

Making Poverty Your Business, Federal Reserve Bank, Atlanta, GA

Paul Wolfowitz
World Bank President
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Roundtable with Paul Wolfowitz, President of the World Bank; Ambassador Andrew Young; and Pat Barron, First Vice President and Chief Operating Officer, Federal Reserve Bank of Atlanta

Pat Barron: This afternoon it is truly my great honor and pleasure to introduce Andrew Young. Here in Atlanta, we know Andy Young as an iconic figure, one of our leading citizens. During the 1980's, he served two very successful terms as Mayor of our great city. He also co-chaired Atlanta's very successful bid for the 1996 Olympics, but Ambassador Young's good name is recognized well beyond the walls of and limits of this city.

As a leader of the American Civil Rights Movement and as an advocate for global peace and prosperity, he has received numerous humanitarian awards and more than 60 honorary degrees from around the world. His career in public service is truly extraordinary. Andrew Young served three terms in the US congress, representing our own city of Atlanta. He was US Ambassador to the United Nations during the Carter administration and later President Clinton selected Andrew Young to service Chair the Southern Africa Enterprise Development Fund. Today while serving on many corporate boards, he is the principal and chairman of Good Works International, an Atlanta-based organization that seeks to advance economic development in Africa as well as in the Caribbean.

With his global contacts and experience in policy making, Andy is a great asset for the Georgia State University. The Andrew Young School of Policy Studies at Georgia State has nationally ranked programs and like its namesake, is recognized around the world for excellence. It is truly a treat that I have Andy in the building with us today, and in that regard please join me in welcoming to the podium a diplomat, a peacemaker, and an inspiration to us all - Andrew Young.

Andrew Young: Thank you very much and it's pleasure being here. Whenever you want to have a nice, quiet, reasonable discussion on serious topics, this is a good place to come, and we thank you Pat for continuing to open our Federal Reserve for this kind of serious conversation. We at the Georgia State School of Public Policy have more than 4000 students that run through our school; they come from almost 100 different nations. Roy Bahl and his staff are working regularly in consultation with at least 41 of these nations, helping them to develop policies that will attract investment that will help to alleviate the problems of poverty and disease.

I come back to a definition that Roy reminded me of, of how I got involved in this. I used to listen to Martin Luther King say that "I admire the Good Samaritan, but I don't want to be a Good Samaritan." He said, "I don't want to spend my life picking up people by the side of the road after they have been beaten up and robbed." He said, "I think we have got to find a way to change the Jericho Road." Well, basically that's the role of a good public policy school, and it just so happened that I grew up under the Marshall plan and I grew up in Louisiana under the new deal and I saw big government projects change my life. But as I grew older those big government projects came under more and more criticism, process and scrutiny, and we found also that in the private sector, they had even more money than most governments, and that they gradually had begun to corner the market on efficiency, management, entrepreneurialism, invention, science, research, what have you.

The World Bank was an effort coming out of the Second World War, as the International Bank for Reconstruction and Development, to try to pull together these two traditions, the big government, big business tradition to really change the world. It was amazingly successful in Europe and in Japan, and it has become more and more successful as we deal with the problems of Asia and Africa. The President of the World Bank, inevitably, is one of the most influential people on the face of the earth. And Paul Wolfowitz in taking over this job as the tenth President of the World Bank assumes a mantle of leadership and at time that the world is really in critical condition.

We can talk about war and peace, and we used to think of communism as a word about a domino theory, that became questionable and challengeable. But I don't think that there's any doubt in my mind that there is a domino theory of chaos -- that chaos in one country breeds chaos in the next country. Well that chaos is produced by an earthquake or a flood or whether it's produced by, corruption or different charges or different kinds of ideological conflicts, and so at a time when the world is most volatile and may be most volatile because everybody knows what everybody else is doing. The leadership of the World Bank is one of the most critical positions in the world today.

Paul Wolfowitz took over that job and took it over at a time -- at this time, and we began to wonder, "why him?" And then I realized, as I met him with John Bryant at Operation Hope in Anacostia, Maryland, that he was a math major, grew up in a serious academic family, did his Ph.D. dissertation on water resources. Well, that struck a cord because I always figured, I don't know about diseases, I don't about all these problems, but if you can give people clean water, you could probably stop a lot of wars on at least 50 diseases. So, anybody that has been studying water, I had figured knows what's going on in the world.

