

Building an Equitable World

Annual Meetings Address

by

James D. Wolfensohn

President

The World Bank Group

Prague, The Czech Republic, September 26, 2000

I am delighted to welcome you to these Annual Meetings of the International Monetary Fund (IMF) and the World Bank Group. I extend a very special welcome to the delegation from San Marino, which becomes the Bank's newest member country.

I would like to thank the Chairman, Trevor Manuel, for his support and for his powerful speech. He has shown that rare combination of leadership in the fight for freedom and of sound economic management after freedom has been achieved. I would also like to thank the Governors and the Board of Executive Directors for their partnership in the work of the Bank.

May I also express my admiration for all that Michel Camdessus achieved over his years of leadership at the IMF, and thank him for his friendship and his close collaboration. I look forward to working in the same close relationship with Horst Köhler, and I believe we have made a great start. I am looking forward to our joint visit to Africa, as Horst has mentioned.

And let me emphasize how strongly I share what Horst has just said about our joint understanding of the complementary roles of the Bank and the Fund. Our shared objective is to improve the quality of life and reduce poverty through sustainable and equitable growth. In pursuit of this common goal, the Bank's core mandate is to reduce poverty, particularly by focusing on the institutional, structural, and social dimensions of development. It thus complements the Fund's focus on macroeconomic issues in pursuit of its main objective to promote and maintain international financial stability.

Let me emphasize how closely these are intertwined. If we fail to confront the flawed structures and social tensions that undermine macro-stability, the poor will be the first casualties. At the same time, as we pursue fiscal responsibility, our first priority must be protecting poor people.

I would also like to thank the Czech Republic and the people and authorities of Prague for hosting these meetings. They have done a magnificent job under difficult circumstances. I thank President Vaclav Havel, who so uniquely encapsulates in one person, one voice, the hopes and dreams of a generation. His words today were indeed inspirational, and we shall always remember his call for a renewal of values.

The Czech Republic has felt the pain and difficulties of the transition process. But it has been a pioneer and is firmly committed to building the institutions, the market structures, and the

governance that are essential for equitable growth. And our meeting here in Prague, at the heart of Europe, symbolizes the great significance of the movement for European integration.

This is the sixth time I stand before you as President of the World Bank Group -- my first address in my second term as President. I have learned much in the last 5 years, during which Elaine and I have traveled to more than 100 countries.

I learned from a woman in the favelas of Rio de Janeiro, who participated in a self-sustaining community water and sewerage program, that development is not about charity; it is about inclusion and empowerment.

I learned from a shrimp farmer in the Mekong Delta, robbed of his livelihood by environmental degradation in the mangrove swamps, that hard work can be for nothing if we do not address environmental challenges.

I learned from a Muslim religious leader in Côte d'Ivoire, on one of my very first trips at the Bank, that if you give the poor money with one hand and take back this same amount in debt with the other, then little is done to alleviate poverty. This simple lesson was the basis for the creation of the HIPC Initiative.

And above all I have learned about a common humanity. People in poverty want for their children what we in this hall want for ours: education, good health, security, and opportunity. They want voice. They do not want charity. They want a chance to make a better life for themselves. They want respect for their human rights.

We are all here to work for that common humanity and above all to fight against poverty with passion. But to overcome poverty, passion is not enough. We must act, and act effectively. And we must commit ourselves for the long haul.

I believe the fundamental changes of the last decade, challenging and difficult as they may have been, provide us with a real chance for a dramatic advance in the fight against poverty. That opportunity is now, and we must seize it.

We have deepened our understanding of what poverty is and of how to generate equitable development. We are changing our institution and the way we do business to deliver more effectively, transparently, and with greater accountability.

But, we will make progress in fighting poverty only if we all work together — developing and developed countries, international institutions, civil society in all its forms, and the private sector. Ours must be a partnership to leverage the fight against poverty. Ours must be a partnership to build a new internationalism to match a globalized economy.

