Introduction by Mrs. Petra Roth, Mayor of Frankfurt: Ladies and gentlemen, it's a great honor and a pleasure for me to welcome you all. Every one of you is an important person, but I give my warm welcome to all of you. You are here the guests tonight for the 14th International Frankfurt Banking Evening here in this Imperial Chamber of the Frankfurt Römer. Now I would like to give my greetings especially to the President of the World Bank Group, Mr. James D. Wolfensohn. And a warm welcome, of course, to the Vice President of the European Central Bank, Christian Noyer, and the Prime Minister of the State of Hessen, Roland Koch.

Ladies and gentlemen, thank you for responding so positively to the invitation to attend this year's Banking Evening. Your being here proves that the Banking Evening is established as a key event of Frankfurt's financial community. Highest-ranking representatives from financial institutions from all over the world have shared the views of topics of immediate interest since the establishment of the Banking Evening in 1988. Up to now, the topics have been focused on themes of the European Monetary Union and the financial stability of international or national systems. These topics continue to be a main concern. It could not be otherwise. Frankfurt is the financial center in continental Europe. We in Frankfurt are determined to keep it this way. However, it is essential that the Federal Government becomes more active. The representation of German interests in Brussels leaves something to be desired, in particular as far as the regulation of the capital and financial market are concerned. It will be helpful for the German financial position if the law concerning the promotion of financial markets will be enacted following the election in September. The law not only improves the protection of shareholders, it also offers a welcome modernization of financial and capital markets in Germany.

Tonight we hear a speech about a topic which seems to belong to a totally different field, namely, poverty reduction in the world. But when we take a closer look, it becomes evident that international financial stability is closely related with poverty reduction. The development of the rich nations is interlocked and interdependent with the development of the poor countries and regions. In order to ensure lasting stability and prosperity, rich nations will have to continue helping poor nations with their economics, cultural, and social concerns.
No one is in a better position to speak about this topic than a representative of that organization which has committed itself to the efforts for worldwide reduction of poverty. Conceived at Bretton Woods in 1944, the International Bank of Reconstruction and Development was founded in the same year and started its work in 1945. Remember, the World Bank initially helped rebuild Europe after the war.

In the following years, four complementary organizations were added to the founding organization so that today the World Bank Group consists of five institutions. The five member institutions have specialized in different aspects of development, but use their comparative advantages to work in collaboration towards the same overarching goal: poverty reduction.

Tonight, our guest speaker is the highest representative of the World Bank Group, and I'm very proud that President James D. Wolfensohn will speak to us on banking and international development, areas for cooperation and poverty reduction.

Mr. Wolfensohn is the ninth President of the World Bank Group since 1946. Becoming President in 1995, he was reappointed by the Bank's Board of Executive Directors to a second five-year term. This made him the third President in the history of the World Bank to serve a second term. Key words of this working attitude are firsthand experience and communication. During his travels, Mr. Wolfensohn not only visited numerous development projects supported by the World Bank, but he has also met the Bank's government clients as well as with representatives from business, labor, media, and non-governmental organizations.

His experience as a successful international investment banker helped him in improving the institution's efficiency in fighting poverty and meeting the needs of a rapidly changing global economy. Several initiatives of the World Bank Group were launched by Mr. Wolfensohn, especially the Heavily Indebted Poor Countries Initiative together with the International Monetary Fund in 1996, and the Comprehensive Development Framework, CDF, in 1999, brought some significant improvements in the worldwide reduction of poverty. The CDF is also meant to enhance the Strategic Compact, a major reform program in the Bank which was launched by Mr. Wolfensohn. A central feature of the Strategic Compact is to incorporate key aspects to the information revolution into the Bank's work by transforming the institution into a Knowledge Bank. Knowledge is a precondition of economic success.

As if this wasn't enough already, Mr. Wolfensohn has also become involved in a wide range of cultural volunteer activities. So it is not surprising that Mr. Wolfensohn was awarded an honorary knighthood by Queen Elizabeth II and has also been decorated by the governments of Australia, France, Germany, Morocco, and Norway.

