CENTER FOR GLOBAL DEVELOPMENT

THE WORLD BANK: WHAT SHOULD ITS FUTURE BE?

PANELS:

LOOKING AHEAD: KEY TASKS FOR THE WORLD BANK

POLICY ISSUE 1: WHAT ABOUT GLOBAL PUBLIC GOODS?

POLICY ISSUE 2: WHAT ABOUT LOW-INCOME COUNTRIES?

POLICY ISSUE 3: WHAT ABOUT BANK GOVERNANCE?

REMARKS AND WRAP-UP

THURSDAY, OCTOBER 18, 2007
8:30 A.M. – 2:00 P.M.

Transcript by:
Federal News Service
Washington, D.C.

NANCY BIRDSALL: Good morning, ladies and gentlemen. And a warm welcome to this conference on the "World Bank: What Should Its Future Be." I underline the word "should" because this is a conference about what the World Bank is, but more importantly, what it can and could and in a normative sense should be. Before I do anything else, I want to thank my own special assistant Karelle Samuda – I don't know if she's here right now – and Heather Haines from our staff, all the other staff who helped put together what I know will be a very stimulating and thoughtful morning.

We have an incredible group of speakers and discussants. I want to say a word about the objective of the conference, at least in my mind. It is to push the World Bank, push its board, its shareholders, its stakeholders outside of the World Bank, civil society development, advocates and aficionados, and most of all to push its new leadership in the form of Bob Zoellick, who's already shown that he will be a good president of the World Bank, to push all of those to make the bank even better than it is today.

And the starting point is that the bank is actually an extraordinary institution. I was thinking this morning that this month, more or less, marks the moment when I have spent myself more time after the World Bank than at the World Bank. (Laughter.) So I consider myself one of the many outsider insiders, and there's a sense in which that is the spirit behind this meeting, very supportive of the bank but pushing it to be even better.

Two years ago with others at the Center, we did a report that was brilliantly titled, thanks to my excellent staff, "The Hardest Job in the World: Five Crucial Tasks for the Next World Bank President." And that report was prepared in time for the arrival of Paul Wolfowitz at the bank. Of those five tasks, I think it's very clear that there has been some progress on some of the tasks we outlined, but that Mr. Zoellick and the bank's owners and shareholders still face really big challenges, and I would say challenges in two respects, and these are issues that I raised in an essay which I think is available. I hope you don't read it during the conference but afterwards, an essay I did with Arvind Subramanian.

So what are the two respects? The first is relevance. It seems to me and others there's a risk that the bank will become another aid agency, and we do need to have an aid system, but it's not obvious that we need still another aid agency. There are many, many bilateral, foundation and other donors active in the poorest countries. So that's one risk, that the bank will become another aid agency rather than the global cooperative that it can be, that it should be, that really instill – what's the spirit behind Cains (ph) and others at Bretton Woods. So that's the relevance issue. Given that there's this competition out there, the bank ought to be in a sense an honest broker in an increasingly fragmented business of aid.

The second risk has to do with legitimacy, and I think this is an even tougher one for Bob Zoellick, for the leadership of the bank, for the shareholders, and it's the risk that China, India, Brazil, Turkey, Russia, the big emerging markets who now are the drivers of world growth and whose behavior and policies affects the world system, the global system, stability, security, prosperity, more than ever before, that's really the nature of the 21st century in contrast to the 20th century. So the risk is that the Europeans and the Americans and the traditional powers fail to see that it's in their own interest to find a way to compromise, to work together to share power and influence at the bank.

So in turning to the panel which I'll introduce in a moment, I wanted to give a sense of two issues that are on – those two issues at least that are on my mind. One, the role of the bank as a cooperative in managing global public goods and bads. I think a lot of people are thinking about climate change now because of Al Gore's peace prize and because of the weather, and the question is will the bank get the clear mandate from its shareholders and the financial resources – we mentioned in the 2005 report a modest initial sum of $3 billion in grant money – that would enable it to exploit its technical capacity, its strategic ability as an institution that looks across sectors and across countries to help forge really a global strategy, play a role at the global level beyond country-based operations and dealing with global public goods, and not just climate change, but the big challenges of increasing research and development for new health and agricultural, and other technologies that matter so much for reducing poverty in the world, which is of course the bank's mission. So that's one question on my mind, and it has to do with relevance.

Well, let me add one point on that. I would say the bank is very well set up to do that except for the missing mandate and the lack of an adequate financial instrument. And for many decades now, the bank has done some work on global public goods but it's been ad House of Corrections, out of the mainstream, poorly funded, and fundamentally not the core mission as seen particularly by management and staff.

The second issue is governance, and that of course has to do with the crisis of legitimacy. And here let me repeat, will the bank continue to be dominated by the U.S. and Europe, and then be driven more and more fundamentally to mediating relations between the rich world and the poorest countries in the world.

