WORLD DEVELOPMENT REPORT 2003

Sustainable Development in a Dynamic World

Transforming Institutions, Growth, and Quality of Life

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About the cover:
A montage of two satellite sensor products, the cover image shows the lights of human settlements and (on May 14, 2002) variation in sea surface temperatures. The image illustrates several *World Development Report 2003* themes: the link between growth and environment (higher income correlated with greater energy use), the continuing socioeconomic challenge of inequality and poverty reduction (vast disparity in the energy use of industrial countries and that of developing countries), the interconnectedness and impact of human activity (fossil fuel-based energy use raising sea surface temperatures), and the need to gather information (such as that provided by satellite sensors) to anticipate and monitor problems if the world is to shift to a more sustainable development.

For more information on the concepts in this report, please visit
http://econ.worldbank.org/wdr/wdr2003/

City lights image courtesy of the Defense Meteorological Satellite Program Digital Archive, National Geographic Data Center, U.S. National Oceanic and Aeronautics Administration

Sea surface temperatures image courtesy of U.S. National Climatic Data Center

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Foreword

This year's Report, the twenty-fifth, is about the growth in income and productivity required in developing countries to eliminate poverty in a way that is environmentally and socially sustainable. The core development challenge is to ensure productive work and a much better quality of life for the almost 3 billion poor people today earning less than $2 per day and for the 2–3 billion people to be added to the world's population over the next 30–50 years. To achieve this goal, while taking better care of our environmental and social assets, will require a global development process that does better than the one followed in the past.

Even though the world's population increased by 2 billion people in the last 30 years, there have been significant gains in human welfare in developing countries as measured by average human development indicators. But the development path has left a legacy of accumulated environmental and social problems that cannot be repeated. There are many drivers of today's socioeconomic and cultural transformations. Some are ongoing and continuous (such as technological innovation and income growth). Others are onetime and transitional, such as the demographic and urban transitions, which should be completed within this century—largely within the next 50 years. These historic transitions define the temporal and spatial context for managing sustainability. How it will be managed is critical.

Environmental and social assets matter greatly for well-being and productivity, but they are often neglected. That is why we need to think about managing a broader portfolio of assets. The 1992 World Development Report identified many policies to deal with environmental problems, but it underestimated the capacity of institutions to implement even policies that seemed on the surface to be win-win options. The failure to implement them is most often due to the social and political problems associated with distributing costs and benefits within and between groups and generations.

This Report integrates the findings of the last few WDRs into a broader and longer term framework to identify some elements of a process that might do better:

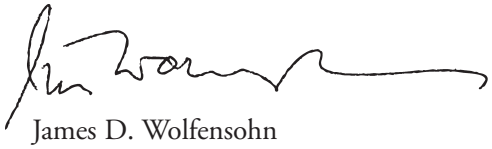
- **The interaction between economic, social, and environmental problems and opportunities are manifested spatially—where people live.** For this reason, the report takes a spatial perspective on the social transformations and the opportunities for growth and poverty reduction—in fragile lands, in more favored agricultural lands, in urban areas. Some of the local problems can be handled locally—but others must be dealt with nationally or globally.
- **Problems that require lasting solutions often are not susceptible to quick fixes.** Everyone could be better off if cooperative solutions were agreed on and implemented. But often the rules and organizations to coordinate human behavior do not yet exist, are undeveloped, faulty, or weak—especially for problems with high transaction costs and longer time horizons. To be able to coordinate well requires institutions that:
  - Pick up signals about needs and problems, especially from the fringes.
  - Balance competing interests.

- Ensure credible commitments and accountability in executing agreed decisions.

- **Institutions need to be improved at many levels—from the local to the global—to promote growth in ways that protect environmental and social assets.** The institutions to manage and protect environmental and social assets are not emerging rapidly enough to address the consequences of the growing scale and interconnectedness of human activity. Action is required now—even for problems that will unfold over a longer period. Societies need to ensure an enabling environment for creativity, initiative, and learning. These initiatives can come from the public sector, the private sector, or civil society. Partnerships among these various actors are needed within and across countries. Many innovative institutions are emerging which need to be strengthened. The key is to find ways to scale up these initiatives.

