

by
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Washington D.C., May 3, 1999

Thank you for your introduction and I am very happy to come to address this group. When the Council of the Americas asks me to do something, I always have an image of David Rockefeller. And when I have the image of David Rockefeller I say yes, and then I think how I can do it. And it's wonderful to see David sitting there, and let me acknowledge my own great personal debt to him over so many years. He picked me up when I was first at Harvard, and when I came to New York I didn't have many friends, but I started with David Rockefeller, and I was told that's a pretty good place to start.

And so I'm very happy that he is here.

Let me say first of all that we have just finished the spring meetings of the World Bank and the International Monetary Fund. I was asked to talk here today about the reassessing of the global financial architecture and its impact on Latin America. So let me first start with what happened at the spring meetings and then let me try and tell you what I think the impact is on Latin America, if there is an impact. I see Marcus de Pavia here is going to be able to speak later about Brazil. But let me describe to you the environment which was one of trying to deal with the recent financial turmoil.

Financial turmoil is something you have been familiar with in Latin America. You all recall the '94 Mexican crisis. You will recall the reaction of your governments and of the private sector to try and deal with the issues of structure, the issues of fiscal and monetary policy, the issues of trying to ensure, once and for all, that it would not happen again to Latin America and that you would take the necessary steps to make sure it did not happen.

Well, there is very little doubt that the steps that were taken in country after country were extraordinarily helpful. And, in fact, during periods of turbulence, with, really only one scare in Brazil, broadly, Latin America avoided the problems of Korea, Thailand and Indonesia. Not completely, of course, but broadly. Until we had a drop in commodity prices and then we had the Russian scare, which proved to be too much for the Brazilian situation.

What was clear was that the markets were linked. I need hardly tell this group that. That events in Russia could have an impact in Brazil, notwithstanding the fact that there is precious little trade and precious little relationship. But the impact on markets and access to markets and

the uncertainty of international investors and of international banks was immediately translated to an impact on Latin America.

Of course, it varied country by country, and it still varies country by country. With Mexico, as the Minister was telling me this week, now feeling resurgent confidence as oil prices move forward, with the Brazilian situation looking much better today than it did two or three months ago, with the Argentine situation looking better, Ecuador being a little sick. And varying, I won't go country by country, but there are varying levels of either optimism or lack of optimism in other countries.

Overall, the potential for this coming year is, as you know, far less attractive than it was in 1997. The 5 percent plus growth rates are now on average in the one percent area. In the case of Brazil, negative growth this year but with hopes for a turnaround. But the feeling is generally that if things keep all right, if commodity prices return, then there is a chance that the crisis can be averted and we can move forward.

What I found interesting as I looked at the statistics was the size of the countries relative to the Asian situation. I am used to thinking of the Korea/Thailand/Indonesia framework, but it is important to put Latin America in the context of the global scene as well.

When I talk of Asia, I talk of those countries, but I am quick to point out that Japan is a five trillion dollar economy. Five thousand billion dollars. And Indonesia is around 200 billion dollars. That Korea is around 480 billion dollars and that Thailand is around 165 billion dollar economy. So when you speak of Thailand and Indonesia, you're talking of economies that are 1/25th the size of Japan. So a three or four percent move in Japan is the totality of the economies in Asia. And when you look at Latin America, you find Brazil at nearly 800 million, Mexico at 3500 million, Argentina at 320 million. And then Colombia's 87, Ecuador's 20, Peru's 60, and Venezuela's 79.

The first thing you have to understand is that these economies are very vulnerable to world pressures, because they are quite small. And the impact of commodity prices and movements internationally has a very, very significant impact, which I need hardly tell you is true of many of the countries in the region.

So the first thing we acknowledge is that taken after '94 strengthened the structure. And it looks as though today we're through the worst. That the access to markets, albeit at high spreads, has returned. We seem to be a bit further back from the edge of the precipice and things seem to be more calm. And there is some hope in Asia that Korea and Thailand at least have restored their growth, and that Indonesia is awaiting an election. That China, with a 7 or 8 percent growth, seems to be reasonably stable at a trillion dollar economy. That India is okay at 6 to 7 percent growth. And that a sense of calm has returned.

