

WORLD BANK GROUP

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL FINANCE CORPORATION
INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES
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Address by **ROBERT B. ZOELLICK**,
President of the World Bank Group,
to the Boards of Governors of the World Bank Group,
at the Joint Annual Discussion

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**Annual Meeting
Board of Governors of the
World Bank Group**

remarks of

**Robert B. Zoellick
President, World Bank Group
Washington, D.C.**

October 22, 2007

**“Catalyzing the Future:
An Inclusive & Sustainable Globalization”**

Mr. Chairman, Governors, and Distinguished Guests:

I am pleased to welcome you to our Annual Meetings.

I would like to express my special appreciation to our Chairman, Karim Djoudi, for these meetings and to Augustín Carstens, for his leadership of the Development Committee, as well as for his fine counsel as I assumed this new post.

I would also like to thank my friend and colleague Rodrigo de Rato for fostering a strong partnership between our two institutions. I have known Rodrigo from the time we worked together in our respective governments on trade and economic issues, and I have always deeply appreciated his insight, decency, and dry wit. I wish him the very best for the future.

I look forward to continuing this partnership with Dominique Strauss-Kahn. We first met through my good friend, Pascal Lamy, now Director General of the WTO. It seems to be my lot to be paired with extraordinarily capable French Socialists!

I would also like to thank the many people who have offered me encouragement and support. I sense that people around the world recognize both the need for and potential of this unique creation. The World Bank Group is one of the great multilateral

institutions established after World War II. Sixty years later, it must adapt to vastly different circumstances in a new era of globalization. I think its best years are those still to come.

The staff of the World Bank Group has helped me learn, shown me our vital work in the field, and offered fresh ideas as we set a course for the future. The Board is offering experienced guidance as we strive to turn good intentions into productive actions.

The Face of the World Bank Group

Behind each project we support, there's a story of a person trying to build a better life.

During my visit to Cambodia in August, I met Leap Roth, an energetic man who lost a leg during the 1980s. Five years ago, Leap started a small workshop with his wife, selling rice threshers, trucks, and farming tools. He borrowed money from the ACLEDA Bank to help his business grow. ACLEDA was once just a small NGO, but with the help of the IFC, our private arm, it grew into one of Cambodia's largest commercial banks. Today, with 166 branches across the country, it is the only bank in Cambodia that caters to the poor.

In Mali, the World Bank helped a small cotton-growing town to build a solar-energy power plant. The plant brings 10 hours of electricity each day to more than 150 residents and will eventually reach more. Kalifa Goïta, the town's mayor, is counting on electricity to attract local investors and bring the world to his doorstep. He says, "With the phone, we know what happens in the world. With electricity, we will see what happens through television."

In Afghanistan, our IDA funding supported the Government's efforts to build schools, train teachers, and develop a new curriculum for secondary schools. Speaking at the Bank earlier this month, Afghanistan's Education Minister, Haneef Atmar, told us that "Five and a half years ago, there wasn't a single girl in school in Afghanistan; today, there are more than 2 million. Five and a half years ago, we had no women teachers; today, we have more than 40,000."

These are the human faces of the World Bank Group. They may be far away from our capitals and conferences halls, but they are at the heart of our mission to offer dignity and hope.

Given the opportunity, people everywhere want to build a better life for themselves and their children. That impulse, if given a chance, can contribute to a healthy and prosperous global society.

An Inclusive & Sustainable Globalization

Globalization has become the defining mark of our time. It has lifted barriers and boundaries, and unleashed movements of ideas, goods, capital, and people. It has created opportunities where there were none.

Yet globalization has not embraced all. Many remain on the fringes, and some are falling further behind. Exclusion, grinding poverty, and environmental damage create dangers. The ones that suffer most are those who have the least to start with — indigenous peoples, women in developing countries, the rural poor, Africans, and their children.

It is the vision of the World Bank Group to contribute to an inclusive and sustainable globalization — to overcome poverty, enhance growth with care for the environment, and create individual opportunity and hope.

In 2000, the countries of the United Nations established eight Millennium Development Goals—ambitious targets to halve poverty, fight hunger and disease, and deliver basic services to the poor by 2015. These goals, our goals, are posted by the main entrance of our headquarters building, reminding us every day of what we come to work to accomplish.

