

**Synopsis of World Development Reports
(1995—2005)**



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Introduction

A review of the World Development Reports (WDRs) over the last ten years is similar to a review of the evolution of development economics over that period. This is not a coincidence, as the objective of the WDR is to both consolidate existing knowledge on a particular aspect of development as well as stimulate policy debate on new directions for development policy.

Some years have been more critical than others in terms of the evolution of development thinking. For example, during the mid to late 1990s, there was a re-evaluation of the idea that

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market liberalization alone would spur development. This period was matched with a pair of WDRs, first a WDR on the transition from socialism --From Plan to Market-- in 1996, followed by a WDR on the vital complementary role of the state—The State in a Changing World. The renewed focus on poverty reduction as the central goal of the development community was explored in detail in the 2000/2001 WDR Attacking Poverty. This report launched what would become the World Bank Group's corporate strategy based on the twin pillars of investment climate and empowerment. Later WDRs, in 2004 and 2005 would lay out more detailed ideas on how to implement these two pillars.

In terms of consolidating knowledge in a particular sector, past WDRs have proven to be key documents even a decade later. For example, if one thinks back to the 1993 WDR on health and the 1994 WDR on infrastructure, these documents continue to be key references even today for our understanding of these sectors' roles in development.

Below is an overview of the last 10 WDRs, a synopsis of their findings and somewhat impressionistic comments on the impact of each WDR in particular areas of the Bank Group's work and the development community more generally. At some stage, it would be interesting to conduct a more systematic review – perhaps using survey data—to get a better understanding of past WDRs' impact as a means for developing even more effective future WDRs.

1995 *Workers in an Integrating World*

The WDR 1995, **Workers in an Integrating World**, authored by a team led by Michael Walton, assessed what a more market-driven and integrated world meant for workers. It asked which development strategies best addressed workers' needs, and what domestic labor market policies could do to establish a more equitable distribution of income, greater job security, and higher workplace standards, while preserving and enhancing the efficiency of labor markets. The report concluded that global integration offered the prospect of tremendous future gains for the world's work force – but with no guarantees.

WDR 1995 pointed out that sound domestic and international policies are indispensable for realizing the promise of a prosperous, integrated global workplace. Policies that rely on markets while avoiding or correcting market failures, that invest in people, that provide a supportive environment for family farms as well as emerging industrial and service sectors – all these are good for workers. Governments continue to exercise important functions: building and maintaining the social framework within which workers, unions, and firms interact to set wages and working conditions; supporting workers who are hurt when industries or whole economies suffer major shocks; and defending the rights of the most vulnerable workers, whether they be child laborers victimized by exploitation, or women or ethnic minorities suffering from discrimination. The report noted that in those economies that were less prepared to face global competition – in particular, those emerging from central planning – public action had a particularly important role in promoting labor mobility, easing the cost of transition, and reaching those excluded.

The report provided practical policy recommendations for major areas of labor policy. It also provided an overview of the key challenges for each region of the developing world in maximizing workers' benefits from the globalizing economic environment.

1996 *From Plan to Market*

The WDR 1996, **From Plan to Market**, was authored by a team led by Alan Gelb. It noted that while centrally-planned economies had made rapid progress towards transition to market economies, their transformation was incomplete, and profound economic, social, and political consequences that accompanied transition posed strategic challenges. In many countries, the key steps in moving to a market economy – liberalizing markets and trade, creating new

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businesses, achieving price stability, and moving towards clear property rights – were well advanced and provided important lessons for late reformers. The report predicted that with continued and sustained reforms, the transition countries could achieve successful long-term economic growth considerably above world averages. However, it also warned of challenges and risks ahead, notably long-term stagnation and rising poverty in some countries.

WDR 1996 concluded that even where the institutional underpinnings of a market system were weak, consistent policies could achieve a great deal. Sustained and consistent reform was needed, with a critical mass of support. The report also emphasized the need for clear property rights, a prerequisite for market processes, which would eventually require widespread private ownership. It pointed out that major changes in social policies were needed to complement the move to the market – to focus on relieving poverty, to cope with increased labor mobility, and to address the effects of reforms on the very young and the elderly. Finally, the report stressed that reform of legal and financial institutions, as well as of government itself, was critical.

WDR 1996 was unusual in that it addressed a major current change in economic (and political) systems, at the time, a hotly debated area. It sought to deepen understanding of the changes and of the path-dependence of countries' transitions to market economies. This involved a deeper look at the institutional underpinnings of the market system than had been provided by most analyses, together with an appreciation of how initial conditions (for example, as between Russia and China) affected the options and policy choices of different countries.