Michel Camdessus [IMF Managing Director] and I were constantly asked at the spring meetings, is the crisis over? And we were able to say that it's a hell of a lot better than it was, and that maybe we're through the worst. And that if that happens, then you'd have to say that the outlook

for Latin America as part of the global economy is probably better. And that access is likely to return.

We have seen a big change in the flow of funds. Until '98, you had some reduction in private sector investing. In the first half of '99, there has been a very significant drop. And you have shared in the problem of bank financing and all private sector financing, which in '97 was \$300 billion and it dropped a hundred billion in the following year, meaning that availability of bank financing, access to bond markets was much reduced. And now we're seeing the first signs of return.

I can always tell at the Bank, because when people come to the Bank and the IFC, it's in tough times. And they forget us when everything is great. And we've had a huge amount of business coming in, and now people are starting to get mildly arrogant again, which shows me that things are changing. But they're not yet certain enough to be rude.

So I guess on that test, we are somewhere in the middle.

And what people are now talking about is the need for greater transparency, the need for more common practices in terms of disclosure, of banks and the private sector, the need for a common set of accounting principles in the private sector and a better common set of principles for banks and financial institutions, on the basis that adequate disclosure of those facts plus the disclosure of short-term flows. Too many countries had been overly dependent on short-term flows, and I would speak here not just of Asia but of some countries also in the your hemisphere. This over-dependence on short-term flows and the desire to protect uncompetitive exchange rates was at the center of the debate. And the theory was you can't force people to do these things, but with disclosure of what's going on you have a much better chance of the forces working so that governments can make rational decisions. And if you have this over-dependence on short-term flows, you don't try and protect the rate beyond what is sensible because that leads to a transfer of official funds that have been put in simply to protect the market. And if you do it too long, it's throwing money out the window. Again, pretty basic stuff. But that was the nature of the discussion.

And I think that on the issue of transparency, on the issue of common practices for banks and for financial institutions and for corporations, that clearly this is moving forward.

But in the Asian environment, there was something deeper than that that we were looking at. And it was not just the Asian environment. It was also Russia. It was the fundamentals of what is it that causes the instability in the system. And here the debate went from the financial to the non-financial. It went to the issue of structure. It went to the issue of the social fabric of the countries.

And one after another as we looked at these countries, in light of a framework which we have developed at the Bank particularly, we decided that you could have your debate on the finances, you could have the debate on fiscal and monetary policy. You could have the debate on the

macroeconomic framework. But if you did not look at fundamentals, you could not be assured of stability.

And the sort of things we thought about in Asia, before I come to this hemisphere, were the following. You have to have decent government. And you have to have trained government. You need to build capacity in government at all levels. Because if you do not and you give them a check, you get very different performance depending on the level of government.

Then you needed to look at corruption. You might have very able government officials, but if they are corrupt, you distort completely the possibility of having equitable growth. And country after country is joining in the issue of confronting corruption. In fact, the last time I spoke in this room was two months ago with Al Gore, just on the issue of corruption. We had 99 countries represented here.

So the first issue was governance and corruption. The second was to have a legal system that works. In many of the countries in which we have been dealing, and I daresay it's true in some countries in Latin America, you do not have a complete and coherent legal system. In Korea and Thailand and Indonesia, you did not have adequate bankruptcy laws. Without adequate bankruptcy laws, it's very difficult to reconstruct companies. Without protection of property rights, it's very difficult to construct companies. Without proper provision for land ownership, which is something again that is relevant in this region, it's very hard to have equitable distribution or indeed protection of property rights.

So the second question that we addressed was the issue of legal systems but if the judges are crooked it doesn't help. So the question of the judicial system being honest becomes central to the question not just of the social structure but also of the economic structure. These are not dollars and cents issues, but they are fundamental issues.

And we recently had a wonderful meeting run by the World Bank bringing together the judges of Latin America in terms of trying to address the question of the organization of the legal system and an effective justice system. And we addressed the very difficult subject of an honest justice system, which regrettably is not always the case.

