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President of the World Bank Group

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HAVING now served as President of the World Bank Group for 100 days, I wanted to share my initial impressions and ideas for strategic directions.

I greatly appreciate the encouragement and support I have received from many quarters. I sense that people around the world—in developing and developed countries—recognize both the need for and potential of this unique creation. The World Bank Group is one of the great multilateral institutions established after World War II. Sixty years later, it must adapt to vastly different circumstances in a new era of globalization.

The staff of the World Bank Group has helped me learn, shown me our vital work in the field, and offered fresh ideas as we set a course for the future. The Board is offering experienced guidance as we strive to turn good intentions and analysis into productive actions.

THE FACE OF THE WORLD BANK GROUP

Yet the real face of the World Bank Group is not the one usually seen in Washington, or in the drawing rooms of the capitals of our major shareholders.

When I visited Yen Bai Province in the northern mountains of Vietnam this August, I met a woman who now has electricity to help grind rice, pump water, power fans, and light her one room household so her children can study at night—because the World Bank financed a Vietnamese electrification project. Electricity now eases the chores of over 90 percent of rural households in Vietnam. As in other societies, rural electrification most of all empowers the women who bear the brunt of daily farm labor.

In Honduras, the World Bank is helping save Pico Bonito National Park through the Bio Carbon Fund, which supports farmers who are shifting from cutting the native Redondo trees to selling their seeds and replanting saplings. As one farmer said, "We still have our trees and I can still make money, even more than I did before. We even take care of the wild seedlings."

In Nigeria, the International Finance Corporation, our private sector arm, helped a single mother in the village of Ovoko to obtain a microfinance loan to become a village phone operator. Villagers used to have to travel a day to make a phone call. Now this entrepreneur helps her neighbors connect to the broader world, while earning money to pay for her children's school fees and medication for her own HIV/AIDs treatments.

Given the opportunity, people everywhere want to build a better life for themselves and their children. That impulse, if given a chance, can contribute to a healthy and prosperous global society.

AN INCLUSIVE & SUSTAINABLE GLOBALIZATION: THE NEEDS

We live in an age of globalization. Yet its contours are uncertain. Since the end of the Cold War, the number of people in the world market economy has increased from about one billion to four or five—vastly increasing the productive labor force, building new manufacturing and service centers throughout the developing world, boosting demand for energy and commodities, and creating vast possibilities for increased consumption. New pools of savings are adding to global capital flows that are drawn to investment opportunities offered by both emerging markets and transforming developed economies. The transfer of skills, technologies, information, and applied practical knowledge is rushing ahead.

The global flow of trade has more than doubled since 1990. More open economies lower the cost of goods and services. More countries are relying on export-led growth. While the purchases from developed economies remain important, new trade patterns reflect regional and global supply chains and increasing "south-south" trade. Nearly 300 million people have escaped extreme poverty.

Yet many remain on the fringes and some are falling further behind. They can be counted as countries, as regions and groups within countries, or as individuals. Their exclusion has many causes—including conflicts, poor governance and corruption, discrimination, lack of basic human needs, disease, the absence of infrastructure, weak economic management and incentives, lack of property rights and rule of law, and even geography and weather.

We can also see the environmental challenge of this extraordinary surge of growth, with rivers that run black, skies that block the sun, and threats to health and climate.

Globalization offers incredible opportunities. Yet exclusion, grinding poverty, and environmental damage create dangers. The ones that suffer most are those who have the least to start with—indigenous peoples, women in developing countries, the rural poor, Africans, and their children.

It is the vision of the World Bank Group to contribute to an inclusive and sustainable globalization—to overcome poverty, enhance growth with care for the environment, and create individual opportunity and hope.

In 2000, the countries of the United Nations established eight Millennium Development Goals —ambitious targets to halve poverty, fight hunger and disease, and deliver basic services to the poor by 2015. These goals, our goals, are posted by the main entrance of our headquarters building, reminding us everyday of what we come to work to accomplish.

These aims of sound social development need to be combined with the requirements for sustainable growth, driven by the private sector, within a supportive framework of public policies.

Consider some of the needs.