These aims of sound social development need to be combined with the requirements for sustainable growth, driven by the private sector, within a supportive framework of public policies.

The Role of the World Bank Group

Meeting these needs is not, of course, just a question of money. Nor is it the role of the World Bank Group to solve these problems by itself.

It is the purpose of the Bank Group to assist countries to help themselves by catalyzing the capital and policies through a mix of ideas and experience, development of private market opportunities, and support for good governance and anti-corruption — spurred by our financial resources.

It is the purpose of the Bank Group to advance ideas about international projects and agreements on trade, finance, health, poverty, education, and climate change so that they can benefit all, especially the poor.

We should be expanding the frontiers of thinking about policy and markets, pioneering new possibilities, not just recycling the passably proven with a modest financial advantage.

First Steps

We are taking steps to leverage the strengths and synergies among the four principal entities that make up the World Bank Group — IBRD, IDA, IFC, and MIGA. We must work as one World Bank Group for our clients.

First, our Board recently agreed that the World Bank Group should lead the way to a successful IDA 15 replenishment with a record contribution of \$3.5 billion from its own resources. This is more than double the \$1.5 billion pledged to IDA 14. Our IDA contribution depends, of course, on the annual income of the IBRD and IFC, as distributed by their Boards each year, but we believe this stretch goal is possible. We urge others to stretch too.

The generosity of donors is fundamental to the success of IDA 15, which is our principal financing tool for the poorest countries, and for Africa in particular. We have been encouraged by donors' support for an ambitious result. South Africa has joined us with a pledge of a 30 percent increase in its contribution. Now we need the G-8 and other developed countries to translate their words from summit communiqués into serious numbers, too.

Second, we are committed to a stronger growth strategy for IFC, our private sector arm. IFC has been growing over the last few years. It has also focused more on the development impact of its work. Last year, IFC provided \$3.6 billion, or 37 percent of its investments, in IDA countries.

Third, we will deepen the cooperation between IDA and IFC to boost the private sector in poorer economies. IFC is launching new infrastructure and microequity funds for IDA countries. IDA and IFC can co-invest to support public-private partnerships in infrastructure projects, especially in the energy, transportation, water, agricultural, and microfinancing sectors. These projects can support the integration of regional markets, which is especially vital for smaller and land-locked states in Africa.

Fourth, we have announced a major price simplification and reduction for loans from IBRD, our public finance arm. Loan prices are now back to pre-Asian crisis levels. This step is part of a broader effort to improve and expand our services to clients.

Our IBRD clients have been asking us to help them meet their diverse needs. So the IBRD should be growing, not contracting. Our mix of knowledge and lending services is especially important to help countries with their social development and the expansion of energy and infrastructure in an environmentally sound fashion. Of course, our services to middle income countries must continue to expand far beyond lending. We must also address the non-financial costs of doing business. We aim to be faster, better and cheaper.

These first steps point the way towards an expanding horizon.

An Inclusive & Sustainable Globalization: A Multilateral Approach

Nearly one billion people live on just \$1 a day. Globalization must not leave this “bottom billion” behind. Poverty breeds instability, disease, devastation of common resources and the environment. Poverty can lead to broken societies that can become breeding grounds for those bent on destruction and for migrations that risk lives.

Globalization has brought uneven benefits to the billions in middle income countries who have started to climb the ladder of development since the end of the Cold War. In many lands, social tensions are weakening political cohesion. These middle income countries need to continue to grow, to offer inclusive development, and to adopt environmental policies for sustainable prosperity.

The greater influence of developing countries presents another question: What will their place be in this evolving global system? This is not only a question of how large developing countries will interact with developed countries, but also with the poorest and smaller states of the world. It would be ironic indeed for the Bank Group to withdraw from work with middle income countries at a time that governments are recognizing the need to integrate these countries more effectively in diplomacy and political-security institutions. Why not integrate them as partners in the institutions of the multilateral economy, too?

Two years ago, I suggested that China build on its success by becoming a “responsible stakeholder” in the international system. This is, of course, a challenge for others, too, if we are to achieve an inclusive and sustainable globalization. And with

responsibility, there should be greater voice and representation. We need to advance the agenda to strengthen the participation of developing countries throughout the Bank Group's work and workforce. I am particularly pleased that Dr. Ngozi Okonjo-Iweala, the former Finance Minister of Nigeria, has agreed to return to the Bank, where she worked for 21 years, to serve at the top rank as a Managing Director.