The Report provided comparative measures on reform progress that have been extensively used in other research. The discussion of corruption and institutions was somewhat novel, including the idea that institutions are not created in a vacuum but respond to a "demand" that can be spurred by economic reforms that create private sector stakeholders. This approach to institutional change and capacity-building has become a central one for the Bank (see for example, the emphasis on strengthening demand for strong institutions in *Strategic Framework for IDA in Africa 2004*). Because of the institutional focus and emphasis on the role of initial conditions, the WDR aimed to be pragmatic rather than ideological, for example, it paid attention to the quality of corporate governance emerging from a privatization process (and from leaving enterprises in state hands) rather than on the desirability of privatization as an end in itself; it also focused on the quality, rather than the size, of government. Such approaches have become far more prevalent in more recent approaches to reform (see for example, the recent work on *Lessons of the 1990s*).

A memorandum on *Operational Implications of the 1996 WDR* was provided to the Bank's Board in December and set out a number of specific points. It noted the need for greater flexibility in financing severance and recurrent costs of social services in some circumstances, the importance of communicating with Parliaments and wider civil society, and the desirability of structuring policy-based loans as a sequence, linked together to support multi-year plans yet with some flexibility to enable a response to unexpected developments. This programmatic approach has become widely used in the Bank, most recently in PRSCs. Another point was the need to improve targeting of social transfers, including through developing a legal framework to support the capabilities of NGOs and to develop more flexible, demand-based, approaches to restructure education and training. It also urged further strengthening of work on public expenditures and, in the area of growth, a particular emphasis on measures to encourage the entry of new firms, which were shown as vital for enhancing competition and productivity. The Bank has indeed moved in such directions, (see for example, the *Doing Business* Indicators 2004 and 2005 and WDR 2005 on growth, and WDR 2004 on service delivery).

1997 *The State in a Changing World*

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The WDR 1997, **The State in a Changing World**, was devoted to the role and effectiveness of the state: what the state should do, how it should do it, and how it can do it better. Under the direction of Ajay Chhibber, the report was written as a new World Bank President raised the profile of issues of governance and corruption. WDR 97 was the first report to make a systematic and comprehensive attempt to show that an effective – not minimal – state was vital for economic development. An effective state was needed to enable markets to develop and to address social issues. The report argued that the pathways to a more effective state were many and varied – but laid out a two-part strategy to make the state more effective: First, focus the state's activities to match its capability – many states try to do too much with limited resources. Second, over time, improve the state's capability by re-invigorating public institutions – through incentives to deliver better, but also by providing restraints on arbitrary and corrupt behavior.

The WDR 1997 laid out an agenda of action for public sector reform. To enhance the Bank's ability to help client countries implement such an agenda, *Reforming Public Institutions and Strengthening Governance: A World Bank Strategy* was published in November 2000. Based on a stock-taking of the Bank's experience with public sector reform, this strategy envisioned significant changes in the Bank's approach to governance and public sector work. The strategy recognized that changing the internal rules of government was not enough. To be effective we must work with our partners to understand and address the broad range of incentives and pressures – both inside and outside of government – that affect public sector performance. A broad framework for action is thus required, one that addresses competition and "voice" and partnerships, in addition to internal rules and restraints. The strategy also discussed new upstream analytical approaches, new lending instruments, and changes in organization, staffing and partnerships that can help the Bank be more effective in reaching these goals. In summary WDR 97 laid out an approach to public sector reform and governance which forms a core theme of much of our country work, lending allocations to countries and a major part of the support we provide to the Bank's client countries. Following the work started in WDR 1997, the World Bank is now recognized as the leading center of knowledge on governance and public sector reforms and a champion of anti-corruption issues world-wide.

1998/1999 *Knowledge for Development*

The WDR 1998/99, **Knowledge for Development**, authored by a team led by Carl Dahlman, concluded that the global explosion of knowledge had the potential of lifting hundreds of millions out of poverty, or creating a widening knowledge gap, in which poor countries would lag further and further behind. The report analyzed the risks and opportunities that the global information revolution presented for developing countries, and concluded that access to financial, technical, and medical knowledge was crucial to improving the health and living standards of the poor. It emphasized that when governments adopted policies to make the most of knowledge, they were better positioned to improve the lives of their citizens.

WDR 1998/1999 recommended that developing countries adopt policies to reduce the knowledge gaps separating them from rich countries. For example, investing in education, including technical training, and maintaining an open trading regime which would bring foreign investment and licensing agreements. It also recommended that governments, multilateral institutions, NGOs, and the private sector should work together to strengthen mechanisms resolve information problems, including product standards, accounting systems, disclosure requirements, and credit reports. Besides calling on policy makers to recognize that knowledge was at the core of development efforts, the report also highlighted the World Bank's drive to become a 'Knowledge Bank'. The Bank's commitment to become the world's premier clearinghouse for development knowledge was first announced in 1996.

