding to new needs as they emerge. The contribution of the World Bank in advising on structural adjustment programmes on an economy wide basis and sectoral adjustment programmes on a sector wide basis in all these countries is now well known. This contribution, given its high visibility and widespread effects, has not been without its critics. A key component of the criticism has been the inadequate differentiation between countries of diagnosis and remedy that has been offered by the World Bank staff and their perceived partiality to serving the interests of lenders, more than those of borrowers. Another criticism relates to the speed of fiscal stabilization and structural reform which has been regarded by many as excessive. It has been argued that this excessive speed has been particularly hard on the poor because of fiscal cuts which affect basic social services directly. However, in this process, a new era of economic policy and thinking has been adopted and articulated by the World Bank and the International Monetary Fund, now often referred to as the Washington consensus.

This new role as overall policy advisors has not been without other negative side effects as well. The linking of research, policy advice and often heavy handed loan conditionality has left a bitter residue in many countries. The linking of policy advice with loan conditionality robs it of the impartiality that is often necessary for greater credibility. Hence there may be special need in the future for the World Bank to establish a reputation as an impartial and fair policy researcher and adviser.

II. CHANGING ROLE OF THE WORLD BANK AS A FINANCIAL INTERMEDIARY

A good number of changes have taken place over time that suggest that the role of the World Bank as a financial intermediary would have to undergo corresponding changes in recognition of its evolving role in the world economy.

First, throughout the existence of the World Bank a good deal of success has been achieved by many of its key borrowers in that they have graduated from World Bank borrowing status. In the 1 950s it was the European countries which succeeded in re-building their war torn economies. Later, Japan also ceased borrowing from the World Bank in 1966 after having used its funds very productively in infrastructure investment. Still later, other East Asian countries such as South Korea, Singapore and Taiwan, have also been in the process of reducing or eliminating their borrowing from the World Bank. It may be expected that as the other industrialised countries of East and South East Asia continue on their present high rates of growth they will also successfully cease borrowing from the World Bank. Many of these countries have already reduced considerably their earlier dependence on the World Bank for external resources. Another category of countries which has not had the need to borrow from the World Bank for some years are the oil rich countries of the Middle East, although some of them have continued to request technical assistance. Latin America has always been a very active area for World Bank lending. Here also it may be expected that as economic reforms succeed and growth rates of these countries become sustainable many of them would be in the process of graduating from the World Bank within the next l0years. This leaves countries in South Asia, China, Sub Saharan Africa, and some parts of the Middle East as possible long term borrowers. The countries of Eastern Europe and the Commonwealth of Independent States will presumably need substantial assistance from the World Bank in the coming years but their income levels are, in principle, much higher than typical developing countries. They may also be expected to graduate in 10 years or so, apart from a few exceptions.

As development proceeds and spreads around the world the need for World Bank funds to finance the external resource needs of developing countries can be expected to decline progressively over the next 50 years. This is a certainty unless there is some drastic reversal of trends that have been observed in the first 50 years of the existence of the World Bank. Accordingly, the World Bank should look forward to the day when it will no longer be needed. It should perhaps programme itself to go out of existence 50 years from now when all countries will have developed enough to be creditworthy themselves and will then not need World Bank intermediation.

Clearly, the needs of South Asia and Sub Saharan Africa will exist for quite sometime. But the nature of their needs is such that it may not be so easy for some years to utilise the commercial funds of the IBRD as distinguished from the soft credits of the International Development Association (IDA) arm of the World Bank. Thus countries which are either creditworthy or have projects which are creditworthy will increasingly turn to borrowing from international securities markets. It is to this major change which is in the process of unfolding that I now focus attention on.

World capital markets have once again started functioning much more efficiently than they have since the early part of this century. Thus private capital flows have assumed large volumes. Most of these flows first grew between developed countries. It is only in the late 1980s and even more in the 1990s that private capital flows towards developing countries have assumed significant proportions. Whereas earlier foreign direct investment was largely associated with primary production, in the 1980s and early 1 990s these private capital flows were mostly in the form of foreign direct investment for manufacturing industry. Later, this has extended to direct investment in a number of infrastructure sectors also. In the last few years portfolio investment has also become very significant, particularly in South East and East Asia and in Latin America. Countries have also started raising resources through sovereign floatations in the main capital markets in Japan, Europe and the United States. The fact that this has become relatively easy is illustrated by the recent bond floatation that is being undertaken by Lebanon for reconstruction in the amount of about US $ 300 million. Only 5 years ago it would have been unthinkable for a country such as Lebanon to raise resources in this fashion. Similarly, apart from long term sovereign country bonds, it is becoming increasingly common for developing countries to raise resources for specific projects by selling bonds related to specific project entities. This process is being actively assisted by large international investment banks who have the ability to tap vast resources available with the plethora of institutional funds that now exist in developed countries.

The rapid institutionalization of savings in the Western world has placed large volumes of resources with fund managers of various descriptions. The ageing of Western population has led to large requirements for savings to be invested in pension and insurance funds. This has added to the large savings pool available in entities such as pension and insurance funds. As health conditions improve in other countries particularly in South East and East Asia, such savings pools will expand further quite considerably. Most of these resources seek long term but safe investment avenues. As the World Bank has done throughout its existence, the need is to transform the low credit quality of most developing countries to higher credit obligations in order to enable these funds to find their way into the investments required in developing countries. The volume is, however, so large now that a single institution such as the World Bank can no longer perform this function alone.

This constitutes a great change in the form that capital flows have taken within 10 years from the situation of the late 1 970s. At that time, as a consequence of the excessive liquidity that many major Western banks had built up in the form of petro dollars, a very large volume of resources flowed into developing countries, particularly in Latin America and some countries in East and South East Asia. At that time the volume of resources raised in more impersonal capital markets was small. The result of the excesses of the 1 970s was the deep debt crisis that emerged in the 1 980s. This crisis initially had the effect of severely reducing the volume of capital flows to developing countries in the 1980s. In fact the flow of resources got reversed as these funds dried up during the 1 980s and repayments of past debt were made by developing countries. A key problem with the flow of debt creating resources from private international banks to developing countries was that there was inequitous risk sharing between the lenders and borrowers. Problems arose as many of these loans also carried floating interest rates which rose in the 1980s. The risk burden then fell inequitably on the developing country borrowers.

A whole range of actions then ensued, usually coordinated on behalf of the international financial community by the World Bank and the IMF, mainly geared towards ensuring repayment of these loans to preserve the international financial system. It would seem that world capital markets have learned some lessons from this episode of the wide spread debt crisis of the 1980s. The new forms of capital flows that have emerged spread the risk burden more fairly between lenders and investors on the one hand, and borrowers and recipients of investments, on the other. It is a measure of the resilience of the world capital markets that a recovery of resource flows has taken place within a decade of the onset of the debt crisis.

The underlying cause of this rapid recovery is structural. The interregnum of reverse capital flows to developed countries in the 1980s itself contributed to a slow down of industrial and economic growth in these countries in the 1 980s and to overheating of capital markets. The slowdown in developing country imports, particularly of capital goods, from developed countries affected industries in both regions adversely. Thus a resumption of capital flows to the faster growing developing economies is essential for the developed countries themselves. With lower demographic growth and low GDP growth that has now been endemic to developed countries since the 1970s, financial capital is seeking the higher returns available in developing countries which are still on high income growth paths.

Naturally, the highest returns are available in the fastest developers, the so called newly industrialising countries (NICs).

