



The Per Jacobsson Lecture

**FINANCING DEVELOPMENT IN A  
WORLD OF PRIVATE  
CAPITAL FLOWS**

*The Challenge for  
Multilateral Development Banks in  
Working with the Private Sector*

**Jacques de Larosière**

Washington, D.C. • 1996

ISSN 0252-3108

Editor: Gail Berre

Composition: Alicia Etchebarne-Bourdin

Cover and chart design: IMF Graphics Section

## Foreword

The 1996 Per Jacobsson lecture entitled "Financing Development in a World of Private Capital Flows: The Challenge for Multilateral Development Banks in Working with the Private Sector" was delivered by Jacques de Larosière, President of the European Bank for Reconstruction and Development, at the Omni Shoreham Hotel in Washington, D.C. on Sunday, September 29, 1996. Sir Jeremy Morse, Chairman of the Per Jacobsson Foundation, presided over the meeting, the proceedings of which are presented in this publication. The text of this lecture is also available in French.

The Per Jacobsson lectures are sponsored by the Per Jacobsson Foundation and are usually held annually. The Foundation was established in 1964 in honor of Per Jacobsson, the third Managing Director of the International Monetary Fund, to promote informed international discussion of current problems in the field of monetary affairs.



# Contents

	<i>Page</i>
Foreword . . . . .	iii
Opening Remarks	
<i>Sir Jeremy Morse</i> . . . . .	1
Financing Development in a World of Private Capital	
Flows: The Challenge for Multilateral Development	
Banks in Working with the Private Sector	
<i>Jacques de Larosière</i> . . . . .	3
Questions and Answers . . . . .	25
Biography . . . . .	34
The Per Jacobsson Lectures . . . . .	35
The Per Jacobsson Foundation . . . . .	37



# Opening Remarks

Sir Jeremy Morse

Good afternoon, ladies and gentlemen. It is a large and distinguished audience, and a very warm welcome to all, to this thirty-fifth Per Jacobsson lecture.

On the platform are Jacques Polak and myself. I should say also that our lecturer has been on the Board of the Per Jacobsson Foundation a great deal longer than I have.

You have Jacques de Larosière's biography at the back of the booklet; there is so much to read there. I would just say that to have been head of all four: a national treasury, a Bretton Woods institution, a central bank, and a regional development bank, is probably quite hard to match, and, I should add, there has been an exceptional achievement in all four.

Two years ago at Madrid, Jacques gave a talk at the symposium for the fiftieth anniversary of the Bretton Woods institutions about the current state of the international economy. Rather than repeat that survey today, he has chosen another subject, a subject that is profoundly topical—the balance between the public and the private sector in the modern world.

The first Per Jacobsson lecture I attended was in Rio in 1967, given by David Rockefeller, still happily with us, and I remember that he then forecast—he won't mind my saying—a little before the right moment, that the private sector would be taking over most of the work from the public sector institutions. But now, after boom and inflation and recession and debt crisis, the question is again very much before us, and we have in Jacques a superb speaker from the other side of the fence.

He will speak for 40 to 45 minutes, and then we shall have our usual format of questions.

So now, Jacques, I give you the podium.





# Financing Development in a World of Private Capital Flows

## The Challenge for Multilateral Development Banks in Working with the Private Sector

Jacques de Larosière

### INTRODUCTION

It is a great honor for me to deliver this year's Per Jacobsson lecture. In the past, these prestigious lectures have addressed many questions relating to the world economy and the international monetary system. I shall try to contribute in this tradition.

International financial markets and mechanisms have seen some profound changes in the last few years, in particular the strong growth of private capital flows to developing countries. Much has already been said on this question. Only two years ago, Guillermo de la Dehesa gave this very lecture on the sustainability of these flows. I want to look at a different question. I want to examine the implications of these changes for the multilateral development banks (MDBs). What should be their role in a world dominated by private capital flows?

Over the past year, there has been much debate on this question—the Development Committee's Task Force on Multilateral Development Banks, which reported recently, saw it as central to their remit, as did the U.S. Congressional task force. Some commentators have come to the conclusion that the magnitude of the private flows implies that the MDBs are no longer needed; others, myself included, believe MDBs now have a more vital, in some respects enhanced and more challenging, role to play. But to play that role in this changing world, MDBs must adapt.

To understand how MDBs should adapt, we must first examine their changing environment.

**THE FINANCIAL MARKETS AND THE WORLD ECONOMY  
IN WHICH THEY OPERATE HAVE ALTERED PROFOUNDLY  
OVER THE PAST 30 YEARS**

Capital flows to developing countries are not a new phenomenon; capital has long flowed between countries, usually (but not always) from richer to poorer countries. What has changed over the last 30 years is the nature of these flows, and in particular their composition. In parallel, multilateral funding has also changed, but I shall argue that it must change still further.

**From postwar to the end of the 1980s**

If we look back to the postwar years, the monetary framework set up at Bretton Woods focused on current accounts. Exchange controls ensured that international private capital flows remained limited. Little had been said at Bretton Woods on the desirability of countries' liberalizing capital movements. On the contrary, a clause in the International Monetary Fund (IMF) Articles expressly provided that if capital movements were ever to undermine the fixed exchange rate system, capital controls could be used to avert this. This meant that the majority of capital flows to developing countries were official in nature. For example, between 1960 and 1970 nearly 60 percent of total net flows to developing countries were official finance, of which 90 percent came from bilateral sources and only 10 percent from MDBs.<sup>1</sup> These flows were concentrated on large public infrastructure projects. Only a small proportion went into the private sector.

This pattern prevailed until the end of the 1960s. Then, as the dollar weakened and the Bretton Woods system of fixed exchange rates collapsed in the early 1970s, capital controls were loosened. Private capital was increasingly able to move to the markets of its choice. For the developing countries this proved to be a turning point.

---

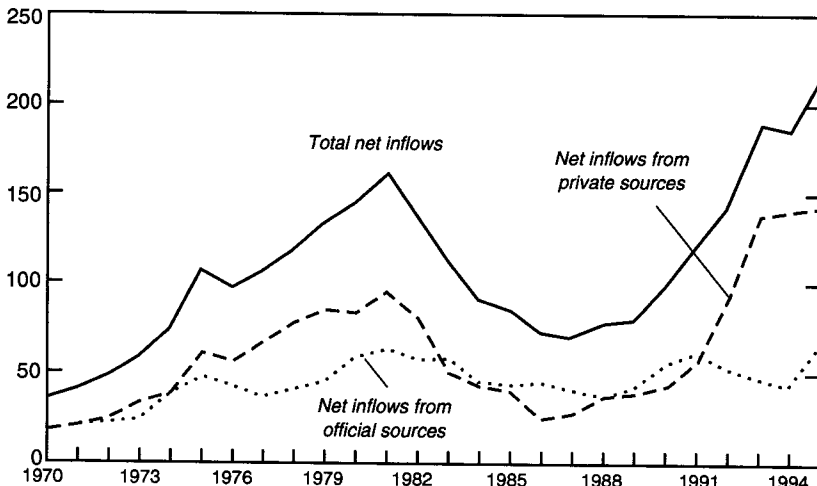
<sup>1</sup>Organization for Economic Cooperation and Development (1971).

Average annual net flows to developing countries rose from \$25 billion between 1971 and 1975 to \$66 billion between 1976 and 1980 (see Chart 1). At the same time, the private sector flows increased from 53 percent of total flows to 61 percent. What was especially striking in the structure of the flows was the dramatic rise in commercial bank lending. Having accounted for a mere 5 percent of total flows to developing countries in 1970, commercial bank loans made up 36 percent in 1979. Much of this funding was associated with a recycling of the "petrodollars" that had built up after the oil price increases of the 1970s. The prevailing level of inflation and the easy availability of international bank financing at the time explain the significant rise in developing countries' debt.

