Auditing the Internal Mechanisms of Development Agencies for Poverty Reduction and Peace

by

James D. Wolfensohn
President
The World Bank Group
Washington D.C. - June 26, 2002

Introduction by J. Graham Joscelyne, Auditor General, The World Bank:

Formed in 1946, the World Bank Group has striven to address many of the issues related with world development and reconstruction. Since his arrival in the Bank in 1995, Jim Wolfensohn, who will be speaking to us now, has led the organization to focus on key issues facing the developing world, keenly aware that these issues do, and will, affect all of us as we move forward. By doing this, he's positioned the World Bank Group as the lead organization in the field of development.

To make sure that he understands the issues, he's traveled extensively to more than 100 countries, and in these travels, he has spent time with individuals who are beneficiaries of development aid, if you like, and were beneficiaries of the World Bank business at the project level, with the business sector's, private, with the public sector, with NGOs and with religious leaders and civic leaders - a very wide range of people that he's tried to connect with in understanding what is needed in the world of development.

He soon realized that he couldn't, and we couldn't in the World Bank, do this alone, and so he's been a strong, strong supporter, if you will, and leader in developing strong partnerships with a range of organizations seeking the same goals.

I believe, with this sort of a background, Jim Wolfensohn is well-suited to challenge us, coming as we do from 76 countries, as to some of the issues that face us and some of the issues that we're going to have to deal with, both as citizens and as professional internal auditors.

You will have read his biography, and his biography excludes two issues, which I think are important and which I have observed rather close at hand from time to time. The one is that he is a musician of some note. He plays the cello, and I have watched him, over time, take what, to me, looks like a piece of music; in other words, getting a sense of the whole, as a musician would, understanding what it is the composer wishes to portray and convey, and with that perspective of the whole, he, nevertheless, has been able to play the piece on a note-by-note basis.

That sense of the whole, together with an understanding and a need to play on a note-by-note basis, I think has given the World Bank a tremendous extra value.

Second of all, he has represented Australia in fencing in the Olympics. I don't think it's recent Olympics that he's actually done this in, but
at some point in his history, he did do that. But what he has not done is
lost his touch because that sport, as I've observed, requires a certain
amount of deftness, and I've seen him take on some very, very complex
issues. I've seen him size up what it is he has to deal with. I know
he's done his homework. I've watched him position himself very carefully
with the people seeking to deal with these issues. I've seen him ask
some very pointed and pertinent questions. I've seen him observe and
make up his own mind that he's found a weak spot, and then he has pushed,
with superb timing, and pushed extremely hard.

What he's done as a result of that, I see on two hands. On one hand,
he's been able to shape the development agenda on a worldwide basis.
Within the World Bank, on the other, he has brought about a much greater
sense of accountability, which I think really suits our organization and
suits it as it moves ahead.

He has a very keen sense of the importance of internal controls, and I
have seen this in my interaction with him, and I know that he has a sense
of the value that the internal auditors can play in the organizations
that he now is President of, and the organizations that he has been a
partner of or has run over the years.

With this as a background, it's a real honor to ask Jim Wolfensohn to
address this last session of this conference, followed by questions.

Mr. Wolfensohn: Thank you, Graham, for the introduction.

Let me, first of all, say that I'm delighted to address this session, and
I'm sure all of you are anxious to get back home, and I'm appreciative
that many of you have stayed to hear this session, which is somewhat
different I think in tone and perspective than the rich agenda which you
have clearly had over these last days.

When I read the agenda, I didn't realize there was so much that you guys
had to do, and I'm delighted that you have spent so many hours in the
detailed task of pursuing the functions that you have.

In fact, last night, I took out from the explanatory material that was
given to me, a description of your internal auditing function. I don't
know whether you've all read this; but it's pretty amazing. You are to
improve the effectiveness and risk-management control and governance.
You have to safeguard the assets, comply with policies, integrity of
information. You have to look after financial activities, production,
engineering, marketing and human resources. Let me salute you for the
work that you do in so clearly trying to make institutions function
better.