The third thing we looked at was the issue of supervision and control. Regulation of financial and corporate sectors. Not in the sense of putting on a straitjacket, but in the sense of having a straightforward set of rules and regulations and supervisors who can ensure that the playing field was level. This was surely not true in Korea, where President Kim won an election on the basis of his opposition to the interrelationships between politics, the regulatory authorities, and private sector. The issue of non-regulation and the issue of familial control, and in that country chaebol control, became the central issue which got him elected; that brought about a change in government in Indonesia through the reaction of the people to that issue. What is distressing in Asia at the moment is that as the economics get better, the willingness to change some of the fundamental structures is diminishing.

And then the fourth thing to think about was the social sector. Social safety nets. We saw that in Russia, where the Russians went ahead with privatization, it was one thing to have people with a social safety net that was built by the family, built by the company - and in Russia, particularly, the company - but when you put 200 thousand people out of work and you do not have a social system, you have people in the streets and you have coal miners lying on the railway tracks disrupting the country.

So you could say these four issues of governance corruption, legal system and justice, the question of supervision of the banking and the private sector and the social safety net were issues that became central to the debate on the structure of the architecture. These are not issues of whether you protect the exchange rate or whether you have an inflationary or deflationary policy or what is the stimulus. But if you do not have this right, you are going to have an architecture that is built on sand.

And we went beyond that. We talked about what are the things that are going to bring about equity in a society. First is education and knowledge. There is a real chance of bringing about some greater sense of stability with increased education and knowledge transfer, made much more possible now with technology. Although it was not in this hemisphere, let me tell you about my recent trip to the Ivory Coast, where they produce products that are competitive to some in this hemisphere, cocoa and coffee. And the farmers, two and a half million of them in the Ivory Coast, had been talking been dealing with monopolistic intermediaries and getting ripped off as they sold, and we tried to break that up. And I went into the jungles and into a village where I was made a chief, which Bob Mosbacher did not mention in his introduction, unfortunately. But I am now a chief. And there I was in my robes with my gold chains sitting in the village, no pavements, dirt roads. And I went into an office with my brother chiefs and there were two Ivorians sitting at two computers, one weighing in the coffee and the cocoa and the other on the Internet, miles from anywhere, getting the prices from Chicago, London and Paris and sending them out to the farmers.

And then I went back to talk to my brother chiefs and we discussed hedging and forward exchange and the Chicago futures market and Paris and London, all with people that were illiterate. But the drama of the communications and the possibility of knowledge transfer and distance learning and all the things that go with it, provide a huge opportunity to bring about a change in that gap. But also a huge danger, that if we do not bring the developing countries along, they will fall back yet another generation. But the potential is there.

And going back to what we have been talking about at the Bank, to development. We talked about health care. We talked about water. We talked of a world that in the next 25 years will add 2 billion people to its numbers. A world that has 3 billion people now living under 2 dollars a day, and a billion four hundred million living under one dollar a day. And we talked about power. And we talked about rural roads. And we talked about rural sector policies and urban policies. Sixty percent of the

world will live in cities by the year 2025. This is a huge difference in terms of dynamics.

And why am I talking about this at a time I am talking about financial architecture? Because if you do not deal with these issues, no financial architecture is going to work. Growth is essential, but it is not enough. Which leads me to this hemisphere. Because although I've been talking about Asia and I've been taking about Russia, there is a resonance in your countries. The level of poverty is 37 percent in Latin America. The difference between rich and poor is greater in this hemisphere than in any other hemisphere. The lowest 20 percent have 4.5 percent of the income. The upper 20 percent have nearly 50 percent. That is not a recipe for stability.

Education has been improved, but the uneducated are increasing. Some of the social statistics are working in favor of stability. But for me what was fascinating was to be at the Santiago Summit, where instead of the Washington consensus being played out, or the so-called Washington consensus, all the leaders of Latin America reiterated the work towards a hemispheric goal of free trade and integration. And they committed themselves to an ambitious and enlightened program of social and institutional development in the region.

And what did they talk about? Education and health systems. Strengthening financial systems and capital markets. Fighting corruption. The administration of justice. Improving the income earning potential of the poor. The Santiago consensus was a social consensus. It was not a financial consensus.

And the one message I wanted to leave you with is that at least in my judgment, in terms of your deliberations about financial and economic policy, I would simply urge you that for your kids, the issue is social. You must address the structural and social issues. It is not a question of whether your companies will make money next year or five years or ten years from now, in our lifetimes. I am sure they will. But the legacy is the legacy of stability and social justice.