The consequence of this development is that those countries which are either creditworthy or have financial or project entities which are creditworthy can raise resources in securities markets directly rather than using the World Bank as a financial intermediary. Although there is still substantial difference between the terms offered by the World Bank and those at which resources can be raised independently by these countries, their requirements for capital are such that the World Bank can only supply a fraction of their needs. Assuming that this process continues, and indeed strengthens as Western capital seeks destinations which provide higher returns, the graduation of countries from World Bank borrowing will presumably accelerate. The role of the World Bank as a pure financial intermediary would then be expected to weaken progressively as a direct provider of credit.

Third, the newest development in. this regard is the flow of private resources into infrastructure investment in developing countries. Although this is still concentrated in a few countries in Latin America, South East and East Asia, the volume of these flows has become quite significant. Increasingly these flows are both in the form of equity and debt intermediated by the world securities markets. These flows are also concentrated in certain infrastructure areas such as power, telecommunications, ports, and to a lesser extent, the construction of toll roads. But these very areas have been significant in the portfolio of the World Bank lending in the past. The volumes of resources that have been raised are beginning to be quite impressive thereby further weakening the role of the World Bank as a financial intermediary. Different forms of financial vehicles are emerging, particularly in Asia, so that private capital flows are increasingly financing large projects which earlier would have been implemented with World Bank or other multilateral or bilateral financing, or would not have been feasible at all. The emergence of a good number of engineering consultancy organizations with international reputations and significant size has also meant that consortia can be developed, including the participation of these technical entities. Another development is the emergence of developers or packagers who specialise in’packaging projects for financing. The financial bundles so created also include the charges for technical assistance which would otherwise have been another reason for seeking financing from the World Bank. Simply put, competitors to the World Bank have now emerged in the private sector in different forms.

A particular characteristic of the newer forms of capital flows is that there is now a more appropriate balance between equity and debt flows. In principle this should ensure more automatic accountability. Equity returns are linked to performance: thus investors will presumably seek to ensure project performance. As might be expected, just as the World Bank was insulated by sovereign guarantees, prospective private investors are also seeking to protect their investments through different kinds of guarantees and investor protection devices. Hence there is an emerging need for market based devices which lower the risk for investors so that funds received by developing countries are at affordable cost for infrastructure investment and so that the increasing availability of private equity resources can be adequately leveraged.

Capital markets have to be developed within developing countries so that savings can increasingly be intermediated through capital markets and financial institutions for application to activities which yield the best returns. Moreover, just as developed country capital markets were tapped to yield savings for investment in developing countries, similar use can be made of the capital markets of emerging countries for application of funds in the least developed countries. Indeed, the Newly Industrialized Countries (NICs) such as Taiwan, Hong Kong, Singapore and South Korea have already become large direct inventors in other developing countries.

FUTURE NEEDS: MORE SPECIALIZATION

Regional Specialization

What comes out from the above analysis is that, first, the World Bank will have to become more specialised on a regional basis over the next 50 years and channel its resources to the regions which need them most. Correspondingly this also means that there will be, at least in the medium term, a greater role for the International Development Association, IDA, the soft loan arm of the World Bank. In terms of staff resources the World Bank needs to invest much more in acquiring expertise in the kind of problems that are being faced by the poorest developing countries in Sub Saharan Africa and South Asia. These regions require different solutions from those that have either been attempted in the past in these regions themselves and those that are currently in vogue in other more developed regions that are now successfully growing rapidly. This activity requires both, a greater openness to ideas and search for new institutions and methodologies for promoting development on a sustainable basis, as well as greater allocation of financial resources than is at present the case. A large number of countries in Sub Saharan Africa have suffered deep erosion in their already fragile levels of living over the past 15-20 years. This downward slide has to be reversed.

So far, the standard structural adjustment potions of the IMF and World Bank have been administered repeatedly in these countries, but with only patchy success. In some cases, where there was significant initial success, distressing reversals have also been experienced. In these least developed economies, there is urgent need for a highly focussed world wide attempt to reverse these current highly distressing trends. *It is in this mission that the World Bank must assume leadership and become instrumental in arousing the world's conscience.* If any success is to be achieved, all the financial, technical and intellectual resources available in the world will have to be brought together to address what otherwise appear to be intractable problems. *The World Bank must cobble together the Wolfensohn (Marshall) Initiative for Africa for the 21st Century.*

This will involve a significant expansion of IDA for which a renewed campaign must be launched for substantial replenishment of resources from member countries. Such replenishment will have little chance of success in the constrained fiscal circumstances of most countries. Aid fatigue and the lack of intellectual support for such a campaign are additional problems. It is therefore crucial to build a new constituency for the proposed *Wolfensohn Initiative* and associated IDA replenishment. Of prime importance is the creation of new intellectual support for such an initiative. The European Union has built a consensus toward the disbursement of very large volumes of funds on extremely concessional basis for the "structural" development of its less developed regions. If such a consensus can be built up within ‘the European Union, and on the basis of an agreed intellectual rationale, it should be feasible to do a similar exercise for IDA.

According to the World Bank’s own evaluation, structural adjustment programmes in Africa are no more than a beginning; economic reforms as currently advocated do not address long term constraints; human resource development must be protected and given greater emphasis and small enterprise development must be promoted. A necessary condition, however, is the achievement and maintenance of macro economic balance. The major problem in implementation of reforms has been inadequate availability of capacity in the government and excessive reliance on foreigners. “The different approaches applied to Africa by both donors and recipient countries have all lacked one essential ingredient: they have not incorporated the central feature of building indigenous capacities - skills, knowledge and institutions Typically, externally funded projects, including the Bank’s have been prepared by expatriate consultants or firms, appraised by the Bank, or donor staff, operated with the help of long term expatriate staff, and supervised, monitored and evaluated by Bank or donor staff.... Project agencies have been established independent of government’s normal procedures, budgetary controls and supervision” (Ishrat Husain, 1994, pp. 24-25). About 100,000 expatriates are reported to be working in Africa today.

Clearly, as the Bank has recognized itself the approach to the financing of development of Africa has to undergo substantial change from the traditional methods and has to be more clearly focussed on indigenous capacity building in all its aspects. No amount of stabilization and structural adjustment efforts can bear fruit without this essential ingredient. A clear special focus on Africa must form part of the World Bank’s strategy for the next fifty years. This will then make for the emergence of a whole new class of creditworthy borrowers in the future.

It goes without saying that the allocation of greater resources has to be done on a much more accountable basis than in the past. Here also the World Bank itself would have to change some of its own practices. As already mentioned, although each project that the World Bank finances undergoes a reasonably rigorous project evaluation and continuous and careful supervision of its implementation, there is still no nexus between the success of the project and repayment of World Bank loans. There is little reason why the World Bank should not undergo the risk of failure that other banking entities do. This would make the World Bank itself more responsible in its lending as well as the countries or entities that borrow from it. Presumably, such a change in practice will also generate new institutional forms and practices for implementation within developing country borrowers that would make this kind of accountability possible.

In summary, the World Bank must focus explicitly on Sub Saharan Africa and parts of South Asia as its key clients for the next fifty years. In doing so it must look for new methods of capability enhancement of government and other personnel in these regions; it must explore new institutional forms which ensure accountability in the use of resources; and it must assure more risk as an accountable lender.

More Sectoral Specialisation

As has been mentioned earlier, a large volume of private capital has begun to flow to selected countries and selected sectors. This suggests that the World Bank should concentrate increasingly on financing those sectors which are not yet receiving such flows. There are many areas of infrastructure which are not yet receiving such capital flows. In principle, the nearer the service is to the concept of public good, the more difficult it is for it to receive commercial funding. This will be discussed at greater length in the next section focussed on infrastructure.