I come to this subject from a somewhat different perspective than
certainly the American institute or even your national institutes, but
the fact that you're in 77 countries gives us some sort of connection.
Where I come from is the notion of a global perspective, which you really
need to have some understanding of, I think, in the work that you are doing.

I think, actually, it'll make you feel more important, because without stretching the assessment of the work that you do, I do believe that at this moment in time your function in assuring good governance, transparency, accountability, and independence that you have from management, is an extraordinarily important role.

For about 10 years, I was Chairman of the Audit Committee of CBS, and I took the function seriously, and I got some firsthand experience of what it was like in those days, but that's now 15 years ago. I'm not sure I would enjoy, particularly, being Chairman of an Audit Committee today.

Let me say there that the events of the last 24 hours have shown the extraordinary importance, not only of the internal audit function, which I understand uncovered the problems in WorldCom, but also of the impact and the range of effect of problems in auditing and in controlling.

The dollar against the euro, when I left home, was 99.40, which is up over recent periods because of uncertainty about the U.S. economy, largely sparked by the Enron and earlier problems, which have seen the dollar move from 92 to 99.40. So the impact of the issues which you're addressing is really significant and particularly significant for the world in which I work and which I think is important to all of you.

We have a planet today of 6 billion people, and 5 billion of them live in developing and transition economies - 5 out of 6 billion. They have 20 percent of the world's GDP, and the 1 billion has 80 percent of the world's GDP.

A large number of you, I understand, come from developed countries, but a growing number come from developing countries, and as I understand, your gold medallist, in terms of the certification, in fact came from China, from which I have just returned.

The issue of the 5 billion out of 6 is not just a statistical issue. The issue is one of poverty, and the issue is one of peace. For anyone that doubted that the world of developed countries and the world of developing countries were together and that there was no wall separating them, for anyone that doubted that these two worlds were linked - September the 11th should have ended that doubt, because on September the 11th we discovered that issues of terror, issues of poverty, issues of antagonism in one part of the world have no wall to separate them from other parts of the world. On September the 11th, if you needed visible proof, you had the perception of a world that you may have thought was separated coming together, and you had the President of the United States and you had many others coming together and saying terror is a global problem, and we have to do something about it because terror somewhere can mean terror everywhere, could mean terror in our country.

As I would say, poverty somewhere is poverty everywhere, because although poverty does not lead directly to terrorists, there is absolutely no doubt that poverty is a breeding ground for people who have malicious
objectives. It's interesting that in the case of Afghanistan, there was no single Afghan amongst the terrorists, but Afghanistan was chosen as a place for training. I've just been there, on the border, on the Khyber Pass, between Afghanistan and Pakistan, and let me tell you there are no road signs that separate Afghanistan from Pakistan. There are no road signs that separate these worlds.

On the front line you have an absolute clear understanding that this issue of poverty, this issue of terror, this issue of fundamentalism is, in fact, a global problem. As was indicated some years ago by President Putin, in relation to Chechnya and the issues of Russia, and as you look across Central Asia, right across to the Russian border, and indeed right to Europe, you have this understanding that the issues of poverty, the issues of terror, the issues of environment, the issues of health, of migration, of crime, of drugs, of communications, of finance, of trade, are all linked. There is no wall.

For each of us, whether we be an internal auditor or a housewife, the perception of the world now is different, and it's important that we understand that within the context of the next 25 or 30 years, when the world grows from 6 billion to 8 billion people, in that time frame the developing world grows to 7 billion and the developed world, as we know it today, stays at around a billion or maybe 50 million more. Europe, in 25 years time, will be smaller and older. The United States may be 30 or 40 million people bigger, but by immigration, changing the character of the country, though not too dramatically, one would hope.

This is not a static issue; this is a dynamic issue in which the world of development grows from 5 billion to 7 billion, and in which the issue of poverty and the issue of equity, the issue of social justice, the issue of peace becomes the central issue.