I still remember our meeting, Mr. Wolfensohn, at the World Urban Economic Development Conference in Washington a couple of years ago. I suppose it was in 2000. And to my surprise, ladies and gentlemen, I had the pleasure to see you again with my Shanghai colleague when I first entertained the
idea of asking you to visit Frankfurt for the Banking Evening. My hopes came true.

I'm sure the especially large number of guests is mainly due to your presence as well, and I'm sure I'm speaking for all here in this room that we are very much looking forward to your speech which you will deliver, ladies and gentlemen, after the main course.

You are really predestined to compare banking structures and systems of public supervision, and I do think a lot can be said in favor of our systems in Europe and here in Germany. We ought to look into that in detail, and I would be very much interested in your assessment, Mr. Wolfensohn.

Coming to the end, ladies and gentlemen, I would like to inform you about the further procedure of this evening. At first, we will have the entree and the main course; then Mr. Wolfensohn with his speech, followed by dessert. And after that I will give the presents to our guest speaker, and we will have coffee, to finish this evening with some relaxed minutes with you outside, by coffee, by digestive, or by a beer, and now we will start, and I wish you all very good appetite. Thank you.

Mr. Wolfensohn: Madam Mayor, Mr. Prime Minister, and all of you distinguished friends, let me say what a pleasure it is for me to have been invited to this gathering. Ten years ago, when I was an investment banker, I could have only dreamed of talking to an audience like this, and now I find that I have the opportunity, and I don't have anything to sell you, no business to do with you, other than the very important business of dealing with the questions of global poverty and global peace.

I came into this room and was very warmed to see it. I must say that it is extraordinarily impressive. This city has a wonderful set of memories for me because I was here seven years ago, almost on this day, for the 125th, I think it was, anniversary of the Deutsche Bank. I went back to have a drink with my friend Fritz von Metzler [Head, B. Metzler seel. Sohn & Co], and I got a phone call from the White House to tell me that I had been nominated as President of the World Bank. And it was in this city that I decided that I would accept, if all the shareholders would allow me.

Frankfurt has a lot of very good memories for me, and I am extremely happy to be back here, this time not as a partner or competitor but as a member of the global family, to which this community contributes a lot. As you probably know, the banking community in Frankfurt is a supporter of World Bank bonds. We work with the banking community in many aspects of the affairs of the World Bank and International Finance Corporation and in the World Bank itself. There are many existing links that we have and that we treasure very much indeed.

The subject that was suggested to me tonight was the subject of poverty and the role of banking in relation to that subject. I think Bill McDonough's comments in his speech at this event last year are very appropriate for tonight. The first thing that is very relevant in the
subject of poverty alleviation and the partnership with communities such as this is that there are two very important elements that really are behind everything that goes on in the world. The first is strong macroeconomic development, and the second is financial systems that work, that are transparent, and that allow people to access them.

Those were the two points that Bill made last year, and I would start with those two points. The first partnership that exists with people in poverty around the world is to make sure that the world is functioning. Without that, without growth, without stability in the financial systems, it simply is not possible to deal with the questions of poverty.

So I can pick up from there and say that, of course, I agree with him that the first and fundamental aspect of poverty alleviation, wherever it is, is the issue of economic growth, stability, transparency, and making funding accessible to the world.

If you come back to Frankfurt in the 16th century, when it was a trading center and then developed into a banking center; if you look at the old centers of banking in Europe, whether it be here or in Florence or in London - the bankers have always taken an interest in development. Indeed, the Bankers stimulated growth in the United States too.

The pervasive influence of bankers is very clear. But I also have an image of these bankers sitting back and saying to their colleagues, "Let's take a shot at America". Or the Belgian bankers following King Leopold saying, "We need a continent or a colony in Africa, let's take the Congo, or let's take wherever." These initiatives were taken essentially by people who had a view of the world. They had the resources and sent their children or their emissaries out to go make their fame and fortune, and then come back home, because home was safe, home was behind a wall, be it a Frankfurt wall or a London wall or a Zurich wall, or whatever wall. But there were two worlds - there was this world of finance, and there was the world of excitement and development out there to which emissaries were sent.