Role as Facilitator and Honest Broker

In recent years, while responding to the changing conditions in international capital markets, the World Bank has begun to participate in various private consortia as a co-financier. This activity will have to increase by orders of magnitude in the future. As mentioned earlier, new institutional forms have to be found to ensure a more direct nexus between funding of projects and the success of these projects. Co-financing is one such method of doing this. The participation of the World Bank in co-financing different infrastructure projects which are likely to receive private capital is certain to expand the total amount of resources that can flow in this fashion. Its participation essentially enhances the quality of credit of the receiving entity. The expertise that has been developed in the World Bank in terms of country economic analysis, project analysis and sectoral analysis is far greater than in any private funding institutions. Thus the participation of the World Bank as a co-financier in any project lends great confidence to investors and is likely to elicit greater volumes of investor interest than would otherwise be the case. The World Bank's role as a financial intermediary in such activities is essentially that of removing market imperfections that exist in terms of information with regard to developing countries. This role as a co-financier can continue for a considerable length of time. Initially such finances will be confined to the more creditworthy countries. Later such funds can become feasible and flow to other countries that are currently not creditworthy.

The debt crisis of the 1 980s was caused by excessive enthusiasm and irresponsibility on the part of lenders and borrowers alike in the 1970s. The World Bank and the IMF were then called upon as honest brokers (some may say as bailiffs for the creditors!) to clear the debris in the aftermath. Whereas different observers will have different views on how fair the role of the World Bank and the IMF has been in the process, there is little doubt that they have played a significant role in reducing the turmoil in world trade and financial markets which would otherwise have resulted.

It is possible that similar crisis will arise in the future, either on a widespread basis or in individual countries such as the one that erupted recently in Mexico. The present burgeoning of private capital flows, both in terms of equity and debt, involve some elements of lemming like behaviour on the part of the emerging market funds industry. If there is capital market instability in the investing countries or in the recipient countries, it is possible that debt crisis type difficulties may arise in the future. Servicing of these large capital flows could easily create serious balance of payments problems. If this happens then the World Bank would once again be called upon to perform the role of honest broker between the recipients of funds and the investors. To some extent it has already extended its role in this direction through the founding of the Multilateral Investment Guarantee Association (MIGA). It will need to expand this role considerably and find new institutional ways of doing so. One recent suggestion is the erection of a bond insurance facility which provides appropriate comfort to bond investors and thus reduces the chances of abrupt capital flight from developing countries.

Another role as a facilitator of capital flows is the World Bank's role in providing information to developing countries so that they are better informed on how to receive the capital flows on terms that are fair. The intermediation of funds from individuals and institutional investors in the developed capital markets to projects and programmes in developing countries requires a great amount of structuring. Investing institutions and organizations typically require different degrees of comfort. Some demand excessive comfort in terms of government guarantees and the like as has been found in power projects recently. In this respect different countries face difficulties in not too different a form, from the prisoners' dilemma. What the World Bank can do is to solve such prisoners' dilemmas by providing information on what are reasonable and adequate degrees of comfort that are necessary for directing the kind of resources that are required for different kinds of projects. This would help in preventing countries from providing excessive levels of comfort when demanded by investors. The lack of 'adequate information with investors and recipients alike sometimes reduces the kind of resources that are felt to be necessary for national requirements.

Despite the emerging improvements in the working of international capital markets it will still be necessary for the World Bank to finance longer gestation projects with long term finance. This is another area of specialization in future operations of the World Bank as a financial intermediary. Not surprisingly, this harks back to the original rationale for the funding of the World Bank. Many of the emerging newly industrializing countries will still have difficulty finding commercial resources for infrastructure projects which have long gestation periods and it is here that the World Bank will continue to have a significant role as a financial intermediary because of the guarantees associated with it. It can assist in making possible term transformation of relatively short or medium term funds that developing countries can tap from the world capital markets. It can assist in making the market by subscribing to bonds and other instruments that developing countries and their entities float in international capital markets. It would then be using the superior information it possesses on developing countries to signal the creditworthiness of developing countries and their borrowing institutions to other market lenders. Just as it used the superior credit quality of its most creditworthy shareholder to enhance the quality of its own obligations, it can now leverage its own established high credit quality to enhance that of developing countries and their institutions.

A new activity that the World Bank should engage in order to find a greater role for itself than at present is to participate in institution building in developing countries in larger measure. It should assist in creating institutions like itself on a country or sub regional basis. If there is a rationale for the existence of the World Bank as a financial intermediary, a similar rationale exists for country or sub regional level banks which too meet the same need as the World Bank does on a world wide basis.

This would also help in developing national capital markets and in the integration of international capital markets with those within different developing countries. The magnitude of infrastructure and other development needs of developing countries is such that there is room for the existence of several financial intermediaries which perform functions similar to that of the World Bank.

The methodology of the kind of guarantees provided by all the national governments in terms of callable capital for the World Bank can be extended for these country and sub regional banks. It may be argued here that this is not necessarily a new activity for the World Bank. Moreover it would be said that when it tried to set up development finance institutions in the past it met with striking failures over time. However, lessons have presumably been learnt from this past experience. Many of the development finance institutions that were set up earlier failed because of excessive government interference; or because of inadequate technical expertise; or because they were excessively dependent on the government for funding rather than raising their resources in the market. Clearly if new institutions are to be created at the country or sub regional level they could not operate on the lines of many of the former development finance institutions. For them to be successful, they would have to be much more independent of governments than they have been in the past; their staffs would have to be much more technically competent; and they would have to be run with a greater degree of fiduciary responsibility. If such institutions can be set up with World Bank participation in their equity, alongwith equity contributions, callable or otherwise, by governments, it will probably be possible to invite equity contributions from many of the emerging market funds that are now mushrooming in the developed capital markets. If such institutions are indeed created in this fashion, a significant proportion of World Bank lending can then go as lines of credit to these institutions. This would contribute to a longer term development of institutional capability in developing countries while ensuring a useful role for the World Bank as a financial intermediary for the foreseeable future.

What would be the difference between these institutions and the DFIs (Development Finance Institutions) which have had a dubious record of achievement so far? The key difference would be that these institutions should be set up as independent financial institutions with ownership structures which add to the quality of their credit, but which are not exclusively owned by specific governments. They must have autonomy and corresponding expertise, responsibility and accountability. Once again, the World Bank should use its high level of credit quality to leverage the intermediation of larger volumes of funds to be coursed through these institutions which, in turn, act as market makers at national and regional levels.

Different developed countries have used a variety of techniques to assist the intermediation of long term savings toward their application in infrastructure investments which require funds of long term maturity. In the United States, the tax free status of municipal bonds induces investors to invest in these securities. In West Germany, the system of Pfandbriefs, which operate under specific legal provisions and considerable government and regulatory oversight, provides the medium for raising long term funds in the capital market. Similarly, in Japan, the widespread postal savings system is used to provide appropriate security to savers. The finds so raised are used to provide resources to long term lending institutions such as the Japan Development Bank, Long Term Credit Bank and other infrastructure agencies.

In each of these cases, some specific governmental action has been used to induce savers to invest in long term securities which are then intermediated to appropriate uses. These processes have also helped in developing capital markets in each of these countries. The World Bank could assist developing countries to develop similar mechanism for intermediating long term savings, both internationally and domestically, for the purpose of infrastructure investment. It should use its high level of credibility to contribute financially to mechanisms which are created to provide the appropriate degrees of comfort required by investors. This could be a new form of lending for the World Bank. A beginning in this direction has already been made with the offer of different kinds of guarantees for selected infrastructure projects.