Then I realized that he did his studies with George Schultz. Well, George Schultz is probably the "Renaissance Man" of American politics. He was a Secretary of Labor, he was Secretary of Treasury, he was Secretary of State in the United States Government, he was Dean of a Business school at University of Chicago, he was President of Bechtel Corporation, but most important for me was that he picked me out as a young freshmen congressman and asked me to go with him to Africa to a World Bank meeting in 1974. Frankly, that was my first trip to Africa, and He and I became very good friends, and he was something of a mentor to me and to Paul Wolfowitz.

Now, in spite of the fact that we are from different parties, in spite of the fact that we really don't know, I guess, from all that you would read about either of us, you would figure out we were exact opposites on almost every issue and yet the more we've gotten to know each other, the more we have realized how much we have in common. And I jumped at an opportunity when I found out that Stuart Eizenstat was inviting him to come to the Synagogue yesterday to do a lecture in honor of his parents. I jumped at the opportunity to ask Dr. Wolfowitz to spend the day with us at the Public Policy School.

We had a very exciting morning and we wanted you as representatives of our business community to began to realize how much your business -- I was in the banking committee when we funded the World Bank and the International Development Agency, I guess back about 1974 - 75, and at that time, we're given a list of the Georgia companies that do business around the world as a result of World Bank projects with almost 200 companies back in the 70s.

I don't know how much we are affected by specifically what the World Bank does but the fact that we are such an international city means that we are probably far more invaluable in the world today than we were in 1975. Indeed if it was nothing but the Olympics and the fact that our airport brings in people from 230 cities and about 2500 flights a day, and I always used to count those flights as money coming to Atlanta, and figured that just about everybody that gets off of one of those flights spends a couple hundred dollars a day.

We are a part of the global economy and the World Bank is influential in shaping that global economy as much as anybody else, and Paul Wolfowitz has the responsibility and the challenge to help make this world make sense. I say the challenge for all of us in the 21st century is to prove that free enterprise can

deal with poverty. We know that free enterprise and capitalism has done a good job of creating a middle class. Communism failed because it could not create a middle class. Now, the challenge to us is once we've created the middle class around the world, can free enterprise and democracy deal with the problems of poverty?

And we've dumped that challenge into the lap of a man who is eminently qualified to take on serious challenges of our time and it's my pleasure to welcome Dr. Paul Wolfowitz to Atlanta to share with us any of his thoughts about the world economy, as he lives and works with it. This is another one of these 24x7 jobs where even in your dreams, you have to dream about the people that you've just left, the successes and the failures wherever they are, are laid on your heart and we are grateful to him for taking on this task of trying to make our world make sense for all of us by feeding the hungry, clothing the naked, healing the sick and setting at liberty those who are oppressed, to quote that famous prophet Isaiah whom Jesus quoted. Dr. Wolfowitz, thank you.

Paul Wolfowitz: I'm not sure, do I call you Ambassador Young or Andrew Young or I kind of think, Mayor Young? -- There is so much in your distinguished career but what you've accomplished in Atlanta must be a source of enormous joy and satisfaction. I was thinking as I walked these beautiful halls of what Willie Sutton has reported to have said when someone asked him why he robbed banks, and he said "Because that's where the money is." I spoke last night at a Synagogue and this morning at the University and now I feel I'm in a real bank.

I don't run a real Bank. I run a sort of strange institution called the World Bank Group, and it's a group because we actually have five different parts of the group. I won't take you through the whole tutorial but just so you know, there is the International Finance Corporation, which loaned about \$6 billion -- \$6.5 billion last year, lending and investing, all to private sector and all on a profit-making basis. We have, I guess, where our original name came from in 1946 -- we're created as the International Bank for Reconstruction and Development, and we still have the IBRD.

The IBRD lends on slightly higher than LIBOR rates to -- basically successful developing countries. For most of them, it's somewhat better rates than they can get commercially. Then in many ways the most important part of the World Bank... It's something that we call the International Development Association which did about \$10 billion of lending last year, but if I told you the terms which are 40 years' repayment, no interest, and 10 years' grace, you would say "Find me a bank where I can borrow on those terms." But you can't.

It's for the poorest countries in the world and our first priority really is helping those countries. So, I'm really pleased to have a chance to speak to you today. I was thinking that, while I've visited 35 to 40 countries in the world, and traveled between Washington and New York, this is my first real visit as World Bank President in the United States, to this city which has done so much for the development of the South and is also now doing a lot for the development of the world.