In the places where the emissaries went, there were no rules about indigenous people and how to treat them. There were no rules about environment. There were no rules about social equity. There were no rules about the rights of women. There were no rules about social justice. It was the world out there from which you could extract resources and profits. And in some cases, societies were spawned which developed their own values and which became, as in the case of the United States and North America, a continent and a country of enormous economic and financial power, which itself became a source of funding for investment.

But that was not always so, and if we look at Africa today, left by colonial powers, we have a continent of 600 million people that today has little growth compared to what it had 20 or 30 years ago. And Africa continues to face, with 47 different country constituencies, the enormous problems that all of you know: economic, social, tribal, and now AIDS, as well as poverty, which is pervasive.
That was the banker of the 16th century, and, of course, right up to the 19th and even 20th century. You might say, "Well, what is the interest of poverty? Why is there a partnership?" Why am I even here talking about a partnership between a group such as this - with the highest GDP in Germany, confident, aggressive in terms of business, strong - and poor people. Why would I be asked by Mayor Roth to come here to speak to you?

The reason is that the paradigm has changed. It's no longer possible to regard that out there as not having any influence on in here. There is no wall anymore.

For those that didn't know it before September the 11th, surely September the 11th, as a day in history at least for the United States, and conceivably for the world, brought a recognition of the fact that what was happening Afghanistan had an influence in Wall Street, in Washington, and in a field in Pennsylvania. It also brought a recognition that these events did not flow directly from poverty - because the terrorists were not poor. But these people of ill will - none of whom, by the way, was an Afghan - found themselves with the capability of wreaking terror on the United States and wreaking terror on the world. All of a sudden, there was this visual image of the World Trade Center dropping, which at least for me was like that imaginary wall dropping.

I always talked of the non-existent wall beforehand, but here was a case where you could visualize something as remarkable as the World Trade Center collapsing. Just a few days before, you had had Afghan refugees running through the Channel Tunnel. You'd had Afghan refugees off the coast of Australia. As all of you know, you have forces that are bringing our world together, the so-called globalization, which makes everybody now have to think in global terms.

It's not just terror. It's environment, it's health, it's trade, it's finance, it's drugs, it's crime, it's migration. There's hardly a subject that you can think of today that does not have both origins or implications outside that imaginary wall.

For the banker today, it's no longer a one-way street of sending your child out to developing countries to do something and come home. Today, there is an interconnection that is real, inevitable, and pervasive.

And, by the way, if I may say so, when I met your Mayor, she told me that she perceives this city as having an international role, and she perceives her job as being international - no longer solely looking at the city, but positioning the city in the context of a global environment. I pay tribute to her leadership in terms of this recognition and this initiative that she's taken, and I'm very hopeful that she will come and share her opinions with us for some days this year at the Bank.

You have a city which has always been international, but which is international today in a different sense because there is a reverse flow. What you do affects others, but you are also affected by what goes on in the rest of the world. I need only speak of the Asian crisis, or the Mexican crisis, or the Russian crisis, or today the Argentine crisis. These may be far-off names, but they're present. They're present if not
in terms of financial implications - because Argentina has not had a
great infection on the financial markets - but look at Argentina and look
at the impact, if the crisis is not solved, such as an infection of a
social character, through Latin America. And look at the rest of Latin
America, look at Colombia, look at Venezuela, look at Haiti, look at
Cuba, if you want to find areas which in varying or less degrees can have
an impact on the social and political stability of that whole region, and
in doing so have an impact on you, on us.

These are the issues which I think all of us are starting to come to
recognize - that it's no longer the notion of sending people out and
coming back, but that your responsibility now goes way beyond the balance
sheet, goes way beyond the immediacy of risk management which, of course,
you must have. In the leadership positions that you have in the banks and
in the companies on whose boards you serve, you have a critical
responsibility to think beyond it and to think of the broader issues.

What are the broader issues? Just think of the dynamics of our current
world. Our current world has six billion people in it. Five billion of
them live in developing countries. One billion of them live in the OECD
countries. So we have one-sixth of the world with 80 percent of the
global income, and we have five-sixths of the world with 20 percent of
the global income. You have three billion people that live under $2 a
day. You have a billion two hundred million people that live under $1 a
day. And you have one and a half billion people that don't have access to
water or to sewerage, and you have 125 million kids that are not in
school. I could go on and on, but will neither test my memory nor your
patience. But let it be simply said that the issue of equity in our world
is not one that we've addressed very well. That's what we're trying to do
at the Bank. We're trying to deal with this in ways that I'll describe.