Outside these walls, young people are demonstrating against globalization. I believe deeply that many of them are asking legitimate questions, and I embrace the commitment of a new generation to fight poverty. I share their passion and their questioning. Yes, we all have a lot to learn. But I believe we can move forward only if we deal with each other constructively and with mutual respect. In this context, I am very grateful to President Havel for having organized a colloquium for dialogue recently here in Prague.

The World at the Millennium

We stand at the beginning of a new millennium, at the end of a decade when globalization has accelerated dramatically. This is a time to assess where we have been and where we are now, as well as to provide a vision for the future. This is a time of great opportunity, but also of tremendous challenges. We must treat globalization as an opportunity, and poverty as our challenge. But 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, so that our economies are more and more closely integrated.

It is also about international financial crises. As we saw in the East Asian experience, instability in one country can affect us all.

It is about technologies that have already transformed our abilities to communicate in a way that would have been unimaginable a few years ago.

It is about illness, and I think particularly of HIV/AIDS, malaria, and tuberculosis. It is about crime, about violence, about threats and terrorism, which do not respect national boundaries.

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

In short, 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 disease, 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.

The last decade has not only seen an acceleration in globalization; it has also seen real progress in the quality of policies in developing countries. Around the world more children are attending primary and secondary school. In many countries people are living longer, fewer infants are dying before childhood, and more mothers are living to know their children. And in economic policy, inflation has fallen, markets have been liberalized, and investment has risen strongly.

The economic outlook for the coming years is promising, with per capita incomes in developing countries likely to grow at well over 3 percent. This would be the highest sustained growth in

decades, and faster than in developed countries. Indeed, a large number of people in developing countries are seeing the fruits of the combination of these improved policies and globalization.

But for too many that optimistic picture is still a mirage.

In too many countries, population growth has wiped out per capita gains in income. In too many countries, HIV/AIDS has wiped out improvements in life expectancy and caused incalculable grief and hardship. In too many countries, weapons, war, and conflict have wiped out development. And at the global level, we cannot be complacent about the outlook, particularly in the face of volatility in oil and commodity prices and wild swings in exchange rates.

We live in a world scarred by inequality. Something is wrong when the richest 20 percent of the global population receive more than 80 percent of the global income. Something is wrong when 10 percent of a population receives half of the national income -- as happens in far too many countries today. Something is wrong when the average income for the richest 20 countries is 37 times the average for the poorest 20 -- a gap that has more than doubled in the past 40 years. Something is wrong when 1.2 billion people still live under less than a dollar a day and 2.8 billion still live on less than 2 dollars a day.

With all the forces making the world smaller, it is time to change our way of thinking. Time to realize that we live together in one world, not two: this poverty is in our community, wherever we live. It is our responsibility. It is time for political leaders to recognize that obligation.

And the stakes could not be higher. The conflicts that have so plagued development are not simply accidents of history. Conflicts are much more likely in countries with severe poverty and primary commodity dependence. Violent crime is more likely in countries with high income inequality. And what is true within a single society today, will be increasingly true of international conflict and terror in this globalized world.

The fight against poverty is the fight for global peace and security.

What Have We Learned About How To Fight Poverty?

In facing these challenges we must act together. And we must draw on the lessons of experience. What have we learned?

We have learned that poverty is about more than inadequate income or even low human development; it is also about lack of voice and about lack of representation. It is about vulnerability to abuse and to corruption. It is about violence against women and fear of crime. It is about lack of self-esteem.

Poverty, as discussions with 60,000 poor people in 60 countries have taught us, is about lack of fundamental freedom of action, choice, and opportunity.

We have learned that market-oriented reforms, if combined with social and institutional development, can deliver economic growth to the poor. We have learned that economic growth is the most powerful force for sustained poverty reduction. Growth is central, but it is not enough.