In summary, as a financial intermediary the World Bank will have to do a significant amount of re-thinking towards increased specialization in terms of its regional as well as sectoral focus. It must rouse the world's conscience and launch a large scale *Wolfensohn Initiative* for the development of Africa in the twenty first century. It also has to think of institutional innovations in terms of fostering better development of capability within developing countries so that its own lending is not only faster and cheaper but also more profitable and more accountable. The large volumes of resources available with different kinds of savings institutions such as pension funds, insurance funds, housing banks, mortgage banks, and the like are crying out for application to higher return activities in developing countries. This must be facilitated with the provision of adequate but not excessive degrees of comfort. This will involve institution building within developing countries or within specific groups of developing countries. This idea could be developed further with the participation of the World Bank itself and possibly the existing regional banks. Finally the role of the World Bank as honest broker and facilitator of capital flows will need greater attention as the situation demands. In principle, the World Bank must use the high level of credit quality it has achieved to enhance the credit quality of assisted institutions. It should increasingly use its resources as equity like flows which are utilized to leverage greater volumes of funds for international investments. Having achieved the highest degree of credibility for the quality of its own credit, it must use this very achievement to leverage a much greater fund flow of long term maturities for the requirements for investment in developing countries. Its funds should now be less for direct lending than for expanding the flow of capital resources from world capital markets to developing countries

III.INFRASTRUCTURE INVESTMENT: DIMINISHED ROLE

This is an opportune time to discuss this issue since the World Banks own *World Development Report* has recently focussed on it. It is remarkable but true that, whereas in the 1960s ninety per cent of World Bank finances went into infrastructure investment, in the 1990s, with the enthusiasm for structural adjustment lending, this proportion has gone down to about thirty five per cent. There is now a clear need to rethink these proportions.

Extending Debt Maturities

As has already been argued, the emerging trend in world capital markets suggests that, whereas certain kinds of infrastructure will need less and less of World Bank financing, other areas which are perhaps more risky and which have a long gestation period will require long term financing that is not yet available from private commercial sources. There are still very few sources of long term financing such as 15, 20 or 30 years loans for application in developing countries. One example where private financing has flowed but which has not been too successful is that of toll roads. The kind of tolls that are necessary to pay back the private capital which seeks to finance it over a short period are much too high to be sustained in countries with relatively low incomes. It is possible that more viable tolls can be levied if the financing available is of a longer term maturity such as that which is potentially available from the World Bank. Similar is the case for services such as trunk water supply and sewerage and other areas of infrastructure which are more like public goods than private goods.

In all such areas of infrastructure, which are lumpy in terms of investment, which usually have to be built much in advance of full capacity utilization, and which consequently have long pay back periods, there is an obvious need to find finances whose term structure matches that of the time stream of benefits. Even the most developed private capital markets have difficulty in supplying debt resources with such long pay back periods of 15, 20 or 30 years. It is here that the World Bank must specialize in particular. It can, however, explore newer ways of extending maturities of private sector finances which are otherwise typically available for 5 to 10 years maturity periods.

In many such areas of infrastructure, it is the initial period when most of the risks are borne: the period of construction and the early years of operation before optimum capacity utilization is .achieved. Once such an infrastructure facility, be it a toll road, a trunk water supply project, or a sewerage and sewage treatment facility, is operational and the benefit stream is assured, it would then be easier to obtain long term private sector financing. As already mentioned, many of the pension and insurance funds could then happily invest in the securities of such established infrastructure entities which can provide assured and sustained returns over a long period. The current standard form of Build, Operate, and Transfer (BUT) methodology for private sector participation in infrastructure could be reversed with initial World Bank financing for building, followed by transfer to a private sector special purpose vehicle for purchase and operation. With this methodology, World Bank financing would be of short to medium maturity, while the private financing would be of long term maturity. This procedure would enable faster recycling of World Bank resources for such infrastructure investment while effectively intermediating the flow of longer term private capital resources into infrastructure investment through the medium of infrastructure bonds of the special purpose vehicles created.

This is just one illustration of how the World Bank can use its own superior expertise, high credit quality, and higher level of country specific information to leverage greater capital market funding for infrastructure investment in developing countries. Many other methods could conceivably be found: it is to these kinds of innovations that the World Bank must turn its attention.

More Focussed Infrastructure Investment

Many of the newly industrializing countries in Latin America and elsewhere which have gone through long periods of stabilization and structural adjustment in the 1 980s have suffered from widespread neglect and hence dereliction of their infrastructure. Thus a consequence of many of the structural adjustment programmes which the World Bank itself has participated in is a much greater need for infrastructure investment. The World Bank should recognise this explicitly and once again change the proportions of its lending portfolio towards infrastructure financing.

It should also be realised more specifically that a more focussed approach to infrastructure investment is necessary in the future. It must be used to create comparative advantage which yields the economic benefits that the structural adjustment programmes themselves envisage such as creating specific infrastructure for trade promotion. This argument can be made more specific by giving just one illustration. Two small countries, Singapore and the Netherlands have created comparative advantage for themselves by specifically investing in trade related infrastructure. Both the Netherlands and Singapore have invested in creating world class ports in support of their own requirements for trading. Similarly both these countries have also created world class airports, both for passengers and cargo. A good deal of their success in their respective manufacturing activities, in petroleum related sectors, and as entrepots of trade, have resulted from the creation of this focussed infrastructure investment. Thus, these otherwise resource poor small countries have created for themselves a major role in world trade and in the most capital and resource intensive industries related to petroleum. Similar focussed projects in infrastructure creation can lead to great economic benefits in different developing countries. As developing countries make the transition from being predominantly agrarian societies to urbanized industrialized ones, non-farm employment generation is of the essence. Another example of focussed infrastructure investment relates to the infrastructure elements which make different kinds of agro and food processing activities possible - activities that are generally employment intensive in character. Better communications, better transport, the provision of refrigeration facilities, all promote off-farm good processing increasingly possible and economically viable.

Thus infrastructure programming in the future must be much more purposeful and focussed, so that the economic benefits from infrastructure investment emerge sooner rather than later and which, in turn, can be ploughed back for further infrastructure investment. The World Bank should see for itself a significant role in this process, as distinguished from the more generalized infrastructure investment of the past. This kind of investment does require some degree of perspective planning and programming.

Infrastructure for Urbanization

One unprecedented change that is likely to take place in the next 50 years deserves a special note. It is well established that the urbanization process takes place in most countries in a logistic manner. Thus at low levels of income the rate of urbanization is usually slow and takes an extremely long period of time measured in hundreds of years to reach an urbanization level of between 20 and 30 per cent of the population. Subsequently, there is then a spurt in urban growth so that the next phase of urbanization goes from a level of 20-3 0 per cent to 60-70 per cent in an extremely short historical period, typically 30 to 60 years. This is the phase when a country enters a sustained phase of rapid economic growth which transports it from low income status to middle income classifications (by current standards). During this period, as may be expected, the need for infrastructure investment is usually extremely heavy and most countries going through this phase typically require external savings for the financing of the urban and other infrastructure needed for such a fast urbanization process. This has been true in most countries in the past in Europe and North America in the 19th century and early 20th century, and in Latin America and East Asia in the latter part of this century.

It is now the turn of India, China and Indonesia to go through this phase jointly over the next 50 years, alongwith some countries in Sub Saharan Africa. What is noteworthy is that never before have countries as large as India and China, with a total combined population of two billion people, gone through this phase of urbanization at the same time. The requirements for urban infrastructure and other investment will therefore be massive in both these countries. Alongwith the large scale import of materials and equipment they will require large volumes of external savings to finance the infrastructure required for this fast economic growth and associated urban development. Indeed one interpretation of the emerging trends in international capital markets which are providing large capital flows for infrastructure investment, particularly in China, is indeed that it signifies the beginning of an international market response to this requirement.