This issue is not a static issue. The fact is that in the next 25 years,
25 to 30, depending on whose estimates you take, the world becomes eight
billion - eight billion, up two billion. All but 50 million of those
people go to the developing world. So at this dinner 25 years hence,
someone will be telling you that the world is eight billion, of whom
seven billion live in developing and transition economies, and the one
billion more or less remains the same.

The 12 countries in Europe with 302 million people by those same
estimates will be down in population by 3 percent - down in population by
3 percent. Germany, with its 80 million, by the same estimates will be
down by 6 percent. The population aged 65 and over will be up 40 percent
and will be approaching 25 percent of the population.

These are not whimsical statistics. We are faced with the issue of
current inequity in the world and prospective greater inequity unless
something's done about it. That's a fact. How you interpret it is for you
to decide, but that is the demographic framework: older population,
smaller population in the case of the 12 member countries in the European
Monetary Union, and two billion more in the developing countries.

Two major players, India and China, currently with 2.3 billion people in
the world, will grow, but at a lesser rate than the rest of the world.
Africa will more or less double in size, even with the epidemic of AIDS. And you have in South Asia and in various other countries pockets of great poverty and great uncertainty.

I'm not suggesting that poverty immediately leads to violence or terror because the evidence would suggest that poor people don't immediately go out and blow things up or become terrorists. But the one thing I am sure of from my own experience is that if people do not have economic hope, they become a breeding ground for those who have malevolent intent to both nurture their own desires and to gain support.

I'm just back from a tour of Russia and the five countries in Central Asia. Every one of the Presidents in Central Asia talks of fundamentalism as a threat. But the threat is based on the fact that in the conversion from the Soviet empire, a lot of people were left out without political voice and without economic hope. The manifestation of that came from people who had a network which happened to be fundamentalists — fundamentalists of a certain type in a so-called Muslim environment where, in the ten days that I was there, I heard not a single call to a mosque.

The point is that in that situation, the leaders are looking at questions which I think are fundamentally based on inadequacy of hope. If you look at the Palestinian position today, with people that are blowing themselves up, whatever you think of the politics, they're there to blow themselves up because they feel they have no hope.

At a much greater scale, if you look at conflict-torn countries such as the Congo, if you look at Rwanda, if you look at Angola — when you look at the troops that are being hired and the work that is being done, it is being paid for by people who very often don't have very high motives, but they're able to play on people who have nothing.

My judgment is, as a personal commitment, that this issue of poverty is as close as I can get to the issue of peace. I firmly believe that if we don't address the question of poverty there won't be peace 25 years from now, and you'll have eight billion people in a world of turmoil.

I'm not saying that there will be great armies massed, because today you don't need armies. You need 19 well-financed people to pull down the World Trade Center and to change the posture of the United States. As we've seen just in the last 24 hours in Europe, where you've seen an assassination — you may not have thought assassination, certainly in Holland, were possible. The last assassination in Europe was, I think, Olof Palme in Sweden. But Europe is not immune either from terror of that type or terror in schools or terror anywhere.

This is not a time to be complacent. It's a time really to stand up and say, "These are global forces, and no one's immune." It's a time when we have to repair the transatlantic alliance which has become hostile because, in my judgment at least, the linkage between Europe and the United States is crucial, as is the further link with other countries, as we face the questions of forces in Central Asia and the Middle East that might be less favorable to our way of life than we would wish. We have to
face up, as I've just discovered, to the question of Russia and Central Asia. From Frankfurt I'm going to Pakistan, Afghanistan, Mongolia, East Timor, and China, because I don't believe that I can understand Central Asia unless I understand Russia, Iran, China, and Pakistan.