If we are serious about fighting inequity, we must also help poor people build their assets, including education, health, and land. We must get infrastructure and knowledge to poor areas — rural and urban alike. We must confront deep-seated inequalities, bridging gender, ethnic, social, and racial divides. We must protect poor people from crop failures and natural disasters, from crime and conflict, from sickness and unemployment.

Development must be comprehensive. It must embrace education and health, but it must also embrace good governance, the fight against corruption, legal and judicial reform, and financial sector reform. Development must embrace infrastructure and environmental protection as it must also embrace sound economic policies. All these elements depend on and reinforce each other.

We have learned -- and this is fundamental -- that development cannot be imposed from above. There is no universal blueprint for development. It must be home-grown and home-owned.

Without a comprehensive approach that is developed and adopted in each country, we will not achieve the development that is vital for a peaceful, equitable world.

We are applying what we have learned. Over a year ago, recognizing the importance of a comprehensive approach, we launched the Comprehensive Development Framework (CDF). Holistic, long-term, and country-owned, the CDF is being implemented in a dozen countries.

Last year with the IMF, we began supporting our partner countries in their work on poverty reduction strategies-- strategies that are country-driven and poverty-focused. Our comprehensive framework and the poverty reduction strategies embody an approach to development that is gaining strong recognition in the development community.

And let us recognize that there is a key element that runs right through this approach — it is participation. Participation delivers powerful results at the project and program level. And it can create the social consensus that is the foundation for social change and reform. It is a part of freedom.

Where better than here in Prague, home of the Velvet Revolution, to underscore the central importance of participation? Where better to reaffirm what poor people across the world say they want -- freedom, participation, and voice in creating a better life for themselves?

Participation can take many forms -- and it works.

In Bangladesh, we are supporting nongovernmental organizations that are taking the lead in microcredit programs serving more than 5 million poor people, 90 percent of them women.

In Uganda, we have provided matching grants to community groups, with the result that school attendance and use of health facilities have improved dramatically.

In India, the deepening of democracy has advanced participation in the smallest towns. Reforms have greatly strengthened representation for women in local councils.

With the support and leadership of our client governments, we are working with communities, local governments, the private sector, and civil society to support community-driven development.

In Indonesia, more than 2,000 villages and community groups are developing their own proposals to receive local funding.

In Benin, women are working together to protect the forests and make them sources of income rather than sources of fuel.

And at the national level, we are helping to build strong institutions to ensure that poor people can participate in, and benefit from, their economy and society. We must make state institutions more responsive to poor people. We must recognize that in too many countries, fighting poverty is also about fighting the vested interests of an economic elite that has undue influence on policies, regulations, and laws.

If we embrace a comprehensive approach, working in partnership with governments, and if we achieve this participation, this equity, and this inclusion, then we will have democratized development.

The Information and Communications Revolution

Today we have a unique tool at our disposal to enable involvement of all, on a scale undreamed of even several years ago. The information and communications revolution will transform development as we know it.

This revolution promises an historic opportunity to redraw the global economy through broad and equal access to knowledge and information; through enhanced empowerment and inclusion of local communities; and through economic growth, jobs, and improved access to basic services.

And so, over the last five years, we have been focusing on how we can harness the power of information and communications technology and of knowledge to accelerate development.

We are working with governments to foster policy, regulatory, and network readiness, through our analytical and advisory work and through our grant facility, *infoDev*.

We are linking development leaders globally through our Global Development Learning Network, which provides training and creates broad learning communities.

We are connecting students and teachers in secondary schools in developing countries with their counterparts in industrialized countries through our World Links for Development program.

We are using information and communications technology to create a “university without walls” and to link Sub-Saharan African countries directly with global academic faculty and learning resources through the African Virtual University.

Through the Global Development Gateway and the Global Development Network, we are promoting the generation and sharing of knowledge. We are supporting knowledge networking, global research, and communities of practice from the grassroots up.

And finally, we are developing many practical applications being used by poor communities worldwide to bring them knowledge in local languages, to build communities, to create businesses, to assist in medical treatment, and to link them with each other and with the world.