The World Bank will have to participate in this process in a very significant manner. For adequate volumes of resources to actually become available many financial as well as institutional innovations will have to emerge. As a repository of information, research and thinking, the role of the World Bank should indeed be crucial. In terms of priorities this is an area which should assume extremely high priority in the role of the World Bank in infrastructure investment. It will catalyse larger flows of capital for such infrastructure investment. It also has to bring to bear its considerable intellectual, technical and financial expertise to ensure that these investments take place in an efficient manner. These investments will have to be much more focussed than they have been in the past, they will need explicit attention to the mechanisms, both political and administrative, which make it feasible that a return flow of benefits finances them; and this in turn will require much greater participation of the public in demand articulation.

If this role has to be a successful one the policy rhetoric of the World Bank probably needs to be changed. Its attention at the sectoral level which has increasingly ascended from micro to macro concerns under sectoral adjustment programmes will have to descend to micro levels once again. The kind of flows that are required in the future will not take place unless the returns to these investments are made greater in financial terms than they have in the past. The World Bank has, so far, provided only debt capital. There should now be better balance between external equity and debt and the World Bank should assist in this change. A great deal of institutional innovation will be required in a decentralized manner in the future for this to become possible. Thus the policy attention has to shift from ends to process.

Institutional accountability is of the essence. The methodology followed so far for infrastructure has been the formation of public sector entities, often known as parastatal organizations, for the continuation and operation of infrastructure projects. The World Bank assists in the funding of these projects by extending debt financing to these entities through the concerned governments. These entities often do not have clear financial and organizational structure which would promote accountability. Even if they do, they usually have 100 per cent government equity and then "benefit" from soft budget constraints. Since the World Bank itself lends only with sovereign government guarantees, payback of World Bank loans is not at all dependent on project performance. Thus there is need for the search for new institutional structures which promote accountability. The World Bank's own lending should be subject to similar accountability related to project performance. It could also leverage its own funds better by investing in the equity of the new institutions created for such infrastructure projects thereby enhancing their credit quality and improving their access to capital markets, both domestic and international. Where subsidies are essential for adequate service provisions these could be made transparent through direct government funding for equity or for operational expenses. Such explicit blending can then make private funding commercially viable.

The foregoing is by way of illustration: the key issue is that the World Bank must use its resources to make infrastructure investment more commercially viable to enable greater flows of commercial capital into such projects.

Capacity Building in Developing Countries

The received wisdom for infrastructure investment in the past at national or sub-national levels was that there was a great role for Planning Commission and Ministries as central coordinators. Among the reasons for the many failures that such Commissions or Ministries have faced is that these were essentially supply oriented mechanisms. Whereas they probably did well in coordinating and identifying the macro level needs and composition of infrastructure investment, they often failed because these were not too closely coordinated with needs and demands which existed at decentralized levels. There was no nexus between the returns to investment and allocation of resources, except through ex-ante project evaluation procedures. They were also not consistent with the capacities for paying back the investments made either through the public finance system or through direct user charge mechanisms. The result was that much investment in infrastructure has not been as productive as it could have been. The lack of adequate pay back capacity has also meant physical depreciation resulting from an absence of maintenance.

Having said this, there must be clear recognition of the need for technical coordination of infrastructure provisions at the central level in sectors which typically involve countrywide or indeed international networks. This includes sectors such as the provision of power, highways, telecommunications, and railways. In Europe, for example, the European Union is fulfilling a significant role in these areas in doing the sectoral planning of networks for the next 25 years. The European Council of Ministers of Transport (ECMT), attached to the OECD, has existed since 1953. It has attempted to coordinate transport planning in Europe throughout this period. Whereas their actual execution would be done at country or at lower levels as necessary, there is strong central coordination at a technical level. With the discrediting of central planning and with the withering away of planning organisations there is currently very little discussion on how some of these technical coordination issues are to be tackled in the future. Either the existing coordinating mechanisms have to be strengthened or new institutions devised.

A good part of the discussion is confined to whether investment in many of these areas should be done by the government, public sector entities or by the private sector. However, there is very little discussion on how the coordination is to be done regardless of whether the actual investment or implementation is to be done by public or private entities. In the discrediting of planning mechanisms the World Bank itself has played a significant role, as it had much earlier in the 1950s and 1960s in the creation of these very planning mechanisms. If future infrastructure investment is to be much more focussed as argued, and if it is to be bankable and productive, much greater thought has to be given to institutional development within developing countries. How are new infrastructure networks to be planned, implemented and managed at relatively low levels of income and skills? The World Bank must assume an important role in the development of thinking and of institutions in this regard. and in the dissemination of information.

Private Sector Participation in Infrastructure

It is becoming increasingly apparent that large scale private capital flows will take place much more easily for infrastructure investment if an appropriate governmental and regulatory framework exists which can receive such funds and which can contribute to the transparency of returns that private investments must ensure for themselves. Even in sectors such as power and telecom such a framework is crucial. But in the transportation sector, be it roads, ports, airports, or urban mass rapid transit, interaction with the government is even more intense. In such areas the existence of pre-feasibility studies, long term programming, demand estimates, etc. are all precursors for attracting private investment. The clearer the requirements are spelt out, the lower the perceived risks, and thus lower the cost of funds which can be attracted. The World Bank must use its funds and expertise to assist in such activities in order to leverage greater private sector funding for infrastructures investment. A special window could be created to fund such activities in developing countries.

I have already argued that there is a great need for country or regional level institutions to be developed as intermediaries of international and domestic capital for infrastructure investment. These institutions would be different from erstwhile central planning organizations in that they would presumably only lend to projects for which there is adequate demand from lower levels be they private or public sector institutions and organisations or governmental entities. At the same time they would also be more commercially oriented as financial intermediaries which receive foreign investment funds, which raise funds domestically, which are able to raise funds of long term maturities both domestically and internationally, and which are able to provide or broker technical assistance for the projects which such institutions invest in.

Why have I argued for the creation of such infrastructure investment banking type intermediaries? As indicated in the recent World Development Report, out of annual requirements of about US $ 200 billion for infrastructure investment in developing countries, at present, only about US $ 20 billion comes in official flows and about US $ 15 billions in private flows. The rest comes from domestic savings in developing countries themselves. The issue therefore is how these domestic savings can be much more effectively intermediated and allocated for infrastructure projects. The productivity of the World Bank itself would improve considerably if most of this infrastructure investment is generated through infrastructure banks in the public, private or joint sectors at the country level rather than being coursed through government budgets through Planning Commission or Ministries. Given the World Bank's own experience at an international level it is clearly well qualified to build domestic capabilities in this direction in the future.

Regulating Private Provision of Infrastructure

As mentioned earlier, most of the private capital flows in infrastructure are going for investment in particular bankable sectors such as telecommunications, power, ports and toll roads. In each of these areas there are intrinsic degrees of monopoly that exist. The efficiency of private investment and its allocation depends on the efficiency and fairness of regulatory agencies. Since the rush of private resources in these areas is a relatively new phenomenon, and since contestability in these sectors has become possible only through recent technological innovations, there is no settled international best practice in the regulation of these activities. In countries which are characterised by shortages of skills in both management and technical terms the problem of designing regulatory authorities becomes more acute. In areas which involve allocation of different degrees of monopoly rights corruption is a large issue. There is also a direct nexus between low regulatory skills and opportunities for high corruption. Thus a more transparent and skilled regulatory regime for allocation of resources in these areas would reduce the likelihood of corruption. The World Bank therefore has a specific role in even those areas of infrastructure where a good deal of private capital is available and where it probably does not need to devote its own financial resources in large measure. What it does need to do is to contribute its expertise in building local capability in the developing countries themselves to manage the capital flows that they are receiving and are likely to receive in the future.

