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Address by **JIM YONG KIM**,
President of the World Bank Group,
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The Lessons of Carabayllo: Making Tough Choices
World Bank President Jim Yong Kim
World Bank Group Annual Meetings, Plenary Address
Lima, Peru, October 9, 2015

President Humala, Chairman Bedoumra. Madame Lagarde, Ministers, friends,

Welcome to the 2015 IMF/World Bank Group Annual Meetings.

We're very grateful for the warm welcome from President Humala and the people of Peru. The preparations have been exceptional for this gathering – the first Annual Meetings in Latin America since 1967. Please join me in thanking all the organizers who have done so much to make this event such a success.

I'd like to thank our Chair, and my friend Christine Lagarde for our close cooperation over the past year.

I'd also like to take a moment to thank our Board and to our very hard-working staff, and to our Governors who have assembled here today. I say a quiet thank you to all of our Governors every day, because two and a half years ago you adopted our twin goals: to end extreme poverty by 2030 and to boost shared prosperity for the bottom 40 percent of the populations in developing countries. Those goals have given us a clarity of purpose and force us to align our work to our mission: We must do all we can to support the poor and the vulnerable, and, with the climate conference in Paris looming, to preserve our planet for future generations.

I'm very pleased to be back in Peru. This country is a far more prosperous and just society today than a generation ago. Over the past 10 years, Peru's GDP has increased at an average rate of over 6 percent each year. During the boom years, strong domestic demand and high commodity prices fueled a decade of robust growth. Growth was inclusive and the size of the middle class became larger than that of the poor. But Peru, like other countries in Latin America, is now feeling the headwinds of a slowing global economy, with lower commodity prices that may stay depressed for some time, and an exodus of capital from developing countries that seems to be accelerating. I'll say more on this in a few minutes.

When I arrived in Lima last week, I traveled to Carabayllo, about 20 miles north of here. I know Carabayllo well – I helped establish an NGO there called *Socios en Salud* in 1993. The next year, we discovered an alarming number of patients suffering from multi-drug resistant tuberculosis, a form of tuberculosis that is resistant to the most powerful and effective medicines. When we reported our findings and proposed to treat the patients, the Ministry of Health and the World Health Organization told us not to take on this fight – that the drugs were too expensive and treating drug-resistant TB would be a distraction from their single-minded approach to treating ordinary TB. The government actually threatened that if we treated a single patient, we would be kicked out of the country. Despite our fears of getting evicted from Peru, we started treating the patients – we could see that the patients were suffering, they were infecting their families and

neighbors, and, in the end, we knew it was the right thing to do. We put nurses and community health workers in charge of monitoring and supporting the patients, and their work, under the supervision of Dr. Jaime Bayona, led to cure rates of the first 50 patients of more than 80 percent, which was higher than many of the best hospitals in the United States. Our work, in turn, had a huge impact – the courageous health workers and patients of Carabayllo helped prove to the world that a small band of committed doctors, nurses, and community health workers could successfully treat a complicated disease in a poor community. That led the World Health Organization and Peruvian government to change their policies, recommending that persons with multi-drug resistant tuberculosis should be treated, no matter the cost, no matter where they lived, and no matter whether they were rich or poor.

I think about those tough moments now as we face a significant major global economic slowdown that affects most of the developing world, which in turn has great impact on our efforts to end poverty.

The lessons of Carabayllo are quite clear to me:

First, listen to the aspirations of the poor and lift up your own to meet them.

And second, don't be afraid to make the tough decision and do the right thing even if you have to stand alone.

Just a few days ago, the World Bank Group made a major announcement that for the first time ever the percentage of people living in extreme poverty – now defined as less than \$1.90 a day – will likely fall to under 10 percent this year, to 9.6 percent. This is the **best news** in the world today! But in order to reach our goal to end extreme poverty by 2030 our aspirations must be higher and many tough decisions will have to be made – especially by the people in this room. We have no choice.

We can and **we must** be the generation that ends extreme poverty.

I stand before you today, not as a member of a small group of committed activists, but as president of an organization of more than 15,000 people who are passionate about fighting poverty – we are economists, transport professionals, health and education specialists, asset managers, public and private finance experts, administrators, assistants – who share the same mission and the same high aspirations for the poor.

The question we ask today is how can developing countries grow in the face of slow global growth, the end of the commodities super-cycle, pending interest rate hikes, and capital flight from emerging markets?

Our overarching strategy, based on more than 50 years of experience, is that three things must happen – inclusive economic growth, investment in human beings, and insurance against the risk that people could fall back into poverty. We summarize this in three words – grow, invest, insure.

In tough times, countries that do well have already made the difficult choices. But countries that haven't yet, still can. It's not too late. Tough policy choices will send signals to the world that governments are serious about laying the groundwork for future growth.

To spur growth, every dollar of public spending should be scrutinized for impact. Every effort must be made to improve productivity. And in a period when banks are derisking, we have to ensure that capital is accessible – especially for small business owners and entrepreneurs who will create jobs.

More specifically, countries should invest in women, which can be one of the most effective pro-growth strategies by any government. Countries such as **Bangladesh** are encouraging female participation in the workforce. If they stay on track, their female workforce will grow from 34 to 82 percent over the next decade, adding 1.8 percent to their GDP. Closing the gender gap can raise incomes by 27 percent in the Middle East and North Africa, 19 percent in South Asia, and 14 percent in Latin America and the Caribbean. And research confirms something we all know – when women earn more money, they invest in their families' education and health.