To operationalize some of the recommendations of the report, the Director moved to the World Bank Institute, where he set up a program known as Knowledge for Development (K4D). The main objective of the K4D program is to stimulate social and economic development in client countries by building their capacity to access and use knowledge as a basis for enhancing

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competitiveness and increasing welfare. The program works with clients to develop concrete knowledge strategies that can be implemented on the ground. The main audience for the program includes policy makers, senior government officials, private sector executives, civil society leaders, academics, and media representatives who are involved in advising, developing, and implementing broad national strategies for effective use, creation, and transmission of knowledge in their countries. The program has supported analytical work and policy forums that have helped client countries improve the environment for technological change in their economies.

1999/2000 *Entering the 21st Century*

Under the direction of Shahid Yusuf, the WDR for 1999/2000, **Entering the 21st Century**, presented a unified treatment of two phenomena that profoundly affect the dynamics of development. These are globalization and localization. This report represented the Bank's first sustained treatment of how globalization was unfolding and its implications. The report also analyzed the parallel and complementary changes occurring at the local level. These are strengthening tendencies towards decentralization, and economic growth driven increasingly by the urban sector which is the foci of population and industry.

Since the report was written, three aspects of globalization which it highlighted: trade, capital flows and the environment have remained firmly at the center of international economic analysis, policy discussion, and debate, while international migration and accompanying remittances have gained in salience. Although much has been written on globalization over the past five years, the findings synthesized by the WDR on multilateral trade negotiations, production networks, the management of capital flows, global environmental imperatives, and the significance of labor flows remain current. Moreover, the policy issues it put forward are as relevant today as they were then and are attracting a wealth of elucidative research.

The report observed that even as the global economy moved towards closer integration, other changes at the sub-national level were inducing the emergence of more autonomous entities many of which were large metropolitan regions which were emerging as the engines of the developing world. Starting with the question of why decentralization is on the march, the Report discussed the implications for macroeconomic stability, services delivery and political institutions and then proceeded to explore the vexed issues of intergovernmental relations, fiscal and other. These and especially intergovernmental fiscal relations are at the core of the Bank's dialogue with many of our client countries and among the liveliest research topics within and outside the Bank.

The second strand of localization addressed by the Report was the 'efficient and livable' city which is and will remain the key to economic progress and social welfare throughout the world. After indicating why and how the urban economy is determining the tempo of development, the Report explored with many examples, how this tempo can be sustained and what cities need to do - through the provision of infrastructure, services, a regulatory framework, and supporting fiscal institutions - to improve the quality of life for their steadily growing populations. In these respects, the report presciently pointed to the policy and analytic agenda for the next several decades and also to the sectors where the Bank's operations are expanding.

2000/2001 *Attacking Poverty*

The WDR 2000/01, **Attacking Poverty**, authored by a team led by Ravi Kanbur and Nora Lustig, followed two other WDRs on poverty in 1980 and 1990. It drew upon a large volume of research, including a background study, *Voices of the Poor*, which systematically sought the personal accounts of more than 60,000 men and women living in poverty in 60 countries, and concluded that major reductions in poverty were possible despite the huge proportions of the problem at the start of the new century, with 2.8 billion of the world's six billion people living on less than \$2 a

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day with limited access to education and healthcare, with lack of political power and voice, and with extreme vulnerability to ill health, economic dislocation, personal violence and natural disasters.

To achieve reductions in poverty, the report recommended a more comprehensive approach that directly addressed the needs of poor people in three complementary areas: promoting economic opportunities for poor people through equitable growth, better access to markets, and expanded assets; facilitating empowerment by making state institutions more responsive to poor people and removing social barriers that excluded women, ethnic and racial groups, and the socially disadvantaged; and enhancing security by preventing and managing economywide shocks and providing mechanisms to reduce the sources of vulnerability that poor people faced. It also added that actions by countries and communities would not be enough. Global actions would need to complement national and local initiatives to achieve maximum benefit for poor people throughout the world.

The report contributed to the analytical foundation for the Bank's own institutional strategy for development, as articulated in the following years. The report formed the intellectual basis for country-owned Poverty Reduction Strategy Papers (PRSPs) that were being initiated as the report was being written. The report also served an important informational role in quantifying and describing the evolution of poverty since the last poverty-oriented WDR.