Developed countries are also facing the opportunities and strains of globalization. The common sense of publics in developed countries leads them to recognize there is no successful recourse to isolation. Common decency — as well as self-interest — drives them to recognize the interdependence, even as they debate how best to pursue it.

In comparison to the scale of these global challenges, the World Bank Group is a modest institution. Yet along with its multilateral partners — the United Nations and its specialized agencies, the IMF, the WTO, and regional development banks — the World Bank Group needs to play an important role in advancing an inclusive and sustainable globalization. The multilateral institutions have been buffeted and battered. They need to combine deliberations with effective results. They must overcome internal weaknesses and build on their strengths. Together, we must show that multilateralism can work much more effectively — not just in conference halls and communiqués — but in villages and teeming cities, for those most in need.

Six Strategic Themes

What, then, should be the strategic directions the World Bank Group should pursue?

First, the World Bank Group faces the challenge of helping to overcome poverty and spur sustainable growth in the poorest countries, especially in Africa. IDA is our core financing instrument for the 81 poorest countries.

In these countries, we need to focus intensively with our partners on achieving the Millennium Development Goals. These basic needs will set the foundation for the future.

Yet the message I received when I traveled to Africa in June and to Asia in August was that social development objectives are necessary but not sufficient. The good news is that 17 African countries, home to 36 percent of the population, achieved average annual growth of 5.5 percent from 1995 to 2005. These countries want assistance to build infrastructure for higher growth — especially energy and physical facilities that can support regional integration. They also want us to help develop local financial markets, including for microfinance, that can mobilize African savings for Africa's growth.

African leaders see great potential to expand agriculture, increasingly through productivity growth. The World Bank Group's recent World Development Report highlights that GDP growth from agriculture benefits the poorest four times more than growth in other sectors. We need a 21st Century Green Revolution designed for the special and diverse needs of Africa. We need greater investments in technological research and dissemination, sustainable land management, agricultural supply chains, irrigation, rural microcredit, and policies that strengthen market opportunities, while assisting with rural vulnerabilities and insecurities. More countries need to open their markets to farm exports, too.

Another 8 African countries, home to some 29 percent of the population, have averaged growth of 7.4 percent from 1995 to 2005 due to their oil resources. For these states and some IDA countries in other regions, the priority development challenge is encouraging good governance and anti-corruption policies, along with an expansion of local public sector capacity, to ensure that resource revenues build a sustainable future for all citizens.

We also have the opportunity to build new partnerships to assist the poorest. The Bank Group is now working with Russia, China, Brazil, and India to support the needs of poorer states.

Second, we need to address the special problems of states coming out of conflict or seeking to avoid the breakdown of the state.

When the visionaries at Bretton Woods conceived of the IBRD over 60 years ago, the "R" stood for the reconstruction of Europe and Japan. Today, the "R" points us toward the challenge of reconstruction in states harmed by modern conflicts.

Sadly, these conflicts not only lead to extraordinary suffering for the people directly involved, but the spillover effects drag down their neighbors too.

Frankly, our understanding of how to deal with these devastating cases, is modest at best. I suspect we will need a more integrated approach involving security, political frameworks, rebuilding local capacity with quick support, reintegration of refugees, and more flexible development assistance. The Bank Group's constructive work in Bosnia, Rwanda, and Mozambique shows what is possible. IDA's adaptability and quick disbursements have proven vital in post-conflict environments, and we are working with other development partners to increase our effectiveness.

Today, we are at work in Southern Sudan, Liberia, Sierra Leone, Democratic Republic of Congo, Burundi, Côte D'Ivoire, Angola, Timor Leste, Papua New Guinea, Pacific island states, Afghanistan, and Haiti, among others. If there is an effective peace accord in Darfur, backed by a strong UN-African Union security force, the World Bank Group would want to help.

Third, the World Bank Group needs a more differentiated business model for the middle income countries. Today, about 70 percent of the poor live in India, China and the middle-income countries served by IBRD. In many cases, rapid economic growth has failed to provide opportunities for the poor. Social services remain underfunded. Environmental and energy problems are acute. And there remains a continuing potential for volatility in the flow of capital to these countries — like those we witnessed through the 1980s and 1990s.