In fact it was a privilege this morning to be able to participate in the announcement of a \$500,000 grant from the World Bank to the partnership being created between Atlanta and the second largest city in Ghana, the City of Kumasi, which is I think a very promising enterprise. We are hoping to leverage that \$0.5 million from the Bank to maybe as much as \$20 million from various public and private institutions. It's a real opportunity to help a city in one of the more successful African countries benefit from the know-how and experience that this city has developed. I know the struggle for social justice and a better future resonates especially here in Atlanta, a city that emerged from the ashes of civil war to become a thriving political, economic, and cultural hub of the New South.

In fact, I think Americans in general believe that we have a personal and a collective obligation to make the world healthier, more secure and more prosperous. Polls show that nearly 90% of Americans think that the US should give food and medical assistance to people in needy countries and nearly 70% support aid for education and training programs, and Americans do live up to their belief through

philanthropy. Last year businesses and citizens gave \$260 billion in private donations to domestic and international charities that compares pretty favorably with \$100 billion that the rich countries have given in development assistance last year to the poor countries.

Today, what I would like to focus on is our common interest -- your interest to development and our interest in growth led by the private sector in the poor countries of the world. We enjoy so much prosperity in this country today, I believe, because of increasingly open markets in goods, services, capital and even people, a process known as globalization. But that process is under challenge today, in part because so many people have failed to benefit from it. This global economy has produced 700 or more billionaires but it also has left behind more than a billion people who exist on less than a dollar a day -- that's not just poverty that is extreme poverty.

In Africa, the number of people living in extreme poverty has doubled in the past quarter century -- from 160 million roughly 20 years ago to more than 300 million today. Today, roughly one out of every two people in Sub-Saharan Africa is living on a dollar a day or less. In Latin America the picture is only slightly better. A quarter of the population there lives on less than \$2 a day; that's the normal poverty standard and sadly that proportion has not diminished over the last 25 years. The highest concentration in terms of absolute numbers is in South Asia where nearly 440 million people live in extreme poverty.

Stop and think about it -- that's more than the combined population of the United States and Canada living on a dollar a day or less. It's just not a healthy or safe world when so many people are falling behind. If we want to sustain the benefits of globalization, and I believe it's not only in our interest as a country but I believe it's in the interest of the world that more people need to reap the dividends of free trade, open economies, faster transport, and new technology, and there is evidence that it can be done in spite of some of those bleak figures that I just mentioned.

The fact is that the last 25 years had seen more progress in reducing poverty than any other period in history. Some 500 million people have escaped poverty through this process. Most of that progress has been driven by the rapidly expanding economies in East Asia, of course the biggest and most important of them being China, but that East Asian success story has migrated now to India and parts of South Asia and shows promise of moving elsewhere. Our challenge is how to extend the opportunities of globalization to poor people in other parts of the world who have so far been left behind.

As key members of the Georgia Business Community you probably know that Georgia has an important stake in that global economy. In fact 24 of Georgia's top 50 trading partners are developing countries. One quarter of Georgia's \$20 billion export trade last year, that is to say roughly \$4.9 billion, was with the developing world. And I do see hope for real turnaround even in some of the most desperate parts of the world in Sub-Saharan Africa, but the key to achieving that turnaround is going to be successful private sector development. There is no way governments can create the jobs that are needed to help people escape from poverty.

In the developing world, the private sector counts for roughly 90% of all new jobs, and, from Turkey to Chile to China, entrepreneurship has been the key driver of growth. A booming private sector has dramatically transformed the formerly communist countries of Eastern Europe. In 15 short years, they have rewritten their constitutions, built markets, and privatized their economies. Eight of those countries have already succeeded in joining the prosperous European Union and two more are set to join next year. There are promising developments in other parts of the world though that haven't captured so much attention, and I mean, particularly in Africa.

Despite the overall gloomy picture, the fact is that in the past 10 years some 17 African countries have achieved strong growth year after year at 4% or better. Some have reached averages as high as 7% or 8%. I imagine that in fact they were pretty happy with this 10 years of 4% and certainly, the European economies would salivate at that prospect. In Ghana and Mozambique and Uganda, we are seeing some real effects on the social indicators, more children living beyond their first year, more children attending

school, more children getting their immunization shots, but for countries as poor as the ones we are talking about, 4% real growth just isn't going to do it.

