OPENING ADDRESS BY THE PRESIDENT OF THE WORLD BANK GROUP[1]

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The Other Crisis

This is the fourth time I stand before you as President of the World Bank Group. At the outset I would like to express my appreciation to our Chairman, Wolfgang Ruttenstorfer, and to my colleague and friend, Michel Camdessus for the partnership that we have enjoyed during the past year. I would also like to pay tribute to the work that the Fund has done in a year that has been characterized by great turmoil and acknowledge the contribution that Michel and his colleagues have made dealing with very difficult problems at a very difficult time. We all recognize that we meet under the shadow of a global crisis. We come here in a united endeavor to protect the common welfare, to listen to ideas from all quarters, to reach out to friends and critics alike to find new solutions. We must embrace the bold.

Mr. Chairman, I stand before you today under very different circumstances from last year. Twelve months ago, we were reporting global output that grew by 5.6 percent—the highest rate in 20 years. Twelve months ago, East Asia was stumbling, but no one was predicting the degree of the fall. Twelve months ago, South Asia, home to 35 percent of the world's poor, was still nuclear test free and seemed set to enjoy future years of 6 percent growth, perhaps more. Twelve months ago, developing countries as a whole were on a path toward strong growth over the next decade. Twelve months ago there was optimism about Russia with its strong reformist team.

And then came a year of turmoil and travail: East Asia, where estimates suggest that more than 20 million people fell back into poverty last year, and where, at best, growth is likely to be halting and hesitant for several years to come; Russia, beset by economic and political crisis—caught between two worlds, two systems, comfortable with neither; Japan, the world's second largest economy, so crucial to East Asian recovery, with a government committed to economic reform, and yet still in recession, with a profound impact not just in Asia but around the world; nuclear tests in India and Pakistan; war threatened in Eritrea and Ethiopia; and terrorist bombs in Kenya and Tanzania. And all this compounded by the impact of

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El Niño—the worst in history—with its full devastating force falling most heavily on the poor: in Bangladesh, floods that kept two-thirds of the nation under water for more than two months, setting back many of the recent social and economic gains; and in China, flooding of the Yangtze River region with an estimated 3,500 deaths, 5 million homes destroyed, and 200 million lives dislocated.

I have spoken in the past about images of hope—of people from the slums of Brazil to the rural villages of Uganda, from the Loess plateau in China to the hundreds of thousands of women who are finding their dignity through microcredit. People empowered to take charge of their destinies. But today I have other memories. Dark, searing images of desperation, hopelessness, and decline—of people who once had hope, but have it no more: the mother in Mindanao, pulling her child out of school, haunted by the fear that he will never return; the family in Korea, with a midsize scrap metal business, made destitute through lack of credit; the father in Jakarta, paying a moneylender three times in interest what he can make that day, falling deeper and deeper into debt—not knowing how he will ever work himself free; and the child in Bangkok, now condemned to work the streets, a child no longer. Today, while we talk of financial crisis, 17 million Indonesians have fallen back into poverty, and across the region a million children will now not return to school.

Today while we talk of financial crisis, an estimated 40 percent of the Russian population now lives in poverty. Today while we talk of financial crisis—across the world, 1.3 billion people live on less than $1 a day; 3 billion live on less than $2 a day; 1.3 billion have no access to clean water; 3 billion have no access to sanitation; 2 billion have no access to power. We talk of financial crisis while in Jakarta, in Moscow, in sub-Saharan Africa, in the slums of India, and the barrios of Latin America, the human pain of poverty is all around us.

Mr. Chairman, we must address this human pain. We must go beyond financial stabilization. We must address the issues of long-term equitable growth on which prosperity and human progress depend. We must focus on the institutional and structural changes needed for recovery and sustainable development. We must focus on the social issues. We must do all this, because if we do not have the capacity to deal with social emergencies, if we do not have longer-term plans for solid institutions, if we do not have greater equity and social justice, there will be no political stability—and without political stability, no amount of money put together in financial packages will give us financial stability.

And so in response to the current crisis, we at the Bank have been focusing on putting in place the short- and long-term measures for sustained recovery. Working with governments on financial, judicial, and regulatory reform, on bankruptcy laws, anticorruption programs, and corporate governance—so essential to the restoration of private sector confidence. Be-

fore the crisis hit, we had already worked on financial sector reform in 68 countries. At the request of our shareholders, we have now expanded that capacity by one-third, and we are reinforcing our leadership in corporate governance.

