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Address by **JAMES D. WOLFENSOHN**,
President of the World Bank Group,
to the Board of Governors of the World Bank Group,
at the Joint Annual Discussion

A N E W G L O B A L B A L A N C E

The Challenge of Leadership

Your Royal Highnesses, Mr. Chairman, Governors, distinguished guests:

It gives me great pleasure to welcome you to this remarkable city of Dubai for the Annual Meetings of the World Bank and the IMF.

I would like to express my profound appreciation to the government and people of the United Arab Emirates: for their warm hospitality, their magnificent preparations – one has only to look at this extraordinary hall -- and their commitment to making our meetings a success.

Thank you, Chairman Villiger, for your remarks and for your leadership of these meetings.

I wish also to thank my friend, Horst Koehler, and our colleagues in the IMF, for another year of working together in close and effective partnership.

The Region and the World

We meet in the Middle East for the first time--and at a vital moment. The eyes of the world are on the region. They are also on us.

We meet, 184 nations strong, with a responsibility to show leadership—and set a clear course for development and peace.

We meet in the shadow of conflict and loss.

The horror of the attack on the U.N. compound in Baghdad is seared in memory – and we were reminded of it by yesterday’s attack. We mourn Sergio de Mello, an exceptional humanitarian who dedicated his life to development -- and with whom we worked closely in many post-conflict countries.

We mourn also Dr. Alya Sousa, our Bank colleague whom we lost to terrorism. She was a committed professional who took pains to look after her co-workers. An outstanding person.

I visited with both just days before the attack. Like all of you, I feel for the families of those killed, and injured, in the blast. How sad our world when peacemakers become the targets.

We honor Sergio, Alya -- and all who have died -- by continuing their work.

I can assure you of the Bank’s commitment to help the people of Iraq, just as we have worked to support the people of Afghanistan, Bosnia-Herzegovina, Kosovo, Timor-Leste, and the West Bank and Gaza. One result of our effort is the needs assessment we and our IMF and UN colleagues will deliver to donors in Madrid next month. We look forward to assisting with the reconstruction process in the years ahead.

The Bank has been at work in this region for more than half a century. Our first loan here was, in fact, to Iraq, in 1950—for flood control on the Tigris and Euphrates.

The projects we support today finance low-income housing in Jordan. Micro-credit to women in Yemen. Capacity building for a new nation state in West Bank and Gaza. And cooperation by ten Nile basin countries to provide water for 300 million people today -- and 600 million just a quarter century from now. We also assist Saudi Arabia with reimbursable technical assistance.

Knowledge and the exchange of ideas are key to our collaboration.. That is why we have prepared -- together with scholars and experts in the region -- four new reports on employment, trade, gender, and governance. That is why our website and its wealth of development experience are available in Arabic.

This is an ancient region that has given civilization so much – in science, mathematics, culture, and religion. And yet, it is also a young region where an astonishing 60 percent of its people are under the age of 25.

I would like to offer my remarks today particularly to the young people of the Middle East -- and of the world.

Last week, in Paris, I met with youth leaders who represented organizations with more than 120 million members worldwide. The meeting also included rural youth and street kids; children orphaned by AIDS and civil conflict; youth from the excluded Roma community; and young people with disabilities.

They met in peace and with mutual respect. They asked why our generation could not do the same.

They said: we are ready to be part of the solution, to be partners. But, they also said, we do not want a future based only economic considerations-- there must be something more. They challenged us about values and beliefs.

My colleagues and I were inspired by their passion and idealism. We invited four representatives to join us here today to witness our shared commitment.

Soon, young people will start working in the Bank's country offices, to help review projects and suggest initiatives -- as is already the case in Japan and Peru. We will also ask governments to make it possible for youth to participate in discussions of poverty reduction strategies. And we will come together in 12 months time to take stock of how far we have been able to come in our partnership.

Mr. Chairman: by the year 2015, there will be 3 billion people under the age of 25. They are the future. But, as the young people in Paris said most forcibly, they are also the *now*.

And their expectations of us are high.

To respond to them, we must address the fundamental forces shaping our world. In many respects, they are forces that have caused *imbalance*:

In our world of 6 billion people, one billion own 80 percent of global GDP, while another billion struggle to survive on less than a dollar a day. This is a world out of balance.

Over the next 25 years, 50 million people will be added to the population of the rich countries. About one and a half *billion* people will be added to the poor countries. Many will experience poverty, unemployment, and disillusion with what they will see as an inequitable global system. A growing number will leave their home countries to find work. Migration will become a critical issue.

There is further imbalance between what rich countries spend on development assistance-- \$56 billion a year-- compared with the \$300 billion they spend on agricultural subsidies and \$600 billion for defense. The poor countries themselves spend \$200 billion on defense— more than what they spend on education. Another major imbalance.

Developing countries are projected to grow at twice the rate of developed countries. But many will need help to bridge the gap between rich and poor. Pressures on environment and

natural resources, like water, will become central issues. Interdependence will be more evident. Opportunities will expand, but so will dangers.