The Bank itself does not possess adequate expertise in this area. As the World Bank has grown over the years its own staffs have become progressively more inward looking. The proportion of those who have never worked elsewhere has increased over time. For developing country level expertise in building regulatory agencies much more country experience in developed countries themselves is required in Bank staff. Thus, to perform this role in infrastructure investment the Bank needs to look within itself, invest in staff development, and become more outward looking so that it can transfer best practice in the creation of regulatory authorities in different infrastructure sectors within countries where it is required. It has to conduct the equivalent of zero based budgeting in carrying out a thorough new assessment of its new staff requirements. It must redress the balance between operating level experience within countries, academic expertise and within World Bank experience.

Soft Areas of Infrastructure

So far I have focussed on what might be characterised as hard areas of infrastructure. A continued need for World Bank involvement exists in human development related to softer areas of infrastructure. If the developing countries are to compete in an increasingly integrated world economy and in an open economy framework they will have to pay much greater attention to human resource development on a widespread basis. The World Bank began to devote greater attention to this issue from about the late 1970s or early 1980s onwards-but it has still further to go in this direction.

The whole area of human resource development is receiving much greater attention now than hitherto. Broadly interpreted, it covers nutrition, health, education and training. Although the introduction of the private sector is being advocated in these areas as well, there is almost no precedent available in the world where the government has not assumed the key responsibility for providing these services, particularly at low levels of income. At the same time, the experience of the last three or four decades in the poorest countries shows that severe difficulties exist in the actual delivery of these services both in far flung rural areas and in towns and cities. The traditional forms of governmental delivery systems have simply not been successful. Privatization is unlikely to provide the answers. Thus the World Bank must search for new forms of delivery which are appropriate to the requirements of the countries which need the extension of these services the most. A great deal of research, experimentation, risk taking, and institutional development is necessary and World Bank resources can be used profitably to promote such activities. Much greater use of successful international experience could be used to explore the potential of different delivery methods. The necessity for local control and participation in delivery systems could be given greater consideration, alongwith the appropriate institutional forms which make this possible.

Current World Bank thinking has focussed on the correct composition of public resource allocation between different levels of education. It is now widely received wisdom that public resources must be concentrated particularly in primary education, somewhat less on secondary education, and the least on vocational and higher education. The argument is essentially that it is at the primary and secondary levels that there is the greatest excess of social benefits over private benefits. There could be no argument on the general relative weighting of importance between these different levels of education. What is surprising about this new received wisdom, which places the onus on private funding of higher education, is that no developed country itself has relied on substantial degrees of private funding of higher education, including the United States. (see OECD, 1992).

The situation is even more serious in the context of open economies and open competition where competitiveness will increasingly be dependent on skills and productivity as distinguished from pure price competitiveness which is derived from low wages only. Given the wealth that exists in developed countries in terms of physical facilities and quality of higher education institutions there is a clear need for developing countries to increase rather than decrease the resources which go into higher education. This increase in expenditures must be funded both from higher user charges and from greater government expenditure. The two should be mutually supportive, not in competition. The availability of student loans itself requires funding mechanisms. Similarly, mechanisms such as the American Connie Lee (College Construction Loan Insurance Association) have to be considered for catalysing investment in university and college infrastructure. (Connie Lee is a private corporation which works closely with its constituents (colleges and universities) to structure financial packages for financing college improvements. Its credit evaluation and enhancement programmes help it to insure and re-issue college building bonds to triple A rating). The distance between the quality of higher education between the best institutions in developing countries and developed countries has probably increased over the last 2-3 decades. The resource requirements for equipping higher education institutions in terms of laboratory and scientific equipment has become larger and larger.

What has been given even less attention in developing countries is the development of appropriate kinds of vocational education which is so necessary for providing appropriate skills at all levels in all sectors including the tertiary sector. Those countries which strive to develop by attaining higher levels of real incomes through sustained quality and productivity increases will need very substantial investment in quality vocational and higher education institutions alongwith primary and secondary education. In this, once again, the World Bank can have a very significant role to play in financing investment in all of these areas. In the case of primary and secondary education the need is not only for a higher weightage to be given in terms of resources than is the case at present, there is also need for much greater thinking on how to make the schools more productive and efficient in the use of these resources.

The attainment of increasing degrees of capability in different sectors of the economy also requires continued adoption, adaptation and transfer, of technology. This has been well recognised in the area of agriculture where the World Bank has participated to a significant extent in financing and organising international institutions for agriculture research under the CGIAR framework. These institutions themselves have also contributed in raising the importance of agricultural research and policy development. They have also been seen as models for increasing domestic investments in agricultural research and transfer of technology for agriculture.

There is a similar need for the creation of R&D institutions in the industrial sector in developing countries which assist in the process of creation of techno logical capability in these countries in both the manufacturing and tertiary sectors. A great amount of work needs to be done to find appropriate institutional forms for fostering the right kinds of public and private partnerships which are the most effective for this purpose. How are these institutions to be created? At what level? How are they to be financed as between public and private resources? How are they to be managed so that they are responsive to the needs of industry and so that they do not get bureaucratized? And how can the process of creation and functioning of these institutions be made endogenous so that they continuously adapt to changing requirements. There is also the specific need for technology transfer institutions which perform functions similar to agricultural extension services. Once again, for such institutions to be effective the right mix of supply and demand has to be found so that while they procure the best practice available in different areas of technology, they are responsive to the specific needs of firms in their specific environments.

It is in this area of technology development and transfer where there is probably the greatest area of ignorance in terms of what is effective and feasible. At the same time the sustained success of developing countries in attaining ever higher degrees of confidence in all areas of activities will depend on the creation of efficient productive functioning of such institutions. This should therefore be a new area of focussed World Bank attention in both infrastructure financing and institution building.

Hard Areas of Infrastructure: Needs of the Twenty First Century

A number of developments are taking place in new infrastructure provision in developed countries. Substantial new investments are taking place in these new infrastructure areas which are designed to improve the competitiveness of these countries further at the high tech end. It would be quite appropriate for developing countries, particularly the middle income newly industrialising countries to leap frog in these areas rather than making investments in more traditional infrastructure first and then upgrading latter.

Illustrations of these areas include the new investments that are taking place in different countries in the provision of high speed rail transport, arrangements for multimodel transport networks, the setting up of information highways, the modernisation of ports and airports using the new possibilities opened up in terms of information technology and telecommunications. Each of these activities will provide significant improvements in productivity in the tertiary sector. In most of these areas, initial planning, coordination and, in many cases, investment is being done by governments or state agencies. There is some degree of private participation as well. In each of these areas developing countries will do well to make similar investments abinitio so that they enable themselves to compete on equivalent terms in the future.

The provision of high speed railways for example could be more environment friendly and productive than equivalent investments in road express ways. It is reported that the TGV in France is now a profitable enterprises (ECMT, 1994). They might also be more energy efficient in transport provision. The provision of information highways will probably become a necessity for the purposes of communication in all areas of activity, which could range from the exchange of scientific institutions and firms, for the purpose of travel and tourism, for the purpose of trade and so on. In manufacturing, the new production management systems involving total quality control, flexible manufacturing system, just in time inventory control mechanisms, order linked batch manufacturing, etc., will increasingly require real time information flows between customers, manufacturers and suppliers. Hence the earlier developing countries invest in these activities the better. The new developments that are taking place in the technological modernisation of trade facilities include such activities as customs clearance, duty assessment, trade facilitation and the like on an electronic basis. This is made possible by the use of paperless transaction documents and declarations which are electronically transmitted to the authorities while ships are still in motion. The fast movement of goods in containers from ship to shore and to their respective destinations is being facilitated by the physical modernisation of ports and by use of information technology in these activities as well. The increase in turn around speeds of ships and in the transportation of goods enhances the productivity of economic activity in general. Once again, as developing countries build new port facilities aimed at enhancement of their trade they should consider making these investments at the high tech end forthwith, with a view to making multimodel transport efficient. Some of the success of East Asian countries can be attributed to their willingness to leapfrog technologies to the high tech end, particularly in the infrastructure area.