The information and communications revolution offers us an unprecedented opportunity to make empowerment and participation a reality. And poor people across the world are demanding action. In response to our “Voices of the Poor” study, many groups have asked us, as a key priority, for increased access to information and communications technology.

We must work toward the day when, through the internet, through distance learning, through cellular phones and wind-up radios, the village elder or the aspiring student will have access to the same information as the finance minister.

Communications technology gives us the tool for true participation. This is leveling the playing field. This is real equity.

A Bank That Is Delivering

Throughout its history the Bank has adjusted to the changing external environment, from post-World War II reconstruction to the challenges of global development. That change continues today. Let me tell you a little about what we have done over the last five years to build on the enormous contributions of my predecessors, and on the solid base of the past.

In the last five years, we have continued to focus our lending on social sectors such as health, education, and social protection, which now make up about a quarter of our portfolio.

Five years ago, our lending in the global fight against HIV/AIDS was small. Today we have committed about \$1 billion, including \$500 million recently made available for programs in Africa. Five years ago, we were not engaged in post-conflict activities. Today we are involved in over 35 countries. Five years ago, we had not thought of the HIPC Initiative. Today we have agreed to debt relief for 10 countries, and we are doing our utmost to reach 20 countries by the end of the year. Five years ago, we did not work on anticorruption programs. Over the last five years, we have engaged in over 600 anticorruption activities. Five years ago, we focused only on “doing no harm” to the environment. Today, we have an environmental portfolio of \$15 billion, including climate change and biodiversity programs.

We are working with governments to improve governance and the climate for investment. We are working to build sound regulatory environments so that the private sector can contribute more effectively to building infrastructure. The International Finance Corporation (IFC) is working through its innovative projects and growing portfolio to expand the frontier of investment opportunities. So too is the Multilateral Investment Guarantee Agency (MIGA), where guarantee coverage has risen from \$600 million five years ago to over \$1.5 billion today.

We have focused on results and we have delivered. There are those, however, who say we promise more than we deliver.

In 1995, I said we would become a “knowledge bank,” and we have made great strides. In 1996, I said we would fight the “cancer of corruption,” and we are one of the leaders in that fight. In 1997, I spoke of the “challenge of inclusion,” and we are working more than ever to bring the weak and most vulnerable from the margins of society to the center stage. In 1998, I spoke about the need to balance essential economic growth with social and structural development and called for a Comprehensive Development Framework. Since then we have piloted this approach and we are introducing the poverty reduction strategies on a more global basis. And in 1999, I spoke of the importance of governance and capacity-building and of partnering with others. We are working on these issues every day, day in and day out, and achieving great results.

We work constantly to improve the quality of our programs. Over the last five years, the share of lending operations with outcomes rated satisfactory or better by the Bank’s independent evaluation unit increased significantly. And five years ago, 34 percent of our projects were at risk. Today that figure is down to 15 percent. We are closer to our clients; we now have half of our country directors and 2,300 staff in the field. And we are more transparent, disclosing over 85 percent of our country assistance strategies, up from none five years ago.

We are a different Bank, doing development differently. Are we there yet? No. But are we more than halfway through a major reform program? Yes. And in the next five years we will focus still more sharply on implementation.

We are ready and able to take responsibility for the social and structural agenda, working with the IMF in supporting countries’ programs. We are working with our colleagues in the U.N. system and the other multilateral development banks on selectivity and the division of labor among us. We are working with governments, helping them to take forward their policies and institutions rather than simply implementing our projects.

All this calls for a further change in our business strategy: less micromanagement, more working with governments to help them to set the broad parameters.

We will continue conditionality but we will streamline it and focus on fundamental principles. We will support fully owned country strategies, with program loans that align donor support with the government’s budget and policy cycles. For this purpose, we are introducing the Poverty Reduction Support Credit.

For both projects and programs, we will be flexible in responding to the specific needs of particular countries, and we will be looking for innovative ways to support regional programs with advice, financing, and grants.