Recognizing these challenges, our middle income members want the World Bank Group to remain engaged with them through a diversified menu of “development solutions.” But this engagement needs to reflect major improvements in their financial position and institutional capacity over the past decade. They want IBRD to provide much more flexible and better-priced banking services, with less red tape and shorter turn-around times. They want customized, just-in-time knowledge and advisory services. They are looking to IFC to help develop private sector solutions for undeveloped markets and even social needs. And they are holding us to ever-higher standards of quality, consistency, and cost-effectiveness in our advisory services. In short, they want performance, and that is what we intend to give them.

For some middle income countries, our services will be increasingly in the areas of risk management and applying global know-how to local needs. We can offer credit enhancements, hedging, and neutral expertise that will help build the capacity for asset management. We can encourage local securities markets by helping construct local currency bond funds and indices. We can finance in local currencies to help combine our lending with the management of currency risk. To encourage inclusive growth within countries, we can work with subnational authorities. We are now developing contingent financial instruments to assist with emergency liquidity needs during financial shocks, as well as insurance and capital market facilities to broaden availability and lower the cost of coverage for natural catastrophes, such as hurricanes and earthquakes. Some of these activities will lead us to explore how best to provide services and knowledge for fees, offering our client countries a choice of delivery with or without financing.

Fourth, the World Bank Group will need to play a more active role in fostering regional and global public goods that transcend national boundaries. It is our calling to ensure that this agenda is linked to the aims of development. Our work on regional and

global public goods will require close cooperation with other agencies that have specialized expertise, such as WHO, UNEP, UNODC, and the WTO.

The World Bank Group has already demonstrated its potential to assist in countering communicable diseases through our work on HIV/AIDS, malaria, avian influenza, and vaccine development. We are in the midst of reexamining ways to strengthen the nexus between aid and trade.

We are working with our Board to significantly step up our assistance to the international efforts to address climate change. At the UN Climate Change Conference in Bali this December, I hope to outline a portfolio of ways the World Bank Group can help integrate the needs of development and low carbon growth. We need to focus particularly on the interests and needs of developing countries, so that we can meet the challenge of climate change without slowing the growth that will help overcome poverty.

Our main objective will be to help countries “mainstream” adaptation and mitigation actions within their growth strategies, including plans for energy development, agriculture, and land use. The Bank Group can also offer innovative and concessional financing mechanisms — such as our new Forest Carbon Partnership Facility — to assist with mitigation, adaptation, and the rapid penetration of technological innovation. As with carbon trading, we can help pioneer and advance new market mechanisms — in ways that assist developing countries. With the help of IFC, we can also promote the creation of public policy and business environments that will tap the private capital necessary to address this challenge.

Poor countries and poor people are most at risk from the effects of climate change, and least protected. The World Bank Group can support increased resilience to climate risks. We can promote technology advances and adoption, especially in the developing world. For example, new capabilities to permit efficient carbon sequestration are critical. To strengthen developing countries’ ability to determine their own low-carbon growth and adaptation strategies, we can support applied research and knowledge development on climate change economics in developing countries.

Based on this portfolio of supportive activities and the knowledge we develop, the World Bank Group would also be available to help inform international policy discussion on possible regimes for climate change.

But this must not be a trade-off between growth and caring for the environment. Developing countries — and Africans in particular — are concerned that resources for climate change will come at the expense of financing for other key development needs.

This is another reason why developed countries need to match rhetoric with resource contributions to IDA 15.

Fifth, one of the most notable challenges of our time is how to support those seeking to advance development and opportunities in the Arab World. In the past, these lands have been at the center of trade and learning, suggesting the potential if they can move beyond strife and barriers to growth and social development. Without broad-based growth, these countries will struggle with social tensions and a large number of young people who cannot find jobs. The UN's Arab Human Development Report offers powerful self-assessments.

When I served as the U.S. Trade Representative, I worked closely with leaders from the Maghreb to the Gulf who were opening economies and societies. Some had plenty of energy resources and capital but little economic diversity and ability to create jobs. Others were seeking to improve schools, strengthen the adoption of technology, and expand employment through business deregulation and trade. A number were deepening productive ties with Asia, through cross-investments, trade, and the growth of service centers.

