The Challenges of Globalization

THE ROLE OF THE WORLD BANK

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Berlin, Germany
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It is a pleasure to address you again in this beautiful city. I would like to thank Ms. Scheel, Chairwoman of the Finance Committee, Mr. Rudolf Kraus, Chairman of the Development Committee, and Mr. Hans-Ulrich Klose, Chairman of the Foreign Committee, for your kind invitation.

Minister Wieczorek-Zeul plays a very important role in the relationship that the World Bank enjoys with Germany. I am delighted to have had the opportunity to meet with her again. We have had, and continue to have, a deep and long-standing association, in which we both share common perspectives, and in which her department and my colleagues in the Bank work effectively together in our common fight against poverty. I am also glad to see Professor Ernst-Ulrich von Weizsäcker, Chairman of the Enquete Commission, here today.

You have just heard my friend Horst Köhler outline the role of the International Monetary Fund. As he mentioned, we recently returned from a joint mission to Africa. I want to join with him in saying not only that these were extremely productive discussions with 22 African heads of state, but also that Horst and I both came away from that trip with a very strong sense of how African leaders are now taking charge of their continent and their countries.

African development can only result from a partnership in which the leadership and basic responsibility must be borne by the Africans. And the role of the international institutions and bilateral donors must be to give wholehearted support, with knowledge and experience, and to give liberally in terms of material resources and access to markets.

It is a supreme irony that just at the time when African leaders are putting the right policies in place and are showing results, overseas aid to Africa has fallen from $32 per person in 1990 to $18 per person in 1998. We must reverse that trend. I join Horst in saying that it is time for a concerted appeal to the heads of governments and major aid donors, to make it clear, once and for all, that development assistance is not charity, but a vital investment in global peace and security.
Current levels of foreign aid, at some 0.24 percent of annual GDP, fall far short of the 0.7 percent target developed countries promised to meet. The difference between these figures is worth $100 billion a year. For millions of poor people, this is the difference between life and death. And it is surely an amount that, if correctly used, could make the achievement of global objectives possible.

Never was this more necessary. With each passing decade the challenge intensifies. Today half the world’s population lives on less than $2 a day, 80 percent of the global population has only 20 percent of global GDP, and within each country there is a massive imbalance between rich and poor. And the challenge does not end there. Over the next 25 years, 2 billion people will be added to the planet, almost all of them in the developing world. We will go from a world of 6 billion people to a world of 8 billion people—with maybe over 6.5 billion living in the developing world. How many people will be condemned to live on less than $2 a day then? How the international community answers that question will be the key determinant of whether our children will live in a peaceful world or a world of rising conflict.

The Road We Have Traveled

Let me make some brief remarks about how the World Bank has changed, how we fit into the international development architecture, and where we are headed. When I look back over the last six years since I came to the World Bank, I see an institution that has been undergoing a process of continuous renewal—with significant results.

In 1995, there was no comprehensive mechanism in place for debt relief for the poorest countries, by either the multilateral institutions or other creditors. Today, 22 countries have begun receiving debt relief under the Heavily Indebted Poor Country (HIPC) Initiative, 18 of them in Africa—for a total of $34 billion. The total external debt of these countries will be reduced
by two-thirds, lowering their indebtedness to levels below the average for all developing countries.

After HIPC debt relief, these countries will spend about 2 percent of GDP on debt service—well below the level in other developing countries—compared to about 7 percent on social expenditures. More countries will join the first 22 by the end of 2001. We hope that the remaining countries eligible for relief under the HIPC Initiative will emerge from war or conflict so that they too can complete the program.

Let me take this opportunity to pay tribute to the far-reaching proposals that Germany made, beginning with the 1999 HIPC review and, subsequently, culminating with the pledges made at the Köln Summit. Chancellor Schröder's leadership in the events leading up to Köln deserves our deepest admiration. I am also extremely grateful for Germany's pledge of $226 million to the HIPC Trust Fund.