With most of this debt acquired by the developing countries' public sector, its sustainability in the long term was soon questioned. With the tightening of American monetary policy from 1979 onwards and the ensuing slowdown in the world economy, a debt crisis became inevitable, and it broke in 1982. The result was predictable. Throughout the 1980s, private investors viewed

**Chart 1. Net medium- to long-term inflows of funds into developing countries**

(In billions of U.S. dollars, at constant 1990 prices)



Source: World Bank, World Debt Tables.

investments in developing countries with new skepticism. Private capital flows fell, and official flows—especially multilateral flows—were dominant once more. In addition to providing funding, the multilateral institutions, especially the IMF and the World Bank, worked with developing countries to help them to restructure and adjust. They also played a decisive role in devising a concerted strategy for negotiated debt agreements between creditors and debtors. These agreements proved crucial to the resolution of the crisis and the gradual restoration of private lender confidence.

### **The 1990s: The world financial system is again dominated by private flows**

Today, largely because of the adjustment that occurred after the debt crisis, the situation is once again very different. Private capital flows to developing countries have exploded over the past four years. Multilateral flows have meanwhile remained fairly steady. As one commentator put it, “Western firms are keenly exporting their goods and ideas to new markets. . . . They are the shock troops of capitalism, if not of democracy. Their techniques and their intermediation are binding the world and its markets together as never before. The goal is a single market for risk.”<sup>2</sup> If we look at the situation today, this colorful account has some content to it.

#### ***What do the statistics show?***

*Private flows have increased.* Last year, net capital flows to developing countries reached an all-time high of \$247 billion.<sup>3</sup> Of this, 68 percent was private and only 11 percent multilateral. This means that private flows have increased 3.7 times since 1990. But these figures have to be put in perspective. The fall in private flows in the 1980s was such that it was not until 1992 that they regained their 1980 level (in real terms). What is dramatically different since 1980, however, is the composition.

*The composition has altered dramatically.* While earlier flows were composed largely of commercial bank debt flowing into the

---

<sup>2</sup>Freeman (1995), p. 30.

<sup>3</sup>World Bank (1996).

public sector, recent flows have seen a sharp increase in the level of private sector portfolio flows and direct investment (see Chart 2). Between 1990 and 1995, developing countries attracted a total of \$345 billion of foreign direct investment; this compares to a total of some \$37 billion between 1975 and 1980. Significant levels of portfolio equity funds have also flowed in during the past five years: on average, over \$20 billion a year. This compares to negligible portfolio flows in the 1970s and flows of about \$1 billion a year in the 1980s. It is also interesting to note that since 1990 more than \$200 billion worth of international bonds has been issued in emerging markets. As the instruments have changed, so too have the actors. The role of commercial banks as intermediaries has diminished, and that of mutual and pension funds has increased. In short, the investor base has broadened.

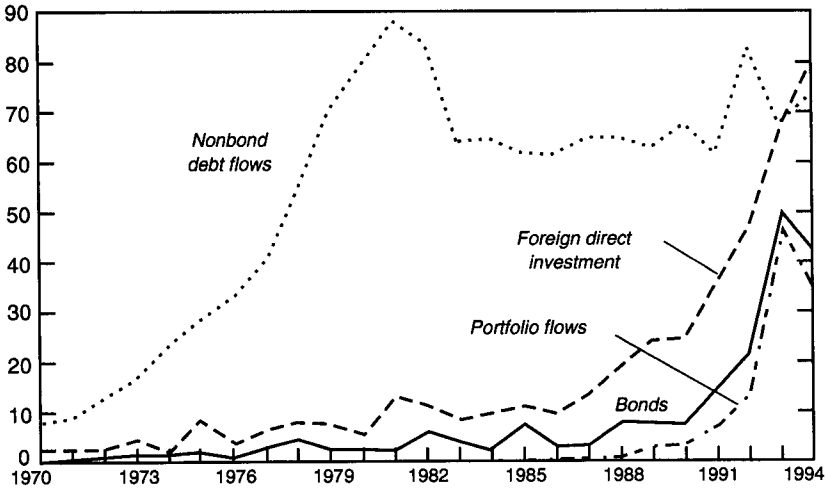
These figures portray a picture of striking change. Developing country finance has shifted very much to the private sector over the past five years. Having said this, it is important to recognize that these flows remain focused on a small number of developing countries. In fact, between 1991 and 1994, almost 90 percent of private capital flows went to 12 countries.<sup>4</sup> Some regions still attract very little. Africa in particular stands out as one region that relies almost entirely on official flows for external finance. Many countries in the Commonwealth of Independent States (CIS) are in the same position. The reasons for this are varied, but on the whole it is because these countries are still in the process of establishing the basic conditions in which the private sector can flourish. These include macroeconomic stability, structural reforms (such as liberalization of prices and trade and currency arrangements), and the institutional infrastructure that underpins the market economy (financial institutions, reliable business practices, legal and regulatory frameworks, tax systems, etc.). Private investors are, above all, looking for stability in the rules of the game and a "market friendly" environment with stable policies. Equally important is the development of human capital and of physical infrastructure, both of which are vital ingredients for the success of enterprise investments. I shall return briefly to these issues later.

---

<sup>4</sup>China, Mexico, Argentina, Republic of Korea, Malaysia, Portugal, Brazil, Thailand, India, Turkey, Hungary, and Indonesia. See Qureshi (1996), p. 32.

**Chart 2. Composition of gross private inflows of funds into developing countries**

(In billions of U.S. dollars)



Source: World Bank, World Debt Tables.

### *Why did this explosion of private flows come about?*

When looking at the future of these private flows and their implications for MDBs, it is important to understand why this surge came about. As I see it, there are two key reasons: first, there has been a fundamental shift in the policy orientation of the developing countries toward a greater role for the private sector and a decreasing role for the state; and, second, there has been a globalization of markets. While I will look at each development individually, we must recognize that they are closely intertwined.

*Shift in policy orientation.* Over the past 15 to 20 years, there has been a worldwide shift in thinking regarding the sources of economic growth and policies to promote it.

As anticipated by von Hayek and others years earlier, the experience of planning and protectionism had been profoundly disappointing. The dominance of the public sector, both in terms of ownership and direction of the production system, was no longer viewed as an attractive option. Nor was protectionism. Instead, market-based systems and open economies supported by sound

macroeconomic policies came to be seen as the most potent, perhaps the only sustainable, vehicles for growth. These new perspectives gathered force during the 1970s, and from the end of that decade and through the 1980s there were radical shifts in policy in both developed and developing countries. Industries have been privatized, markets liberalized, and economies opened to international competition throughout the world. In this shift, countries have been greatly assisted and encouraged by the policy conditionality of the World Bank and the IMF.

The main forces behind the policy shift were the hard facts of two interrelated experiences: first, the poor economic performance under statist and protectionist regimes; and second, the mounting crises of debt and the growing deficits arising from years of fiscal laxity.

The problems of overextended governments, of excessive public ownership, and of misguided control of the economy were not confined to developing countries. Many advanced industrial economies showed them the way in terms of poor economic performance, fiscal laxity, and rising fiscal pressures. For example, in the 20 years from the early 1970s to the early 1990s, the ratio of public debt to GDP among the G-7 countries increased from around one-third to around two-thirds of GDP. The magnitude of the debt accumulated is such that governments in a number of countries are today deprived of their normal fiscal margin of maneuver in times of recession. Reducing debt by creating inflation is no longer a realistic option—indeed, the markets now demand and, because of the free movement of capital, can obtain positive real interest rates. This buildup of further debt in the G-7 countries has been a poor example of macroeconomic policy and has been the major contributor to high real interest rates and volatile financial markets. However, as a result of these experiences around the world, the importance of sound macroeconomic management is at last fairly universally recognized. But in both developed and developing countries there is a long way to go in turning this recognition into practical implementation. In that process, the reduction of the state as a player in economic life and the promotion of the private sector will clearly be at center stage.