We're not prepared for it. I would guess that most of you, along with me, did not grow up - unless you come, as I see some of you do, from developing countries - with any real understanding of Africa, of Islam, of Central Asia. Many of you, I know, come from Latin America, and you surely know, but to many that are born in Europe or even in the United States, certainly my own home country, Australia, we never knew anything about that. We knew little or nothing in Australia about China, our largest near neighbor, or about India - India and China representing 2.3 billion people of the 6 billion people that are on our planet today. We surely didn't get educated, and our children are not getting educated today, on the 47 countries in sub-Saharan Africa, home to 650 million people, 11 percent of the world's population, and 1 percent of the world's GDP, ravaged, as it is, by AIDS and with problems of poverty and problems of development.

We have not prepared ourselves tremendously well and, in fact, we're not preparing our children tremendously well for a global understanding of these issues which are fundamental to their lives. The issue of adjusting to the question of development is not some luxury for rich people; it's something that gets, and will get, into every community because we are linked in many ways. For many communities in the United States and around the world, that linkage is now coming through the
negotiations of trade agreements in the World Trade Organization, where people are scared about losing jobs, disruptions, and dislocations in terms of their lives – this is just one example of the many links.

But how does this relate to you in this gathering? Well, in Monterrey a few months ago, the developed and the developing countries came to a deal, and they said: “If we're going to face this, we must each have a task, and we must each have a project or a program that we're prepared to adhere to” - and this will be discussed today and tomorrow in Kananaskis in Canada, where the G8 leaders are meeting. The basis of the deal is that the developing countries said themselves: “If we want to develop, we have to develop by having good governance, by having legal and judicial reform, by having financial systems that work, and by fighting corruption. Because no one is going to give us money, and no one is going to invest in our countries if they feel they're going to be cheated, if their regulations are not adhered to, if there is not an environment which can attract investment.” And it's gone beyond that now to the level of government, where governments are saying, correctly: “We're not going to give overseas development assistance unless you governments can demonstrate that you're operating transparently, that you're running your countries in an effective way and a reliable way.”

The issue is the same for both governments and private sector in relation to this huge area of the world, and at the core of it is reliability, is transparency, is being able to trust what you see, in terms of the figures, and in terms of the management arrangements because, without that - I know that, having been a businessman - you don't invest, and I know now, as a minor civil servant, that you don't do the sort of work that you should be doing if you're going to be ripped off, if you can't rely on them.

The role of the private sector today has become crucial in this development area. Ten years ago private-sector investing in developing countries was running at $30 billion a year, compared to $60 billion being given in overseas development assistance - a total of $90 billion. Less than 10 years later, private-sector investing was running at $300 billion a year, with development assistance still languishing around $55 to $60 billion. Even today, private sector investing is running at just under $200 billion.

Why is it running at those levels? It's running because the private sector recognizes the growth opportunities, and the future is in these developing countries. Now what is going to stop them? What is going to stop them is the sort of talk which already started in Europe this morning. I was sitting at home, watching Bloomberg and reading the comments on WorldCom. The WorldCom comments are that you can no longer trust the United States' standards, that you can have no confidence in corporate America, and that the latest example is the $3.6 or $3.8 billion misallocation in WorldCom, and therefore the European or the international standards are better. The comments are that the United States has, once again, demonstrated its frailty, and that it's all talk, and that the American model of productivity, of technology, of clear accounting standards, of regulation, simply doesn't work. That's what the Europeans are saying this morning about the Americans, and they are
following their views, which have been forming since the year 2000, by withdrawing or not investing.

I took out the numbers this morning. In the first quarter of 2000, $56 billion was invested from Europe in the United States; in the first quarter of this year, $6.5 billion in equities - about 10 percent. This is in a country which is, as you know, running a huge trade deficit, which requires us to get funds of somewhere between a billion and a billion and a half dollars a day to meet our deficit.