But agreements on debt relief alone are not enough. They need to be linked with explicitly articulated development strategies targeting poverty reduction. We are helping countries prepare such poverty reduction strategy papers (PRSPs). Today, we have interim PRSPs with 32 countries and completed PRSPs with 4 countries.

Development is not about a quick fix or a silver bullet. Nor will it endure if it does not have broad-based support. What is significant about this new approach, embodied in the PRSP, is that it is comprehensive, long-term, and involves the participation of all the players, including the private sector and civil society. As such it stands a much better chance not only of surviving major political shifts, but also of reaching deep into communities and societies where real change takes place. We now need to broaden this approach further by including in it measurements of results and accountability for performance by governments, the international and bilateral institutions, civil society, and the private sector so that we can track progress as we go forward.
There have been other important changes in the Bank’s work and its focus. HIV/AIDS has infected more than 50 million people worldwide and killed close to 21.8 million, over 17 million of them Africans. Six years ago the Bank was committing $35 million to fight HIV/AIDS; we have now moved to a commitment of $1 billion, an increase of almost 30 times. And we will make more money available as effective programs are developed.

We are working on prevention and working through public education programs, local clinics, and village groups; but we have also been active on the issue of treatment and the cost of retroviral drugs. And we are all too conscious of the fact that HIV/AIDS and other communicable and deadly diseases can only be addressed after dealing with health service delivery systems in general, and in this aspect we have been, and will continue to be, engaged.

We are also stepping up our work on post-conflict situations. Six years ago we had 15 post-conflict operations; today we have 35, and we are looking at how the Bank can get involved in post-conflict countries at an earlier stage. Our best contribution will be to work with countries and regions to create the growth and social equity that will help prevent conflict.

Six years ago, we in the Bank did not speak about corruption—it was seen as too political and, for many, an impossible challenge. Today we are working on anti-corruption and good governance programs in 95 countries, and we are a leader in many aspects of this work.

Six years ago, there was little or no focus on community-driven development. Today we have over $1.5 billion in commitments—projects such as the nutrition project in Mozambique that has radically reduced the incidence of malnutrition, and the social funds in Malawi. Our objective is to see these kinds of community programs replicated all across Africa and throughout the developing world.

We believe that people who live in poverty should not be treated as a liability, but rather as a creative asset that will contribute
more than anyone else to eradicate poverty. They do not want charity, they want a chance, and community-based development programs provide such an opportunity.

Our experience in reaching out to communities in India, China, and transition countries has been very promising. Today over 70 percent of our projects involve civil society and communities in some way, up from below 50 percent in 1995. In all these endeavors, the key is to move from projects to programs that can be replicated and expanded on a national scale.

These are just some of the changes we have made to better sharpen our poverty focus. And the results have been impressive.

Over the last few years our development impact—our most important bottom line—has improved dramatically. The quality of our portfolio is at its highest level in two decades—which by itself translates into billions of dollars in more effective development spending for the people we serve. As measured by the independent Operations Evaluation Department, project effectiveness has gone up from 66 to 77 percent between 1996 and 2000: an impressive figure for an institution whose core business—development—always involves considerable risk.

We expect this figure to improve further as we judge the effectiveness of projects commenced in the last five years. The quality of design of our projects has also improved. And improvements extend to project implementation too.

No other international institution has embarked on such an ambitious reform plan over so short a period with such dramatic results. Have we succeeded in all areas? No. Much more remains to be done. But we have achieved an enormous amount with the dedication of our staff, and we have put in place the foundation for further change. We now have a tremendous opportunity to build on that progress.

But budget constraints are now causing enormous stress and anxiety among our staff. Doing development differently—with a more participatory approach and with more emphasis on the
complex issues related to human development—takes much more
time and more resources. And yet uniquely among the
international financial institutions, our budget is the same today
in real terms as it was four years ago, despite the expansion in
what we deliver and its higher quality.

There are other demands that are made on us. As a sustainable
environment becomes increasingly important as a public good,
including it in the country programs puts increased requirements
on Bank staff. The Bank's focus on gender issues has similar
effects, calling on staff to do more.