I say this not as a wide-eyed, green activist. I have actually played your game, and rather well. I say it because I truly believe that when you think about the architecture of the financial system, we can have short-term fixes. But what is necessary is for us to look at long term solutions. And the long-term solutions are structural and social. They simply are. And the debate which you hear is on the former, not the latter. I just urge you to think of that. It is what we are thinking about in Asia, and I think it applies equally in this hemisphere. Thank you very much.

[applause]

MODERATOR: President Wolfensohn has kindly agreed to answer some questions. So I am sure there are those of you who have many questions.

QUESTION: We've been talking a great deal this morning about Ecuador. And you just mentioned structural and social. And was recently in Miami I had

a talk with one of your executives at a Business Week conference, we spoke. And the issue came out about giving aid to Ecuador at a time when the country had frozen deposits. Now, we all know that the deposits that get frozen are not the deposits of the wealthy because those are already gone out, but of the lower and middle classes.

This week you just passed an aid package for Ecuador. Was there any condition in that package that the deposits had to be unfrozen as early as possible to qualify for the aid package?

MR. WOLFENSOHN: Well, we discussed it. I was at meetings with the Finance Minister on Friday. There are a number of things which need to be done in Ecuador. I do not know how you discussed it this morning. The first thing is to do some audits to try and find out what's going on in the banks. And that is underway now. In fact, it starts today with an international team. Because I believe in that country, the first thing we have to find out is what is there, who has the claims. And that's not altogether clear.

The second thing is that the banks clearly need restructuring. When we find out what's wrong with them, they'll certainly need restructuring. And fundamental to that is a desire to ensure that the depositors below a certain level have protection. I don't now recall whether that's a condition or whether it's implicit, but everybody believes that.

The third thing that you have to do at the moment is to return some sense of confidence to the country so you don't have anarchy. And I believe that this package will go some way to doing that.

So the financial issues we tried to deal with on Friday, Michel (Camdessus) and I and Enrique Iglesias all lined up with the finance minister - we came up with a pretty significant package on the financial side. But there again, I'd say to you that the issue goes beyond that. The issue goes to a question of restoration of confidence in government, restoration of confidence in supervision, pursuit of people that have been corrupt, and establishment of a basis on which you can then move forward.

But when you have a shock like you've had in Ecuador, it takes a little time. So what you have to do in the meantime is make sure that the human impact in terms of the very poor is dealt with. So some of our programs are, in fact, designed as emergency programs to try and deal with the issue of poverty and those that are badly off.

I think you all know that in the recent crisis, the impact has been most felt by the poor. The rich and the middle class can be a little less rich and a little less middle class, but if you're making a dollar a day it's the difference between survival and not surviving. And that has been the explicit result in Asia. And because of the extent of poverty in Latin America, 172 million people, that is the vulnerability.

So the thing that we have to do, and the same with Enrique [Iglesias] at the Inter-American Development Bank is to try and come in and do two

things at once. One is to restore the functioning of the system. And the other thing is to come in and deal with the extreme issues of poverty.

And what you need to do is not just give something to someone to eat. What you don't want to do is to lose a generation. The kids that are in school and the kids that are getting some health treatment and so on, if you withdraw it they'll either be physically damaged or mentally unable to carry forward.

So the need at that level is crucial. And we're dealing - we're trying to deal with a difficult situation in Ecuador. I'm really quite impressed by the Minister of Finance. I think she's a very strong lady. Very, very strong lady.

QUESTION: I want to congratulate you on your focus. And in the context of social issues, I think everybody agrees on the importance of education. I wonder if the Bank has some observation on the role of politicians in contributing to the disinformation and ignorance of the people in the world, and not just the Third World, by using populist and demagogic arguments constantly over the years, and how much they contribute to deepening the crisis, and whether the Bank has what I would call a demagogue detector to preclude supporting regimes that justify their existence on demagoguery and populism, and therefore deepening the crisis by disinforming the people even more.

MR. WOLFENSOHN: Well, I work for politicians. I don't have my own business any more. I'm an international civil servant. I'm not allowed to comment on politics. Having said that, I will.