On the social side, we have been restructuring our existing portfolios to ensure a sharp focus on priority programs that can reach poor communities quickly: working to keep children in school, for example, in Indonesia, where we support a program to provide scholarships for 2½ million children; creating jobs, for example, in Thailand, through a new social fund; putting in place frameworks for social protection, for example, in Korea, through a series of structural adjustment loans. Throughout the region, we have been trying to maintain food supplies, trying to make sure vital medicines reach the sick, trying to ensure that health and education programs continue, and that the environment does not suffer—trying to put people first.

We have learned that, while the establishment of appropriate macroeconomic plans with effective fiscal and monetary policies are essential in every respect, financial plans alone are not sufficient. We have learned that when we ask governments to take the painful steps to put their economies in order, we can create enormous tension. It is people not governments that feel pain. When we redress budget imbalances, we must recognize that programs to keep children in school may be lost, that programs to ensure health care for the poorest may be lost, that small and medium enterprises, which provide income to their owners and employment to many, may be starved of credit and fail. We have learned that there is a need for balance. We must consider the financial, the institutional, and the social, together. We must learn to have a debate where mathematics will not dominate humanity, where the need for often drastic change can be balanced with protecting the interests of the poor. Only then will we arrive at solutions that are sustainable. Only then will we bring the international financial community and local citizens with us.

There has been much talk leading up to and within these meetings of a new global financial architecture. That talk reflects a growing sentiment that there is something wrong with a system in which even countries that have pursued strong economic policies over a period of years are battered by international financial markets, where workers within those countries will be thrown out of work, where their children's education will be interrupted, their hopes and dreams destroyed. I believe that in the more than half-century that has elapsed since the creation of the new economic architecture in the aftermath of World War II, our international economic institutions have served us well. No, they have not solved all our problems. But we are far better off with them than we would have been without them. While poverty has not been eradicated, incomes have been raised. The Green Revolution has brought food to millions who might otherwise have starved. Some scourges, like river blindness, have been almost eradicated,

and we have made progress against many others. We have gone for more than a half-century without a major global crisis. The system withstood large shocks, such as the huge increase in oil prices. And in that half-century, the institutions have evolved with the global economy. But we cannot pretend that all is well. We cannot close our eyes to the fact that the crisis has exposed weaknesses and vulnerabilities that we must address. We must be bold, but we must also be realistic. We will not devise a new architecture in two days, or even two weeks. But neither can we afford a lost decade like the one that afflicted Latin America in the aftermath of its crisis in the early 1980s. Too much is at stake, too many people's lives. What we can do here and now is this: we can identify what needs to be done. We can recognize the problems. We can clarify our objectives. We can work to reach a consensus. The problems are too big, their consequences too important, to be guided by the pat answers of the past or the fads or ideologies of the day. We must make a collective commitment to join together to build something better. Let me suggest a three-pillared approach.

The first pillar must be prevention: we must understand the causes of the crises and work to create economic structures that make them less frequent and less severe. The second pillar must be response: no matter how successful we are in the first task, there will be crises. We need to devise more effective ways of responding to the crises, ways that entail a better sharing of the burden, ways that do not entail such pain on workers, small businesses, and other innocent victims. The third pillar must be safety nets: no matter how successful we are in devising fair and efficient responses—and it is clear that we have a long way to go—there will be innocent victims. Unemployment rates will rise. We must do a much better job of ensuring that these innocent victims are protected.

At the request of finance ministers, we have been working to increase collaboration between the Bank and the Fund. Ministers asked us to review our division of labor, and we have done that in a spirit of true partnership. Our roles are clearly different. The Fund's mandate covers surveillance, exchange rate matters, balance of payments, growth-oriented stabilization policies, and their related instruments. The Bank has a mandate for the composition and appropriateness of development programs and priorities, including structural and sectoral policies—and therefore, by building a sound basis for development, a responsibility for crisis prevention.

At this moment of crisis, with private sector funds withdrawing from emerging markets, IMF resources strained, and little direct support from more wealthy nations, we recognize the obligation to be a countercyclical lender, committed to help where it is needed, not just in the crisis countries but for our many clients who are excellent performers—but who are caught short in the current squeeze for funds in the global markets. Yes, we must help them so that they do not become crisis countries. Yes, we must come in quickly in crisis countries to make sure that social, institutional, and policy

reform can take immediate root and are integral parts of the overall program—that the responses to the crisis enhance long-term recovery. Yes, we must come in quickly with emergency social assistance. But ours is a different role from that of the Fund. We can be an emergency lender, but we cannot be a liquidity lender. Given our financial structure, and the need to stay within our prudent lending limits, there are trade-offs that we cannot ignore.