The close link between the shift toward market reform and macroeconomic stability on the one hand, and capital flows on the other, is clearly visible. Those countries most advanced with

their reforms have attracted the majority of capital inflows over the past five years. I have personally seen this very clearly in the countries of central and eastern Europe.

*Globalization of markets.* The shift in policy orientation was not the only factor behind the surge in private flows. The removal of capital controls and development of new technology also helped to open up the global market. As a result, investors have been able to look farther afield. Developing countries, many of which have growth rates of 6 percent or more compared to 2 percent in industrialized countries, have become particularly attractive. The expansion of international trade has gone hand in hand with foreign investment. For example, exports of manufactures from developing to OECD countries have quadrupled in real terms since 1970.<sup>5</sup>

This recent explosion of private capital flows to developing countries has important implications for the MDBs. To a certain extent, these implications depend on whether we believe these flows will last or whether we expect to see a sudden reversal as we saw in the early 1980s.

***Will these capital flows to emerging markets last or are they just another surge that will subside?***

There is every indication these flows are not a short-term phenomenon. Indeed, developing countries today could represent a genuine and lasting market for investors worldwide. There are a number of reasons for thinking this.

First, the potential for growth in developing countries has outstripped that of the older industrialized countries. To investors looking for market growth and low costs that bring greater profit margins, this will continue to be a major attraction.

Second, the bases of investment decisions are much sounder today than they have been over the past 50 years. Investors are not providing funds indiscriminately. Instead, they are assessing a country's economic fundamentals and monitoring them closely. The result is a greater discrimination in their lending and investment decisions.

---

<sup>5</sup>United Nations Conference on Trade and Development (1995).



Third, the current flows, with their greater emphasis on profitable projects in the private sector and careful assessment of borrowers, represent more efficient and productive investment than earlier bank loans to governments for general financing requirements.

The opportunities in these markets remain great and are growing. The majority of the recent flows have centered on a small group of developing countries; much of the developing world has yet to attract high levels of private capital and foreign direct investment. This is not because they do not have potential. They do. But to fulfill that potential, they must first establish the right conditions for the market to operate. This brings me to the role of MDBs.

### WHAT IS THE ROLE FOR THE MDBS IN THE CHANGING MARKETPLACE?

Any reassessment of the role of MDBs must be based on an understanding of the significance of the recent developments. In particular, two points should be noted in addition to the rise of private sector flows. First, all developed countries face severe budgetary constraints. As I explained, this is the direct result of at least two decades of fiscal laxity. As budgets get squeezed, official aid is a vulnerable target. Official aid, both bilateral and multilateral, is becoming an increasingly scarce resource. Second, there is a growing understanding among developing countries that to achieve market-oriented economic growth, they must create the conditions in which a strong private sector can flourish. This will generate private sector capital flows, both domestic and foreign. These three factors—the rise in private flows, the scarcity of official funding, and the greater understanding in developing countries themselves of what the private sector can do—should, I believe, drive any reassessment of the MDBs' role.

In examining the role of MDBs, we must first consider their objectives and their instruments. Put succinctly, the objectives of MDBs are poverty alleviation, economic growth, and protection of the environment. The European Bank for Reconstruction and Development (EBRD) is somewhat different in that it has the specific objective of promoting the transition of former centrally planned

economies toward market-oriented economies. Traditionally, MDBs have promoted their objectives by working primarily with governments and government agencies. This reflects the ideas and the capital structures that prevailed at the time of their creation. Broadly speaking, the instruments they have used have been loans for public sector projects or programs, technical assistance, and policy-based lending. MDB loans have generally been made to, or guaranteed by, the borrowing states. Through these instruments, the MDBs have played an important role. However, recent developments, such as the reorientation of the role of the state, the rise of private sector flows, and the growing scarcity of official financing, all demonstrate that the time has come to reexamine the ways in which MDBs can best help to promote the process of development and change.

In this new world, a crucial question for MDBs is the link between the goal of poverty alleviation and the powerful forces of private sector development. Put simply, the development of the private sector promotes market-oriented growth, which, when combined with the right complementary policies, helps to alleviate poverty. Given this, and given the fact that the majority of developing countries have yet to attract any significant levels of private capital, a top priority for MDBs should be helping these countries develop their private sector. In particular, I see two clear ways the MDBs can help:

- (1) They can help governments create the conditions for the right kind of market-oriented growth.
- (2) They can become participant investors working with the private sector to expand and improve private capital flows.

The first of these embodies the more traditional MDB role; the second represents territory that has been less well explored by the MDBs.

Let me look at each in more detail.

### **MDBs as facilitators: Helping create the conditions for market-oriented growth that is sustainable and poverty reducing**

Within any market economy the state plays a vital role at the very heart of the market structure. It must create and maintain the

framework that enables the market to operate, that allows its people to participate, and that protects the weak. This entails three main responsibilities for the state:

- (1) To promote an *environment* favorable to market-oriented economic growth. By this I mean achieving and maintaining macroeconomic stability, and ensuring the provision of the necessary physical, institutional, legal, and regulatory infrastructure.
- (2) To enable people to *participate* in the economy and society by ensuring adequate provisions for health and education. Who provides these services—be it the state or the private sector, and how they are financed—is a matter of national choice. However, the state must bear ultimate responsibility for making sure they are delivered. This participation is reinforced by democratic processes, which are, of course, a basic right in themselves.
- (3) To ensure there is some *protection* for those who are not in a position to provide for themselves. This is commonly known as a social safety net.

I must emphasize that these three strands are interwoven in their effects on poverty alleviation and market-oriented growth. Over the long term, economic growth makes the vast majority better off. Universal education promotes both participation and economic growth. Indeed, studies of the determinants of growth are constantly underlining the importance of human, as well as physical and institutional, capital in the process. Furthermore, a safety net, as well as alleviating poverty in its own right, can help individuals face the risks involved in economic change.

Among developing countries, there is ample evidence to show that private capital has flowed to those countries that have progressed farthest in these areas. Most countries are now realizing their importance but the process of establishing these conditions is not an easy one.

The MDBs can help governments create these conditions. The World Bank and the IMF have played a major role in the establishment of macroeconomic stability through policy-based lending. They have also provided invaluable assistance in the areas of tax, legal, and sectoral reform. Besides social issues such as health and education, they have, for some time now, been con-

cerned with the creation of a social safety net. I believe they should continue to do all these things.

What MDBs must do, in my view, is to take a fresh look at how they can assist more directly in establishing the conditions for the expansion of the private sector. In doing so, they must recognize the increasing—and understandable—reluctance of governments to provide sovereign guarantees, a reluctance that stems from the pressures on public finances and the acknowledged need for hard budget constraints. The MDBs should support this resolve and avoid sovereign guarantees wherever possible. This goes without saying for conventional private investment, but should also apply to many infrastructure projects as well. This means the MDBs must find new ways of operating—ways that harness private sector finance for broader development goals. The way to do this is for MDBs to work in partnership with the private sector and to become participants in the investment process.

When looking at how such a partnership may work, there are two mistakes MDBs must not make. First, they must not pretend to be operating in the private sector while providing softer lending conditions than the market. This only serves to distort rather than strengthen the emerging market economy. Second, they should not pretend to be doing private sector projects under the protective wing of a sovereign guarantee. This heaps further burdens on the already overburdened fiscal positions and undermines market discipline.

Keeping these points in mind, I see various constructive ways MDBs can indeed work in partnership with the private sector and participate in the process of private sector development. Furthermore and most important, their involvement can create opportunities for private sector development beyond the investment itself.

### **MDBs as participants in the process of private sector development**

The basis of MDB collaboration with the private sector is straightforward. The funds, instruments, independence, and experience of the MDBs are combined with the know-how, management capabilities, and capital of the private sector. Provided it

takes account of the characteristics of the project, the market environment, and the needs of the partners, this combination is a powerful force for private sector development.

