Remarks to the Bretton Woods Committee Annual Meeting

by
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Well, thank you very much indeed, Tom, and as Jerry said, looking around this room, it is a series of flashbacks for me, too. But the flashbacks start with Bob McNamara, who was a source of inspiration for me, and I think for all of us. And I'm very glad that he still is here to give guidance and inspiration to us.

This is a very important moment in the life of the World Bank, and I am enormously grateful to the Secretary of State for such a vivid and encompassing description of the way development is now looked at. And I hope that in a few moments I can tell you where the World Bank fits into that and to say thank you to all of you, those at the dais here but all of you, for the interest that you're showing in the Bretton Woods institutions, because never before have we needed you so much as we need you today. And we are extraordinarily grateful that an independent and well-informed group such as this is there for us to count on.

I think if you look at the position we're in, in its simplest form, much of the debate has now taken place on the development paradigm. In the first instance, at the time of the Millennium Assembly of the United Nations, it was recognized that the key elements for the planet in the coming years, the key elements could be described in Millennium Goals. And those goals, which were signed up to by every head of state, spoke of the halving of poverty by 2015 and dealing with issues of the human condition and the environment and establishing quite meticulous and special goals that should be attained by the countries on the planet.

It left open exactly how we would get there, but that assembly was followed by a number of meetings annually of the G-8 and not annually but in the interim period in Monterrey and Johannesburg, and then followed by Africa's own contribution, which sets out a form of compact or partnership or understanding of what the Secretary of State was talking about. And it's really quite simple in concept. It says as follows: For the developing countries--the five billion people out of six billion on our planet--the leaders want to take into their hands on behalf of their people the job of running their countries and being accountable for them. And they've said in various different ways in Monterrey and Johannesburg, and in NEPAD exactly the same thing. They've said we want to run the countries, as we should; we want to have a form of governance that we decide on, as we should; we want to strengthen the capacity of governance; we want to have legal and judicial systems that protect
rights; we want financial systems that are clean and that allow for
development from micro-credit through to major corporations; and we want
to fight corruption.

And with that backdrop, we then want to have our own plans for
development, plans that are comprehensive. And whether they're called a
comprehensive framework or a poverty reduction strategy or a national
plan matters little. But these plans should encompass education and
health and infrastructure and environment and the protection of culture
and the protection of the values of people in the society; and be built
on what I call the structural necessities of good governance, legal and
judicial reform, financial sector reform, and fighting corruption. On the
basis on that, first of all, it's the right thing to do for our people
and, secondly, if we do that, then we need the assistance of the
developed world.

These are not conditions being imposed by the Fund or by ourselves or by
any other international institution. These are suggestions and
indications coming from the countries themselves because they think
they're right. And in the case of NEPAD, which deals with 47 countries
in Sub-Saharan Africa, they not only say they're right but that they want
to have peer review amongst the African countries so that they can check
each other on how they're moving towards this set of objectives.

This is not the police force of the Bank or the Fund. This is peer
review because it's right. That is a hugely significant change in the
eight years in which I've been in the Bank, that it is now on the table
as a recognized and agreed and, in fact, in this case, is a proposed
understanding on the part of the developing countries of what they wish
to do.

On the other side, the rich world has said: If you do that, we will help
you in dealing with the question of capacity building. We will help you
in dealing with the question of structural reform in the ways in which
you want it. We will try and deal with our own corrupt people who
participate in the corruption because corruption has two sides. And we
will increase the level of aid, and we will open our markets for trade
because we understand that trade is a crucial element in the development
process.

Now, with these two sets of undertakings on either side, we're now right
in the middle of seeing whether that's going to work, whether the
countries that are developing are able to do it, and whether the rich
world will respond.

Now, in the context of this arrangement we had September the 11th, and we
had, I think, a growing awareness in the last couple of years that these
two worlds of the developing and the developed world aren't separated by
a wall but, in fact, they're totally interdependent. Whatever the
demonstrators might wish when they come out with signs on globalization,
the fact is that in recent years it's become absolutely evident that
while we define these worlds as two worlds for the purposes of the
bargain, in fact, there is interdependence. Whether it is on finance,
whether it's on health, whether it's on migration or environment or crime
or drugs or trade, it's very clear to this audience, as it's been clear
to us at the Bank for a long time, that each depends on the other, and
that in the pursuit of this new bargain, this partnership, it's not just
one where one side is looking for charity or for help, it is something
that is in the self-interest of everybody to deal with.