Three years ago, world leaders gathered at the Millennium Summit to assess the future. They committed to cut poverty in half by 2015. They agreed on Millennium Development Goals – for health, education, and equal opportunity for women. They set targets for the environment, from the air we breathe to the preservation of our forests and oceans.

These are remarkable goals. Many leaders spoke of them as being morally right. Our human responsibility, but also in the global interest. They agreed on a bargain – one that was spelled out in meetings in Monterrey and Johannesburg.

- *Developing* countries promised to strengthen governance; create a positive investment climate; build transparent legal and financial systems; and fight corruption.
- *Developed* countries agreed to support these efforts by enhancing capacity building, increasing aid, and opening their markets for trade.

There was unprecedented agreement on the bargain and the actions required to achieve it.

What are the results?

The developing countries' policies and governance have never been stronger. As I mentioned, they are growing significantly faster than rich countries. But this good news should not blind us to other important realities. Progress on poverty differs sharply among regions.

China, with 1.3 billion people, will achieve most of the Millennium Goals. India, with a billion people, is on track to meet the poverty goal.

But in many other countries, the Goals will not be met.

Sub-Saharan Africa, with 600 million people, will fare the worst. The number of people living in absolute poverty will increase, not decrease. Only half of Africa's children will complete primary school; 1 in 6 will die before they reach the age of five, many from AIDS.

Like the young people I met in Paris, I ask: why?

Part of the reason is that reform is not happening fast enough in the developing nations. There is still too much cronyism and corruption. In nearly every country, it is a matter of common knowledge where the problems are and who is responsible. Frankly, there is not enough bold and consistent action against corruption, particularly at the higher levels of influence.

What about the developed countries' part in the global bargain? Here too, there has been progress:

- Commitments made in Monterrey towards an increase in aid of around \$16 billion a year by 2006;
- Substantial pledges to fight HIV/AIDS and malaria, and for conflict prevention and reconstruction; and
- Better allocation and use of resources, including enhanced donor harmonization—as in the Rome Agreement earlier this year.

But these actions—while laudable—do not match the promises made.

In Dakar, donors said no sound primary education project would go unfunded. They committed to an “Education for All” initiative requiring several billion dollars of incremental grant funding for a 5-10 year period. Yet, today, under the “fast track” program, only seven countries have received a promise of funding, only for a total of \$200 million over three years, and reaching less than 5 percent of the 115 million children who are not in school.

This naturally leads developing countries to be concerned about where the additional resources will come from—to help them open schools, hire teachers, and plan for secondary, as well as primary, education.

They worry that resources needed to meet other goals are not forthcoming. That debt relief is not sufficient. And that monies go to the latest crisis or to fight drugs or terror -- rather than to long-term development. They worry that only half of existing aid flows actually reach them in direct cash transfers for their programs. And they worry that repayments of debt are crippling their capacity to grow. Developing countries feel they have made significant efforts to fulfill their part of the global bargain. But they do not see enough delivery on the other side.

The recent impasse at Cancun is a case in point. Two-thirds of the world's poor people depend on agriculture for their livelihood. As the developing countries see it, rich nations put forward proposals that did not respond to their central demands in this crucial area. They also found unacceptable a view of negotiations in which they are expected merely to respond to rich-country proposals.

At Cancun, developing countries signaled their determination to push for a *new equilibrium*. They signaled that there must be greater balance between the rich and the powerful, and the poor and numerous. They signaled that for there to be peace and sustainable development, there must be a different set of priorities. There must be greater cooperation.

The fact is that aid today is at its lowest level ever. It has fallen from 0.5 percent of GDP in the early 1960s to about 0.22 percent today. And this at a time when incomes in developed countries have never been higher.

Against this background, the Bank has taken a close look at how progress toward the Millennium Goals could be accelerated-- through better policies, more effective use of aid, and higher aid levels. Our analysis, based on current plans, finds that:

- First, aid is being used more effectively today than ever before -- because of improvements in many developing countries and in the improvements in the allocation of development assistance.
- Second, our analysis shows developing nations could easily absorb double the extra \$16 billion per year promised in Monterrey for 2006.

And this is a conservative estimate. The \$50 billion in additional aid per year proposed by Chancellor Brown could be put to effective use very quickly.

The prospect of such funding would encourage developing countries to make more rapid reforms. Leaders are more likely to take action if they know that resources are forthcoming on a consistent basis. They will not move if the financing and benefits of reform cannot be assured.

Action on trade is equally important. It is inconsistent to preach the benefits of free trade and then maintain the highest subsidies and barriers for precisely those goods in which poor countries have a comparative advantage. Developing countries also need to help themselves on this point, since they pay substantial tariffs in South-South trade.

Restoring balance to our world will not happen unless there are serious efforts to build greater public understanding about the importance of poverty and inequity. My generation grew up thinking that there were two worlds—the haves and the have-nots—and that they were, for the most part, quite separate. That was wrong then, and is even more wrong now.