They really need growth rates in the range of 7% or 8% in order to make a real dent in poverty, particularly if they are going achieving the millennium development goal of cutting poverty in half by 2015. So, what we really need to aim at is to help those 17 or so countries that have roughly a third of the population of Sub-Saharan Africa, help them move up the scale from the 4% range to the 8% range, but also help the other two-thirds of the subcontinent to follow their lead. I do think that this model of demonstrating success plays a very powerful role in the development process.

In fact, if we think back 50-60 years in many ways, it was Japan that first demonstrated to people in East Asia that you didn't have to be white Christian countries in order to succeed in the development business. In case you don't know, the Japanese, particularly after World War II, didn't win many popularity contests around that region. A lot of other countries in East Asia looked around and they saw, well, if the Japanese can do it, then we will do it too. Before you knew it, Korea and Taiwan and Singapore and Hong Kong were setting records.

The next really important thing that happened was in mainland China in the late 70s. The country that was mired in poverty in spite of what was then 30 years of supposedly "heaven on earth" under the rule of the one party, Marxist dictatorship. For a long time, the leaders there got away with saying the reason China is poor is because the world just isn't a fair place. More and more Chinese looked across the ocean to Taiwan or to Hong Kong or Singapore and said, wait a minute, these people have the same colonial history, they have the same cultural background, how come they are doing so well and we are doing so poorly? I am oversimplifying but not by much.

The result was incredible transformation that started in China under Deng Xiaoping 25 years ago and as they say, well, the rest isn't history because there is still a lot more work to be done. It is interesting that we have created something at the World Bank called the Commission on Growth and Development. We set it up to try to get people to have a better understanding of the relationship between growth and poverty reduction. There is a school of thought that sees these two things as somehow opposites - that you do one or the other, and that mystifies me frankly. It is possible, I guess, that's true; you can have growth without poverty reduction, and that is a problem for some Latin American countries.

I don't think it's possible to have poverty reduction without growth. This is not a commission of academic economists, it's a commission that include the former Prime Minister of Singapore, the Governor of Central Bank of China, the former Minister of Economy in Korea, former President of Mexico, the former finance minister of Nigeria -- people with real, practical experience in the development business. I asked them at one dinner, "how important is this demonstration in fact at seeing how a country is doing?" And it was interesting to me because they all said, "It's extremely important," and the planning minister from India who played a big role in their turnaround said, "In India, it's not just looking at our neighbors," he said, "actually, it's true that we got moving because we saw that Chinese were moving and the Chinese of course are our big competitors."

But, even within India, where you have states in India that are bigger than most countries, he said, the successful states are setting a course to the less successful ones. People look at their neighbors and they see what's happening, and I think we have a chance now to see that happen in Africa with countries -- I am oversimplifying but countries in the 4 percent range reaching the 8 percent range and countries that haven't made it at all looking at their neighbors and saying, yes, Africans can do it. I felt wonderful earlier last year -- earlier this year, I think, at the end of last year, meeting with the new finance minister in Malawi.

He said, "We Africans realize our colonial history was terrible, left us with a terrible legacy, but we have to stop blaming our problems on the past. Past is what it is, the future is in our hands. My predecessor," he said, "is in jail for corruption and I have no intention of following his lead." I thought that was just

wonderful, and I then pointed out to him, and I'll come back to this in a few minutes -- statistics from a report we do, called Doing Business report that showed that setting up a small business in Malawi -- I doubt if many of us in this room would be able to overcome this -- costs two or three times per capita income just to pay the license fees.

I pointed this out to him, and he said, "Shame on us," and I said, "No, it's not shame on you -- the reason I pointed this out so you would know about it, and now that you now about it if you come back next year and nothing has been done then it's shame on you." And what we're finding now is that it is moving. In fact, I think what the 4% performers in Africa need to become 8% performers, more than anything else, is improving the climate for business. I mentioned that Doing Business report, in case you are wondering where the United States comes out on it; we're number three.

Singapore is number one, New Zealand is number two, there is a major European country, I won't tell you which one, that comes out in number forty. And when I met with their officials, we got into discussions about whether our methodology is accurate or not. I pointed out that their National Accountants Association agrees with us and not with them. I had an interesting meeting a few months ago with the Finance Minister of Mexico. Staff warned me that he was going to want to talk about the Doing Business report; I said, "Oh! Here we go again." He brought out the report, and he said, "I was all set to get defensive," he said, "I want to thank you for this report. If you hadn't pointed out how badly we managed the financial markets, I would have never gotten the financial market reform to pass in Congress."