We will work with our development partners to harmonize and coordinate our procurement, environmental, and reporting standards and procedures to reduce the administrative burden on clients.

We believe that this is the route to scaling up and to more speedy, flexible, and effective implementation.

Let me also make very clear that we will both continue and deepen our work in overcoming poverty in middle-income countries.

We cannot ignore the 1 billion people living on less than 2 dollars a day in middle-income countries. We will continue to bring both money and knowledge to work in education, health, and social protection in poor communities.

We will continue to build on the synergy between our lending and nonlending services, which is critical to promoting reform. We will continue to work with national and regional authorities to improve the climate for the investment and jobs that are crucial for poverty alleviation. Over time their access to markets will grow. We cannot simply ask these countries to rely on volatile capital markets to fund their fight against poverty. Our partnership must be long-term, committed, and poverty-focused -- in bad times and in good.

This is a demanding program, and our budget is highly constrained. Let me take this opportunity to express my deep gratitude for the dedication and professionalism of our management and staff who, during this period of transition, have worked so hard. I believe they are the most dedicated, talented development team in the world, and I applaud them and their families. I am immensely proud to work with them.

Moving Forward: Responsibility and Opportunity

I have spoken of opportunity, of security, of empowerment. I have spoken of participation, transparency, and accountability. But what of responsibility?

Two years ago we published a study on aid effectiveness. The results were clear. Countries with good policies that receive aid use it well. In countries with bad policies, aid is wasted. More countries have been putting in place those policies for sound growth. More countries have been doing well.

More and more developing countries are keeping their side of the bargain. But what about the developed world? Some countries are shouldering their responsibilities magnificently, and we are extraordinarily grateful to them. But many are not. I believe we need to focus on several priority areas as we move forward.

First, many developed countries have fallen far below the internationally recognized targets for aid. They must increase their aid.

Second, developed countries must provide the resources for deeper, faster, and broader debt relief. If we want to move rapidly on the HIPC Initiative, we must look to the rich countries for resources. This initiative should not be funded by reduced or more costly support for other low or middle-income countries.

Third, developed countries must dismantle trade barriers to poor countries. Our estimates indicate that the annual costs of all trade barriers by industrial countries are more than double total development assistance.

Fourth, we must explore innovative instruments, including grants, for such pressing issues as HIV/AIDS, the environment, basic education, and health. We at the Bank must build up our Development Grant Facility.

Fifth, multilateral and bilateral donors must work together to simplify their procedures and reduce the cost of doing business.

And finally, we must recognize that there are more and more issues whose resolution requires action at the global level. We must act together.

Now is the time. Budgets of rich countries have never been stronger. Technology has never been more dynamic. Growth prospects have rarely been greater. Public action in all countries must be driven by a new commitment to poverty reduction.

The demographic challenge is before us. Over the next 25 years, nearly 2 billion people will be added to the existing 6 billion of the world's population, almost all of that increase in developing countries. In 25 years, Europe's population will be roughly the same as today, while the developing world will move from 5 billion to almost 7 billion people.

Without that commitment to development, we will not hold back the tide of deprivation, want, and despair. We will not create that equitable world, we will not ensure peace and stability for our children. All of us here today know that we can and must do more.

We have an historic opportunity.

This new world, our greater understanding, a wiser development community, and a changing international institutional environment, mean that through working together, doing development differently, and giving voice to the voiceless, we now have a chance to make the next decade one of real delivery in the fight against poverty.

The opportunities and promise of a global economy, the information age, and life-saving and productivity-enhancing technologies are all ours to seize.

We must work together to harness the benefits of globalization to deliver prosperity to the many, not just the few.

This is not just a new economic program. It is an obligation – an obligation based on shared moral and social values. It is an obligation that is also based on enlightened self-interest. It is an obligation to the next generation to leave them a better world: a world of equity, a world of peace, a world of security.