[laughter]

I think, obviously, that there are demagogues among politicians and I think there are bad politicians, I think there are good politicians. And what we're trying to do at the Bank, to the extent that you can, is to try and deal with our own social assessments. I mean, I have teams -- in the case of Thailand, for example, we were the first team to go out into the farms to see what was really going on with the return of urban laborers to the country. We're working extensively throughout Latin America in terms of social assessments.

And there the best thing that you can do is, essentially, to try and get the facts. Because we at the Bank have an opportunity and a platform to be able to put the facts out there. And transparency can help you a lot in markets in this country and Brazil. We had a wonderful example. They were charging five dollars a head for luncheons in Buenos Aires. And in the country, we discovered that it was less than half that. In fact, it was 80 cents. And we put it in the newspapers, and within a week it was down to about 2 dollars in BA.

We did nothing except make the facts known. And I think that the thing that we can do most in these countries is to try and get the facts out there.

We can't ordain change in a country. Change has to come from inside. We're not the government of countries. And that is true in terms of corruption or education programs or anything else. In ten years, we've gone from a billion people living in market economies to 5 billion. And if you take a look at your hemisphere, the move towards a form of democratic government in 25 years has been dramatic.

With openness, you get a chance of affecting politicians. So our play is not to interfere in politics, but to try and get the facts out there.

The other thing that we're doing, for example, in Bolivia, we have a thing which we're trying which is called a comprehensive development framework, where the Bolivians have put down a list of not only the financial parameters but the structural and social parameters dealing with education, health and all these other things.

They've essentially had a national series of conferences with the government, opposition, private sector, civil society in all its forms, from religions to trade unions, to establish a set of national objectives, which you then can access on the Internet. And then you deal with those objectives, which include legal, justice and everything else. And in the case of Bolivia, they have their own special additional objective, which is to get independent of drugs in terms of production and economic dependence. Very key in terms of Bolivia. Whatever the objectives are, our belief is that if you could get them out there and visible, then you have a real chance of circumventing the rhetoric because it's there for everybody to see.

If you have the facts there, it diminishes the opportunity for improper leadership.

But there is one other element in this which I again would wish to say here, is that we have maintained consistency in the role of the private sector. And what you need is a socially responsible private sector. I have been thinking of a meeting here where I'd invite you all to bring your son or your daughter to come to the Bank, because it's they that should be thinking about this. And I was cautioned against doing it because they said it would be elitism, but I don't think it is elitism.

I think the thing that you have to bring across to the next generation is that you do need transparency. And in their business interests, not in their social interests. In their business interests. Stability and growth, broad-based growth, is the best thing you can have. And if the coefficients, the so-called Gini coefficient of inequity, is getting greater in Latin America, if I had a kid I'd be worried.

I think that the transparency and the focus on that is not maybe for tomorrow, but if you talk about 2010 or 2015, it's the issue. And I think that's where we have to head. And that'll get rid of demagogues. Yes, sir?

QUESTION: First, thank you for bringing attention to what I think is the principal issue keeping us from having free trade in the Americas.

On the other hand, I would like to perhaps challenge you to think about making the Bank more open in terms of looking at business associations who want to be socially responsible and have specific projects like in the area of education, or how the Bank might be able to work with them and not exclusively with governments.

MR. WOLFENSOHN: Well, we are. I mean, if you have a project, we'd love to see you. We're working with private sector in education, health care, water, power, everywhere we can we are doing it for a very simple reason. Ten years ago, official development assistance globally was 40 billion dollars a year. And private sector investing in developing countries was 25 billion.

Today, official assistance is 40 billion and private sector flows the year before last were 300 billion and even this year over 200 billion. So from being just over half the size, they're now six to seven times the size. And for every dollar going in from the outside, it's estimated 2 or 3 dollars is invested inside.

That makes for a totally different perspective in terms of linkages with the private sector. And I've now, in fact, appointed somebody who is a managing director of the Bank and head of IFC to take charge of our private sector activities. And if you've got ideas, you have a very warm welcome and you can call me directly and I'll be very glad to make sure you get put in the right place.