That's what we're trying to do; we're not putting pressure, there is no money attached to this report. It's not conditionality if you know that debate -- a lot of non-government organizations think we impose too many conditions on countries and I think we did in the past. I'm not sure I would agree anymore, but there is nothing in the right circumstances that is more valuable than the truth. By the right circumstances, I mean, you have to have the right leaders, you have to have governance that are either held accountable by their people or at least hold themselves accountable to their people, and I think that's another thing that's changing in Africa.

I met with the President Kikwete of Tanzania in Washington in the spring -- actually, he had come to sign an agreement with the US Millennium Challenge Corporation, which is a US government program to put money against good performance. I said, "Tanzania ranks 142 out of 155 countries -- and big numbers are bad by the way -- you are near at the bottom of the list in our Doing Business report." He didn't fight with me; he didn't argue with me. He went back home and made a major speech to the leaders of his party and said, "We are 142, that's not acceptable."

I am happy to say that even before our conversation and before his speech, somebody was getting the message in Tanzania because when we published this year's report a few months later, Tanzania and Ghana emerged as two of the top 10 reformers on that list, the top 10 countries for improving the climate. The average rank of an African country on that list is about 131 out of 175 and you might say that's pretty bad news.

It presents a bad picture, but it's a picture that to me is good news; it actually presents opportunity. If we're trying to talk about how to get countries that are growing at 4% to grow at 8% and you told me they are in the top 10 performers on Doing Business report, I'm not quite sure where I go in -- I mean, I'd look for something else. But when they charge two times per capita income to a small woman who wants to open a sewing business, or take 2000 hours of labor just to fill out the tax forms for a medium-sized business then it's got to be pretty easy to suggest where they might go to get their growth rate from 4-6% or even 8%.

So, I think there is a lot that can be done and it's badly needed. What is also needed is public sector investment. I like it when I hear people recognize how important the private sector is, but sometimes you sort of get -- it sounds well if only government would do the right thing that private sector would just do everything on its own. I think that's not true, and I think Atlanta is a wonderful example of where you have

both, but Korea and China are some other wonderful examples. I mean, these are success stories — success stories -- they would not have been success stories without good leadership, good government policy, incredible growth of the private sector, but they are also countries that have had huge public sector investments in education, infrastructure, and health.

The experience of Ghana in West Africa is a clear demonstration of why infrastructure matters. As I mentioned, Ghana is one of the top 10 performers; they have implemented some ambitious reforms to smooth the path for cross-border trade; they actually, probably partly because of low wage rates, enjoy a competitive edge on the factory floor. Our research shows that producing a man's shirt costs \$0.12 on the factory floor in Ghana compared to \$0.29 in the special export zone in China, but once the products leave the factory gates, that competitive edge quickly vanishes.

Outside you find crumbling roads, poor infrastructure that's collapsing and high cost and high delays for exporters. That's one reason why we have been steadily increasing our infrastructure lending to Africa; it was up 15% last year; it's almost doubled over the last five years, and more is needed. It's also why we have gone ahead with this cooperative program I mentioned earlier, this Atlanta-Kumasi Partnership which I hope will help that city in Ghana figure out the right balance between public investment and private entrepreneurship, and perhaps also in the process bring some lessons and some experience that other cities in Ghana and other cities in West Africa learn from.

The second challenge to get those growth rates up is building good systems of governance. By that, I mean, strong public institutions that effectively serve the people. Reforms won't produce results by themselves without transparent and accountable institutions, an independent judiciary and a government that enforces contracts honestly. We were talking at lunch about one of my tablemate's experience with a French judge, who felt that being a judge entitled him to a little small payment under the table as long as he continued to decide the cases honestly.

It reminds me of the story of the judge in Texas who summoned a lawyer for the defendant and he said to the lawyer for the defendant, lawyer for the plaintiff just offered me \$10,000 if I will decide the case in his favor. Now if you will give me \$10,000 too, I can decide it on its merits. That kind of judicial system just stinks. To put it mildly, it's the biggest single obstacle I think to the kind of investment that Indonesia needs to really grow, and I have talked about that with President Yudhoyono of Indonesia. He was actually delighted when I got to Tanzania and I discovered their courts are as bad as Indonesia's, which is to say very, very bad.