If anyone doubted that it was one world, they should only have the image
of the World Trade Center collapsing, with words like "Afghanistan" and
"fundamentalism" coming to the center of Wall Street and recognizing
that, whether it be Wall Street or the Pentagon, walls don't exist. And
if they did exist, they have now fallen down.

We're at the situation now where there's a pretty clear understanding of
what needs to be done, and at the Evian Summit, which I was at, there was
yet another restatement of those propositions, with some additions on
what are key areas that one should deal with: AIDS, as the Secretary
said, being central; water being another area that was regarded as
central for this particular set of meetings, but with a recognition that
still the Millennium Goals in relation to poverty, education, health,
environment, are all nonetheless there to be addressed.

And so we find ourselves at the Bank now in a position of doing two broad
things. The first is to try and assist the countries that have stated
what they want to do to get to that position, and sometimes that requires
money and equally sometimes it requires experience and knowledge. So our
institution is doing two things that you need to be aware of. One is the
provision of funding through IDA, through the Bank itself, through IFC,
through MIGA; and the other, and integrated within that, is the provision
of services to try and help build capacity and to help the countries
reach the position that they're striving for.

The Millennium Challenge Account is an important account because it says
for the top 15 or 20 countries, grant funding will be made available for
those that meet the 18 criteria minus one, as the Secretary said, with
the exception of corruption. For those countries that make it and are in
that privileged box, they will get assistance, which will be at the rate
of $5 billion a year from 2006 and which will be on grant terms. It's
the sort of prize that you get for being top of the class. And that is
great, commendable, valuable.

But there are another 125 countries that we and the Fund and, to a
degree, USAID and other agencies have to deal with which are either on
the cusp or a long way back in getting to that position. And we cannot
leave them behind because our job is not to give a prize to the 20,
although we will do that. It is to consider the totality of the
countries and deal with the very difficult issues of how you deal with
countries that are in the process of change.

Two come to mind at the moment: one is [former Central Bank Governor of
Brazil] Arminio Fraga's country, where President Lula has come in with a
remarkable opening series of positions that he's taken and directions
that he wishes to follow, and it may be that there are a lot of things to
worry about in Brazil. But there is absolutely no question that we have
to help Brazil succeed. The notion of a Latin America with an
unsuccessful Brazil is simply not possible. And with its adjacent
Argentina, we have also issues in which we have to be certain that we can
do everything that we can, notwithstanding some frustrations that [IMF
First Deputy Managing Director] Anne Krueger is familiar with on trying
to bring Argentina through to the point where it joins the people in that
box or espouse to it.

And you come to a country like Nigeria, with one in four Africans, which
has been through a period of corruption perhaps since its founding in
1959, where we have a President who in the course of the next week will,
I hope, announce a clean cabinet, a cabinet which is designed to stand up
to corruption and change a culture in a country, which Bob knows very
well, to change the culture in that country, to bring it to a point where
it's recognizable as approaching that box. They certainly are not going
to get money from the Millennium Challenge Account. But with one in four
Africans, someone has to come in, and I might tell you the work that
we're doing with the President at the moment has nothing to do with
money. It has a lot to do with arguing, cajoling, helping, supporting,
trying to bring about the conditions in which Nigeria will succeed,
because you cannot imagine a successful Africa without a successful
Nigeria.

And you can say the same is true for Kenya in East Africa, coming from a
period under President Arap Moi where it has a chance of moving forward.

Now, one of the things that we are discovering as we try and bring about
these last steps in change is that what is essential is that the
countries in the developing world want to know for sure that the rich
world is there to support them, not just once or twice in a political
framework, but over a long term and in scale. If they don't have the
assurance, how can you get a country to agree to put every kid in school
if you cannot say to them, in addition to what you generate in your
budget, we will be there for the next ten years to give you funds that
you can use for budgetary support, to pay teachers in terms of your
educational objectives.

If you come in and you say, well, we can do two or three years, how can
any legitimate President come in and say, well, I'm going to change the
system and in three years' time either it will screw up my budget or I'll
have to drop the education program?