2002 *Building Institutions for Markets*

The WDR 2002, **Building Institutions for Markets**, authored by a team led by Roumeen Islam, focused on building institutions to support markets which promote growth and reduce poverty. It analyzed the myriad institutions that people build and use to undertake activities that maximize returns, and to manage risk in markets. The report noted that weak institutions – tangled laws, corrupt courts, deeply biased credit systems, and elaborate business registration requirements – hurt poor people and hinder development. It also pointed out that countries that systematically dealt with such problems and created new institutions suited to local needs could dramatically increase incomes and reduce poverty. These institutions ranged from unwritten customs and traditions to complex legal codes that regulate international commerce.

Drawing on a wealth of research and experience from both inside and outside the Bank, this report moved towards a deeper understanding of market-supporting institutions and a better appreciation of how people could build such institutions. It presented four main lessons: design these institutions to complement what exists (other supporting institutions, human capabilities, and available technologies); innovate to identify institutions that work, and drop those that do not; connect communities of market players through open information flows and open trade; and promote competition among jurisdictions, firms and individuals.

The report advanced the development agenda at a time when the development community was recognizing that policies alone were not sufficient to secure successful broad-based growth and poverty reduction. It provided lessons on the key elements of institution-building that are required for policy reforms to be effective. More specifically, the notion of several possible institutional structures being consistent with desired outcomes has become much more widely accepted in the Bank and elsewhere. The lesson that initial conditions matter and it is often useful to keep institutional design simple has taken root. This WDR was the first to finance the simplification of business regulations project (which has gained wide currency). In addition, the idea of competition fostering better institutions is gaining more acceptance in Bank documents as is the idea that much depends on experimentation and innovation. Finally, the WDR's focus on information and the media was influential. The Bank has become much more active in this area (a number of operations and learning activities mention this explicitly), and this theme has become more mainstreamed in the governance agenda.

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2003 *Sustainable Development in a Dynamic World*

The WDR 2003, **Sustainable Development in a Dynamic World**, authored by a team led by Zmarak Shalizi, asserted that in the past 50 years global GDP grew fourfold. Despite high population growth rates in developing countries average per capita income increased by ~30%, adult illiteracy and infant mortality were cut by half. However, these achievements were accompanied by growing social stresses (conflict, inequality, persistence of large number of poor people) and environmental degradation (rapidly growing water and air pollution in developing country cities, and run down of natural stocks -- some, such as the 70% of fisheries that are over fished and or the 5-10% of forests being destroyed each decade, are critical to the well-being of poor people in developing countries). The next 50 years could see another fourfold increase in the size of the global economy and significant reductions in poverty, provided that governments acted immediately to avert a growing risk of severe damage to the environment and profound social unrest. The report examined the relationship between competing policy objectives – reducing poverty, maintaining growth, improving social cohesion, and protecting the environment – over a 50-year horizon. It also noted that many good policies have been identified but not adopted or implemented, and traced this problem to distributional issues and institutional barriers (including institutional capture), reviewing institutional innovations that might help overcome these barriers.

In nearly 50 years, the world could have a gross domestic product of \$140 trillion and a total population of nine billion. Better policies and institutions would have to be embedded in a strategy that managed a broader portfolio of assets (including natural and social capital). Without that, the WDR warned that social and environmental strains might derail development progress, leading to higher poverty levels and a decline in the quality of life for everybody. Expanding the role of markets and market signals is critical to improving productivity and the efficiency of resource allocation in the production and consumption of private goods. But improving welfare also requires the provision of complementary public goods that cannot be provided by markets and market signals. The WDR identified three institutional characteristics to improve the provision of public goods -- picking up signals early and from the fringes, creating fora to balance interests, and creating commitment devices to implement agreements over the long term. The WDR also emphasized that the burden of guaranteeing sustainable development must be shared locally, nationally, and globally. Developing countries needed to promote participation and substantive democracy, inclusiveness, and transparency as they build the institutions needed to manage their resources. Rich countries needed to increase aid; cut poor country debts; open their markets to developing country exporters; and help transfer technologies needed to prevent diseases, increase energy efficiency, and bolster agricultural productivity. The report added that civil society organizations contributed when they served as a voice for dispersed interests and provided independent verification of public, private, and nongovernmental performance; private firms contributed when they committed to sustainability in their daily operations and when they created incentives to pursue their interests while advancing environmental and social objectives; and governments contributed when they provided strategic guidance and an enabling framework for a variety of accountable partnerships between the State, civil society, and the private sector.