They have created a special commercial court where the judges and the staff are paid, I think, three times the normal salaries and they also have the things like finance disclosure forms and regular investigations, and they get fired if they are caught, even suspected. We'll see how it works, but that's the kind of innovation that is really needed to produce better governance. There is no one size fits all, here each country is different and no country is immune. Mayor Young was talking about the problems that you had early on here in Atlanta, and in spite of all your best efforts, there were still five people, I think you told me, who had to go to jail.

It's human nature unfortunately and what good governance means is, I think, two things; it's in part having institutions and mechanisms, laws and regulations that make it much harder to steal. It also, I think, means cultivating an atmosphere of public service where people understand that the purpose of public office is to serve the people, not to enrich yourself, and Africa is seeing a new generation of leaders who have committed themselves to the fight against corruption.

One of the worst things I have heard during my year and half as head of the World Bank was -- when one of my Vice Presidents from a developed country said in a meeting that to talk about governance in fighting corruption, he said, is to impose a developed country agenda on developing countries. One of my other Vice Presidents said to the first that he shouldn't talk condescendingly about governance and accountability in developing countries -- that to do so would condemn those countries to perpetual

poverty, and I think that's right. One other thing that I have found very encouraging is that the most outspoken advocates for anti-corruption that I have encountered in the last year and half come from developing countries, and particularly from Africa.

One of my new heroes is a young man, he's young by our standards, Nuhu Ribadu, he is the Head of Nigeria's Economic and Financial Crimes Commission. So far, they have managed to reclaim \$5 billion in stolen assets from corrupt individuals. As he was describing his work to me, when I was in Nigeria in July, he talked in a matter of fact way about putting the Inspector General of Police in jail, as well as a large numbers of very powerful people. I said, "Isn't that dangerous?" and he said, "a few of my people have been killed, but we just have keeping working." His is obviously dangerous work, and he said at a seminar we had in Singapore and I am quoting him here, "We know what corruption has caused us; it has denied us the value of our resources, both human and natural."

It breeds injustice; it causes killings. That is not what we want and that's not what we're going to allow to continue and I believe very strongly that the so called rich countries have the huge responsibility here as well. Last June when I made my first visit to South Africa, President Mbeki had just fired his Deputy President, not because Mr. Zuma had taken a bribe but simply because his financial advisor had taken a bribe. I don't want to get in the middle of South African politics, but I thought that was pretty clearly a politically courageous thing to do.

What went unmentioned is the fact that that bribe came from a major European Corporation and to the best of my knowledge that company is yet to be punished or sanctioned in any way for its actions. I can say, on better news, we recently imposed a seven year prohibition on a big German company bidding on World Bank projects, because they have been convicted of giving bribes in a big project in Lesotho. But it took us 5 years after that conviction to bring the sanction out. We need to do that, and do it more strongly, and I think another place where the rich countries can make a contribution is in helping the poor countries recover stolen assets.

The Nigerians did get \$500 million back, from a Swiss bank, that had been stolen by the former dictator Abacha. But I think this is an important mission not only because the money matters, but I think it's also a matter of getting out of this mode of pointing our finger and saying you poor people are hopelessly corrupt. This is a commonly shared responsibility, and it needs to be treated that way. The third development challenge that poor countries face is education. The most valuable resource any country has is its people. I think you know that here in Atlanta as well as anybody and education is one of the most powerful forces for unleashing that potential.

Korea is an impressive example. In 1960, Korea was a small, poor country with a closed economy. The average Korean above the age of 25 had barely three years of schooling, but they invested heavily in their education sector. 40 years later, the average Korean over the age of 25 has more than 10 years of education. That's one year more than their counterparts in Japan, or the UK, and today I believe 89% of the Korean population has some degree of tertiary college education. That's 6 percent at this point better than the United States; and Korea of course is perhaps the most impressive development success story anywhere.

Helping all developing countries compete in the global knowledge economy is going to require massive investments. Today, there are 78 million children around the world who are out of school, and too many of them by the way are girls. We are part of the global effort at the World Bank Group to get children a chance to step into classrooms. To join with other major education donors to pioneer the first global contact on education, the so called fast track initiative to accelerate progress and providing all children quality primary school education. I think, I'm going to come back now to Willie Sutton and money. There is no government, no organization that can single-handedly address the daunting challenges that developing countries face.