Every year, malaria strikes some 500 million people worldwide. Yet we could get close to overcoming this leading killer of African children. It would take an investment of approximately $3 billion a year over the next few years to provide every household vulnerable to malaria with treated bed nets, medicines, and modest amounts of indoor insecticide.

The International Energy Agency estimates that developing countries will need about $170 billion of investment in the power sector each year over the next decade just to keep up with electricity needs, with an extra $30 billion per year to transition to a low carbon energy mix.

An additional $30 billion per year is needed to achieve the Millennium Goal of supplying safe water to 1.5 billion people and sanitation to the two billion people who lack these most basic necessities, also improving gender equality in poor countries.

There is need for another $130 billion a year to meet the transportation infrastructure requirements of growing developing countries, including an estimated $10 billion a year for maritime container terminals to accommodate opportunities in trade.

And to provide primary education for some eighty million out-of-school children, another Millennium Goal, low-income countries will require about $7 billion per year.

HOW THE WORLD BANK GROUP CAN HELP

Meeting these needs is not, of course, just a question of money. Nor is it the role of the World Bank Group to finance the investments by itself.

It is the purpose of the Bank Group to assist countries to help themselves by catalyzing the capital and policies through a mix of ideas and experience, development of private market opportunities, and support for good governance and anti-corruption—spurred by our financial resources.

It is the purpose of the Bank Group to advance ideas about international projects and agreements on trade, finance, health, poverty, education, and climate change so that they can benefit all, especially the poor seeking new opportunities.

We should be expanding the frontiers of thinking about policy and markets, pioneering new possibilities, not just recycling the passably proven with a modest financial advantage.

I have been stressing the idea of the World Bank Group to make a point. We are a single institution, operating through specialized affiliates, as is the case for many large financial firms. We must strengthen our interaction and effectiveness as a Group.

Our Group has four principal parts. The International Bank for Reconstruction and Development (IBRD) is our public finance arm, providing loans based on market prices, risk management, and other financial services, combined with deep development experience. The International Development Association (IDA) is an aid conduit that provides interest-free loans and grants to the eighty-one poorest countries, as well as significant debt relief. The International Finance Corporation (IFC) is our private sector arm, making equity investments, loans, and guarantees, while offering advisory services in developing countries. And the Multilateral Investment Guarantee Agency (MIGA) supplies political risk insurance. Operating together, we can leverage these tools to ensure that the whole is greater than the sum of its parts.

All of these components share a body of expert learning and experience covering a host of development disciplines. Delivering, expanding, and testing this knowledge—in tandem with financing or separately—is the most important part of our work.

FIRST STEPS

Over the past two months, working closely with our Board, the management of the World Bank Group has begun to take actions to move forward. In doing so, we are also strengthening the synergies among these companion entities.

This year, we are replenishing funds for IDA, the Group's principal financing tool for the poorest countries, and for Africa in particular. This is the fifteenth IDA replenishment; each new refunding covers the next three years.

We have been discussing with about forty donor countries, along with borrowers, how to set priorities, strengthen policies, and improve our effectiveness with IDA countries. The generosity of donors is fundamental to the success of this replenishment, and we have been encouraged by their support for an ambitious result.

I wanted all donors to know—in concrete terms—that the World Bank Group will "put its money where its mouth is" when it comes time to boosting IDA.

So I am delighted to announce that our Board has concurred that the Bank Group should be leading the way by seeking to contribute $3.5 billion of its own resources to IDA 15. This is more than double the $1.5 billion we pledged to IDA 14 in 2005. With this stronger hand, we will challenge donor countries to commit to an ambitious increase in numbers to help the poorest, especially in Africa and South and East Asia. South Africa has already set a good standard by pledging a 30 percent boost in its IDA funding. Now we need the G-8 and other developed countries to translate their words from Summit declarations into serious numbers, too.

Our IDA contribution depends, of course, on the annual income of the IBRD and IFC, as distributed by their Boards each year, but we believe this stretch goal is possible. We urge others to stretch, too.