- **Strengthening the foundations for better institutions requires overcoming the inequitable access to assets and the pervasive barriers to inclusion.** The needed institutions (and the solutions to tough problems) do not emerge when some interests are dispersed or when some groups in society are poor or in other ways disenfranchised. This affects the evolution and quality of institutions and their ability to solve problems over the longer term. The reciprocal relationship between the quality of institutions and the distribution of assets can get countries locked into vicious cycles that require a special effort to break out.

Inclusive societies, within and across countries, ensure that signals of emerging economic, social, or environmental problems are picked up from all groups, and that they can cooperate to solve tough problems. Put another way, empowering poor people and the disenfranchised—the people "at the fringes"—and giving them a real stake in society is the key to building the stronger institutions required for longer term sustainable development.



James D. Wolfensohn

ACRONYMS AND ABBREVIATIONS

ANC	African National Congress
BRAC	Bangladesh Rural Advancement Committee
BSE	Bovine spongiform encephalopathy ("mad cow disease")
CCAMLR	Convention on the Conservation of Antarctic Marine Living Resources
CCD	Convention to Combat Desertification
CDF	Comprehensive Development Framework
CGIAR	Consultative Group on International Agricultural Research
CIDA	Canadian International Development Agency
CIESIN	Center for International Earth Science Information Network
CITES	Convention on International Trade in Endangered Species
CLRTAP	Convention on Long-Range Transboundary Air Pollution
CSOs	Civil society organizations
EDUCO	El Salvador's Community-Managed Schools Program
EPA	U.S. Environmental Protection Agency
EROS	Earth Resources Observation System
EU	European Union
EWG	Environmental Working Group
FAO	Food and Agriculture Organization of the United Nations
FDA	U.S. Food and Drug Administration
FONAFIFO	National forestry fund (Costa Rica)
FRA	Forest Resources Assessment
GEF	Global Environment Facility
GHG	Greenhouse gas
GIS	Geographic information system
GMO	Genetically modified organism
HIPC	Heavily Indebted Poor Countries
ICRG	International Country Risk Guide
IIED	International Institute for Environment and Development
IISA	International Institute of Applied Systems Analysis
IPCC	Intergovernmental Panel on Climate Change
IRRI	International Rice Research Institute
IUCN	Global Conservation Union
IWMI	The International Water Management Institute
MDG	Millennium Development Goals
MSC	Marine Stewardship Council
NEP	New Economic Policy
NEPAD	New Partnership for Africa's Development
NGOs	Nongovernmental organizations
NIC	Newly industrializing country
NOAA	U.S. National Oceanic and Atmospheric Administration
NSDF	National Slum Dwellers Federation (India)
ODESYPANO	Sylvo-Pastoral Development Authority (Tunisia)
OECD	Organisation for Economic Co-operation and Development
ORNL	Oak Ridge National Lab
PAN	Pesticides Action Network
PPP	Purchasing power parity
PRSP	Poverty Reduction Strategy Paper
RSDF	Railway Slum Dwellers Federation (India)
SINAMOS	National System for Social Mobilization (Peru)
SPARC	Society for the Promotion of Area Resource Centers (India)
TI	Transparency International
TRIPs	Trade-Related Aspects of Intellectual Property Rights
UCCI	Union of Capital Cities of Ibero-America
UNDP/GEF	United Nations Development Programme/Global Environment Facility
UNEP	United Nations Environment Programme
UNFCCC	United Nations Framework Convention on Climate Change
UNSO	United Nations Statistical Office
USDA	U.S. Department of Agriculture
USGS	U.S. Geological Survey
WCD	World Commission on Dams
WHO	World Health Organization
WRI	World Resources Institute
WTO	World Trade Organization
WWF	World Wildlife Fund
ZIES	Special residential zones of social interest