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Address by **ROBERT B. ZOELLICK,**
President of the World Bank Group,
to the Board of Governors of the World Bank Group,
at the Joint Annual Discussion

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Board of Governors of the World Bank Group

remarks of

Robert B. Zoellick

President
The World Bank Group

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"Modernizing Multilateralism and Markets"

Mr. Chairman, Governors, and Distinguished Guests:

Thank you for joining us at these Annual Meetings. I want to express my particular thanks to our Chairman, Zoran Stavreski, and, once again, to Agustín Carstens for his leadership of the Development Committee and his partnership as a friend. I cannot imagine a better Chair to work with during my first year.

I also want to single out my good colleague, Dominique Strauss Kahn. We work closely together, and I am fortunate to have a partner with such experience, insight, and fine humor.

We meet at an extraordinarily difficult time – a time of uncertainty and insecurity, with a danger that those fears push us away from – not towards – a more inclusive and sustainable globalization.

Recent weeks have made 2008 a precarious year. A meltdown in financial, credit, and housing markets. The continuing stress of high food, fuel, and commodity prices. Anxieties about the global economy.

People are hurting. Families are worried about what coming days will bring.

People are reacting with a sense first of confusion, then frustration, anger, and fear.

These are natural responses, just as we have seen in developed countries. The challenges of psychology will spread around the world as the financial and economic effects spread. We need to take them seriously.

October could be a tipping point for many developing countries. A drop in exports, as well as capital inflow, will trigger a falloff in investments. Deceleration of growth and deteriorating financing conditions will trigger business failures and increase the risk of banking emergencies. Some countries will slip toward balance of payments crises. As is always the case, the most poor are the most defenseless.

The events of this year are a wake up call. There are storm clouds over multilateralism and markets.

As food prices soared, agricultural markets started to break down under political pressures. Some 40 countries imposed bans or restrictions on exports of food. Others imposed price controls and halted trading. The UN strained mightily to get countries to double their contributions to food assistance for those most in need. Poverty, hunger, and malnutrition increased.

As the global system for agriculture ran aground, the World Trade Organization drifted into dangerous waters. The Doha Round has hit the rocks.

The Climate Change negotiations organized under the UN Framework Convention on Climate Change faces an uphill struggle, now steepened by the breakdown in the WTO. .

While needs are growing, the international aid system is not keeping pace.

Donors bring ideas, energy, and resources, but they also can overwhelm national ownership by developing countries, harming the effectiveness of aid. In 2006, there were more than 70,000 aid transactions with an average project size of only $1.7 million. Last year, the average developing country hosted 260 donor visits. Vietnam had 752.

National governments are drawn increasingly to provide aid with their flag, not through multilateralism that encourages coherence and building local ownership. The G-7 as a whole is far behind its Gleneagles' commitments to boost development assistance.

Private financial markets and businesses will continue to be the strongest drivers of global growth and development. But the developed world's financial systems, especially in the United States, have revealed glaring weaknesses after suffering titanic losses.

The international architecture designed to deal with such circumstances is creaking.

A New Multilateralism

Even as the United States and the world dig out of the present hole, we need to look further ahead: We must modernize multilateralism and markets for a New Global Economy.

Some say today's crisis should take all our energy and focus. But the architects of Bretton Woods in 1944 laid the foundations for the future even as they still fought the armies of the past.

For us, tomorrow is already here.

New economic powers are on the rise.

The engagement of rising powers with the global economy has made them "stakeholders" in the global system that benefited them.

These rising powers want to be heard. They want to know what will be their role in making new rules for the global economy.

The developed economy "stakeholders," in turn, both benefit from – and are threatened by – the changes. Rising developing economies offer multiple poles of growth that assist their recoveries and offer new possibilities, but they also serve as fodder for scaremongers.

With growth rates averaging about 6.6 percent between 1997 and 2007, some 25 countries in sub-Saharan Africa, with almost two-thirds of the region's population, offer a vision of yet another pole of growth that might be developed over the coming decades. This could be a great achievement, not only for overcoming poverty and for development, but also freeing untapped talents and energies.