Costs are also rising. The Bank has the most comprehensive
environmental and social safeguard policies of any of the
multilateral development banks. We have a leadership role to
play in this area, and we intend to play it. Make no mistake, we
will not water down our safeguards as some have alleged. But
enhanced compliance with the safeguard and fiduciary standards,
which are essential for sustainable development, has also
increased our costs. We must recognize the higher quality—and
the benefits for our clients. But we must also recognize the costs.
These need to be fully funded and our clients must be helped to
build the capacity to put these policies in place.

The New, Renewed Bank

So how can we further sharpen our focus on poverty and
maximize the catalytic role we can play in the development
community?

In January of this year we discussed with our shareholders—of
which Germany is a prominent and important member—a
Strategic Framework for how we will carry reform forward over
the next few years. Underscoring that agenda are five
fundamental ideas that we are operationalizing in all our work:

First, the Bank must retain a global competence and a global
diagnostic capacity. But this does not mean we must do
everything ourselves. Under the Comprehensive Development Framework (CDF) and the related PRSPs, we want to see more selectivity and a much better division of labor among all the players—international institutions, the United Nations, bilateral donors, nongovernmental organizations (NGOs), and the private sector. Selectivity is at the heart of our work going forward. It should be based on comparative advantage and on accountability.

Second, we must focus in our work on how, in partnership with the development community, we can help achieve the **International Development Goals** (IDGs). Let me remind you of what these are: reducing by half the proportion of people living in extreme poverty by 2015; a two-thirds decline in infant and under-five mortality, and a three-fourths decline in maternal mortality; universal primary education for all by 2015; gender equality in education by 2005; national strategies for sustainable development by 2005; and ensuring that the current loss of environmental resources is reversed globally and nationally by 2015.

Third, within that overall framework we must focus on two areas in particular: building the climate for investment, jobs, and sustainable growth, and empowering poor people to participate in development by investing in them, and through them. These must be the main drivers as we move toward greater selectivity.

Fourth, we must continue to gear all our work to the fact that development must be **country owned and country driven**. We must listen to the voices of the poor. As our interviews with 60,000 poor people in 60 countries confirmed, they do not want charity, they want a chance. Development must be done by them and with them, not to them.

And fifth, we must recognize that it is no longer enough to talk to governments alone. **We must embrace all the players**: civil society (including NGOs—foundations, universities and research institutions, and faith-based community groups), the private sector, bilaterals, the other multilaterals, governments themselves, and their parliaments.
The Challenges of Globalization

I believe we must treat globalization as an opportunity and poverty as our challenge. What do we mean by globalization? Globalization is about an increasingly interconnected and interdependent world; it is about international trade, investment, and finance that have been growing far faster than national incomes.

It is about technologies that have already transformed our abilities to communicate in ways that would have been unimaginable a few years ago. It is about our global environment, communicable diseases, crime, violence, and terrorism. It is about new opportunities for workers in all countries to develop their potential and to support their families through jobs created by greater economic integration.

But it is also about international financial crises, about workers in developed countries who fear losing their jobs to lower-cost countries with limited labor rights. And it is about workers in developing countries who worry about decisions affecting their lives that are made in faraway head offices of international corporations.

Globalization is about risks as well as about opportunities. We must deal with these risks at the national level by managing adjustment processes and by strengthening social, structural, and financial systems. And at the global level, we must establish a stronger international financial architecture and work to fight deadly diseases, to turn back environmental degradation, and to use communications to give voice to the voiceless.

We cannot turn back globalization. Our challenge is to make globalization an instrument of opportunity and inclusion—not of fear and insecurity. Globalization must work for all.

The Role of the World Bank

Low-Income Countries

Let me first address our role in the low-income countries. I have already spoken of debt relief. We must push ahead with this
process as vigorously as possible. But we must also recognize that debt relief by itself is not a panacea.

The Bank has a crucial role to play in working with governments to put in place good and strong governance, effective legal and judicial systems, and a robust financial system, and to assist in the fight against corruption. Without these initiatives it will be impossible for countries to attract foreign and domestic private investment, which are so crucial as engines of growth and poverty reduction.