The atmosphere with Europe is not great, in terms both of politics or agreements on a range of subjects, and now particularly the core area of investing in the United States is being subjected again, as we sit here, with the Dow down 160 points when we were inside, and with the dollar, as I said, above 99. We see this new confrontation or new balancing between Europe and the United States, and that's getting the headlines.

But what about the 5 billion that are not in the headlines? What will the 5 billion people think when they see what's going on today, being told by the developed countries: "If you want the other part of the bargain that was made in Monterrey, and will be talked about in Kananaskis, which is increased development assistance, increased trade, and increased capacity building, you have to have our standards, our standards, in terms of accounting, transparency, corruption because we know it all."

Corruption, by the way, is often caused by developed country companies that are corrupt. This is also a subject for internal auditors to take a look at because there are two sides to corruption, usually. There's a payer and a recipient, and the payer, most frequently, comes from developed countries. I say this at the side, but you should remember it in the work you are doing.

Before I left on my last trip, at the time of Enron, I was talking to the Board of the World Bank about the Monterrey Consensus, which includes an agreement by developing countries that they would face up to the issues of corruption. On the question of trying to convince developing countries that they should adopt our wonderful standards, what happened to me at the Board meeting was that one of my African Directors took out from underneath the Board table the daily newspaper describing what happened in Enron, and he said: "Do you want us to follow this?"

The issue of accounting standards, the issue of ethical standards, the issue of transparency and reliability, the issue of good management - all of the things which you have in the description of your role is, today, more than ever at the core of what is going to happen in terms of stability of our planet.

I do not say this to aggrandize this meeting or because I am speaking to this group, but because I truly believe that the issue of transparency, reliability, integrity, and honesty is the necessary component to allow funds to flow to allow this world to come together, and ultimately, from my point of view, to create growth and create jobs for people in poverty.
There are 3 billion people in the world that live under $2 a day. There are 1.2 billion that live under $1 a day, and this number is growing. There are 125 million kids not in school. There are many other statistics I can give you about lack of clean water, and access to power, and sewerage, and so on, which will frighten you, but the basic element, in terms of being able to get aid to flow, being able to get investment to flow is essentially the construction of a set of reliable principles of accounting and ethics, which allow people to make cross-border transactions.

If you cannot rely on what it is on the other side of the border, funds will simply dry up. The Monterrey Consensus is based on an understanding that the developing countries will develop principles and practices that are transparent and that maintain integrity in legal and judicial systems, in financial systems, in the running of governments, and in the running of corporations. I must tell you that without that, you're not going to see the sort of funding that is required.

Whether it is to give funding to primary schools, worrying that the money is going to be stolen, or to health programs worrying that the drugs are going to be sold on the black market, or agricultural programs or any sort of program, or whether it is a private-sector company seeking to invest in the developing country, you are not going to get it unless you can build a sense of reliability.

There is nothing dramatic about this. There is nothing particularly complicated about it. It's at the root of what it is that will allow development to occur. It was for this reason that I was anxious to talk to you before Tyco and without the benefit of knowing about WorldCom, but now it is particularly important. I have to rely on your organization, with its 77,000 members, to speak loud about the importance of what you are doing. We need help, in terms of qualifying people.

In China, from which I have just returned, Zhu Rongji, the Premier, has put this at the center of the corporate development. I visited one of three major institutes that he set up - absolutely fabulous, high-tech institutes for training accountants and auditors, and I know that you've got a dozen or such locations in China, and in India, but we also need them in Africa and in the Middle East. For example, Bush's speech on the Middle East, and a lot of the things behind it, speaks of the Palestinian Authority and says there's a limitation on funding because we can't trust, in our perception, how the money is spent.

In almost every aspect of global politics that we're looking at today, your function is important. If you can help by reaching out to the countries that need the assistance and development, at the same time as you look inwards at the standards internally, you're going beyond an internal auditing function, and you're making a contribution to peace.

I wish you luck, and I look forward to working with you.

Thank you.