But it will be an achievement left unrealized unless we have the vision and the courage to stand up to the challenges of economic isolationism, and to offer the leadership to help make it happen.

We need a new approach

At its best, multilateralism is a means for solving problems among countries, with the group at the table willing and able to take constructive action together. When multilateralism is dysfunctional, globalization can be a Tower of Babel, with competing national interests colliding to the benefit of none.

The Bretton Woods generation left two legacies: first, specific international institutions and regimes – in various states of service and repair. Second, and more important, that generation left an intellectual, policy, and political commitment to act multilaterally to turn the problems of an era into opportunities.

The New Multilateralism, suiting our times, is likely to be a flexible network, not a fixed system. It needs to maximize the strengths of interconnecting actors, public and private, profit-making and civil society NGOs.

The New Multilateralism must respect state sovereignties while solving interconnected problems that transcend borders.

This New Multilateral Network needs to be pragmatic. Its baseline work is to foster cooperation by encouraging exchanges of perspectives on interests, both domestic and international. Often just sharing information is a start.

We should encourage a search for mutual interests. Sometimes mutual interests can be fostered with incentives – and international institutions can become catalysts for action. Practical problem-solving builds a culture of cooperation.

Our New Multilateralism must build toward a sense of shared responsibility for the health and effective functioning of the global political economy. This means – chiefly and critically – that it must involve those with a major stake in that economy, those willing to share in the responsibilities along with the benefits of maintaining it.

We must redefine economic multilateralism beyond the traditional focus on finance and trade. Today, energy, climate change, and stabilizing fragile and post-conflict states are economic issues. They are already part of the international security and environmental dialogue. They must be the concern of *economic* multilateralism as well.

Priorities

A New Steering Group

The New Multilateralism will still depend principally on national leadership and cooperation. Countries matter.

We need a core group of Finance Ministers who will assume responsibility for anticipating issues, sharing information and insights, exploring mutual interests, mobilizing efforts to solve problems, and at least managing differences.

For financial and economic cooperation, we should consider a new Steering Group including Brazil, China, India, Mexico, Russia, Saudi Arabia, South Africa, and the current G-7.

Such a Steering Group would bring together over 70 percent of the World's GDP, 62 percent of its energy production, the major carbon emitters, the principal development donors, large regional actors, and the primary players in global capital, commodity, and exchange rate markets.

But this Steering Group would not be a G-14. We will not make a new world simply by remaking the old. It should be numberless, flexible, and over time, it could evolve.

Others may be added, especially if their rising influence is matched by a willingness to help shoulder responsibilities.
This new Steering Group should meet and videoconference regularly to foster a sense of group responsibility.

The IMF and World Bank Group, perhaps with the WTO, can help support this Steering Group. We can identify emerging problems, supply analysis, suggest solutions, and draw on our own broader membership to propose coalitions to address issues.

The Steering Group members will still need to work through established international institutions and regimes that include other states. But the core group would increase the likelihood that countries draw together to address problems that are larger than any one state.

We need this mechanism so that countries are not left to fail – with all the human, economic, and political consequences this entails for both them and their neighbors. We need it so that global problems are not just mopped up after the fact, but anticipated. We need it to develop the habit of dialogue and the necessary relationships of trust *before* the crisis hits. We need it to shape multilateral solutions.

<u>International Finance and Development</u>

We have seen the dark side of global connectedness. We need to navigate toward the light.

The first task will be to overhaul the failed system of financial regulation and supervision.

We must ask why so many thoroughly regulated and supervised institutions got into trouble. Any risk-based model, no matter how sophisticated and well supervised, depends critically on the assumptions. What happens when the assumptions fail?

The changing conditions that trigger failure will increasingly be dependent on shifts in the *world* economy. Just as the crisis has been international because of interconnectedness, the reforms will need to be multilateral.

The Financial Stability Forum (FSF), ably chaired by Mario Draghi of the Bank of Italy, has started to tackle these issues. Whether through an expanded FSF, a stronger FSF-IMF linkage, or the Steering Group, these financial supervisory issues will need to be addressed in a broader multilateral context.