Second, we are committed to a stronger growth strategy for IFC. IFC is well-capitalized and is bolstering its private sector investments in IDA countries, low-middle income countries, and needy regions and sectors in middle income countries.

Third, we will deepen the cooperation between IDA and IFC to boost the private sector in these economies. Last year, 37 percent of IFC's investments were in IDA countries, and we will increase that figure. IFC is also launching new infrastructure and microequity funds for IDA countries. Furthermore, IDA and IFC can co-invest to support public-private partnerships in infrastructure projects, especially in the energy, transportation, water, agricultural, and microfinancing sectors. These projects can support the integration of regional markets, which is especially vital for smaller and land-locked states in Africa.

Fourth, even though IBRD is very well-capitalized, our loan business has been shrinking. Today, about 70 percent of the poor live in India, China, and the middle income countries served by IBRD. These countries have asked us to remain engaged in their search for how best to meet their diverse needs. So the IBRD should be growing, not contracting. Of course, as I will discuss, our services to middle income countries must continue to expand far beyond lending. Yet our pricing patchwork, reflecting adjustments made in 1998, confused our clients. IBRD loans—combined with customized, cutting-edge policy expertise—remain valuable. Our mix of lending and knowledge services is especially important to help countries with their social development and the expansion of energy and infrastructure in an environmentally sound fashion.

Therefore, in order to better meet the great needs of emerging market countries, I asked our Board to simplify and cut our prices so we could expand our lending to support development and growth. I am pleased that the Board has agreed, clarifying our fees and reducing rates back to the pre-Asian crisis level. This step can help us catalyze the expansion of our services. But we have more to do. We must also address the non-financial costs of doing business. We aim to be faster, better, and cheaper.

These steps are just a start. They point the way, through concrete milestones, towards an expanding horizon.

AN INCLUSIVE & SUSTAINABLE GLOBALIZATION: A MULTILATERAL APPROACH

Globalization must not leave the "bottom billion" behind. This assertion is based on more than respect for the worth of our fellow men and women, and beyond an appreciation that any of us might have been born in similar circumstances. Inclusive globalization is also a matter of self-interest. Poverty breeds instability, disease, and devastation of common resources and the environment. Poverty can lead to broken societies that can become breeding grounds of those bent on destruction and to migrations that risk lives.

Globalization also has brought uneven benefits to the billions in middle income countries who have started to climb the ladder of development since the end of the Cold War. In many lands, social tensions are weakening political cohesion. The middle income countries are home to 60 percent of the world's forests and 40 percent of global emissions of CO_2 from fossil fuels. Together with developed countries that produce most emissions, these nations will be key to crafting a global approach to climate change. These middle income countries need to continue to grow, to offer inclusive development, and to adopt environmental policies for sustainable prosperity.

The greater influence of developing countries presents another question: What will their place be in this evolving global system? This is not only a question of how large developing countries will interact with developed countries, but also with the poorest and smaller states of the world. It would be ironic indeed for the Bank Group to withdraw from work with middle income countries at a time that governments are recognizing the need to integrate these countries more effectively in diplomacy and political-security institutions: Why not integrate them as partners in the institutions of the multilateral economy, too?

Two years ago, I suggested that China build on its success by becoming a "responsible stakeholder" in the international system. This is, of course, a challenge for others, too, if we are to achieve an inclusive and sustainable globalization. And with responsibility, there should be greater voice and representation. We need to advance the agenda to strengthen the participation of developing countries throughout the Bank Group's work and workforce.

Developed countries are also facing the opportunities and strains of globalization. People are anxious about the rate of change, even as many in younger generations adapt with amazing flexibility.

The common sense of publics in developed countries leads them to recognize there is no successful recourse to isolation. Common decency—as well as self-interest—drives them to recognize the interdependence, even as they debate how best to pursue it.

In comparison to the scale of these global challenges, the World Bank Group is a modest institution. Yet along with its multilateral partners—the United Nations and its specialized agencies, the IMF, the WTO, and regional development banks—the World Bank Group needs to play an important role in advancing an inclusive and sustainable globalization. The multilateral institutions have been buffeted and battered. They need to combine deliberations with effective results. They must overcome internal weaknesses and build on their strengths. Together, we must show that multilateralism can work much more effectively—not just in conference halls and communiqués—but in villages and teeming cities, for those most in need.