For me, going to a country and trying to do an assessment is no longer possible. My work is becoming global. It's been global for a long time. But so is yours. That is the thing that I wanted to stress to you tonight. I don't believe that it's a time to opt out or a time to be complacent or a time to look at the world as the world in which most of us grew up and in which most of us were educated. Most of us grew up at a time of knowing little about Asian culture, Islam, China, even Australia, other places in general. We're also educating our kids today in a way that they will only know little. We're teaching them in the way we used to, and, unfortunately, in many other parts of the world, the children are being taught hate.

We have to start with education. It's not just for us, it's for our kids. One of the first things you can do to deal with the question of poverty around the world is to train your children. It's not to rush into the bank and make more loans. It's to make sure that you leave the next generation in a condition where they're more open-minded and more understanding and more able to deal with a very different sort of world.

You may be surprised that I say that as the first thing that we need to do, because for the rest of us it may be too late. And, frankly, for most of us it's not going to make a difference because the objectives that we're looking at are really quite short term. We can deal with the Middle East. We'll deal with Argentina. We'll deal with the problems that are happening in the Congo and wherever. But we cannot miss the dynamic of this. We cannot miss the question, at least in my judgment, of the overwhelming trend of social inequity and social justice.

This is not just a moral and ethical issue, although I'm prepared to say that you should address it alone from a moral and ethical point of view. If you look at the studies that we've done on poor people - and we've recently completed a study called "Voices of the Poor" where we interviewed 60,000 poor people - these are not people that are looking for a handout, and they're not people that are even talking about money. These are people that want a chance. These are people that want enfranchisement. They don't want to be a burden. They don't want to be the object of charity. They want the opportunity. They want to live in peace. They want to know that the police are more reliable than the criminals. If they're women, they want to know that they're not going to get beaten and that they, too, have a chance in a society where, frankly, the women do most of the work. This is probably true in Frankfurt also, as I see from the Mayor. But it is true that the issue of gender equality is a fundamental issue that one needs to deal with.

As I look around the world and I see the poor people with whom I deal - and I've been to about 120 countries now; I go into slums and villages in all these places - the best people you meet are people in poverty. They know exactly what's necessary. They're prepared to work their tail off. What they need is a chance. These three billion people is not a burden
for us to solve. It's an asset for us to engage. That's the dimension that we really need to get when we think about what it is that we can do.

A lot of that comes back to the agreement that we just a few weeks ago reached at the UN Financing for Development Conference in Monterrey, Mexico, and again at the Spring Meetings of the World Bank and the International Monetary Fund on the so-called New Partnership Compact between Developed and Developing Countries. This is a partnership in which the poor countries themselves are saying, "We recognize that there are certain conditions that need to be established in order for the development process to succeed. We understand that there are some basic things that we need to deal with. We must straighten out and strengthen governance. We must have clearer and more transparent regulation. We must have legal and judicial systems that protect rights. We've got to get rid of the many crooked judges that we have. We have to have financial systems that are transparent and that work and that offer opportunities not just for rich people but for small- and medium-sized enterprise and poor people with micro credit. And we must address the question of corruption which is pervasive in our countries;" as, unfortunately, some of the corruptors are pervasive in our countries in the developed world.

Then they said - and everyone agreed on this - "What we need then is assistance in capacity building. We need assistance in development assistance. And we need openness of trade because we don't want handouts, we want the ability to work our way out." Here I would like to point out that we're giving $55 billion in one form of aid or another and spending $350 billion a year on agricultural subsidies, seven times the size of overseas development assistance. So we have a lot to do to try and change the paradigm of development.

The other thing which was important is that, as the Mayor said before, there is a new approach to development: The Comprehensive Development Framework. It's an approach which is very rational. It says the countries must run their programs, but that there are four groups that need to be in the game. One is the government. The second are the international institutions and bilateral institutions. Here, let me pay tribute to the German Government, which has done an extraordinary job in terms of its development assistance, and which has just agreed to increase its level of development assistance from 0.27 percent of GDP to 0.33 percent of GDP over the next five years. Germany with its various agencies has taken a very key role and you should be very proud of it, as we are very happy to have Germany as a partner.

So the necessary partners are the government, the bilateral and multilateral institutions, and it's civil society in all its forms - a burgeoning civil society both international and domestic. I've had the pleasure of talking to members of civil society virtually on every trip I've had. But the final member of the partnership is the private sector. You must understand that the private sector in the last ten years has changed dramatically its role in relation to the development of the poor in the middle-income countries.