We need to continue our work in the rural sector, home to 70 percent of the poorest, and our work with the Consultative Group for International Agricultural Research (CGIAR)—perhaps one of the oldest and most significant and effective partnerships we have.

We must recognize that gender equity and security are the bedrock of development. Equity for women and education for girls is perhaps the single most important development tool.

We need to help put in place safety nets for the vulnerable, as we are doing around the world, and work with governments to focus on education, health, and nutrition. We need to step up the fight against HIV/AIDS and malaria and tuberculosis, and to work with governments to meet their basic infrastructure needs—clean, potable water, sanitation, power and communications, with roads and telecommunications systems.

Our recent work also confirms that participation in development matters. The Comprehensive Development Framework (CDF) and the Poverty Reduction Strategy Papers (PRSPs) have put national ownership and national consultation at the very heart of their approaches. We need to build on these.

We will push ahead with streamlining conditionality, focusing more on the outcomes and less on itemizing what steps a government must take to reach them. We know that no amount of conditions can replace domestic commitment to reform. In this regard, the new instrument, the Poverty Reduction Support
Credit (PRSC), by focusing on programmatic lending, will reduce conditionality.

Above all we must recognize that debt relief is not a substitute for much-needed development assistance. It is tragic that just when many governments have begun to put in place policies to foster growth and reduce poverty, the flows of aid have begun to shrink. Aid works when governments act in a responsible and accountable manner, and we can do more to make it work for more people.

Industrial countries must also get serious on trade. Barriers to developing country exports in industrialized markets continue to severely disadvantage poor countries. Industrialized countries spend more than $300 billion a year on agricultural subsidies. That is roughly equal to the total GNP for all of Sub-Saharan Africa. And yet even today developed country tariffs on meat, fruits, and vegetables—all primary exports from the developing world—can exceed 100 percent. Debt relief without increased market access is a sham.

We must push ahead with donor coordination and harmonization. I said two years ago that it is shameful that a country like Tanzania must produce 2,400 quarterly reports a year for its donors, and suffer over 1,000 missions from different donors each year. Since that time the development community has made some progress on donor coordination with the bilaterals and the regional development banks—but not enough.

Middle-Income Countries
We need to remain engaged in middle-income countries. Eighty percent of the world’s poor live in middle-income countries. Let there be no mistake, we are not about to turn our back on them. Not only are these countries important for global financial stability, but many of them have yet to put in place crucial structural and social reforms that will move them to the next stage of development.

Helping these countries meet their development challenges is central to the Bank’s overarching mission of tackling global
poverty; it is also central to the realization of the international development goals. Developments in these countries are also important for poverty reduction elsewhere.

At the request of our Board we are reviewing our plans dealing with the scope and nature of our support, and the principles of costing of services; we do not intend to replace sources of funding available from private markets.

The economic well-being of the middle-income countries can translate into trade opportunities for low-income countries; on the other hand, financial instability, environmental degradation, and the proliferation of communicable diseases can have deleterious effects far outside their own borders.

The Bank’s engagement will be focused on the provision of secure long-term funding and advisory services, creating the right policy and institutional framework, and addressing weaknesses in the social, structural, and sectoral policies and institutions. With its global reach, broad sectoral knowledge, and specific engagement with the private sector through the IFC and MIGA, the Bank Group has a comparative advantage in advising on overall priorities and actions to improve the investment climate.

Will we be crowding out the private sector? I do not believe so. Many of these countries may have a credit rating but do not have continuous access to international capital in the amount they need or on terms that are manageable for them. Moreover, as our own research and experience shows, World Bank lending has a catalytic effect: it crowds in private capital. It doesn’t crowd it out. But here again let me stress that we will be selective, focusing on areas where we have a comparative advantage, and working closely with partners.

The Global Agenda

I have outlined the Bank’s agendas in the low-income and middle-income countries. But much more remains to be done globally.
Globalization is an opportunity to reach global solutions to national problems. Concern for the environment is a given starting point, which is already embedded in our work. As part of our Strategic Framework, there are three areas in which we are sharpening our focus and capabilities. The first is in the area of communicable diseases. Disease respects no national boundaries, and it impoverishes and poses tremendous obstacles to development.