Inclusive and sustainable globalization needs to be fostered by global institutions. The World Bank Group has significant financial resources; an experienced, knowledgeable, and dedicated staff; convening power; people in more than 100 countries; and 185 member states. When at its best, the Bank Group can mobilize other resources—public and private, financial and human—to generate demonstration effects and multiplier effects. When successful, the World Bank Group is a catalyst for market dynamism that seizes the opportunities of globalization, inclusively and sustainably.

SIX STRATEGIC THEMES

What, then, should be the strategic directions the World Bank Group should pursue?

Today, I will briefly highlight six strategic themes in support of the goal of an inclusive and sustainable globalization. In a week, we will have the Annual Meeting of the World Bank Group and the IMF. On that occasion, I hope to discuss these six themes in greater detail with the Governors of the Bank, as well as with the broader community of interested parties, including civil society organizations, businesses, and foundations.

First, the World Bank Group faces the challenge of helping to overcome poverty and spur sustainable growth in the poorest countries, especially in Africa. IDA is our core financing instrument for the eighty-one poorest countries.

In these countries, we need to focus intensively with our partners on achieving the Millennium Development Goals. These basic needs will set the foundation for the future.

Yet the message I received when I traveled in Africa in June and Asia in August was that social development objectives are necessary but not sufficient. The good news is that seventeen African countries, home to 36 percent of the population, achieved average annual growth of 5.5 percent from 1995 to 2005. These countries want assistance to build infrastructure for higher growth—especially energy and physical facilities that can support regional integration. They also want us to help develop local financial markets, including for microfinance, that can mobilize African savings for Africa's growth.

African leaders see great potential to expand agriculture, increasingly through productivity growth. The World Bank Group's forthcoming World Development Report will highlight that GDP growth from agriculture benefits the poorest four times more than growth in other sectors. We need a twenty-first Century Green Revolution designed for the special and diverse needs of Africa, sparked by greater investments in technological research and dissemination, sustainable land management, agricultural supply chains, irrigation, rural microcredit, and policies that strengthen market opportunities while assisting with rural vulnerabilities and insecurities. More countries need to open their markets to farm exports, too.

Another eight African countries, home to some 29 percent of the population, have averaged growth of 7.4 percent from 1995 to 2005 due to their oil resources. For these states and some IDA countries in other regions, the priority development challenge is encouraging good governance and anti-corruption policies, along with an expansion of local public sector capacity, to ensure that resource revenues build a sustainable future for all citizens.

Second, we need to address the special problems of states coming out of conflict or seeking to avoid the breakdown of the state.

When the visionaries at Bretton Woods conceived of the IBRD over sixty years ago, the "R" stood for the reconstruction of Europe and Japan. Today, the "R" points us toward the challenge of reconstruction in states harmed by modern conflicts.

Paul Collier writes in his book *The Bottom Billion* that 73 percent of that billion live in countries that have endured civil wars. Sadly, these conflicts not only lead to extraordinary suffering for the people directly involved, but the spillover effects drag down their neighbors too.

Frankly, our understanding of how to deal with these devastating cases is modest at best. I suspect we will need a more integrated approach involving security, political frameworks, rebuilding local capacity with quick support, reintegration of refugees, and more flexible development assistance. The Bank Group's constructive work in Bosnia, Rwanda, and Mozambique shows what is possible. IDA's adaptability and quick disbursements have proven vital in post-conflict environments, and we are working with donors to increase our effectiveness.

Today, we are at work in Southern Sudan, Liberia, Sierra Leone, DRC, Burundi, Ivory Coast, Angola, Timor Leste, Papua New Guinea, Pacific island states, Afghanistan, and Haiti, among others, often through trust funds established by donors and in concert with the UN. If there is an effective peace accord in Darfur, backed by a strong UN-AU security force, the World Bank Group would want to help.