We must bolster an IMF early warning system for the global economy, focused on crisis prevention and not just crisis resolution.

The financial shock waves in the United States and Europe will reverberate in the global economy. The stark reality is that developing countries must anticipate and prepare for a drop in trade, remittances, and domestic investment.
Countries with sound fiscal and balance of payments positions should be encouraged to spur domestic demand through consumption and investment. But others have yawning budget gaps, risky current account deficits, balance of payments problems, financial danger, or all four. The Fund and the Development Banks will need to assist.

The New Multilateralism must put global development on a par with international finance.

Economic multipolarity offers stability and opportunity, just like a diversified portfolio of investments. But to boost more inclusive and sustainable growth, we need to think about aid differently.

Two weeks ago at the United Nations, international partners raised $16 billion for development projects. This money is vital, and we need more if we are to meet the Millennium Development Goals.

But we also must broaden our approach. We must listen to the growing number of Africans who are telling us they want markets and opportunities, not aid dependency. Private capital and markets will remain the drivers of growth. We must look beyond projects and programs to new ways of doing the business of development.

At the Bank Group, we are changing our role from that of primarily a lender to a provider of customized financial and development solutions for overcoming poverty and spurring growth.

We are also building an IFC investment platform to help intermediate equity investment – not aid – from Sovereign Wealth Funds to Africa and other poor regions with growth opportunities. This is the "One Percent Solution" I proposed this Spring.

Private capital – and especially equity – will be the critical factor in building infrastructure, supplying energy, financing businesses and trade, and fostering regional integration within an open global economy. And it is already happening. In 2008, IFC provided more investment (including syndications) to our clients than our IBRD lending or IDA assistance. Over 40 percent of IFC's investments were in IDA countries this year.

Our Global Emerging Markets Local Currency Bond program, or GEMLOC, aims to catalyze the development of local currency bond markets in emerging market countries and facilitate south-south investment opportunities.

We are helping our clients – from small farmers to governments – manage development risks through insurance facilities for weather and catastrophic events. In partnership with DFID, we finalized a weather risk management transaction on behalf of Malawi. Under this transaction Malawi will receive up to $5 million if an index linked to rainfall drops significantly below the historical average.

We are developing our business with sub-sovereign entities so we can get at the roots of local poverty and strengthening governance and performance at all levels.

We are using our balance sheet and financing capabilities in combination with donors to broaden types of assistance: from the issuance of vaccine bonds in the Japanese retail market, to advance commitments to purchase yet-to-be-developed pharmaceuticals to save lives.

As we move into new fields with new instruments, we need to become better partners. To that end, we are ramping up our work to support health systems, promoting innovations such as results-based financing, and new ways of working with the private sector and civil society. Two weeks ago, at the UN's Millennium Summit, we joined with the UN, governments, non-traditional donors, the private sector, and civil society to boost support for malaria and for primary education with an additional Bank contribution of $2.6 billion

The New Multilateralism also needs mechanisms to move much more quickly to help those who are most vulnerable in crisis. Right after suggesting the idea at our Spring Meetings, as the food crisis hit hard, the World Bank created a new $1.2 billion rapid financing facility for those endangered by high food prices – to fund nutrition, school feeding, seeds and fertilizers, and other safety nets. We are now expanding that Facility to cover those hit by rising fuel prices. These kinds of vulnerability mechanisms must be flexible, fast, and will need a regular flow of grant funding.

The World Bank Group must also adapt more quickly to meet new needs of its clients and interests of its shareholders. We need to better align our governance with the realities of the 21st Century. Yesterday, we reached agreement on an initial reform package on Voice, Participation, and Responsibility. This is a start, but we will need to go further. Our Board has advanced work on internal governance.

I am delighted that Ernest Zedillo has agreed to chair a High Level Commission, to consider a modernization in World Bank Group governance so we can operate more dynamically, effectively, efficiently, and legitimately in a transformed global political economy. I have asked Ernesto to work with colleagues looking at the IMF. In 1944 the architects of the Bretton Woods system seized a moment to build for a changed future. We must be no less ambitious today.