We're doing private schools everywhere from Pakistan to Uganda. But I'm trying to make sure that in the private schools, there is an outreach to public schools. Because what we don't want to do is to get it to a point where we just continue a private school environment when it could be used as a setting of standards for the whole of the system. But subject to that caveat, we're extremely interested. Yes? I guess that's one last question. Bob thinks I'm boring you.

[laughter]

QUESTION: We suffered in Latin America from a dramatic decline in accessibility to the capital markets really beginning in mid-1998 but really hit in August, of course. And most of that really wasn't because Latin American countries didn't have the structural factors in place. What really happened was the investors, the lenders and the institutional investors, really were so badly burned, say, on Russian bonds and things like that, they just pulled their horns in. They just stopped. And I'm wondering whether the World Bank has given some thought to how to maintain the flow from the private sector and the international capital markets during these times so that perhaps the institutional investors and the banks, and not all of them but most of the banks, really pulled their horns in and stopped just dramatically, and now we see them beginning to start again. But this kind of cyclicalness of access is really difficult for all of the Latin America countries.

MR. WOLFENSOHN: Well, it is. And you've described exactly, of course, what happened. We were starting in one of the larger economies to come up with a fund that would give a guarantee for borrowings through the

government, essentially to put a credit endorsement on access to market by private sector. And we're all ready to go with that. And now the private sector's come up with its own solution. A leading international investment bank will shortly be doing a 2 billion dollar offering. And that's much better if it can be done through private sector.

We've seen a rapid turnaround in terms of access, not yet a reduction in yield.

The access is opening very quickly. And I would agree with you that there is cyclicity. I very much doubt it will do away with it. I've been in this business 35 years, and I've seen lots of crises. And a year or two later, they're gone. It's another crisis.

I think we have to learn to live with it. I don't think anybody knows a way around it. What we do at the Bank is immediately come in counter-cyclically at IFC and provide funding to the extent that we can. But in terms of accessing markets at 6, 7, 8 hundred, a thousand basis points, very often it's not -- it's not the yield. It's just there's no money there at all.

And so as we have tried to come in and give an endorsement which we would have been doing for the first time since the Bank lends to governments, not to private sector as the World Bank, we have now discovered that in this recent round it's changed so quickly that the solution which we've been designing for four months is now replaced by a private sector solution, which is the best way. And it's further evidence, I think, of the speed of this turnaround. I think 6 months from now you're going to find that there is already much greater access. You're going to have the banks running back in just as they've run back in in other places at other times. And it may look bleak now, but I think we're through the worst of it. And my guess is it'll work itself out. There's one last question Bob said I should take from the lady at the back. Yes.

QUESTION: Back to the issue of basic development, which I think we all applaud you as taking on that mission that is so necessary. I have a question about microcredit. Microcredit which provide very small loans to poor people have been proliferating in the world and in Latin America. But I wonder whether you see these as a good tool for development -- some of the programs integrate training and social and health care into the programs -- are these a tool that the bank endorses? Is there any way of expounding on that? Thank you.

MR. WOLFENSOHN: Yes. We have established a thing called a consultative group to assist the poor. We raised a very large amount of money. There is a lot of money available in Latin America. The limiting factor at the moment is management rather than money. It is training of people. It is the methodology of distribution of microcredit schemes and the training of the people.

And there's also a very strong desire on our part to make it become part of the private sector. And some banks in Latin America are already starting to do microcredit schemes and small business schemes. Everyone knows this is a tough area of lending. But the interesting thing is that

microcredit has shown a tremendous capacity for repayment. When you get groups of people together and they're small loans, there have been 97, 98 percent repayment.

I would also like to say that the private sector has a great potential role in expanding access, not just to credit but to knowledge. And since private sector has a lot of young people and a lot of computers and a lot of knowledge, participation by the private sector in setting up private programs for training, giving people access to computers at night, reaching out into the community with social programs, however small, would be a very intelligent movement to see established globally.

We have established a link ourselves with a group that is dealing with business and social responsibility. We have about 150 companies that are working with us now. And if this society was ever interested in pursuing that, it's something that we could look at together in terms of the hemisphere. I would be most anxious to do that, and I know I could bring Enrique [Iglesias] along as well. I think the issue of social responsibility of business is a central issue. Maybe that'll give you something to think about for your next annual meeting. Thank you very much.