Third, the World Bank Group needs a more differentiated business model for the middle income countries. These states continue to face major development challenges. Critical social services and infrastructure remain underfunded. In many cases, rapid economic growth has failed to provide opportunities for the poor. Environmental problems are acute. And there remains a continuing potential for volatility in the flow of capital to these countries—like those we witnessed through the 1980s and 1990s.

Recognizing these challenges, our middle income members want the World Bank Group to remain engaged with them through a competitive menu of "development solutions." But this engagement needs to reflect major improvements in their financial position and institutional capacity over the past decade. They want IBRD, for example, to provide much more flexible and better-priced banking services, with less red tape and shorter turn-around times. They are looking to IFC to help develop private sector solutions for undeveloped markets and even social needs. And they are holding us to ever-higher standards of quality, consistency, and cost-effectiveness in our advisory services. In short, they want performance, and that is what we intend to give them.

For some middle income countries, our services will be increasingly in the areas of risk management and the application of global know-how to local needs. We can offer credit enhancements, hedging, and neutral expertise that will help build the capacity for asset management. We can encourage local securities markets by helping construct local currency bond funds and indices. We can finance in local currencies to help combine our lending with the management of currency risk. To encourage inclusive growth within countries, we can work with subnational authorities. We are now developing contingent financial instruments to assist with emergency liquidity needs during financial shocks, as well as insurance market facilities to broaden availability and lower the cost of coverage for natural catastrophes, such as hurricanes and earthquakes. Some of these activities may lead us to explore how best to provide services and knowledge for fees, offering our client countries a choice of delivery with or without financing.

Fourth, the World Bank Group will need to play a more active role in fostering regional and global public goods that transcend national boundaries and benefit multiple countries and citizens. It is our calling to ensure that this agenda is linked to the aims of development.

The World Bank Group has already demonstrated its potential to assist in countering communicable diseases through our work on HIV/AIDS, malaria, avian influenza, and vaccine development. We are in the midst of reexamining ways to strengthen the nexus between aid and trade, including through IFC's innovative trade finance project, focused principally on Africa, which within two years has already backed almost $2 billion of trade.

We are working with our Board to significantly step up our assistance to the international efforts to address climate change. At our upcoming Annual Meetings and at the UN Climate Change Conference in Bali this December, I hope to outline a portfolio of ways the World Bank Group can help integrate the needs of development and low carbon growth. We need to focus particularly on the interests of developing countries, so that we can meet the challenge of climate change without slowing the growth that will help overcome poverty.

Our work on regional and global public goods will require close cooperation with other agencies that have specialized expertise, such as WHO, UNEP, UNODC, and the WTO. We also must determine the Bank Group's comparative advantage to best focus our resources through selective, differentiated approaches. Given our specialization in working on development at the national level, our most important operating challenge will be to support countries as they determine how best to integrate public goods policies—and regional and global opportunities—into national programs. These opportunities should draw on private sector entrepreneurs and energies, too.

Fifth, one of the most notable challenges of our time is how to support those seeking to advance development and opportunities in the Arab world. In the past, these lands have been at the center of trade and learning, suggesting the potential if they can move beyond strife and barriers to growth and social development. Without broad-based growth, these countries will struggle with social tensions and a large number of young people who cannot find jobs. The UN's Arab Human Development reports offer powerful self-assessments.

When I served as the U.S. Trade Representative, I worked closely with leaders from the Maghreb to the Gulf who were opening economies and societies. Some had plenty of energy resources and capital but little economic diversity and ability to create jobs. Others were seeking to improve schools, strengthen the adoption of technology, and expand employment through business deregulation and trade. A number were deepening productive ties with Asia, through cross-investments, trade, and the growth of service centers.

Our recent "Doing Business 2008" report shows there is progress. Egypt tops the list of economies reforming regulations to make it easier to do business. Saudi Arabia eliminated layers of bureaucracy that had made it one of the toughest places to start a business and also did away with minimum capital requirements.