The WTO and the Global Trading System

The Doha global trade negotiations in the WTO are gasping on life support. It is vital that the WTO and an open global trading system not be buried with them.

Trade negotiations will continue elsewhere. Recent research has shown how FTA negotiations can support broader opening of markets. But FTAs and preferential arrangements that are not broad-based could weaken global liberalization. They need to be linked to global disciplines. And the multilateral system remains the only option for lifting the heavy hand of trade-distorting support for agriculture, still running at some $260 billion per year in OECD countries.

One option to continue fostering global liberalization is to recognize trade facilitation as part of a development plan. There are opportunities to cut costs of trade far in excess of those imposed by tariffs and other trade barriers. The World Bank's "Doing Business" trading and "Logistics" indicators have done the diagnostic groundwork. Regional bodies such as APEC have pointed the way.

The World Bank Group is helping countries to simplify and harmonize procedures and documentation across a supply chain. We are currently working on a Trade Facilitation Facility to provide technical assistance, capacity building, and project preparation. We can support both country-level projects that respond to client needs and multi-country projects that can facilitate regional trade integration. And we can help with the implementation of trade facilitation commitments associated with multilateral and regional trade agreements.

A new trade facilitation and development agenda puts the self-interest of lowering costs of trading to work for a multilateral interest of encouraging more integration, efficiencies, and opportunities – meaning more growth, more jobs, less poverty.

This is multilateralism by practical steps, moving ahead where it is possible to do so.

Energy and Climate Change

The New Multilateral Network must also interconnect energy and climate change.

World energy markets are a mess. Producers, fearful of collapsing prices, are wary of new investments. Consuming countries want lower prices for consumers, but prices high enough to encourage conservation, efficiencies, alternative supplies, and new technologies. And the most vulnerable countries and people are victimized by the whole confusion – hit by high prices, price volatility, and climate change.

Most oil production is now controlled by national oil companies. These suppliers do not respond to market signals in the same way as private producers.

We need a "global bargain" among major producers and consumers of energy. A few years ago, China suggested that the major energy consumers organize to deal more effectively with the producers' cartel. This is an idea worth considering, though with a broader purpose.

At a minimum, such a bargain should involve sharing plans for expanding supplies, including alternative energy; improving efficiency and lessening demand; assisting with energy for the poor; and considering how these policies relate to carbon production and climate change policies. The World Bank Group can play an important role here. Last year, our funding for renewable energy and energy efficiency projects in developing countries grew by over eighty percent to reach US$2.7 billion.

Part of the bargain will also be to provide an opportunity for developing countries to make longer-term investments to reduce vulnerability to high and volatile fuel prices while supporting the poor with safety nets. With less than one quarter of Sub-Saharan Africans currently having access to electricity, improving access for the poorest is a critical complement to clean energy investments. Just as we are assisting those most vulnerable to high food prices by expanding agricultural production, we need to help those vulnerable to high and volatile energy prices by improving efficiencies, options for alternative supplies and off-grid technologies, and regional cooperation. At the request of shareholders, the World Bank Group is developing an “Energy for the Poor” initiative to help the poorest countries meet energy needs in efficient and sustainable ways.

We might consider taking the global bargain further. There might be a common interest in managing a price range that reconciles interests while transitioning toward lower carbon growth strategies, a broader portfolio of supplies, and greater international security.

Multilateral understandings about energy futures – leading to clear pricing for carbon – might also be vital for the United Nations Framework Convention on Climate Change.

A climate change accord also will have to be supported by new mechanisms to support forestation and avoid deforestation, develop new technologies and encourage their rapid diffusion, provide financial support to poorer countries, and assist with adaptation. As we discussed at the Bali Breakfast yesterday, we need to strengthen carbon markets. The World Bank Group’s launch of two new facilities – the Forest Carbon Partnership Facility and the Carbon Partnership Facility – enables us to support clients seeking lower carbon development paths.

Two weeks ago, to help provide additional resources for these challenges, the Bank hosted a pledging session that raised $6.1 billion from ten countries for new Climate Investment Funds – resources which developing countries can use to address climate change issues within their own development and anti-poverty strategies.