MDBs can work with private companies to form joint ventures by providing either equity or loan financing. Indeed, there are often advantages in providing both. This collaboration need not be restricted to international companies but, as the EBRD's experience has increasingly shown, can involve purely local enterprises as well. The forms of collaboration or partnership are numerous, depending in each case on the nature of the project and the client's needs. The basis remains the same, however: public money is combined with private investment to promote private sector development. To succeed in this, MDBs must be flexible and always look for new structures and products. For instance, with riskier projects involving less experienced local partners who have little capital at their disposal, MDBs must find ways of providing equity that will allow them to share upside returns as well as risks and at the same time to monitor projects carefully. There is great scope for innovation with larger international clients too. For example, the EBRD has extended its methods of operation in this field by establishing framework agreements—known as multiproject facilities—with industrial partners. These agreements enable a large number of—often small—subprojects to be financed in accordance with principles jointly agreed at the outset.

MDBs can also collaborate with banks to put in place the funding needed to implement projects. At the EBRD, this collaboration, which has frequently taken the form of cofinancing, credit lines, equity finance, or syndications, has proved extremely fruitful. We are working directly with 93 local banks in our countries of operation, and we have worked with more than 100 international banks through our syndications program in the past five years. While we bring capital to all these investments, our involvement provides different benefits for different partners. To international banks, we provide an umbrella of political comfort derived from our long-term relationships with governments and our preferred creditor status. To local banks, we provide much-needed medium-term capital, and we can assist in their institutional development.

By participating in this way, we help strengthen local financial institutions. We help build instruments by investing in them. This

is a vital task in the transition. A market economy requires a well-functioning financial sector. It fulfills the crucial task of financial intermediation, that is, collecting savings and allocating them to fruitful investment. But it also provides a means of transacting and, not least, takes steps to ensure that borrowers recognize the obligation to repay and that they be in a position to repay, thus imposing hard budget constraints on the economy at large. Strengthening local financial institutions is therefore a priority in any developing country.

A further area where MDBs can play an important role is in promoting the availability of venture capital. Equity is widely sought after in developing economies, particularly by small- and medium-sized enterprises. MDBs are well placed to participate in funds and help attract other funds such as pension funds and mutual funds into these countries. In this way, they can also help strengthen the nascent capital markets of these countries. The EBRD has already participated in 21 private equity funds. We link our money to the management skills of respected fund managers. These funds operate in both the primary and secondary markets. By being early in the game, and showing good management and professionalism, they can provide a strong demonstration effect. There are also various other things MDBs can do to support capital market development: at the EBRD, for example, we are working to improve the legal basis for share ownership; by participating, we help launch share privatizations; we are also improving accounting and registry procedures; and we are ourselves issuing bonds in the local currencies of some of our countries.

Let me now turn to an area that has traditionally been key for MDBs, namely infrastructure. An efficient infrastructure is of crucial importance to the success of the reform process. However, the financing needs here are particularly great. Given that most countries today are facing severe budgetary constraints, this funding will become increasingly difficult to raise by traditional methods. Instead, we are going to see greater private sector involvement in the creation and operation of infrastructure. Thus, infrastructure is going to have to become more commercially oriented. A more commercial approach will not only strengthen operations and improve efficiency, it will also open up access to private finance. Governments must recognize, however, that a more commercial

approach must be supported by an effective regulatory framework. For many countries this remains a key challenge.

When looking at private sector involvement in infrastructure, the starting point in most countries and sectors is a public monopoly that is either national or local in scope. Keeping this in mind, one can see three levels at which infrastructure can become commercially orientated. At the very basic level, authorities can begin to operate the public sector in a manner that reflects more closely the ways in which the private sector operates. This means paying close attention to revenues, costs, and market demands. It also involves creating a governance structure that provides clear goals, makes management responsible for performance, and allows them independence to carry out their tasks. This may involve bringing in a private sector partner on an advisory basis. Alternatively, governments can seek the limited entry of new private providers through various forms of public/private partnerships. This approach involves more active private sector participation, usually as an operator. Potential areas include independent power plants, cellular telephone networks, toll roads, municipal services, ports, and airports. The basis for this involvement is usually some type of concession. The third alternative is for governments to opt for full privatization of some public services.

While the potential for private involvement varies across sectors (being greater, for example, in telecommunications and power than in rail transport), there is great scope for expansion in all sectors. This expansion has already begun: between 1990 and 1995, the level of private infrastructure financing in developing countries increased from less than \$3 billion a year to nearly \$40 billion a year.<sup>6</sup> Nonetheless, this still represents only around 10 percent of total infrastructure funding in these countries. So far, the majority of this funding has been concentrated in particular regions (Southeast Asia and Latin America, for example) and sectors (such as power generation and telecommunications).

Further expansion of private sector involvement is inevitable. As the experience of the International Finance Corporation (IFC) has shown, MDBs are well placed to assist both governments and the private sector in bringing this about. Of course, MDBs must

---

<sup>6</sup>*Euromoney's* Loanware.

tailor their support for private infrastructure projects to a country's approach to reform.

The challenge for MDBs is to develop financing structures that will encourage such private sector participation: structures that are simple, cost efficient, and easily replicated. Careful design and innovative use of the wide variety of MDB instruments are key to succeeding in this area. Risk allocation is also key. MDBs should not only share the general project risk with private partners, they should also assume those risks that they are well placed to mitigate. I am thinking here of general economic and political risks, and risks arising from shifts in regulatory regimes. However, the difficulties involved in putting these types of projects together must not be underestimated. Not only do they require strong political backing from countries, they often require the enactment of specific legislation or the introduction of the necessary regulatory environment to support them. Furthermore, these are often complex projects to develop, and certain costs can be front loaded.

These factors have sometimes dissuaded governments from proceeding with private sector infrastructure projects. Instead, they have sought to provide a sovereign guarantee, thinking this option lowers the cost of finance. This is not only a very short-sighted view in that it ignores the future public debt-service costs of these obligations, but it can also remove important market disciplines that control costs, provide revenues, and allocate risks. Experience shows real benefits can accrue from private sector implementation and operation of infrastructure projects. Governments must therefore look toward the private sector and, working together, MDBs can assist them.

### **Why should MDBs be involved?**

As I have shown, there is much an MDB can do to promote private investment. The question we must now answer is why should MDBs undertake these tasks—what do they have that the private market does not have? In my view, MDBs have four main strengths that enable them to promote private sector investment in developing countries. First, they have been endowed—and I believe wisely so—with a structure that helps them to absorb



many of the risks associated with taking a lead in these high-risk environments. In particular, I am thinking of their preferred creditor status (which mitigates rescheduling or default risk); their conservative gearing ratio; and their strong shareholder support, which includes both industrialized and recipient countries. The second strength is the unique, long-term relationship they have with governments in developing countries. This privileged relationship enables them to reduce political risk in a way that commercial banks cannot replicate, and thus provide an element of “comfort” to private partners. This relationship also means that a government will often have more confidence in a project if an MDB—which has a duty to protect its members’ interests—is acting with a private partner. The third strength that MDBs have is their knowledge of these regions and their experience: they know how to work in difficult environments, and can assess and accept more commercial risk than typical private lenders would, particularly at the early stages of reform and transition. Finally, their experience, together with their access to technical assistance, means they can mitigate the risks involved in project development. Project development requires the negotiation of new legal and financial structures and calls for new ways of thinking in countries undergoing rapid change. Without the project development support of MDBs (whose staff costs are supported by public sector capital), many projects would never get off the ground.

It is these strengths that will enable MDBs to play a key role in promoting private sector investment in developing countries. Together they allow MDBs to take and mitigate those risks that so often stall the provision of longer-term financing just when it is most needed. In most developing countries, the scarcity of such financing is one of the key constraints on private sector development. Foreign investors who are prepared to accept the commercial risk will often hesitate on account of political uncertainties and risks. Local investors face similar problems: they find it very difficult to raise anything other than short-term debt. It is through sharing roles and responsibilities that the MDBs and private companies can cooperate and move forward. In Eastern Europe, the EBRD is already doing so. Its involvement is unlocking significant levels of private investment. It provides the additional assistance needed to help commercial investors bring projects to

fruition. Indeed, from my experience at the EBRD, many investments simply would not take place without our involvement. Thus, the challenge for all MDBs is to harness their strengths and build on them.