If we are to lend more up front, there will be less to lend for our long-term development mission, less for the IDA, less for the HIPC Initiative, as well as less for the poor in the crisis countries. New demands made on us will require a very careful assessment of possible needs for new resources. Today, backed by our existing capital and resources and substantial uncalled capital, we are in a very strong position, but as we move forward, we must be careful not to find ourselves constrained by capital. We must also remember that we cannot be distracted from the urgent need to ensure that we have full funding for the poorest countries through the twelfth replenishment of IDA and the HIPC Initiative. That must be a priority in the weeks and months ahead.

When we look at the pace and the depth of global change over the past 12 months, we, like all of you in this room, are concerned about what are the lessons we should learn from these experiences. We, like all of you, are asking, what can we do differently in the future to try to avoid these shifts in the economic and sociopolitical landscape? What is it that we have observed?

We see that, in today's global economy, countries can invest in education and health, can put macroeconomic fundamentals in place, can build modern communications and infrastructure—can do all this—but, if they do not have an effective financial system, adequate regulatory supervision, adequate bankruptcy laws, effective competition and regulatory laws, or transparency and accounting standards, their development is endangered and will not last.

We see that in today's global economy, countries can move toward a market economy, can privatize, can break up state monopolies, can reduce state subsidies, but if they do not fight corruption and put in place good governance, introduce social safety nets, have the social and political consensus for reform, or bring their people with them, their development is endangered and will not last.

We see that in today's global economy, countries can attract private capital, can build a banking and financial system, can deliver growth, can invest in people—some of their people—but if they marginalize the poor, if they marginalize women and indigenous minorities, if they do not have a policy of inclusion, their development is endangered and will not last. We see that in a global economy, it is the totality of change in a country that matters.

Development is not just about adjustment. Development is not just about sound budgets and fiscal management. Development is not just about education and health. Development is not just about technocratic

fixes. Development is about getting the macroeconomics right—yes—but it is also about building the roads, empowering the people, writing the laws, recognizing the women, eliminating the corruption, educating the girls, building the banking systems, protecting the environment, and inoculating the children. Development is about putting all the component parts in place—together and in harmony.

The need for balanced development is true for East Asia and Russia. It is true for Africa. It is true for Latin America, for the Middle East, for the transition economies of Central and Eastern Europe and Eurasia. It is true for us all. The notion that development involves a totality of effort—a balanced economic and social program—is not revolutionary, but the fact remains that it is not the approach that we in the international community have been taking.

While we have had some extraordinary success over the many years with individual programs and projects, too often we have not related them to the whole. Too often we have been too narrow in our conception of the economic transformations that are required—while focusing on macroeconomic numbers, or on major reforms like privatization, we have ignored the basic institutional infrastructure, without which a market economy simply cannot function. Rather than incentives for wealth creation, there can be misplaced incentives for asset stripping.

Too often we have focused too much on the economics, without a sufficient understanding of the social, political, environmental, and cultural aspects of society. We have not thought adequately about the overall structure that is required in a country to allow it to develop in an integrated fashion into the type of economy that is chosen by its people and its leadership. We have not thought sufficiently about the vulnerabilities—those parts of an economy that can bring all the building blocks tumbling down—or about sustainability—what it takes to make social and economic transformation last. Without that, we may build a new international financial architecture, but it will be a house built on sand.

Let me suggest a concept that may help us address some of these concerns. The IMF has an overall framework that it reviews annually with its client countries—a framework that finance ministers, all of us, use to evaluate the macroeconomic performance of each country.

Today, in the wake of crisis, we need a second framework, one that deals with the progress in structural reforms necessary for long-term growth, one that includes human and social accounting, that deals with the environment, that deals with the status of women, rural development, indigenous people, progress in infrastructure, and so on. So, in our discussions at the Bank, we have developed and are experimenting with a new approach—one that is not imposed by us on our clients but developed by them with our help—an approach that would move us "beyond projects," to think instead much more rigorously about what is required for sustainable development in its broadest sense.

We need a new development framework. What might countries look for in such a development framework? First, the framework would outline the essentials of good governance—transparency, voice, the free flow of information, a commitment to fight corruption, and a well-trained, properly remunerated civil service.