In 1990, overseas development assistance was at 60 billion dollars a year, while foreign investment in developing countries was at 30 billion
dollars a year. By 1997, seven years later, overseas development assistance was about 55 billion dollars a year. Private sector support in terms of equity, bonds, and bank lending had grown to 300 billion dollars a year. From being half the size of the official assistance, it was now six times the size.

In 1999 and 2000, the contribution from the banking industry in terms of net private loans to developing countries was between 6 and 8 billion dollars, and this last year saw a net reduction of private loans in that repayments exceed outflows by $27 billion. Overall, we've seen a net reduction in long-term capital market commitments to developing countries from $300 billion to about $170 billion over the last four years. Interestingly, foreign direct investment stayed about the same.

The reason that one needs to think about the private sector is that it has been and has the potential to be the major driving force in job creation and in opportunities in these countries.

Let me recap what I've said about the Comprehensive Development Framework. We have this partnership between the four groups of actors, and we also have the issues related to the structure of the legal system, judicial reform, corruption, education, health, infrastructure, rural strategy, cultural strategy - all the things that go into building a country. If I were writing my thoughts down again now, I would add a third dimension, which is the dimension of time. Development is not done overnight. It is not a today-to-tomorrow issue. It's at least a ten-year issue in these countries. We need to think in terms of the commitment and the outlook of our institutions, not just in terms of a quick fix for today, tomorrow, or for the quarterly results. We need to have a strategic view that we're going to stick with over time.

I'm not suggesting that the banking industry should throw away prudence. I'm not suggesting that it should throw away the interests of its shareholders. But I am suggesting that the men and women in this room who have influence, together with some members of the Bundestag, whom I'm very pleased to see here - all of us, Germans, Americans, Australians, have to be thinking about the strategic, long-term considerations.

I say to you very simply that it's not for us in this room, but if we don't do it, we're going to be bequeathing a world to our children that we don't want to leave to them. It's an issue of morality. It's an issue of ethics. It's an issue of self-interest. And it's an issue of peace. I think there is no better commitment that we could go out of this room with tonight than having that strategic vision and that strategic purpose for the next millennium.

Thank you very much.

Concluding remarks by Mayor Petra Roth: Mr. Wolfensohn, your visit to Germany's financial center is a great honor for the city and for our financial community. Your speech and your ideas in your speech have been partly the same which I discussed this morning in Berlin with the Chancellor of the Federal Republic of Germany - on the economic and social future of Germany and on the future of the cities in Germany,
because both belong to each other. We won't have future prosperity in the Bundesrepublik Deutschland if we won't have a prosperity in the cities of Germany. Social responsibility of the cities doesn't mean to subsidize special groups within the population such as companies or clubs. Social responsibility in cities means to open the market for uneducated young people. Exactly this was the theme you chose to focus on with this audience. In Frankfurt we have such a colorful scene of education institutes, public schools, private schools, international schools, universities, and this is a human capital which will lead the cities into a prosperous future, including Frankfurt.

We have a lot of assets in our city, and one of our assets is the banking community. You are the pre-entrepreneurs for these young people which we will educate, and then they will have work, and work is the impact of living and of feeling and of giving emotion to others to educate not only people at school, but to educate the family, to give love to others, and to be happy.

I have to thank you on behalf of the city of Frankfurt for this idea in your speech because it's very much along the same lines as we think in our city.

Dear Mr. Wolfensohn, as a memento of this evening - so that you will remember this city and this evening - please allow me to give you a pair of cups, not American coffee cups, but a pair of cups from the Frankfurt Hochster Porzellanmanufaktur. Hochster Porzellan is one of the last remaining European manufacturers of handmade porcelain, and these two cups belong to a special edition showing the profile of Frankfurt's greatest son named Johann Wolfgang von Goethe. I would like to give them to you, and later on, ladies and gentlemen, please do us a favor, join us outside in the lobby for coffee and soft drinks or beer and champagne, whatever you like. Thank you for coming, and thank you so much.