This is a fairly recent WDR; however, its impact is becoming apparent in a number of areas. Some of the concepts and topics highlighted in WDR 2003 (such as the important role of "spatial analysis" in linking economic, environmental, and social consequences of policy) have been incorporated into the ESSD network's work and poverty analysis. The inequality and governance issues raised in WDR 2003 parallel growing interest on these topics in the Bank. Some of the topics -- especially implementation issues -- require more research and are entering the Bank's research agenda. As for the larger development agenda, the WDR was presented at the World Summit on Sustainable Development in Johannesburg (in Aug/Sept 2002) which has generated a number of follow-up requests to develop WBI courses for specific countries (in West Africa, Southeast Asia, China, ...) and audiences. Perhaps one of the more significant impacts has been in China, where the staff working on the next 5 year plan in China have been

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required to read WDR 2003 by the National Development and Reform Commission and to take lessons from it to incorporate in the next plan. The NDRC has also requested the Bank to reflect some of the sustainability and urbanization issues raised in WDR 2003 in the Bank's work on China.

2004 *Making Services Work for Poor People*

The WDR 2004, **Making Services Work for Poor People**, authored by a team led by Shanta Devarajan and Ritva Reinikka, warned that broad improvements in human welfare would not occur unless poor people received wider access to affordable and improved services in health, education, water, sanitation, and electricity. Without such improvements in services, freedom from illness and freedom from illiteracy – two of the most important ways poor people escape poverty – would remain elusive to many. The report said that too often, key services fail poor people – in access, in quantity, in quality. This imperiled the Millennium Development Goals, a set of development targets that call for a halving of the global incidence of poverty, and broad improvements in human development by 2015. However, the report also provided powerful examples of where services did work, showing how governments and citizens could do better.

Noting both spectacular successes and miserable failures in the efforts by developing countries to make services work, the report pointed out that the main difference between success and failure was the degree to which poor people themselves were involved in determining the quality and the quantity of the services they received. The report documented three ways in which services could be improved: by increasing poor clients' choice and participation in service delivery, so they can monitor and discipline providers; by raising poor citizens' voice, through the ballot box and making information widely available; and by rewarding the effective and penalizing the ineffective delivery of services to poor people.

The on-going impact of the 2004 World Development Report, "Making Services Work for Poor People," is four-fold. First, the report has focused attention on the problem of service delivery, or public-expenditure efficiency more generally, as critical to achieving the Millennium Development Goals. Consequently, several Bank flagship reports, including reports to the Development Committee such as the Global Monitoring Report and the reports on aid effectiveness, focus on improving the use of resources, both internal and external, to accelerate poverty reduction. Second, the WDR2004's analytical framework, built around the notion that improving service delivery requires strengthening the relationships of accountability between policymakers, service providers and poor people has been applied in regional and operational activities, including two regional reports from the LAC and ECA regions, several programmatic operations in Africa and South Asia (reduction in teacher absenteeism is a trigger for a development policy credit in Andhra Pradesh, India) and in the country assistance strategy of Indonesia. Third, the WDR2004's discussion of using budget-support aid to improve service delivery has had an impact not just in the Bank, which was already moving in this direction, but also in other donor agencies, especially DFID. Finally, the WDR2004 made a strong pitch for increasing impact evaluation of service-delivery innovations in order to learn what to scale-up. This has given a boost to the Bank's increased use of impact evaluations.

2005 *A Better Investment Climate for Everyone*

The WDR 2005, **A Better Investment Climate for Everyone**, authored by a team led by Warrick Smith, focused on investment climate, and concluded that accelerating growth and poverty reduction required governments to reduce the policy risks, costs, and barriers to competition facing firms of all types – from farmers and micro-entrepreneurs to local manufacturing companies and multinationals. It drew on surveys of over 30,000 firms in developing countries, the Bank's Doing Business database, country case studies, and other new research. It

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highlighted opportunities for governments to improve their investment climates by expanding the opportunities and incentives for firms of all types to invest productively, create jobs, and expand.

The report explored the key features of a good investment climate, and how they influenced growth and poverty; the reasons why progress in improving the investment climate was often slow and difficult; the practical lessons that could be drawn from country experiences on how to tackle such a broad agenda; knowledge about good practices in each of the main areas of the investment climate; the possible role that selective interventions and international arrangements could play in improving the investment climate; and what the international community could do to help developing countries improve the investment climate of their societies.

Since its publication in September 2004, the report has been well received globally, and the team has received numerous requests to participate in additional seminars around the developing world to inform policy makers and the public at large of the report's recommendations. The report's strong focus on the empirical reality of business's investment decisions, for both large and small firms, is serving well in terms of opening the eyes of policy makers to the reforms that need to be undertaken to spur investment and growth.

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