Second, it would specify the regulatory and institutional fundamentals essential to a workable market economy—a legal and tax system that guards against caprice, secures property rights, and ensures that contracts are enforced, that there is effective competition and orderly and efficient processes for resolving judicial disputes and bankruptcies, a financial system that is modern, transparent, and adequately supervised, with supervision free of favor, and with internationally recognized accountancy and auditing standards for the private sector.

Third, our framework would call for policies that foster inclusion—education for all, especially women and girls; health care; social protection for the unemployed, elderly, and people with disabilities; early childhood development; and mother and child clinics that will teach health care and nurture.

Fourth, our framework would describe the public services and infrastructure necessary for communications and transport: rural and trunk roads; policies for livable cities and growing urban areas so that problems can be addressed with urgency—not in 25 years when they become overwhelming—and alongside an urban strategy, a program for rural development that provides not only agricultural services, but also capacity for marketing, financing, and the transfer of knowledge and experience.

Fifth, our framework would set forth objectives to ensure environmental and human sustainability—so essential to the long-term success of development and the future of our shared planet—water, energy, food, and security, issues that must also be dealt with at the global level. We must ensure that the culture of each country is nurtured and enriched so that development is firmly based and historically grounded—all of these five, of course, within a supportive and effective macroeconomic plan and open trade relations. This may not be a comprehensive list. It will vary from country to country, depending on the views of government, parliamentary assemblies, and civil society, but I would submit that it gets at the essentials.

We must learn from the past—how a framework is developed and applied is as important as the contents of the framework. Ownership matters. Countries and their governments must be in the driving seat, and, in our experience, the people must be consulted and involved. Participation matters—not only as a means of improving development effectiveness, as we know from our recent studies, but as the key to long-term sustainability and leverage. We must never stop reminding ourselves that it is up to the government and its people to decide what their priorities should be. We must never stop reminding ourselves that we cannot and should not impose development by fiat from above—or from abroad.

In our discussions at the Bank we ask each other a simple series of questions. What if it were possible for governments to join together with civil society, with the private sector, to decide on long-term national priorities? What if it were possible for donors to then come in and coordinate their support, with countries in the driver's seat, with local ownership and local participation? What if it were possible for these strategies to look 5, 10, 20 years ahead, so that development could really take root, grow, and be monitored on an ongoing basis? Too ambitious, some will say, too utopian; but what if I told you it is already happening?

In El Salvador today, there is a national peace commission, born of civil war, which together with civil society, the private sector, and the government, is drawing up a list of national priorities, so that those priorities can extend beyond the life of one government and become part of a national consensus for the future. The same thing is happening in Guatemala and is being considered elsewhere in Latin America.

In Ghana last year, the government held a National Economic Forum in Accra, involving policymakers, civic leaders, and large numbers of stakeholders. Out of this forum came proposals for concrete action, targets for reducing inflation, and sectoral policies on agriculture and human development, with goals for macroeconomic policy.

In Andhra Pradesh in India, a state of 70 million people, the Chief Minister has a program for 2020: a program for literacy, for improved access to health care, for livelihood, empowering women, developing backward areas, and creating safety nets—a program with clearly monitorable targets that can be regularly checked.

El Salvador, Guatemala, Ghana, India, and I could have added others where there are elements of this approach—Brazil and Mozambique. These are not countries that have reverted to central planning. These are countries that, together with their stakeholders, are designing road maps for the future—their future—in much the same way as do successful businesses.

Hubris should not allow us to think we at the Bank or in the donor community can be the cartographers, but we can be important catalysts. What I am proposing is that, over the next couple of years, we bring a new perspective in working with interested governments and in drawing up holistic frameworks that sharpen strategic vision. We would like to find two countries in each region of the world that we could work with to test this idea. We will report to you all at the end of that time.

We must work with our partners in the donor community to see how, together with the participant countries, we can develop coordinated strategies, joint missions, and joint objectives, so that we can put an end to the duplication that wastes precious resources and leaves tempers and clients frayed.

Within our institution, we must build on the work we have already begun to move from a project-by-project approach to an approach that looks at the totality of effort necessary for country development, that takes

the long view, and that asks of every project: how does this fit into the bigger picture? How can this be scaled up to cover the country? How can this be rolled out over time—5, 10, 20 years—so that it is not only fully owned by countries and participated in, but becomes sustainable and part of the strategy and fabric of that society's overall development?