And what is it that they have to convince them that we're serious? They
look at that partnership I described. One of the key elements was the
Doha Round. What are they currently looking at in terms of the bona
fides of the rich world in terms of the developing world? And I was at
the meetings in Evian, and I spoke to the leaders of the developing
world, and they are asking legitimately the question: If you guys think
that trade is so important and ODA is $50 billion plus and subsidies for
agricultural products are $350 billion and expenditures on defense are
$900 billion plus, and you're making very useful steps forward with $5
billion from the United States and $8 billion from Europe, you're still
under 2.5 percent--0.25 percent for development assistance, and you
promised us 0.7 20 years ago, which is $170 billion a year. And now
you're telling us on agriculture and on the things that we care about
that maybe there will be some bilateral deals, but you're running away from the very essence of your side of the partnership. And you're creating all sorts of questions about whether money's available or not available to us, but we don't see the move towards an extra $50 or $75 billion, if we need it and if we qualify.

We do see Gordon Brown talking about $50 billion extra. We find Francis Mer being very supportive of this move forward of the partnership. But the developing country leaders are not yet convinced that this partnership is understood. What they see is a predominant interest in conflict and post-conflict. They see a spotty record on Afghanistan, and they see a focus on Iraq. They see a focus on real wars, although if they're wars in Africa, they get a lot less attention. They see a focus on wars. They see a focus on post-conflict. But they don't see a focus on the war against poverty, what I call "the other war." The other war is not front-page news. And this is where I think this committee and this group comes into importance.

When I was in the private sector and signed a contract with somebody...I remember the one I signed with Paul Volcker. We went up in a taxi to the apartment, and I indicated to Paul that he was going to be chairman after weeks and weeks of—I was going to say turf—some procrastination, yes—Paul was not renowned for quick decisionmaking. But we finally signed a contract in the car with 32 yellow pages that lawyers had written, and, of course, we never looked at the contract again. It was the signing of the contract—I might tell you also that Paul asked me when I went up, since he was to be chairman of my firm, he said, "Who's on the board?" And I said it was my wife and myself. And he was quite upset at that. So I said, "Well, we could perhaps have your wife on the board, too."

[Laughter.]

But, in any event, what I'm saying is that if you have an agreement, if you come to a personal understanding, if you have passion about something, you put the contract in the bottom drawer and you make it work. It's what I call the period beyond contract. It's the moment when you grab the idea and you run with it and you're not looking at the contract.

We're in that period now where we need the passionate commitment of our government and other governments to really make sure that these agreements are carried out and that they're carried out not as a matter of contract, but as a matter of commitment and as a matter of belief and as a matter that this is the right thing to do in all our interests. And for me that is the testing point we're at at this moment.

I see the contract a clear delineation of what everybody should do. What I have yet to see is enough passion. What we saw with the Secretary of State this morning was passion at the level I'd like to see it. If we had people like the Secretary expressing that passion, we'd have no problems. But for the globe, at a time of financial stress, when there is limited growth, when we know that you cannot deal with the question of development in a contracting environment, we can be making steps towards
it. What we need today is the passionate commitment of people to make that contract work.

We need to put Monterrey and Johannesburg in a bottom drawer and be able to get on with it and know that the culture has changed in a way that we recognize there is no wall, that we are interdependent, and that the right thing to do for our kids and for peace is to make all this work.

What we're trying to do at your World Bank, given this is the Bretton Woods institution, what we're trying to do is to be advocates for that position and to be facilitator of the achievement of the contract that has been agreed. We're dealing with both sides. We're most notably spoken of in terms of our work for developing countries. But we also need desperately the partnership that has been articulated with the developed world.

I believe the statements by President Jacques Chirac at the recent Evian Summit were exactly along the lines that we need. I believe the statement by Secretary Colin Powell and the statements by the President are exactly on the side that we need. But we also need a demonstration that there will be delivery, and Cancun is an essential building block for this commitment of delivery, and thereafter at our Annual Meeting when we look at the question of the scale of funding and the phasing in of funding, the issue of how you get to scale and the issue of long-term commitments. That is still doubted by many people in the world.

And so we need your help, but we're a lot further along than we were ten years ago. We have a much greater understanding. There are more and more people talking about the issues. But what we need now is the passion and the commitment to make it work, and this body can make a big difference, and I'm extremely grateful to you for being in existence and for the help you give us.