These are encouraging developments, but there is much more that can be done. An inclusive globalization must deliver benefits for all the people in these states. As Arab governments seek to provide social services effectively to all their peoples, we can offer comparative experience. We can assist in creating hospitable environments for business—whether local or foreign. For some, we may be able to finance development projects, operate donor trust funds, or spur the expansion of private sector services through the IFC. Today, we are helping provide basic social services and support for good governance and private sector growth in the Palestinian territories, which could provide the economic foundation for hope if the parties choose the path of peace.

Finally, while the World Bank Group has some of the attributes of a financial and development business, its calling is much broader. It is a unique and special institution of knowledge and learning. It collects and supplies valuable data. Yet this is not a university—rather it is a "brain trust" of applied experience that will help us to address the five other strategic themes.

Such a capability requires special recognition and sustenance. Yet we also must keep challenging ourselves by asking: what does it take to achieve inclusive and sustained development and growth?

This challenge requires humility—and intellectual honesty. Many development schemes and dreams have failed. This is not a reason to quit trying. It is cause to focus continually and rigorously on results and on the assessment of effectiveness. This is the best way to earn the confidence and support of our shareholders, stakeholders, and development clients and partners.

These six strategic themes offer a direction—to be discussed, refined, and improved. To bring these ideas to fruition, we need to understand the particular needs of our clients. We welcome the counsel and guidance of our shareholders. There is a great need—and a compelling opportunity—for the World Bank Group at this point in history.

INTERNAL CHALLENGES: GOOD GOVERNANCE & ANTI-CORRUPTION

To be successful, the World Bank Group must also squarely face its own internal challenges. We need to use our capital more effectively and focus more on client service. We should strengthen our ties with civil society organizations and NGOs so we can learn from them. Reflecting the new "architecture of aid," we need to work more effectively with national aid programs, funds focused on particular projects such as diseases, foundations, NGOs in the field, and private businesses interested in development challenges.

We need to assist staff with better professional development and improve mobility within the organization. We need stronger human resources policies to support our field staff as we encourage greater decentralization. And we need greater voice and representation on our Board and diversity in our workforce.

As a recent report of an experienced panel led by former Federal Reserve Board Chairman Paul Volcker underscored, we also have work to do in strengthening our approach to dealing with governance and corruption. The panel gave us an extensive set of recommendations to consider to bolster the work of our internal investigators and make sure their product is put to best use. We are following up promptly, welcoming the views of others, discussing ideas with our Board, and moving toward operational improvements.

My experience has been that the people at the World Bank Group recognize how critical the Governance and Anti-Corruption agenda is. They are proud of the development mission they serve, want to uphold the integrity of their institution, and know corruption steals most from the poor and powerless. We will do better together.

The World Bank Group can also offer leadership by integrating good governance and rule of law policies in the development agenda. Just last month, we joined with the UN to launch a Stolen Assets Recovery—or StAR—Initiative to get developed and developing countries to work together to recover the financial plunder of corruption. Our successful "Doing Business" report makes clear that poor regulatory and licensing policies not only stifle entrepreneurs, but also create opportunities for graft.

CONCLUSION: TWO VOICES

Today, I have offered a sense of direction for the World Bank Group. To really understand what we are about, let me close with the voices of two others.

Deramma is a woman who belongs to a village self-help group in the Indian state of Andhra Pradesh. She is one of more than eight million women who, with the support of the World Bank, established self-help groups to pool resources. This most basic of intermediation and support services has increased incomes for close to 90 percent of rural households—that's approximately forty million people. Deramma told us, "It used to be a hand-to-mouth existence. But now we are self-reliant, and can educate our children. We now have the confidence that we can climb out of poverty."

Dinalva Moura, a mother of three, has been part of Brazil's Bolsa Familia program, which offers small sums of money to parents of eleven million families who keep their children in school and take them to regular health checks. The Bank Group offered financial and technical assistance to support the Brazilian Government's impressive initiative. Dinalva told us, "The Bolsa Familia helps me buy food—sometimes even fruit for the children. And they don't skip school, because they know the money depends on their going."

These are the voices that tell you the story of our day-to-day efforts to create new possibilities for the poor. And these are the voices that echo the compelling need for a dynamic World Bank Group that will connect them to other people, to ideas, and to opportunities. This is what inclusive, sustainable globalization is all about.

Articles