In some cases we will go beyond national strategies to regional strategies to better reap the benefits of economies of scale. We must also think of global strategies to achieve global public goods—not only the often-discussed need for a cleaner environment, but also the international economic environment, whose instability is of such concern today—and knowledge which we are increasingly recognizing as a key to successful development. What we are talking about is a new approach to development partnership.

It is a partnership led by governments and parliaments of the countries, influenced by the civil society of those countries, and joined by the domestic and international private sectors, and by bilateral and multilateral donors. It is a partnership that can look at measurable goals with much better marked road maps for development achievement. Critically, it is a partnership where we in the donor community must learn to cooperate with each other, must learn to be better team players capable of letting go. Let me assure you that we in the Bank Group are committed to such a partnership, to putting issues of turf behind us. What matters is not who leads, or who follows, who has their name on a project or who is anonymous. What matters is that we join together to get the job done.

In normal years at this stage in the speech I would give you a progress report on the Bank's achievements. But this is not a normal year. You will be happy to hear that I will not mention the Strategic Compact, nor will I tell you of our achievements or the challenges that still lie ahead. All these issues I discuss regularly with our Executive Directors and I am extremely grateful for their advice, guidance, and hard work. I am also very encouraged by the support that I have received from Ministers for our renewal program and the improvements we are making in development effectiveness, and we will, of course, push ahead with that program. However, it seems inappropriate to talk of housekeeping when the village is burning.

Let me just say two things. First I want to take this occasion to thank World Bank Group staff for the extraordinary work that they have done this year. I am enormously proud of them. There is no better team of dedicated and motivated colleagues in the world today. Second, I want to thank Jannik Lindbaek, Executive Vice President of the International Finance Corporation (IFC) and Akiro Iida, Executive Vice President of the Multilateral Investment Guarantee Agency (MIGA) for their work over the past five years. I am delighted also to welcome Peter Woicke, who shortly takes up the leadership of IFC, and Motomichi Ikawa, who is now leading MIGA.

This year, the headlines have been full of the financial crises. This year, we are asking ourselves how we can prevent the financial crises of

the future. This year, we are focusing on financial architecture, corporate restructuring, and building strong safety nets as part of both crisis prevention and crisis resolution. This year, we are waking up to the fact that we do not have all the answers.

Let us not stop at financial analysis. Let us not stop at financial architecture. Let us not stop at financial sector reforms. Now is our chance to launch a global debate on the architecture—yes—but also on the foundations of development. Now is our chance to show that we can take a broader and more balanced view. Now is our chance to recognize that there is a silent crisis looming on the horizon: a crisis of world population that will add 3 billion more people to the planet over the next 25 years; a crisis of global water that will see 2 billion people suffering from chronic water shortages by 2025; a crisis of urbanization that will mean that urban populations will treble over the next 30 years and that, by the year 2020, two-thirds of Africa's population will live in cities, cities that today have no economic growth; a crisis of food security that will mean that over the next 30 years food production will have to double—a human crisis from which the developed world will not be able to insulate itself; a human crisis that will not be resolved unless we address the fundamental issue of the essential interdependence of the developed and the developing world; a human crisis that will not be met unless we begin to take a holistic approach both to development and to how we respond to crisis, looking at the financial, the social, the political, the institutional, the cultural, and the environmental aspects of society, together.

The poor cannot wait on our deliberations. The poor cannot wait while we debate new architecture. The poor cannot wait until we wake up—too late—to the fact that the human crisis affects us all. The child on the streets of Bangkok needs to go back to school. The mother in the slums of Calcutta needs to survive through childbirth. The father in the village in Mali needs to be able to see beyond today. As markets tumble and the poverty numbers soar, all of us in this room have a shared responsibility and a shared interest in promoting prosperity, in developing and emerging markets. As markets tumble and the poverty numbers soar, all of us in this room have a shared responsibility to put in place policies that can help these countries work their way out of crisis.

In the end, we succeed or we suffer together. We owe it to our children to recognize now that their world is one world linked by communications and trade, linked by markets, linked by finance, linked by environment and shared resources, and linked by common aspirations. If we act now with realism and with foresight, if we show courage, if we think globally and allocate our resources accordingly, we can give our children a more peaceful and equitable world—one where poverty and suffering will be reduced, where children everywhere will have a sense of hope.

This is not just a dream—this is our responsibility.