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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

Annual Meetings Speech
James D. Wolfensohn
September 28
COALITIONS FOR CHANGE

I am very pleased to welcome you to these Annual Meetings of the World Bank Group and the IMF

I would like to express my appreciation to the Chairman Mahesh Acharya, whose work in Nepal shows a deep understanding of many of the issues I wish to address today. And to my colleague and friend Michel Camdessus. We work ever more closely together and I salute the remarkable team he leads.

Mr. Chairman, I have had the privilege of addressing you on four previous occasions.

In 1995, I spoke of the challenge of development, of the need to educate girls and address the burden of debt. I saw the need for the Bank to reorganize within and to embrace partnerships outside with a wholly new vigor; partnerships with other official aid and development institutions, with civil society, the private sector; to listen to and work more closely with the governments and people of the countries we serve.

In 1996, I emphasized our role as a Knowledge Bank. I spoke, too, of the “cancer of corruption”. The Bank committed itself to join concerned governments to fight corruption wherever we found it. And since that time we have been pushing ahead vigorously with that agenda.

Later in the year, with our partners in the IMF, we articulated our approach to debt forgiveness for the poorest countries. The HIPC initiative has made a real difference and at these meetings following the changes suggested at the Cologne Summit, further progress has been made.

In 1997, I spoke of “The Challenge of Inclusion”, of the need to think of development in human terms and to bring the weakest and the most vulnerable from the margins of society to the center stage.

A year ago, with the Asian financial crisis dominating our concerns, I spoke of “The Other Crisis”, the human crisis of those condemned to poverty as well as those who had found hope and seen it roughly snatched away. I spoke of the special role of our institution in dealing with the impact of the crisis on people and of the urgent need to look beyond financial solutions, to take the social and the structural together with the macroeconomic.

Mr. Chairman, today as we meet one year later it is tempting to take comfort in thoughts of a financial crisis passed – though for millions that other crisis still lives.

It is tempting to put off the needed reforms – though for millions those reforms still matter. It is tempting to talk of safe passage – though for millions of poor and unemployed there is still no sight of harbor.

We meet today on the threshold of a new millennium. We must take stock and ask ourselves some fundamental questions. Will we seize the moment to raise our sights for a better world? Will we begin to judge our efforts not by the prosperity of the few but by the needs of the many? Will we be prepared to hold ourselves accountable, to make the effort necessary to bring about change?

For what is the millennial world we see?

A world where over the last 40 years life expectancy has risen more than in the past 4,000 years. A world where the communications revolution holds out the promise of universal access to knowledge. A world where democratic culture has opened up opportunities for many. A world where 5.7 billion people live in a market economy compared with 2.9 billion only 20 years ago.

But look more closely and we see something else.

Per capita incomes which will stagnate or decline this year in all regions except East and South Asia. In the developing world, with the exception of China, 100 million more people living in poverty today than a decade ago. In at least 10 countries in Africa, the scourge of AIDS has reduced life expectancy by 17 years. We have more than 33 million cases of AIDS in the world of which 22 million are in Africa. 1.5 billion people still lacking access to safe water and 2.4 million children who die each year of waterborne diseases. 125 million children still not in primary school. 1.8 million people who die annually of indoor air pollution. A world where the information gap is widening. And the forests are being destroyed at the rate of an acre a second.

Mr. Chairman the picture is mixed and the challenges are great. But, this is a moment in history when we can set a new course to a world of greater peace, equity and security. It is a time not just for review, but for action.

Mr. Chairman, last year my colleagues and I decided that in order to map our own course for the future, we needed to know more about our clients as individuals. We launched a study entitled “Voices of the Poor” and spoke to them about their hopes, their aspirations, their realities. Teams from the Bank and from NGOs have gathered the voices of 60,000 men and women in 60 countries. Let me share with you our findings.

Poverty is much more than a matter of income alone. The poor seek a sense of wellbeing which is peace of mind; it is good health, community and safety. It is choice and freedom as well as a steady source of income.

Wellbeing is having the chance to grasp new economic opportunities; something the poor feel much less able to do than a decade ago.