The wall that many people imagined to separate the rich countries from the poor came down on September 11 two years ago.

We are linked in so many ways: not only by trade and finance, but by migration, environment, disease, drugs, crime, conflict and—yes—terrorism. We are linked – rich and poor alike -- by a shared desire to leave a better world to our children. And by the realization that if we fail in our part of the planet, the rest becomes vulnerable. That is the true meaning of globalization.

We know elections are won and lost on local issues. But it is global issues—and especially poverty—that will shape the world our children live in. Leaders must make the case for development. It *is* a domestic as well as an international issue.

Learning about other countries and cultures — and respecting their values and aspirations — is imperative. We need to teach our children about the rest of the world. The young people I met in Paris live as global citizens. They have a grounding in their own cultures, but they respect others.

So do the young people of Dubai. Last Sunday, the Bank convened a conference at the Women's College here. We connected by videoconference to young women students in Afghanistan, Ethiopia, Jordan, Turkey, Uganda, the United States, and Yemen. We asked them which issues they would like to discuss. They said education of girls; respect for different cultures and religions; stereotypes; dreams; gender equity; ethics; art; and unity through diversity.

This was the view of young women students right here. They are global citizens. And Dubai can be very proud of them—as I am.

We can feel encouraged that a global poll conducted earlier this year indicated that many people around the world see the connection between poverty and stability. In some cases, they see it more clearly than their leaders.

Mr. Chairman: I have suggested how nations can rise to their responsibilities. So too must development institutions.

Together -- working with governments, civil society, and the private sector -- we have supported the developing countries in their achievements over the last 40 years: increasing life expectancy by 20 years and reducing illiteracy by half. But now, with just 12 short years left to reach the Millennium Goals, multilateral and bilateral organizations must raise their game.

That means moving away from single projects—we call them “feel good” projects—and going for results on scale—in 50 or 500 villages. Or 5000.

Speaking for the Bank Group, we are taking a hard look at how we can do better—how successful programs can be scaled up.

We now have more than 2500 staff in the field—to be closer to our clients. We are speeding up project preparation time. Success rates in the projects we support have risen-- from 71 percent in 1995 to 85 percent last year. Policy performance and good governance are now priorities in our country dialogues.

We are driving hard on AIDS, education, and water, and expanding our efforts in basic infrastructure. Working with the IMF and our HIPC partners, we are providing some \$52 billion in debt relief to 27 low-income countries. And we continue to respond to the needs of middle-income countries, where many of the world’s poor people live.

We are leveraging technology, with over 100 of our offices connected through satellite. We do 1500 video conferences every month and reach more than 60 countries every day. The Development Gateway has about 100 partners helping to build capacity and provide an information base for the development community.

We are introducing a new “client card” which gives policymakers and team leaders the same Web-based information we use to manage projects, provide financial information, and

research on a confidential basis. It is a powerful tool for implementation and, above all, transparency.

Our other members of the Bank Group family also are making progress:

- IFC is encouraging private sector investment in small and medium enterprises – including in Africa -- and introducing new approaches like carbon emissions trading.
- MIGA has continued to increase its focus on low-income countries – last year over half of its guarantees were in IDA-eligible nations.

In the poll I mentioned earlier, people said they see the Bank as more client-oriented, effective, and relevant. But they warned us to continue our efforts to be less bureaucratic, more flexible—and deliver more results. We take this feedback seriously.

Next spring, we will be co-sponsoring, together with the Chinese government, a conference in Shanghai on how to enhance poverty reduction efforts. How to take successful programs and scale them up; how to enable poor people to be the central force for change and not an object of charity; how to manage programs over time for results that truly make a difference. I hope many of you will join us in Shanghai.

Taking our efforts to the next level is the challenge for the international community. It is the challenge for the Bank—and our world-class team is determined to do it.

A Time for Action

Mr. Chairman: It is time to take a cold, hard look at the future. Our planet is not balanced. Too few control too much, and too many have too little to hope for. Too much turmoil, too many wars. Too much suffering.

The demographics of the future speak to a growing imbalance of people, resources, and the environment. If we act together now, we can change the world for the better. If we do not, we shall leave greater and more intractable problems for our children.

We must rebalance our world to give everyone the chance for life that is secure--with a right to expression. Equal rights for women. Rights for the disabled and disadvantaged. The right to a clean environment. The right to learn. The right to development.

These are not exotic objectives. All of us want the same, rich and poor alike. There is no better time than now to join in a common effort to make a better world.

You are the global leaders to make it happen. Delay is reckless. This is a time for courage and action—for a new vision of the future.

Mr. Chairman: I do not speak as a dreamer or a philosopher. Like all of you, I too have a family and worry about their future. We have the resources to make a difference. We know

how to make a difference. We have the courage to make a difference. We must now act to make a difference.

We all share one planet. It is time to restore balance to the way we use it. Let us move forward to fight poverty, to establish equity, and assure peace for the next generation.

Let us respond to the youth from Paris and the students in Dubai. That they can trust us and that we will act today—here—in Dubai .

Thank you.