To be in this position, however, MDBs must build on these strong foundations and be seen as firm, credible institutions. They cannot do this unless they themselves show strong cost-consciousness and represent good value for taxpayers' money.

### **To work effectively in the private sector, MDBs need clear operational principles**

To work effectively with the private sector to advance development or transition, MDBs require clear operational principles to guide them in their project selection. As I see it, there are three principles that should govern the activities of MDBs in this area. At the EBRD, we call them sound banking, additionality, and transition impact. Any project we select must meet all three criteria.

*First, sound banking.* The financial return to the MDB should be commensurate with the risk. Private-sector-oriented MDB projects should be commercially sound and profitable. This not only ensures the financial health of the institution itself—which is particularly important in the current aid climate—but it also promotes the development of market economies. By ensuring their projects are financially sound and viable, MDBs set an example and establish important standards in accounting, disclosure, and corporate governance. This has not always been the norm for MDBs. In future it should be. Otherwise, MDB involvement may actually hinder the emergence of an efficient financial system rather than assist it.

*Another important principle of MDB involvement is additionality.* MDBs must not substitute for or displace the private sector. Instead, they should stimulate the private sector into operating in areas where it would not operate on its own or of its own accord. MDBs' additionality can arise in two ways: the MDB contributes financing that is not available on reasonable terms elsewhere; and its involvement exerts a profound influence on the generation, design, and implementation of a project. Good project design will

help achieve both sound banking principles and development or transition impact. To work, additionality must be assessed on a project-by-project basis. Also, MDBs must have clear policies on how the questions of additionality are to be assessed. At the EBRD, we have clear internal operational guidelines on the question of additionality that are carefully applied in our project selection process. The key is that MDBs must not compete with the private sector, they must complement and catalyze it.

*An MDB project should also have a wider development or transition impact.* While not so easily measurable, this principle is based on the understanding that MDBs contribute only a small proportion of total investment finance in any economy. Thus, they must look for an impact in their investments that goes beyond the project itself. At the EBRD, we not only help to open up the region to new investors, we also analyze the impact each project will have on the transition process. This depends, for example, on whether a project can strengthen the effectiveness of markets and of market institutions by enhancing competition and breaking up monopolies. Alternatively, a project may transfer market skills, enhance institutional development, or set important standards of corporate governance. Other MDBs will want to seek a development impact, whereas we focus on transition impact. But the principle is the same—the effectiveness of MDBs will turn on the influence projects have beyond their boundaries.

These are, of course, not the only principles that the MDBs should apply. For the EBRD, the environment is of particular importance. Every project is examined for its environmental impact, and we lay special emphasis on projects that are oriented directly toward environmental improvements and energy efficiency.

At the EBRD, all these principles govern our project selection process. They ensure that our activities make a broad contribution to the transition process. Of course, flexibility, both in terms of attitudes and instruments, is also crucial. This means that the activities of MDBs change as countries develop and finance becomes more widely available to different segments of the market. This process of constant change should be key to MDBs' participation in the investment process. They must, in a sense, lead the way for private investment flows to follow and not prolong their

involvement once sufficient private capital is available. We have seen this very clearly at the EBRD, where we graduate our activities from one market segment to another, as alternative sources of finance develop in some areas and new, as yet unexplored, opportunities become practical possibilities.

In supporting the right kind of market-oriented growth, the MDBs must be sure they are working together. The tasks are immense and each MDB has its own strengths. They must exploit their comparative advantages to the benefit of the countries in which they work.

## CONCLUSION

The world continues to change. The MDBs must adapt. The new focus on market-oriented economic development is here to stay. So too are the private capital flows. The policies that support these changes are now more widely understood. There are some success stories that show that market-oriented development works and works well. Unfortunately, only a small number of developing countries have so far experienced its benefits.

The MDBs have the potential to help alter this. If they can help promote market-oriented development, they can help unlock further private capital flows. The task of the MDBs must be to facilitate these processes. To do this, they must continue to adapt. They must build on their strengths. In this speech, I have tried to explain how. They must continue to work with governments, but they must also go beyond this and participate directly in the private investment process.

Private markets and private flows are powerful forces. The MDBs can help harness these forces in a way that gives real hope to countries that have so far seen little such activity. In short, MDBs must lead the way in developing and participating in private investment opportunities in the developing world. Ultimately, MDBs may not be needed. The fact that they are no longer necessary will be a clear sign of their success. That time has not yet come: they still have important goals. Given the importance of their catalytic role, it is essential that they do nothing to undermine their preferred creditor status. It is the basis of much of the MDBs' strength; it must not be lost.

## BIBLIOGRAPHY

- Dehesa, Guillermo de la, 1994, "The Recent Surge in Private Capital Flows to Developing Countries: Is It Sustainable?" Per Jacobsson Lecture (Washington: Per Jacobsson Foundation).
- Freeman, Andrew, 1995, "Other People's Money: A Survey of Wall Street," *The Economist*, Vol. 335 (April 15).
- International Monetary Fund and World Bank, Development Committee, 1996, *Serving a Changing World: Report of the Task Force on Multilateral Development Banks* (Washington) March.
- Organization for Economic Cooperation and Development, Development Assistance Committee, 1971, *Development Assistance* (Paris).
- Qureshi, Zia, 1996, "Globalization: New Opportunities, Tough Challenges," *Finance & Development*, Vol. 33 (March), pp. 30–33.
- Ryrie, William, 1995, *First World, Third World* (New York: St. Martin's Press).
- Schmidheiny, Stephan, and Frederico Zorraquin, 1996, *Financing Change: The Financial Community, Eco-Efficiency and Sustainable Development* (Cambridge, Massachusetts: MIT Press).
- Stern, Nicholas, and Joseph Stiglitz, 1996, *A Framework for a Development Strategy in a Market Economy: Objectives, Scope, Institutions, and Instruments* (unpublished), July.
- United Nations Conference on Trade and Development, 1995, *Trade and Development Report, 1995* (New York: United Nations).
- World Bank, 1985, *World Development Report 1985* (New York: Oxford University Press).
- , 1996, *World Debt Tables 1996* (Washington).



## Questions and Answers

*Following the formal presentation, Mr. de Larosière answered questions from the audience.*

SIR JEREMY MORSE: I'm sure you agree that we've been given a marvelous number of ideas and thoughts to attack in the question period. If you have written questions, please hand them in to the attendants to bring up here. Jacques, while we are waiting to collect the questions, can I ask you a first question?

*You said at the beginning and again repeated at the end that the recent flows of capital that you were talking about were here to stay. Now, in the 1930s, we had a lot of flows based on bonded debt, and then we had a debt crisis; in the 1980s, we had a lot of flows based on bank lending, and we had a debt crisis. Now we have new forms of investment. Why are you so confident—or maybe you aren't? Will these not, in the nature of the market, overshoot themselves at some time and lead to another debt crisis and reshaping?*

MR. DE LAROSIÈRE: No, that's not impossible at all, of course, and we must never discard these possibilities. The story I tried to depict is indeed a story of great variations in the composition of flows.

What I want to say is that the nature of the flows today is rather different from what we knew in the 1960s and the 1970s, in the sense that after the correction, after the crisis of debt in the 1980s, you have now a strong movement toward foreign direct investment and portfolio investment, which has a different characteristic from the one we knew in the 1960s and the 1970s, and that is directly oriented toward projects and the operations of an economy.

Of course, you can have backlashes and setbacks, but I believe that, with the type of foreign direct investment and portfolio investments you have now, there is a more articulated understanding of what is going on in an economy than you had when mas-

sive commercial debt through international banks was built up, basically for balance of payments purposes for the governments.