Our recent "Doing Business 2008" report shows progress is possible. Egypt tops the list of economies reforming regulations to make it easier to do business. Saudi Arabia eliminated layers of bureaucracy that had made it one of the toughest places to start a business and also did away with minimum capital requirements.

These are encouraging developments, but there is much more that can be done. An inclusive globalization must deliver benefits for all the people in these states. As Arab governments seek to provide social services effectively to all their peoples, we can offer comparative experience. We can assist in creating hospitable environments for business. For some, we may be able to finance development projects, operate donor trust funds, or spur the expansion of private sector services through the IFC. In the Palestinian territories today, we are helping provide basic social services and support for good governance and private sector growth, which could provide the economic foundation for hope if the parties choose the path of peace.

Finally, while the World Bank Group has some of the attributes of a financial and development business, its calling is much broader. It is a unique and special institution of knowledge and learning. Yet this is not a university — rather it is a "brain trust" of applied experience that will help us to address the five other strategic themes. Delivering, expanding, and testing this learning — in tandem with financing or separately — is the most important part of our work.

We also must keep challenging ourselves by asking: what does it take to achieve inclusive and sustained development and growth?

This challenge requires humility — and intellectual honesty. Many development schemes and dreams have failed. This is not a reason to quit trying. It is cause to focus continually and rigorously on results and on the assessment of effectiveness.

These six strategic themes offer a direction — to be discussed, refined, and improved. We welcome the counsel and guidance of our shareholders. There is a great need — and a compelling opportunity — for the World Bank Group at this point in history.

Internal Challenges: Good Governance & Anti-Corruption

To be successful, the World Bank Group must also squarely face its own internal challenges. We need to use our capital more effectively and focus more on client service. We need to incorporate women’s empowerment throughout our agenda. We should strengthen our ties with civil society organizations and NGOs so we can learn from them. Reflecting the new “architecture of aid,” we need to work more effectively with national aid programs, funds focused on particular projects such as diseases, foundations, NGOs in the field, and private businesses interested in development challenges. And we need greater voice and representation on our Board and diversity in our workforce.

As a recent report of a panel led by former Federal Reserve Board Chairman Paul Volcker underscored, we also have work to do in strengthening our approach to dealing with governance and corruption. The panel gave us an extensive set of recommendations to consider. We are following up promptly, welcoming the views of others, discussing ideas with our Board, and moving toward operational improvements.

My experience has been that the people at the World Bank Group recognize how critical the Governance and Anti-Corruption agenda is. They are proud of the development mission they serve, want to uphold the integrity of their institution, and know corruption steals most from the poor and powerless. We will do better together.

The World Bank Group can also offer leadership by integrating good governance and rule of law policies in the development agenda. Just last month, we joined with the UN to launch a Stolen Assets Recovery — or StAR — Initiative to get developed and developing countries to work together to recover the financial plunder of corruption. A number of countries have already approached us for help.

Conclusion

There is much the World Bank Group can do to be a catalyst for inclusive and sustainable globalization, but we cannot do it alone. I am grateful to our European colleagues for the creative initiatives they have proposed since I started. Yet there is also a critical need for developing countries to integrate multiple aid efforts into coherent plans. IDA unites fragmented aid into a coherent development platform, focused on results, effectiveness, and national ownership. I know that Finance Ministers are powerful players on budgets: we need you to use your power for the poor by boosting your IDA contributions. The World Bank Group's pledge of \$3.5 billion puts our "money where our mouth is" — will you?

Mr. Chairman, it would be a concrete sign of multilateral commitment to global prosperity if members of the G-8 and other developed countries fulfill their Gleneagles promise to scale up aid to Africa and the poorest.

It would be a concrete sign of multilateral commitment to global prosperity if members of the WTO could achieve a breakthrough on the Doha Development Agenda. This weekend, WTO Director-General Pascal Lamy said that a deal is possible, and this is probably our last chance to succeed. I agree with him. The World Bank Group will do all it can to help developing countries seize the gains from more open markets and drastically reduced subsidies.

People know instinctively there is no recourse to isolation. They know we are part of something larger than ourselves. Whether we are representatives of governments or multilateral institutions, let us show that we have the foresight, the commitment and the follow-through to make globalization work for all.

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