Wellbeing is personal security. More women are working outside the household now, trying to make ends meet. But gender inequity at home persists, and domestic violence is on the rise.

And corruption is a daily fact of life as the poor try to access public services and make a living.

What is it Mr. Chairman that the poor reply when asked what might make the greatest difference to their lives? They say, organizations of their own so that they may negotiate with government, with traders and with NGOs. Direct assistance through community driven programs so they may shape their own destinies. Local ownership of funds, so that they may put a stop to corruption. They want NGOs and governments to be accountable to them.

Let me share with you their world in their own words.

An old woman in Africa :*"A better life for me is to be healthy, peaceful and to live in love without hunger."*

A middle-aged man in Eastern Europe: *"To be well is to know what will happen to me tomorrow."*

A young man in the Middle East: *"Nobody is able to communicate our problems. Who represents us? Nobody."*

A woman in Latin America: *"I do not know whom to trust, the police or the criminals. Our public safety is ourselves. We work and hide indoors."*

These are strong voices, voices of dignity. Many represent a new generation seeking control of their lives. These people are assets, not objects of charity. They can build their future if given opportunity and hope. They are talking about security, a better life for their children, peace, family, and freedom from anxiety and fear.

As we sit comfortably here in Washington we must hear their aspirations. For they are no different from our own.

No, the crisis is not over, Mr. Chairman. The challenge has barely begun. Next month our global population will reach 6 billion. On current trends we will not meet the

International Development Goal of halving poverty by 2015, nor the goal of universal primary education by 2015. On current trends, we will not meet the International Development Goal of reversing the current loss of environmental resources both nationally and globally by that date. In 25 years time that 6 billion people on our planet will grow to 8 billion. Of the 6 billion today, 3 billion live under \$2 a day and 1.3 billion live under \$1 a day. I am concerned that these extraordinary statistics may rise to 4 billion and 1.8 billion respectively. This is not a legacy to leave our children.

The number of conflicts seems likely to be higher, the quality of our environment will be worse, the disparities between rich and poor will be wider.

The voices of the poor will be louder; but will they be heard?

Mr. Chairman what have we learned about development? We have learned that development is possible but not inevitable. That growth is necessary but not sufficient to ensure poverty reduction.

We have learned that we must put poverty front and center. We have learned that we must take the social and the structural hand in hand with the macroeconomic and the financial.

We have learned, Mr. Chairman, that for development to be real and effective, we need local ownership and local participation. Gone are the days when development can be done behind closed doors in Washington or Western capitals or any capital for that matter.

At a recent meeting in Stockholm to assess progress on the Comprehensive Development Framework, President Mkapa of Tanzania said: *"Ownership of development policies and programs is not only an understandably nationalist yearning, an inherent and sovereign right, but it also creates the most fervent disposition and conditions for hard work and for self development, both at the national and the local level."*

"Our people must be encouraged and facilitated ", he said "to be owners of their development: not just beneficiaries, but doers of development."

We must heed this call as we plan our development agendas in the years ahead. But we must go further. We must recognize our own role in helping not hindering those doers of development by better coordinating our own activities. It is shameful that Tanzania must produce 2,400 reports each quarter for its donors. It is shameful that Tanzania must suffer 1,000 missions from donors a year. And Tanzania is by no means alone.

So how do we proceed? Mr. Chairman, it was in recognition of the need to better co-ordinate our efforts, to recognize the holistic nature of development, and to put the

country firmly in the driver's seat, that we launched the Comprehensive Development Framework this year.

Our aim was simple: to bring the social and the structural aspects of development together with the macroeconomic and the financial so as to establish a much more balanced and effective approach. To bring the players together so as to leverage all our activities. To work with the broad development community – the United Nations, the European Union, bilaterals, regional development banks, civil society and the private sector to build a new generation of genuine partnerships.

What are the results so far? Together with our partners, the CDF is now being piloted in 13 countries. We are learning to co-operate and co-ordinate our work better at the local level.