Bank-supported programs can provide the essential country-level framework on which effective global action can be based. I have already spoken about the Bank’s work on HIV/AIDS. But we are working in many other areas, from malaria to tuberculosis. Every year 3 million children die from measles and hepatitis because they lack access to immunizations. We are involved in major alliances such as the Global Alliance for Vaccines and Immunization (GAVI). We also provide seed capital, both intellectual and financial, for new initiatives of a public goods nature.

Second, trade expansion has been a leading factor in global integration. Over the last 30 years, several developing countries have participated in trade liberalization; but the gains from trade have been uneven. Low-income countries, particularly in Africa, have been less able to capitalize on liberalization and world trade growth. We see a catalytic role for the Bank in increasing trading opportunities for Africa and other developing countries, to boost their capacities to negotiate with the World Trade Organization (WTO) and industrial countries.

Third, the Bank’s analytical and advisory role is essential, supporting national policies to strengthen market institutions and infrastructure. This has considerable potential for creating large gains from trade. I believe that the Bank has a major role to play in working toward a level trading field for developing countries. We must work to ensure that this next trade round will be a development round.

Fourth, the financial crises of 1997–98 have brought about broad agreement that international standards, especially in financial systems, are a necessary foundation for robust economies. The Bank continues to participate in various forums: with the Fund,
with the Bank for International Settlements, and other partners, for capacity building at the institutional level; we are intensively engaged in these areas. We will also participate fully in efforts to end abuses of the system by criminal acts and money laundering.

Finally, I believe that our work in bringing knowledge and information to developing countries is as important as—if not more important than—capital as an engine of development. This means not only our work in bridging the digital divide or establishing a Global Gateway to radically transform the development business, but also our development expertise; our technical assistance and capacity-building work will be key in our support to developing countries. We will press ahead vigorously with this work.

Nor must we neglect the importance of culture in a globalized world. We hear or read about the fear of cultural homogenization almost daily. These fears are real. We must not lose sight of the importance of culture and cultural heritage in a rapidly shrinking world.

Looking Ahead

There are more challenges ahead, and bigger ones. As I observed earlier, in the next 25 years world population will go up by 2 billion to a total of 8 billion people, with 98 percent of that increase in the developing world. The population of Europe will shrink, while that of the United States will go up a little, but largely from migration.

Last year, more than 47 percent of the global population—about 2.8 billion people—lived in urban areas. By 2020, 4.1 billion, or 55 percent, will live in urban areas. Today, there are 20 megacities with populations of over 10 million. By 2015, there will be 26, with enormous environmental and human consequences.

If we all act together now, we may succeed in achieving one of the most important IDGs: that of halving the population living
in poverty by 2015. The education and gender equality goals are also likely to be achieved by a considerable number of developing countries in several regions, and a few countries are on track to achieve significant reductions in infant and under-five mortality.

But the fact remains that, if present trends are an indication, none of the IDGs on health and education—namely, a two-thirds decline in infant and under-five mortality, a three-fourths decline in maternal mortality, and universal primary education for all by 2015—are likely to be achieved at the global level without a more concerted, powerful campaign.

Never was there a better time for such a campaign. Knowledge about what sustainable development entails has never been better. The budgets of industrial countries have never been stronger. Technology has never been more dynamic. Our goals have never been clearer. We must seize this moment.

Public action in all countries must be driven by a new commitment to global poverty reduction. We must work together to harness the benefits of globalization to deliver prosperity to the many, not just the few. We must recognize that “business as usual” will no longer do. We must build the development dialogue on engagement and listening.

As we go forward the voices of the poor must be our guide.

Time is short. We must be the first generation to think both as nationals of our countries and as global citizens in an ever shrinking and more connected planet. Unless we hit hard at poverty, we will not have a stable and peaceful world. Our children will inherit the world we create. The issues are urgent. The future for our children will be shaped by the decisions we make, and the courage and leadership we show today.