That's why we at the World Bank value our partnerships with the private sectors; I've mentioned already The International Finance Corporation last year put out \$6.5 billion of financing in the developing world. The portfolio with US firms doing business in developing countries is over \$600 million. But it's the International Development Association, that funny bank that lends on very soft terms, that is doing the most important things. IDA has helped 600,000 Ethiopian children go to school; it has improved nutrition for 1.2 million children in Madagascar. It has helped reduce the HIV-AIDS prevalence rate in Uganda.

The US currently contributes 13% of IDA's funds. That makes the United States the largest among the roughly 40 donors in the World Bank. Thanks to contributions from those donors, last year IDA support to the poorest countries reached a historic high at \$9.5 billion, and half of that --\$4.9 billion -- went to Africa. But there is a need for more, and there is a need for the United States to do more. The US contribution percentage to IDA once reached a record in 1989 of 21.6%; we are down to 13.8% in the last replenishment. We are about to go to the donors, we do this every three years, to replenish IDA and we need strong American support.

It's one of the reasons I am planning to come to some more American cities this coming year, so that we can get that kind of support. One of the obstacles is getting Americans to understand how little we give today. There is a poll which shows that, on average, Americans believe that 24% of the Federal budget goes to foreign assistance. The actual number of course is closer to 1%, but there is some good news in that poll I think. Because it shows on average Americans believe that 14% of the Federal budget should go to foreign aid, that's 14 times what we are doing now.

So, I think there is room for improvement. Americans are proud of their country's role on the world stage, but with global leadership comes global responsibility, and IDA is good value for the money.

By pooling our money with some 39 other donors, for every taxpayer a dollar, we put in, IDA can extend \$11 in credits and grants to developing countries that can't afford our normal loans, or are not credit-worthy, and it works. Korea was once an IDA recipient. Turkey and Thailand were once IDA recipients. All of them are graduated to become important markets for exports and services in the US and other countries. And of course, there's the great big one, China. China, over the course of its borrowing from IDA, got \$45 billion from IDA and it's now a huge partner in the global economy.

We are going to be starting talks early next year to decide the 15th replenishment of IDA and donor generosity is going to be critical. I don't think I need to persuade this group that's fighting global poverty. It's a moral responsibility for a global player like the United States. It's in keeping with the strong American value that we place on philanthropy, and on helping the poor, helping them, as Andy Young said "Not a hand out on the roadside, but a hand up on the road." And business should also realize that it's in their best interest. We have a tremendous opportunity, I think, to make globalization work for everyone. I hope you'll make that your business. Thank you.

Pat Barron: We'll expect a couple of questions, Paul, as the flight schedule and I know all of you need to go back to your different organizations but, let's just take a couple of questions. So, who has a question?

Speaker: I'd just like to congratulate the World Bank on your new initiative on gender equality, and ask how important that is to accomplish that goal you talked about?

Paul Wolfowitz: I'll tell you -- honestly, it's much easier to tell you why it's important than to tell you how we are going to do it. So, I'm glad you asked the question the way you did. I think it's critically important and, to me it's almost arithmetical, if you subtract half of your population, or reduce the productivity of half your population, you are going to cut back on your development prospects. And this is not a women's issue, this is a development issue.

These statistics are stunning, that educated women, even just four years of school, have much healthier children, much higher survival rates for their babies. It doesn't matter whether the babies are boys or girls. They do better with an educated mother, and you can go on like this. Two of my favorite anecdotes from travels, both from poor Muslim countries, the first from Burkina Faso in West Africa. It's a pretty remarkable place, it's roughly half Muslim and half Christian, but with remarkable social harmony.

I'm impressed by that, and I visited a poor Muslim village in the Northeast and was introduced to the secretary of the village who was a woman, having been elected by the village because she was the best reader in the village apparently. And I asked her, "Is it difficult in a Muslim village for a woman to be elected to a public office?" And she said -- very proudly, "There is no way we are going to develop unless women have equal opportunity." The other experience was with a woman from a small village in Pakistan, and we got on the question of development and she said, "Development is like a cart with two wheels, a man and woman, and if one of the wheel isn't turning, the cart isn't getting to go anywhere." It's a terrific metaphor.