After discussions with many ministers, I believe that the approach of the CDF is now widely supported. Not as a blueprint, Mr. Chairman, but a process through which we pursue long-term, results-driven development with the country in the driver's seat and in partnership with the broad development community.

Very shortly the Development Assistance Committee will report on its review of bilateral and multilateral initiatives along similar lines to the CDF. It will conclude that the need for partnership and more coordinated efforts is widely recognized and accepted.

I am delighted, too, that we have reached an historic agreement with the International Monetary Fund to have a common Poverty Reduction Strategy developed with our client governments. We will take a balanced approach linking macroeconomic and financial parameters with the human, structural and social aspects, in one document that will guide the programs of each institution.

But, Mr. Chairman, in the course of the last 12 months, I believe we have also learned something else. We have learned that the causes of financial crises and poverty are one and the same. Countries may come up with sound fiscal and monetary policy, but if they do not have good governance, if they do not confront the issue of corruption, if they do not have a complete legal system which protects human rights, property rights and contracts, which gives a framework for bankruptcy laws and a predictable tax system; if they do not have an open and regulated financial system and appropriate regulation and behavior that is transparent, their development is fundamentally flawed and will not last.

What use the lawbook if the judges are corrupt, if the poorest and most vulnerable expect only brutality from police?

What use constitutional protection if women face discrimination in the marketplace and violence at home?

What use the foreign investor, if there are no accounting standards and requirements for transparency, no contract laws and no predictable and fair tax system?

What use the privatization if there are no social safety nets to deal with unemployment nor rules to protect the public from private monopoly?

Holes in institutional development and governance and lack of adequate and fairly paid staff gnaw destructively at policymaking, service delivery, and accountability.

Mr. Chairman, we have learned both from our general experience and from our pilot CDF programs that strengthening the organization, human capacity and structure of the state, both at central and local levels, is the first priority in our challenge to reduce poverty. That when we sequence the steps of the CDF we must give the greatest emphasis first to strengthening governance and to capacity building in government and civil society.

That decision is confirmed by a recent UNDP survey of 150 resident coordinators, over half gave top priority to the need to strengthen governance and build capacity. It is supported by a recent survey of over 3,600 private firms in 69 countries which identified the need for strong institutions and rulemaking. It is supported by our own consultations with the poor who repeated the same cries over and over: too much corruption, too much violence, too much powerlessness and weakness. They long for a system that gives them equity and voice. And if they cannot have this through the ballot box or through government, they want it through informal organization outside government.

What would it really take to move from powerlessness to a democratic culture? What would it take to move from weakness to capacity for action? What would it take to move from violence to peace and equity?

First and foremost it will take real commitment from the leadership of each country – both elected leaders and those with financial power and influence.

It will take a willingness to reform systems of government, regulations and institutions; it will take a strong support for building capacity. It will take having police forces that are no longer seen as agents of oppression rather than protection and security. It will take strong local institutions to bring government closer to the poor. It will take empowering local people to design and implement their own programs because far less is lost in corruption when a community manages its own resources.

Whether you look at it at the government or the community level, whether you look through the prism of financial crisis, or human need, whether you speak to investors, bankers or the dispossessed, governance and capacity are key. With poverty reduction front and center of our agenda, our work at the rockface must be governance, institutions, and capacity building.

Studies are already showing what we surely knew intuitively. That good governance is associated with higher GNP per capita, higher adult literacy and lower infant mortality. That bad governance –lack of accountability and transparency, corruption and crime – is the number one impediment to development and poverty reduction. Weak governance threatens to undermine HIPC – which will only work if the resources that are freed are purposefully used for poverty reduction. With weak governance there will be no progress in education, health, water, energy or rural and urban development. Weak governance threatens to marginalize countries and whole peoples from the economic mainstream. And it will keep them on the margins. For if lending is only effective in countries with sound policies and sound institutions, who will lend to the poor performers?

At the Bank, we propose to give great emphasis in the years ahead, to the question of working with governments to strengthen structure and governance.