So I don't say you won't have any crisis. I don't say that there will not be problems in the future. I say that the tendency toward a project-oriented movement of foreign direct investment and, to some extent, portfolio investment (because part of the portfolio investment is volatile, but part of it is also linked to real investment and is there to stay for some time) makes the whole thing probably a little less volatile than it was in previous years.

*As chairman of the EBRD, how do you see the movement of capital flow toward Eastern Europe? Do you think you are satisfied by the present movement? Do you see more concentration on a certain number of countries? How do you contemplate the development and the transition of Eastern Europe and maybe also the big empire of Russia?*

MR. DE LAROSIÈRE: The region as a whole has been a very poor recipient of capital flows. There is a statistic that my friend Nick Stern likes to cite, namely that up to 1994 the whole region was attracting less capital than Malaysia did in one year. So it gives you an order of magnitude of the relative paucity of the attraction of external capital in the region.

Now, within the region, there has been over the past years an improvement in the flow of direct investment and portfolio investment that has been very directly related to the methods of privatization. For instance, you saw in Hungary last year a very active direct investment and portfolio movement, which is directly associated with the privatization in Hungary.

So in countries like Hungary, Poland, and the Czech Republic, there is a buildup of foreign direct investment. In Russia, it is yet to become a very significant figure, although it has improved. There are foreign direct investments in Russia, more than we think, but if you look at it in a global way, the figures are still poor. And the reasons for this are very simple, and I have tried to allude to them in my talk: investors like stability, and they like to know how they are going to be treated taxwise, in terms of the protection of their legal rights, in terms of the protection of their minority rights, in terms of the way companies are governed, and in terms of the quality and enforcement of security. And all that is still at a very nascent stage in many of those countries.



So I think the name of the game now for the MDBs and for others is to help these countries, which have very important potential—a lot of natural and human resources—put together those legal, accounting, and tax systems that will provide comfort and attractiveness to the foreign investors. It can be done; we know that. There have been enormous improvements in some countries, and that is what we are trying to do with the World Bank and the IMF and others.

*First, what prospect do you see for private financing of development in the African countries? Second, capital flows naturally go where profits can be made, and so those countries can't attract private capital. Why don't the MDBs and the rich governments concentrate on the poorest of the poor?*

MR. DE LAROSIÈRE: I am, of course, not a specialist of Africa. What I know is that Africa has not attracted significant amounts of private capital. I alluded to that in my speech, and it has very much to do with the business climate, the stability of the environment, and political stability. Investors don't like instability and uncertainty, and since they are not forced to go to any place, the competition, the rule of the market, results in the fact that this scarce capital goes to the places that are the most stable and that provide the most satisfaction in terms of margins and profits. That is why, as I said, most of the foreign direct investment capital has been moving into some 12 countries that—and this is not *par hasard*, as we say—are located in Southeast Asia, where economic performance speaks for itself, and more and more to Latin America, where, since the debt crisis, a profound adjustment in economic structures and policies, and liberalization and deregulation have taken place. And it is now up to countries like those on the African continent, and also countries in the Commonwealth of Independent States to improve on their business environment. I think that is doable. I don't think there is a sort of fatality that bars a continent or a set of countries from private direct investment.

Actually, there have been success stories in Africa, but individual success stories, and there is absolutely no reason why an individual success story cannot be replicated much more widely. But you have to have the right conditions in place. That is really the name of the game. Macroeconomic stability, the legal frame-

works, the tax frameworks, and the regulatory frameworks—these are the things that we see every day.

A very respected banker, my friend Ron Freeman, who is leading all the banking operations in the EBRD, could tell you better than I the types of obstacles that make it difficult to attract foreign direct investment. Now, we are overcoming these little by little. I think you have to look at a region like that of the EBRD, the former centrally planned economies, in perspective. It is only seven years that the Wall has been dismantled, and it is only five years or four years that we have really been operating at the EBRD in those countries, and the changes are absolutely, I would say, striking. In terms of liberalization, you have countries that have liberalized almost all their price systems and their trade barriers; that have made their currencies convertible, in some cases have pegged their currencies to external anchors; that have reduced inflation very significantly; and that have something like 65 percent of their GDPs privatized. In the countries of Western Europe after the War, we took much more than five years to liberalize. In the early 1950s in France, for instance, we had price control, our currency was not convertible, and we had an enormous amount of regulation that only disappeared after decades.

So I think you have to look at those countries in a dynamic fashion. They are moving very quickly. And, of course, we are impatient, so we would like them to be absolutely “normal,” but it does take some time. But it is now, by the way, that the opportunities for investors are there, because when these countries will be absolutely “normal,” of course, competition will be very acute. But now, there is a lot to be gained in those countries, so we think that investors should look at them very seriously, and if they want to speak to us, we could hand-in-hand do great things together. We have gathered a lot of experience in those countries—we know, we think, how to avoid the pitfalls.

*Should all MDBs have a constitution like your own bank, that is, to lend more to the private sector than the public sector; and if not, why not?*

MR. DE LAROSIÈRE: As I see it, the way the EBRD has been constructed is very efficient for the types of problems we have to handle. We can lend, and we can take equity; and the more we advance in the transition, the more we see that the combination

of debt and equity is sometimes the key to success, because those countries often need to have long-term debt in their financing, but they also need capital. So that combination is good.

The second thing I like in the instruments we have is that we can lend to the private sector and to the public sector. I don't think we should discard lending to the public sector. It can be useful, and I showed that. In terms of infrastructure, you have stages where you start sometimes with a public sector operation, and then it can get privatized or moves toward privatization in the process, and it is very important to have the instruments for this. You can start with a loan to a ministry, and when the entity moves toward privatization, your loan to the ministry can become, if you have the right instruments in your contract, a convertible instrument that eventually will become a piece of equity. That is the type of combination, public sector/private sector, that is so important if you want to catch the movement that is at hand in our world.

I do like also, I must say, the 40/60 percent ratio, which is "Thou shalt do at least 60 percent of your business in the private sector." I like it because, as I showed in my paper, in the present world more than 60 percent of investment is financed by the private sector. So we had better be there, and we had better be able to give a hand to that private sector.

Now, what is important is not to displace that private sector. That is why we have to be very careful on the way we price, I would say, the political "comfort" that is one of our strengths; we have to price it right and not underprice it, and we must not displace private capital willing to come in.

But I think that type of combination (lending to both public and private sectors) is extremely useful, and, of course, I don't want to make any pronouncements for other international organizations, but I think the way it is in our bank is working pretty well.

Another thing I like is that we have a credit committee we call the Operations Committee, which will never bring to our board a project that has not passed the test of sound banking principles. That is, the project is able to generate a sufficient stream of income to repay the project. And that is a very good safeguard, because I don't think it is of any service to our countries to provide semi-subsidized projects. I am not saying this for health projects, for instance, but for all that pertains to economic and commercial projects, it is very important to have the principle of sound banking.

So the more I see it—and I say that with all the more liberty in that I was not the one who conceived the statutes of the EBRD—I think the mix is right.

*You said that you were opposed to host government guarantees, including those for infrastructure projects, with private sector investment involved. Are you opposed to such guarantees pre-completion, or only after the project is operational? Isn't there an important difference?*

MR. DE LAROSIÈRE: Yes, there may be an important difference, and I wouldn't like the pronouncement to be too abrupt. What I say is that we should—in all cases where possible—try to look at an infrastructure project in the light of whether it could work privately. That is the sense of what I wanted to say. And you would be surprised to see in how many cases, for instance, in power, in telecommunications, and sometimes in toll roads, it is possible—I don't say it is easy—to transform what would appear as a natural public sector project into a project that eventually does not necessitate recourse to a full-fledged guarantee by the government.