Fragile States: Securing Development

Nowhere is the New Multilateral Network needed more than in the fragile and post-conflict states where the “Bottom Billion” live.

Too often, the development community has treated states affected by fragility and conflict simply as harder cases of development. Yet these situations require looking beyond the analytics of development to a different framework of building security, legitimacy, governance, and the economy. This is not security as usual, or development as usual.

Securing Development is about bringing security and development together first to smooth the transition from conflict to peace and then to embed stability so that development can take hold over a decade and beyond. Only by securing development can we put down roots deep enough to break the cycle of fragility and violence.

Our appreciation of how best to secure development – to synthesize security, governance, and economics to be most effective – is still modest. We face critical gaps in international capabilities.

Ultimately, the most important element in fragile or post-conflict states is the people of those countries. But it will take much stronger and longer-lasting multilateral assistance to help these people shift from being victims to becoming the principal agents of recovery.

At the World Bank, we are devising new, and I hope improved, partnerships with the United Nations and others. A new UN-World Bank Fiduciary Principles Accord will significantly speed up joint responses to crises. We are pushing ahead with desperately needed arrears clearance operations, and establishing a new $100 million State- and Peace-Building Fund to support a more strategic and innovative approach to conflict and fragility.

The Six Strategic Themes

Mr. Chairman,

Last year I outlined six strategic themes for the World Bank Group to help guide our work – for the poorest countries, especially Africa; fragile and post-conflict states; middle income countries; global and regional public goods; expanding opportunity for the Arab World; and building knowledge and learning.

These strategic themes run throughout our work. I have highlighted a few examples today.

As we move forward with the six themes, we must continue to mainstream anti-corruption and good governance across all our activities. Publics are right to expect a sharper focus on governance and anti-corruption. Corruption is a cruel tax – first and foremost on the poor. We must fight it wherever we find it.

I am grateful to Paul Volcker and his fellow Commissioners for their excellent work – and practical recommendations. We are implementing the panel's recommendations and scaling-up our work – including by strengthening our Institutional Integrity Department, creating a new preventative and advisory unit to better share and implement lessons learned, and appointing an International Advisory Board to help advise our new Vice President.

This work is based on our fiduciary obligations. But it does not end there. We must build an institutional culture of honesty, integrity, and trust. And we must encourage and assist our clients – from the youngest procurement officer to Prime Ministers and Presidents – to embrace this culture, too.

Conclusion

Mr. Chairman, as one executive director recently observed, since our last Annual Meetings a year ago, the World Bank Group has moved from crisis to catalyst.

Now the world faces a crisis. It is a moment for the World Bank Group to step up.

We have a sound capital base, strong liquidity, unmatched global experience with worldwide reach, and extraordinary people.

Yet we can and must do better.

The World Bank Group is at its best when it brings together global expertise, constantly challenged and updated; investments in people, markets, and institutions; and innovative financing – always conscious, as the Growth Commission emphasized this year, that there is no single template for development. Each country's circumstances are unique – and special. We must have the humility, practicality, and honesty to learn what works – and to fix what doesn't.

In that endeavor, our greatest asset is the staff of the World Bank Group here in Washington and around the world, who have worked tirelessly this year with clients and partners to support these efforts. Drawing talent from over a hundred countries, we are striving to show how people with vastly different experiences and from different cultures can come together to make a whole far greater than the sum of its parts.

I am fortunate indeed to gain from the richness of their diversity. I want to thank them and to let them know I am proud of them.

We also have an active Board with which we work every day. It has offered invaluable guidance as we advance to meet the needs of our clients, for which I am grateful.

In closing, Mr. Chairman, a word of perspective:

Unless we can better share the opportunities and the responsibilities in the new global economy; unless we can look beyond the financial rescues to the human rescues; unless we can craft international policies that will help bring more peoples and more countries into the economic mainstream, we will not build an inclusive and sustainable globalization. And our world will not be stable – no matter how big our financial rescue packages.

Fate presents an opportunity wrapped in a necessity: To Modernize Multilateralism and Markets. We must seize it.

Thank You.