Do we have all the answers? No. Do we have all the expertise? Certainly not. We can only have success in partnership with others in the development community, including civil society and the private sector. Within the next few months we will join with UNDP, which has special skills and experience in this area, and with others to look at what each of us is doing on governance and capacity building. We will assess the strengths and experience that each of us brings and determine how we might all go forward together.

Mr. Chairman, such an agenda requires that we focus on the interrelatedness of the systems that work and that make societies function effectively. It requires that we focus on sound public governance systems with checks and balances and that governments take up the fight against corruption.

It requires building legal and judicial systems that protect the rights of citizens and their endeavors, going beyond big-ticket governments and business deals. Corruption is a core poverty issue, robbing from the poor the little they have. We must focus on financial and banking systems that inspire equal confidence in the global investor and the peasant farmer with small savings, especially women. We must have modern corporate procedures including accounting, audit and disclosure policies at the highest level. We must focus on micro-credit schemes and finance for small and medium enterprises that work in both times of crisis and in ordinary times.

We must train well organized and motivated civil servants and civic leaders who see the purpose of their jobs in delivery to the communities they serve. And, Mr. Chairman, we must remember that this training rests in turn on effective teaching and learning. We must concentrate on building strong local official and civil society institutions that inspire trust. For there can be no doubt that the local level is the real key to effective poverty reduction.

It takes more than changing formal rules to build these institutions. It means changing the informal rules and norms, it means building people, building values, building skills and incentives that can support peoples committed to change.

There is a new model emerging in Africa, the Partnership for Capacity Building. It has taken two years to move from concept to action. It is African-led and will be implemented by Africans. It involves the direct support and collaboration of the Bank, the IMF, UNDP and the African Development Bank and it is rooted in partnership with the private sector and civil society. We have pledged \$150 million to a supporting fund. We will all join with our African colleagues to support them in a coordinated and urgent effort to achieve their objectives.

But we must remember President Mkapa's enjoinder. We must create doers of development. Too many capacity building efforts have floundered in the past because they have not been rooted in local ownership.

Mr. Chairman, I have spoken at length about the complexity of reaching our goals at the country level. But we know that nations are dependent on one another. We know that nations are no longer the sole masters of their destinies. We need global rules and global behavior. We need a new international development architecture to parallel the new global financial architecture.

What might such an international development architecture look like?

First it would be a coalition built on the cooperation of all the players – the United Nations, governments, multilaterals, the private sector and civil society. A coalition between recipients and donors and the citizens of donor countries, a coalition based on results. There must be effective performance in utilizing development assistance – corruption free and reaching the poor. Voters want to see that their assistance make a difference. The goodwill exists – performance is what is needed.

Second, it would be a coalition in which we recognize that, yes, we must break the chains of debt, but we must also have the resources to go much further and break the chains of poverty. The HIPC debt forgiveness which we have announced is the beginning of our challenge not the end.

Third it would be a coalition that recognizes that we must have a trade system that works, with rules and norms that are fair, comprehensive and inclusive. A Development Round for the 21st century.

Fourth, it would be a coalition that recognizes that environment knows no borders. We need to implement international agreements on Climate Change, Desertification and Biological Diversity just like we did with Ozone depletion. We must move to action on these global conventions. We must ensure that the Global Environment Facility is fully funded to do its work.

Fifth, it would be a coalition that recognizes the power of modern research to democratize health – to harness new vaccines to eradicate AIDS, Malaria, TB and Polio.

Sixth, it would be a coalition to make the information revolution truly universal – to bridge the growing knowledge gap, to connect all developing and transitional economies to the world and to each other, to be a real vehicle for sharing and learning via satellite, email, the Internet. For there is no doubt that the technological revolution will have an enormous impact on the substance of development.

Mr. Chairman, globalization, can be more than the unleashed forces of the global market. It can also be the unleashing of our combined effort and expertise to reach global solutions.

We need to build coalitions for change. Coalitions with the private sector which will bring investment, create jobs, promote the transfer of technology and skills and foster social responsibility.

Coalitions with civil society and communities to mobilize the kind of grass roots support we have seen behind the debt campaign – and to extend it to health, to education for all, to participation and to poverty reduction.