And sometimes, particularly with some of the members of my Board from Arab countries, it may not surprise you, we get a little bit of reaction that somehow we're trying to impose a Swedish, or an American cultural standard on other countries. And my argument is, "No, we are not." I mean there is more than one way to have gender equality in the economy, and I've met Arab women almost completely covered who were fully capable and in circumstances where they were able to participate fully equally. We are not trying to impose cultural standards. We are trying to make sure that the development process works, and it isn't going to work if you handicap half your population.

The truth is, I'm afraid there is some evidence that suggests you would be handicapping the most productive, the most prudent half of the population. I mean it's very often that women who take the best care of money, the best care of families, but at least let's make it equal.

Now, the question of "how" -- it's harder, but we are trying to do what we in the World Bank like to call mainstreaming, which is to say instead of having this gender program off to side and then we go about doing our big dams and road projects, exactly the way we used to, is to bring it into the road projects and sometimes you find surprising things, surprising -- the projects that you thought would be neutral with respect to how they affect particular segments of the populations actually aren't neutral at all and they have a bias one way or another and if that bias is the gender bias, then it's something we want to get rid of.

We have a nice grant from the Norwegians, speaking of Scandinavians, and another grant from the Germans, and we're trying to use that along with our own money to see what we can do.

Announcer: One more question, yes sir.

Speaker: Could you tell us a little about this Kumasi-Atlanta relationship and how the money that you have given to City of Atlanta will be used, and how the relationship with the City will work?

Paul Wolfowitz: And if I can just pick up one important thing from the last question I should have mentioned, that I think the most important place do this is education. When kids don't have access to schools, it's usually the girls that are kept out first. We're working with the state of Sind in Pakistan, which is roughly half the population of Pakistan, on education access for all primary school children and the -- I guess he is called the state minister, or the Governor of Sind -- was very explicit to me that he believes that if we don't educate our girls, this country is going to become increasingly extreme over the years, and the key to not just Pakistan's development but preserving modern tolerance society is opening up education. So, there is a sort of a place where you can do something that has an important gender effect across the board.

With Kumasi we're really putting in the seed money, it's going to be very much up to CARE and city of Atlanta, and the people in Kumasi to figure out where this goes and what it does. But what I would hope would come out of it is that the city in Ghana, which has I guess it's 1.2 million people now -- it's grown very fast and you can imagine in any city, but particularly in a poor country, when you grow fast the infrastructure is terrible -- can learn from Atlanta's experience in public-private partnership, in public investments that helped to built a base for the private sector that they can translate some of that in those lessons over to Kumasi, and Mayor Franklin was saying that she expects that Atlanta can learn things from Kumasi as well.

And I imagine you will, although I'll be frank to say that our big interest is in the knowledge exchange and capacity building from here to there. But my experience is that knowledge exchange works better when people come with an expectation that they have something to learn from the people they are working with. Too often, I'd like to say in the past, I hope it's largely in the past, development agencies like mine send, as one Nigerian governor put to me, PhDs from headquarters here to tell us how to solve our problems, and they don't even stay long enough to find out what our problems are. It needs to be a two way process. I've said it's going to be mainly up to the people of CARE and the City of Atlanta, but we're working very actively with Ghana at the national level and hopefully this will enable everyone to be more productive.

When President Kufuor was in Washington again -- I always bring the Doing Business Report along with me -- we spent half-an-hour of our breakfast talking about things that are needed to improve the business sector, and it will probably be very helpful to hear from people working on the ground in Kumasi. Information doesn't flow that easily in any operation, bad news flows even slower. So, the problems in Kumasi to be identified through this program can hopefully be introduced in our dialogue at the national level, and I hope we can make something happen because I really do think -- if you ask me, and I need to be careful because we're working with 45 African countries -- that the two that I think have the greatest potential right now to lead the others are Ghana and Tanzania. Maybe it's because they are big enough to be examples, but small enough that they don't have the challenges of the of the really big ones like Nigeria and Ethiopia. So, I think a lot -- and they've been doing well. I think a lot rides on sustaining that. So, anything that contributes I think is a good investment. Thank you very much. Thank you.

Pat Barron: Thank you so much Paul for taking time out of your busy work schedule to share those thoughts with us. I am sure we all join you in hoping that we could make substantial progress in reducing poverty throughout the world in the coming years, and a lot of that would be attributed to your leadership. Thank you Andy for all you do for us, day in and day out for your inspirational leadership. Thank you to Dean Roy Bahl of Georgia State for the opportunity to jointly share at the conference today and thank all of you for attending today. We are adjourned.