The modernization of tax assessment, collection and enforcement systems can do much to improve revenue collection in developing countries. The transparency that is inherent in the computerization of tax systems also contributes to better compliance and reduced corruption. Similarly, there are many other areas of administration which can benefit significantly through computerisation. In brief, the building of information highways in developing countries, in some sense ahead of their time, is one infrastructure activity which the World Bank could productively invest in.

These are all infrastructure areas where the World Bank should focus for providing finding and technical assistance to developing countries as they upgrade their infrastructure facilities. These needs will probably be felt most in the newly industrialising countries which might otherwise be graduating from World Bank borrowing. These could be the areas where they might still benefit from IBRD funding because of the availability of long term loans.

IV. NEW DIRECTIONS IN POLICY RESEARCH AND ADVICE

I have argued that the World Bank's role as a pure financial intermediary and as a significant lender for infrastructure investment will either be circumscribed in the future or significantly more specialized. It must increasingly be a wholesaler of funds than a retailer of specific project loans. However, its role as a generator of policy research and as economic policy adviser can possibly be seen as a major growth area. But in these areas the World Bank must be much more eclectic, impartial and process rather than end oriented. The World Bank could successfully turn itself into the OECD for developing countries.

Macro Economic and Trade Policy

The World Bank's role as a policy adviser was considerably strengthened during the 1980s because of its involvement in the many structural adjustment programmes which were necessitated by the debt crisis of the 1980s. Since this role as policy adviser has been linked with its role as a lender and preserver of the world financial system, the Bank is generally much more concerned with desirable end results of policy rather than the process with which it is developed. The Bank itself has been aware of this tension. Many of its own evaluations of structural adjustment programmes have suggested that these programmes have much more likelihood of success if they are put in place with political conviction and consensus within the countries concerned. Their own chances of success are reduced when these programmes are viewed as externally induced. But this realisation has not found adequate reflection in its structural adjustment lending operations.

Another standard criticism of the structural adjustment programmes in different countries is that they did not adequately reflect the specific needs of different countries. The programmes were far too similar in their composition and their methodology despite the wide diversity that exists between countries in different regions, different cultures and at different levels of development.

The speed with which very significant policy changes and decisions were expected to be made in these programmes has also been described as unrealistic and not adequately reflective of the realities of government and policy making. Such large policy changes are seldom contemplated in developed countries themselves. The process that has led to the formation of the European Union, for example, has taken more than 35 years and is not yet complete. The work of dismantling trade and other regulations is still continuing in Europe. Similarly, the acceptance of the agreements contained in the Uruguay Round has involved long and protracted negotiations between developed countries. The phasing out of the Multi Fibre Agreement (MFA) is being done over an additional ten year period. In the structural adjustment programmes, however, developing countries were expected to make extremely radical changes in policy with a minimum of public discussion and consensus building. The objectives and directions of the policy advice contained in the structural adjustment programmes is not at question here. What is being questioned is the style with which many of these programmes have been carried out and the long term sustainability of such programmes.

An analogy could perhaps be drawn from the style of policy advice that was prevalent in the 1950s and 1960s. At that time the development consensus was that there was a great need to raise domestic savings rates in developing countries and that the government was mainly responsible for infrastructure investment. With this broad consensus most countries were advised to build their own institutional capacity for designing five year plans and for implementing them. In this respect, much more attention was given to the process of policy making which would itself develop plans and programmes on their own in relation to the objective conditions within each country. Whereas many countries derived great benefits from this approach the net result has not always been very satisfactory. It was seldom that foreign advisors imposed five year investment plans on developing countries, although many countries did utilise a number of resident foreign advisers in framing these plans.

The parallel in today's world is that in a more complex environment of open economies, open trade, fluctuating exchange rates and the like, there is much greater need for a high level of capability among policy makers so that they can respond appropriately to the fast changing world environment. The structural adjustment programmes as advised by the World Bank have given very little attention, if any, to capacity building within governments for the requirements of policy making and to the process itself of policy making. These programmes have not attempted to create any new institutional mechanisms within governments which can then equip them to make the continuous adjustments that are required to cope with changing external and internal circumstances. How are industrial policies, trade policies, capital market policies and the like to be adjusted with changing circumstances? What are the kind of endogenous institutional responses that can be developed so that external advice is not needed in times of crisis? There is need now to develop new governmental mechanisms and institutions to respond to these imperatives and to build the technical policy making capability that goes with it. It is to this need that the World Bank must turn its attention in the future. It can be expected that once such capability is developed a greater consensus in policy responses will also then emerge.

As already noted, it is very common to observe that the kind of policy changes that developing countries have been expected to implement are of such magnitude that would never be expected in developed countries. One possible cause for this kind of policy advice is that, as already mentioned, increasingly a high proportion of World Bank staff have never worked in any government, in developed or in developing countries. Thus they have very little understanding of the processes of policy making, political constraints and of democratic functioning. Their advice is then unconstrained and unrealistic and often more suited to non democratic top down forms of government, not too different from the structure of the World Bank bureaucracy itself. The interplay of conflicting interest groups, of winners and losers, and of competing ideas, requires considerable discussion and mobilisation of public opinion for the effective development and implementation of new policy directions. This is true both at sectoral and economy wide levels. Thus, whereas the World Bank has been very effective in articulating the kind of desirable end results of policy changes, it needs to invest in developing capability which understands better the processes which are most effective in arriving at such policy directions.

Most developing countries have a long way to go in putting in place appropriate policy environments which are capable of responding to the changing needs of their economy for achieving self sustained growth. Thus there will be a continued need in the foreseeable future for impartial knowledge based advice from the World Bank. Such advice is likely to be used much more if the World Bank retrained its staff to make them more process oriented rather than end oriented.

Building Institutions for Market Oriented Policy

One result of the dirigiste policies that have been followed by many developing countries in the last three or four decades is that the institutions required for orderly market development have not emerged. Many of the functions that ought to be performed by autonomous and indigenous institutions have been performed by different government departments, often on a discretionary basis. As governments deregulate and withdraw from the practice of such discretionary powers; and as economies become increasingly market oriented; there is a greater need for developing institutions which are relatively free from political pressures and which provide an appropriate regulatory framework. It is only then that the likelihood of negative externalities, which are often associated with unbridled markets, will be reduced.

Much of World Bank research during the 1980s and 1990s has been focussed on the documentation of government failure, just as it had emphasized market failure in the 1 960s and 1 970s. Consequently, much of its advice has advocated the withdrawal of government from many activities. *It is perhaps time to change track again and focus on good government rather than no government*, and on making markets rather than merely assuming markets. The recent study on the *East Asian Miracle* was a beginning in this direction. Few examples of successful development can be found which do not involve "good" government; similarly, few examples of well functioning markets can be found which do not involve intelligent and knowledge based regulation. For example, the American capital market is the freest in the World but also the most regulated.

Wide ranging economic reforms which eliminate entry barriers to new investment, lift trade barriers, and which reduce tariffs are bound to lead to a great amount of industrial restructuring. The World Bank has given common currency to the term "Exit Policy". The social realities of most countries, including developed countries, are such that closures of large firms are never very easy : witness the difficulties encountered by the United States in its efforts to shut down military bases which are no longer required. Most developed countries have built up elaborate structures for social security for displaced labour, for retraining and redeployment of workers who are affected by industrial restructuring, for the enforcement of employment contracts, for the displacement of non-performing management, and for changes in ownership, where required. Despite these provisions, declining industries have always posed difficult problems for economic policy making and for social administration.