Coalitions with governments to assist them in taking charge of their own development agendas with the participation of their citizens. Coalitions with each other to put an end to the turf battles, the wastage and the duplication.

Coalitions with the religions, with trade unions and with foundations to benefit our common work. Coalitions of commitment to the seven United Nations pledges on sustainable development, gender, education, infant, child and maternal mortality, and reproductive health.

I pledge to you our intention to work with all our partners to help build those coalitions for change so that when we meet next year in Prague, we will have begun to put in place that new development architecture.

Mr. Chairman, I have outlined a complex agenda. Is the Bank gearing up to meet this challenge. I believe unequivocally, yes. On governance we are already spending over \$5 billion a year – working on civil service reform, budget management, tax administration, decentralization, legal reform, judicial reform, and institution building.

We are working with over 2 dozen countries on anticorruption programs. We help to train judges, we run public national workshops which bring corruption into the bright glare of sunlight. We even train investigative journalists – conscious that a free and professional press is a society's voice.

On knowledge, we have made dramatic progress over the last 4 years. Our Knowledge Bank brings us closer together through distance learning using satellite connectivity. And it takes knowledge to far-away places by closing the information infrastructure gap, reaching students through the African Virtual University and through our WorldLinks program connecting school children in the industrialized world with their brothers and sisters in the developing world.

We have a major project to clear slums with programs built on the efforts of the inhabitants with whom we work by introducing land titles and self-sustaining projects for infrastructure. With World Wildlife Fund we have built a powerful alliance to save our forests; with the private sector, the United Nations and foundations we are building a Global Alliance for Vaccines and Immunization, and an AIDS Vaccine Task Force, a malaria initiative. With over 140 different partners we have already wrestled River Blindness into submission. This stands as a marvelous example of what we can do together. And we are working with local communities building partnerships from the bottom up – through local democratic institutions as in India. We have learned that the best and most effective projects we have are those that are locally based and close to our real clients, people in poverty in rural and urban communities. We have learned that local ownership and involvement must be central to our architecture.

Is the Bank up to the challenge? I believe we have 10,000 extraordinarily gifted and committed staff in the Bank, IFC and MIGA. It has been a tough year and I want to thank them and their families for the contributions they have made.

Mr. Chairman, we stand on the threshold of a new millennium. So much that could be possible is within our grasp.

Will we have the courage and the leadership to reach out and grasp it? Will we finally recognize that we live in one world? Look around. We are linked by financial systems, we are linked by communications; we are linked by environment, we are linked by trade. Migration knows no borders, crime knows no borders, drugs, war and peace know no borders.

Only national budgets Mr. Chairman stop short at frontiers. Only national elections pay little heed to that larger world.

We need leadership to explain to our peoples that our national interests are international. We cannot avoid the growth of our global population in the next 30 years to 8 billion people – nor the growth in trade – nor the growth in poverty.

From this understanding, we must reaffirm our commitment to development – a real commitment to each other – a real commitment to act on the generous statements made by so many of the leaders of industrialized countries towards the developing countries. We must find the commitment to meet the recommended level of 0.7 percent of GNP in Overseas Development Assistance. And leaders of developing and transition

economies must reaffirm their commitments to carry out their promises for good governance, equality and growth.

These commitments, Mr. Chairman, need a human and moral aspect as well. There needs to be a passionate rededication to each other as we enter the next century. All of us have to assume a responsibility for global equity which is the only assurance of peace. How can one not be moved by the comments of the poor to which I referred earlier.

A father from Eastern Europe: *“Poverty is humiliation, the sense of being dependent on them, and of being forced to accept rudeness, insults and indifference when we seek help.”*

And the voice of Bashiranbibi from South Asia: *“At first I was afraid of everyone and everything: my husband, the village, the police. Today I fear no-one. I have my own bank account. I am the leader of my village’s savings group. I tell my sisters about our movement. “*

Mr. Chairman, we must look forward, we must commit ourselves to bring about the day when the poor of the world, the aged, the street children, the disabled, the rural workers, the slum dwellers, will all be able to cry out “Today I fear no-one. Today I fear no-one.”