Government officials also must root out corruption wherever it exists, and promote transparency in official business that can prevent future corruption. Every stolen dollar, euro, or sole robs the poor of an equal opportunity in life.

There also are simple reforms governments can undertake now, with immediate effects, and with no cost or investment needed. The Presidents of Kenya, Uganda, and Rwanda reduced barriers on the Mombasa to Kigali trade corridor, eliminating road blocks and administrative barriers that slowed traffic on this important trade route. Transit times fell by about 50 percent, and Kenya and Rwanda leapfrogged about 50 countries each in the Bank's 2014 logistics performance index. These countries experienced immediate gains to productivity and competitiveness of their economies.

Let me give you a few more examples now underway of strong reforms that promote growth.

Malaysia set up a Special Economic Committee just two months ago and is directing more public resources toward growth enhancing programs. About 10 months ago, it eliminated subsidies on gasoline and diesel, generating about 1 percent of GDP savings, and continued to fund key infrastructure programs such as a rapid transit system. The country's economic growth last year was 6 percent and is projected at 4.7 percent this year and 5 percent next year.

In North Africa, **Morocco** has phased out tariffs and non-tariff barriers, and simplified foreign trade procedures. In recent years, it concluded preferential trade agreements with the EU, the United States, Egypt, Jordan, Tunisia, and Turkey – and Morocco's trade-to-GDP ratio increased from 53 percent in 1990 to 81 percent in 2013. By improving the business environment, Morocco has been able to accelerate annual per-capita income growth to 3.2 percent on average during the last 15 years. Moreover, the well-being of the bottom 40 percent grew and the average literacy rate among adults more than doubled to around 70 percent.

As governments pursue their growth strategies – even in the face of shrinking revenues – leaders must continue to invest in their people, especially through education and health programs.

Peru's Minister of Education, Jaime Saavedra, was one of our top macroeconomists at the World Bank before he accepted his current position. As a brilliant economist, Jaime knew that Peru's future would depend on a more effective educational system. With President Humala's strong leadership, Peru has increased its education budget by 90 percent and important reforms are underway.

Peru has also been a leader in investing in the health and well-being of women and children. In 2005, 28 percent of Peru's children were stunted, a condition that imposes permanent limits on cognitive and physical development due to malnourishment and lack of appropriate stimulation during pregnancy and early childhood. This easily preventable condition impairs learning ability and lowers lifetime earnings. In just eight years, the country reduced the rate of stunting by half, to 14 percent. They used results-based financing to reward programs that produced better health, social development and sanitation outcomes. And they targeted assistance to those areas most in need, resulting in rapid progress in rural areas and the poorest communities.

Even in hard times, there should be no retreat from investing in people as well as supporting social protection programs that prevent people from plunging back into poverty. When it comes to ensuring that people stay out of poverty, Latin America has set a high global standard. One of the best programs is Peru's *Programa Juntos*, which began a decade ago. Juntos has reached half a million poor families with conditional cash transfers worth \$38 dollars each month, based on regular health and nutrition check-ups for young children.

But when it comes to insuring people against risks, one of the most frightening threats is climate change. If world leaders do not find a path to low carbon growth that will keep global warming below an increase of 2 degrees Celsius, there is little hope of ending extreme poverty – and even more broadly, there is little hope of preserving the Earth as we know it for our children and grandchildren and all future generations.

Scientists tell us that the warmer our planet becomes, the more we will experience droughts, floods, stronger hurricane or typhoons, and brushfires that consume vast forests. They call these extreme weather events – or events that used to happen once a century and now are happening year after year. Just look at what's happening in the Pacific right now with this year's El Nino event, which some are predicting will cause more havoc than any El Nino in the past 50 years. Ocean temperatures off the coast of Peru are as much as 6 degrees Celsius higher than normal. Already, we're seeing major impacts from El Nino – huge fires in Australia, the heaviest rainfall in Chile's desert areas in 80 years, and destructive typhoons in the Asia Pacific.

In just 52 days, international leaders will meet in Paris for the 21st session of the Conference of the Parties to secure an international agreement to reduce the amount of harmful emissions put into the atmosphere. Led by countries around the world, as well as funding from the multilateral development banks – including the World Bank Group -we are seeing that there is a politically credible pathway toward the \$100 billion dollars promised ahead of Paris. We will significantly

scale up our commitments to battling climate change. This was a tough decision for us, but it is the right thing to do.

Here in Lima, let us recommit to making the tough choices as we work together to grow, invest, and insure. The challenges we face are so great that we may just have to accept being uncomfortable and unpopular for a while.

Just a few days ago, a group of documentary filmmakers showed me old footage from a decade ago of a former patient of mine by the name of Melquiades Huaya Ore. He was just 17 at the time. Melquiades' arms were the circumference of a few of my fingers, and his skin was stretched taut over his ribs. Tuberculosis was literally consuming him. He didn't want to take his medicine because they were making him very sick. When I met him, I didn't know if he would survive. Let me show you the clip.

And then this happened when I visited Carabayllo on Monday.

All I could think of as I watched this video of Melquiades, was that we almost let him die – just because he was poor. He's now an accountant. He told me he's well enough to be playing futbol again.

We are in a difficult time in the world. Governments now must make tough choices in order to grow their economies in a way that helps the poorest. But with every reform we make, with every road we build, with every health clinic we support, are millions, even billions of people, like Melquiades, who only want a chance to live and pursue their dreams. We must do all we can, together, to ensure that every person on this earth can live a more dignified, healthier, and more prosperous life.

And now I have the great privilege of introducing to you, Melquiades Huaya Ore.

Thank you very much.