Many of the protectionist policies of developed countries have arisen from the social and political need to preserve jobs in declining industries. In spite of these experiences much of the policy advice emanating from the World Bank on this issue betrays lack of knowledge and understanding of the practices that are followed in even developed countries. The impression often given is that industrial restructuring is easy and consists essentially of closure of non-performing enterprises. This is far from the reality, but developing countries do need a great amount of advice on how these difficult situations are to be managed. Such industrial restructuring will also require considerable financial resources, which also the World Bank could assist in providing. Thus there is a great need for technical advice and empathetic institution building which is required to promote industrial restructuring and which is regarded as labour friendly. This is an area where there is a great variety of experience in different countries. Developing countries could benefit substantially from policy advice for structuring processes which promote industrial restructuring.

The financial sector has been government dominated in a large number of developing countries. The existence of dominant state owned commercial banks and term lending institutions is widespread. As markets open up, and as greater competition is introduced into the industrial sector there is a concomitant need for the opening up of the financial sector. Further it is of the utmost importance that there is public confidence in banks and other financial sector institutions since they are the guardians of most private and public resources. Similarly, the development of capital markets requires transparent trading institutions in which the public can repose its faith in intermediating its hard earned savings for investment in the most productive fashion. For this to take place a great deal of regulation is required which, on the one hand, provides adequate flexibility for the operation of capital markets while, on the other, deploys their money in the most productive fashion and provides adequate protection for investors. Rogue traders must not be given free play to lose public savings at the flick of a computer screen.

Competition policy is another area which requires sophisticated government regulatory agencies which ensure the operation of adequate. Competition in all sectors of the economy. By the nature of this activity a substantial degree of discretion is necessary in the enforcement of competition policy. At the same time the rules of the game must be transparent enough so that the threat of action is enough to enforce self regulation in most cases. Discretionary action on the part of the government should only be necessary in exceptional cases where self regulation is not taking place.

The increasing possibilities offered by private participation in infrastructure areas such as telecommunications and power requires the existence of strong regulatory agencies. In most of these areas it is simply not feasible to have free entry as it is in the manufacturing sector. Thus entry has to be regulated, standards have to be designed and enforced, consumer interests are to be protected and the operations made commercial. Once again, this kind of regulatory activity has to be technically and administratively sophisticated.

In all these areas a great deal of policy advice is required so that markets can develop in a healthy fashion and, where degrees of monopoly exist, they can be appropriately regulated. The World Bank would have a huge market for policy advice in these areas for the foreseeable future if it had enough expertise in its own staff. The typical condition prevailing in developing countries is that shortages of skills are endemic, particularly in administration and regulation. New governmental structures have to be found and new forms and styles of administration. A great deal of policy research needs to be done to find the modes of regulation which would be most suitable in developing countries and which economise on the use of sophisticated skills which are typically in short supply. The World Bank research programme should reflect this need so that it is better equipped to assist developing countries in this area of great need.

The World Bank as an Information Exchange

The OECD functions as a giant information processing machine and as a policy exchange mechanism between developed countries. The OECD secretariat carries out a great deal of policy research on most aspects of policy making in the context of developed countries. Further, a good part of this activity is done with the involvement of departments and ministries of member governments through structured meetings organised on focussed areas by the OECD. As a result there is very substantial transfer of cross country experiences with regard to objectives and modes of policy making. A good deal of learning by the civil services of different countries takes place through interaction with their peers from other countries, and from the OECD staff itself. Apart from permanent research staff, the OECD Secretariat also has a regular programme of staff interchange with member governments. Transfer of information and best practice policy thus takes place through osmosis. These exchange mechanisms keep OECD policy advice on a realistic level. Credibility is therefore enhanced.

The World Bank can do much more in this direction for developing countries just as the OECD does for developed countries. So far the World Bank has also operated as a storehouse of ideas that it gathers from policy making practice in different countries. Its publications are of high quality and receive wide circulation. It imparts what it regards as best practice policy to its member countries. It could further develop its policy advice role towards a much more participatory form like that of the OECD. Policy makers in developing countries would benefit greatly by interacting with their counterparts elsewhere who typically face policy making difficulties similar to their own.

To a limited extent this function has been performed by the Economic Development Institute of the World Bank (EDI) but not on a systematic and sustained basis. But, the EDI does not have an organic link with the World Bank's core policy advice activities. It also does not have adequate links with the World Bank's own research programme. Unlike the OECD, each of these activities policy advice, research, and training, is a relatively isolated activity in the World Bank. Interestingly, although there is a very active and high quality training programme for its own staff within the World Bank, this is another activity which is not integrated with the EDI In fact, good links exist between the World Bank's operational activities and own training activities, which contributes to the high quality training of its own staff. The future of the World Bank's role as a policy adviser would be enhanced considerably if all these activities were made much more integrated and participatory in nature as in the OECD.

This change requires substantive changes within the World Bank's own administrative structure and in its mode of functioning. It must understand the value of peer interaction among developing country policy makers. The country economic reviews that it undertakes for different countries could themselves become modes of interaction between different countries. At present they are relatively closed affairs between World Bank staff assigned to a particular country and its policy making officials. There is little involvement of the World Bank research staff, nor of the EDI in these interactions. Now that country economic reports are no longer confidential, much more use can be made of them for interactive discussion between different parts of the World Bank and policy makers of comparable countries. The annual or bi-annual "Country Economic Memorandum" that is prepared by the World Bank for most countries could be made much more participatory and subject to peer review with participants drawn from other developing and developed countries alike. In this way, not only would their quality improve but also result in greater value added from the technical work done. Similar processes can be used with the various occasional sectoral reviews that are typically conducted by the World Bank.

This is an area of activity which the World Bank can expand very considerably and make it as much a core activity as its lending programme. Once again, this would contribute to making its policy advice activity process oriented rather than end oriented. It would contribute significantly to the coordination of economic policy making between developing countries and in capability building of the civil services in developing countries. As part of this programme special attention can be given to the transfer of cross country experiences from developed countries to developing and vice versa. The transfer of experience within and between regions such as East Asia and Latin America would, for example, be very beneficial.

To continue with the example of the OECD: much of policy development and interaction in different sectors is done through the medium of different sectoral committees whose members are all the member governments of the OECD. Secretariat and technical back up is provided by the OECD staff. Any policy document prepared by the OECD then undergoes peer and governmental review in these committees. In contrast, the World Bank prepares sectoral policy papers exclusively within the research and policy staff. The only formal governmental review is through the World Bank's Board of Directors where governments can exercise a voice. Much greater dissemination of policies could take place if policy papers and reviews are prepared on a more participative basis. Clearly, because of the World Bank's much larger membership, it cannot practically clone the OECD practices. But it can certainly devise new participative procedures which promote greater learning, interaction and dissemination in this form. Such processes would in themselves promote the development of policy analysis capability within developing countries.

Remarks have already been made on the increasing inward orientation of World Bank staff. In order to achieve success as an information exchange and as a sophisticated analyst and developer of policy making, the World Bank should initiate a special programme for exchange of staff with governments in developed and developing countries alike. It is essential for the World Bank to endogenize within itself country experience in policy making. Similarly, the placement of World Bank staff within developed country governments, their own governments and in third countries would be another channel for transfering policy making experience in both directions. In brief, the World Bank has to make a conscious effort to make its own staff more outward oriented and its policy advice role more participatory and process oriented.

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