Now, there are many formulas. You can imagine a sort of ring-fenced project that generates its own income and does not necessitate a guarantee (except a completion guarantee by the investor). You can imagine a partial guarantee by the state where that is needed if, for instance, the traffic that is going to stem from a toll road will not be sufficient to pay for it entirely.

So you can imagine a combination of public sector involvement and private sector involvement. You can also imagine that in cases of the ultimate political event of default—that is, not that the project is not going to work, but that the state impedes a project, closes off a facility, does not give the licenses that are indispensable for, say, the extraction of oil or the movement of grains—the EBRD or the multilateral development bank would have a limited sort of carved-out guarantee saying, “If you, by your discrete action and wrongdoings, make the economics of the project nonviable, then we will have recourse against you.”

And, of course, being a bank of which that country is a shareholder and whose integrity the country is in principle interested in maintaining, we can have the type of dialogue that a private company cannot have.

So I would not like to give the impression that we will never touch a guarantee in the public sector. It is more complicated. But I think there are many ways of reducing the budgetary burden of public guarantees for investments in infrastructure, and we have a number of examples based on the build, operate, and transfer model and concessions that do not necessarily lead to the abandonment of the ownership by the public sector.

It is really a question of adapting the instruments to the client, to the project, and to the investors, and we can do that at the state level, at the regional level, or at the municipal level. There are thousands of ways to attract private interest, and the fact that we can provide some comfort on the political stability of the project is, of course, important. We can share those risks, we can take some "political" risks and mitigate them in the way I said.

*At the end of your presentation you strongly stressed that the preferred creditor status is a great strength of the MDBs and must continue. I can understand that it is a great strength in raising funds for these activities, but it seems to me historically, and perhaps in the future, the preferred creditor status can be associated with poor project selection and bad credit judgment. Would you comment?*

MR. DE LAROSIÈRE: No, I must say that I don't really believe in that because you could then also argue that any form of public sector funding of a multilateral development institution can go along with poor judgment and bad business. Our commitment to finance only sound bankable projects is a primary obligation. It is in no way weakened by our preferred creditor status.

If you want to enhance the types of risk sharing and risk mitigation that I was describing, it is very important to be able to show to the private banks and private investors who go alongside us that we do indeed have an element of strength in the relationship with the government, and the preferred creditor status is part of that element of strength. As you know, in your "A" and "B" loan structure, when we make a syndication *we* are the lender of record, *we* centralize the payments, *we* in a certain way extend not the preferred creditor status in legal terms, but to some extent a reassurance to our participants because of our strength derived from the preferred creditor status. That status is thus a major asset, and I think we should be very cautious before doing away with it.

*Please elaborate on the development of human capital. What is the role for the private sector there? How do you avoid investments flowing to lowest wage areas, which may not encourage full human capital development?*

MR. DE LAROSIÈRE: Yes, we look very carefully at that question, and we do not allow investments that would make us participate in the exploitation of low wages. Actually, we have a mandatory case-by-case review of the employment and economic impact of each of our projects, and this is an additional dimension that explains why we are an MDB. And thus, without wanting to regulate in an artificial way the wage system of our countries—I think that would be a major mistake—we do look into the question of how the employees are paid and how their cost in the project is assessed. If we did not pay attention to it, we would in the course of the development of a project have very strong surprises.

So I also think the involvement of private sector joint ventures is extremely important for human resources in the sense that it brings new technology and training. The fact that so many large multinational companies go to those regions, show their methods of management, and bring in their own training staff is a plus for the stock of human resources of those countries.

By the way, we consider that one of the strengths of the region is their human resources. We are struck every day by the quality of the educational level, and I must say that all the co-investors whom I talk to tell me that the engineers, the technicians, the people who work in the factories that they are establishing or buying in those countries have a very high educational standard; they are, when necessary, retrained very quickly; and they are extremely conscientious and exact in the way they implement new methods.

So I have never heard the old story that “they are not up to it.” Quite the contrary. And I must say that we now have a program of training young people of the region in the EBRD, and my problem is that they are so good my heads of units want to keep them and don’t want to send them back.

*It is my understanding that in the coming days the International Monetary Fund in its deliberations will announce a radical restructuring of its gathering and reporting of international financial statistics. This is all very useful to all of us who are in the international banking and financial field, but what I would like your com-*

*ment on is the reporting of international monetary reserves of central banks, not only with immediate and accurate information on capital movements that is now available with the new computer science technology, but also with the presentation of these data. Will this reporting of international monetary reserves and capital movements be reflected in higher capital transfers, in monetary instability, and in the lack of credibility and reliability of the decisions that are made by the international monetary and financial authorities?*

MR. DE LAROSIÈRE: The IMF is launching a new method of organizing and transmitting statistical data to the rest of the world through the Internet. I believe that reporting on reserves of central banks and the like is important for the understanding of those markets, the attraction of capital flows, and the development of those countries. These things should be done, and the more information we have, the better.

We have a very good publication if you are interested. Nick Stern, who is the chief economist of our bank, has been working over the past years on what we call the *Transition Report*. It includes a host of indicators of an economic nature, and some of them of a monetary nature. The more transparency we have and the more regularity in the periodic publication of these figures, the more this stability I was indicating will benefit the business environment. I would encourage you to look at our last *Transition Report* because it is a mine of information that is, I think, unique in the world.

I am sorry to be a bit the advocate of this bank, but I have been taught that on each occasion, I should be the *VRP unicarte*<sup>1</sup> of the EBRD. That is an expression that is untranslatable, and thus I will leave you with a little bit of uncertainty in your minds. Thank you very much.

\* \* \*

SIR JEREMY MORSE: Ladies and gentlemen, I think you would all agree we have had an absolute feast this afternoon, and you have shown your appreciation to Jacques, which I would like to echo very warmly from the Foundation. You will find the text of his speech both in English and French available at the side of the room. Next year we meet in Hong Kong. Thank you.

---

<sup>1</sup>One-product sales representative.

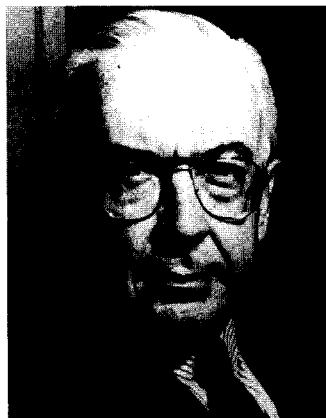
## Biography

Jacques de Larosière has been President of the European Bank for Reconstruction and Development since September 1993. Born in 1929 in Paris, he earned a degree in arts and law at the University of Paris and a postgraduate degree from the Institut d'Etudes Politiques, Paris. He went on to study at the Ecole Nationale d'Administration from 1954 to 1958.

In the course of his distinguished career, Mr. de Larosière has held a number of positions with the French Government, beginning as Assistant Inspector of Finance in 1958. He subsequently served as Inspector of Finance (1960); Chargé de Mission at the Inspectorate-Général of Finance (1961), the Department of External Finance (1963), and the Treasury Department (1965); Deputy Director, Treasury Department (1967); Assistant Director and later Department Head, Ministry of Economy and Finance (1971); Director of the Cabinet of the Minister of Economy and Finance (1974); Director of the Treasury (1974–78); Director of the Régie Nationale des Usines Renault (1971–74), the Banque Nationale de Paris (1973–78), the Compagnie Nationale Air France and the Société Nationale des Chemins de Fer (1974–78), and the Société Nationale Industrielle Aérospatiale (1976–78); Censeur at the General Council of the Bank of France (1974–78), the Crédit National (1974–78), the Comptoir des Entrepreneurs (1973–75), and the Crédit Foncier de France (1975–78); and Vice-Chairman, Caisse Nationale des Télécommunications (1974–78). In 1978, he became Inspector-General of Finance.

During 1967–71, Mr. de Larosière was the Chairman of the Economic and Development Review Committee of the Organization for Economic Cooperation and Development (OECD). In 1976–78, he served as Chairman of the Group of Ten. He became Managing Director of the International Monetary Fund in 1978, which he left in 1987 to become Governor of the Bank of France. While in that capacity, he served as Chairman of the Governors of the Central Banks of the Group of Ten.

In recognition of his distinguished public service, France has awarded him two of the country's highest honors—Commander of the Legion of Honor and Chevalier de l'Ordre National du Mérite. Mr. de Larosière is a member of the Académie des Sciences Morales et Politiques. Mr. de Larosière has also received the highest decorations from Argentina, Germany, Italy, Japan, and Mexico.





# The Per Jacobsson Lectures

(Site of the lecture is Washington, D.C., unless otherwise shown)

- 1964 *Economic Growth and Monetary Stability*. Lectures by Maurice Frère and Rodrigo Gómez (Basle).
- 1965 *The Balance Between Monetary Policy and Other Instruments of Economic Policy in a Modern Society*. Lectures by C.D. Deshmukh and Robert V. Roosa.
- 1966 *The Role of the Central Banker Today*. Lecture by Louis Rasminsky; commentaries by Donato Menichella, Stefano Siglienti, Marcus Wallenberg, and Franz Aschinger (Rome).
- 1967 *Economic Development: The Banking Aspects*. Lecture by David Rockefeller; commentaries by Felipe Herrera and Shigeo Horie (Rio de Janeiro).
- 1968 *Central Banking and Economic Integration*. Lecture by M.W. Holtrop; commentary by Lord Cromer (Stockholm).
- 1969 *The Role of Monetary Gold over the Next Ten Years*. Lecture by Alexandre Lamfalussy; commentaries by Wilfrid Baumgartner, Guido Carli, and L.K. Jha.
- 1970 *Toward a World Central Bank?* Lecture by William McChesney Martin; commentaries by Karl Blessing, Alfredo Machado Gómez, and Harry G. Johnson (Basle).
- 1971 *International Capital Movements: Past, Present, Future*. Lecture by Sir Eric Roll; commentaries by Henry H. Fowler and Wilfried Guth.
- 1972 *The Monetary Crisis of 1971: The Lessons to Be Learned*. Lecture by Henry C. Wallich; commentaries by C.J. Morse and I.G. Patel.
- 1973 *Inflation and the International Monetary System*. Lecture by Otmar Emminger; commentaries by Adolfo Diz and János Fekete (Basle).
- 1974 *Steps to International Monetary Order*. Lectures by Conrad J. Oort and Puey Ungphakorn; commentaries by Saburo Okita and William McChesney Martin (Tokyo).
- 1975 *Emerging Arrangements in International Payments: Public and Private*. Lecture by Alfred Hayes; commentaries by Khodadad Farmanfarmaian, Carlos Massad, and Claudio Segré.
- 1976 *Why Banks Are Unpopular*. Lecture by Guido Carli; commentary by Milton Gilbert (Basle).
- 1977 *The International Monetary System in Operation*. Lectures by Wilfried Guth and Sir Arthur Lewis.
- 1978 *The International Capital Market and the International Monetary System*. Lecture by Gabriel Hauge and Erik Hoffmeyer; commentary by Lord Roll of Ipsden.
- 1979 *The Anguish of Central Banking*. Lecture by Arthur F. Burns; commentaries by Milutin Ćirović and Jacques J. Polak (Belgrade).

- 1980 *Reflections on the International Monetary System*. Lecture by Guillaume Guindey; commentary by Charles A. Coombs (Basle).
- 1981 *Central Banking with the Benefit of Hindsight*. Lecture by Jelle Zijlstra; commentary by Albert Adomakoh.
- 1982 *Monetary Policy: Finding a Place to Stand*. Lecture by Gerald K. Bouey (Toronto).
- 1983 *Developing a New International Monetary System: A Long-Term View*. Lecture by H. Johannes Witteveen.
- 1984 *Economic Nationalism and International Interdependence: The Global Costs of National Choices*. Lecture by Peter G. Peterson.
- 1985 *Do We Know Where We're Going?* Lecture by Sir Jeremy Morse (Seoul).
- 1986 *The Emergence of Global Finance*. Lecture by Yusuke Kashiwagi.
- 1987 *Interdependence: Vulnerability and Opportunity*. Lecture by Sylvia Ostry.
- 1988 *The International Monetary System: The Next Twenty-Five Years*. Symposium panelists: Sir Kit McMahon, Tommaso Padoa-Schioppa, and C. Fred Bergsten (Basle).
- 1989 *Promoting Successful Adjustment: The Experience of Ghana*. Lecture by J.L.S. Abbey. *Economic Restructuring in New Zealand Since 1984*. Lecture by David Caygill.
- 1990 *The Triumph of Central Banking?* Lecture by Paul A. Volcker.
- 1991 *The Road to European Monetary Union: Lessons from the Bretton Woods Regime*. Lecture by Alexander K. Swoboda (Basle).  
*Privatization: Financial Choices and Opportunities*. Lecture by Amnuay Viravan (Bangkok).
- 1992 *A New Monetary Order for Europe*. Lecture by Karl Otto Pöhl.
- 1993 *Latin America: Economic and Social Transition to the Twenty-First Century*. Lecture by Enrique V. Iglesias.
- 1994 *Central Banking in Transition*. Lecture by Baron Alexandre Lamfalussy (London).  
*Capital Flows to Emerging Countries: Are They Sustainable?* Lecture by Guillermo de la Dehesa (Madrid).
- 1995 *Economic Transformation: The Tasks Still Ahead*. Symposium panelists: Jan Svejnar, Oleh Havrylyshyn, and Sergei K. Dubinin.
- 1996 *Financing Development in a World of Private Capital Flows: The Challenge for Multilateral Development Banks in Working with the Private Sector*. Lecture by Jacques de Larosière.

Copies of the 1996 Per Jacobsson lecture in English and French are available without charge from the Secretary, the Per Jacobsson Foundation, International Monetary Fund, Washington, D.C. 20431. Copies of the Per Jacobsson lectures from 1964 through 1994 in English, French, and Spanish, and of the 1995 symposium in English are also available without charge from the Secretary.

# The Per Jacobsson Foundation

Honorary Chairmen: Eugene R. Black  
Marcus Wallenberg  
Founding Chairman: W. Randolph Burgess  
Past President: Frank A. Southard, Jr.

## FOUNDING SPONSORS

Hermann J. Abs	Viscount Harcourt	Jean Monnet
Roger Auboin	Gabriel Hauge	Walter Muller
Wilfrid Baumgartner	Carl Otto Henriques	Juan Pardo Heeren
S. Clark Beise	M.W. Holtrop	Federico Pinedo
B.M. Birla	Shigeo Horie	Abdul Qadir
Rudolf Brinckmann	Clarence E. Hunter	Sven Raab
Lord Cobbold	H.V.R. Iengar	David Rockefeller
Miguel Cuaderno	Kaoru Inouye	Lord Salter
R.v. Fieandt	Albert E. Janssen	Pierre-Paul Schweitzer
Maurice Frère	Raffaele Mattioli	Samuel Schweizer
E.C. Fussell	J.J. McElligott	Allan Sproul
Aly Gritly	Johan Melander	Wilhelm Teufenstein
Eugenio Gudín	Donato Menichella	Graham Towers
Gottfried Haberler	Emmanuel Monick	Joseph H. Willits

## BOARD OF DIRECTORS

Sir Jeremy Morse — *Chairman of the Board*

Michel Camdessus	William McChesney Martin
Andrew D. Crockett	Jacques J. Polak
J. de Larosière	Gengo Suzuki
Enrique V. Iglesias	Paul A. Volcker
Baron Alexandre Lamfalussy	Peter Wallenberg
H. Johannes Witteveen	

## OFFICERS

Jacques J. Polak	— <i>President</i>
Gordon Williams	— <i>Vice-President</i>
Alexander Mountford	— <i>Vice-President and Secretary</i>
G. Michael Fitzpatrick	— <i>Treasurer</i>