Let me, with that long introduction, introduce the panel. I don't think they really need introduction, but I'll just mention their names and titles in case it isn't obvious already. On my right is Kemal Dervis who's the administrator of the United Nations Development Program and author of a wonderful book that the Center published a few years ago when he was a visiting fellow with a wonderful title – I think that's much of what we're talking about today – the title being "A Better Globalization." Next to him is Jessica Einhorn who's the dean of the School of Advanced International Studies across the street of Johns Hopkins University and a former treasurer and managing director at the World Bank. On Jessica's right is Ngozi Okonjo-Iweala who is currently a distinguished visiting fellow at the Brookings Institution. I'm sure you all know she's the former minister of finance and minister of foreign affairs in Nigeria, and has been active in the last year in generating a global public good by working with the bank and its staff on a stolen asset recovery program, among many, many other accomplishments. And since we asked Ngozi to speak, I'm not sure we could have or would have – (laughs) – since she's no longer an outsider-insider, she's becoming an insider-insider. She will start soon as a managing director at the World Bank. (Applause.) I forgot to mention that Jessica Einhorn, I'm proud to say, is a member of the distinguished board of the Center for Global Development. And I see also Nora Lustig here, who is also a member of our board. Welcome to both of you. A special welcome to both of you.

And I hope – are there any other members of our board out here? Tom Gibian. Thank you for being here, Tom. Another distinguished member of our board. And then we have Ngaire Woods who's missing – we're looking for her – who is the director of the Global Economic Governance Program at Oxford University, and wrote a wonderful book on the issues of – many issues I guess – I forget the title – about the IMF, the global – she'll tell you I hope.

MR. : "The Globalizers."

"The Globalizers," which is a book about the World Bank and the IMF and their travails and their future.

So let us start. I've asked each panel member to speak for about seven or eight minutes, and then I hope to have some questions and conversation amongst all of you. You'll have time to say more than in that first seven minutes, and then we'll turn to those of you out there for questions. I should say I think you all have the agenda, but the idea is to move from this high-level panel to some specific issues. What about global public goods, what about low-income countries and what about bank governance, and then we will be serving a buffet lunch and hearing from Robert Zoellick himself. So thank you all for coming. And Kemal, shall we start with you, please.

KEMAL DERVIS: Thank you very much, Nancy, and as many of you know, maybe all of you know, CGD is a special place for me apart from Nancy herself of course, but the whole CGD family, because when I was fighting the financial crisis in Turkey and then in politics, in parliament, it was the place I could come out and hide for two, three weeks, four weeks, and with Nancy's stern encouragement I actually produced a book during that period which was great, and I could never have done it without CGD.

Now, let me make a few points. I will not try to be at all comprehensive, of course, in seven minutes, but looking the World Bank, I think four areas are usually distinguished correctly, the policy work, the advice, the low-income agenda, the middle-income agenda and the global public goods, and I will touch on some of these areas and their interactions.

First, the policy work and the advice. And I mean here again what Nancy said in terms of global cooperative is extremely important. I, particularly when I was on the other side, when I was not part of the World Bank but when I was working in my own country in Turkey, must say that I did benefit tremendously from the policy work and the advice part, from the knowledge part of the World Bank, and thinking about what is it that makes it so special. I would say, of course its non-political nature, and that is absolutely crucial, and I think got endangered at times in the recent past, but it's very, very important that the bank be perceived as a non-political, not furthering the particular agendas, and really that this neutrality of the advice is very important.

I also think that it's important that it's non-commercial in two ways. One is the obvious way when it's not dealing with somebody who has a commercial interest. When you're on the country side I think that's very important. But one thing that I also noticed, well, what about consultants? You can hire consultants, you can hire the best consultants in the world and get good advice, so why do you need the World Bank? And I do believe there is one difference here interestingly enough, and that in my experience, consultants, even the best, end up telling you a little bit what you want to hear. In fact, one of their jobs is to find out what whoever they work for really wants to hear and then they feed it. I'm exaggerating a little bit, but there is that angle. So the fact that the bank is also a little bit at arms length also helps and makes that particular advice I think extremely useful. I won't go into examples, but two areas where it was critical for me was the financial sector and the energy sector, and also to some degree education, but particularly the energy sector and the financial sector. So I do believe that whatever happens in the future of the World Bank, the advice part, the knowledge production and the work as an international cooperative that serves everybody but is not dominated by anybody and doesn't mix up its advice with political or commercial agenda is extremely important.

The low-income and middle-income country agenda, I will not say too much about the low-income agenda because I think Nancy asked particularly Ngozi to go into this in some depth. It's of course – it remains an absolutely priority agenda, The Bottom Billion, Paul Collier all those arguments I think are to some degree true. I don't think fully – I wouldn't put it exactly the same way that Paul Collier has put it, but the low-income countries obviously represent the biggest development agenda, and for the bank a very valid area of work.

The middle-income agenda is much more controversial obviously, and in fact, I think if you read Paul's Bottom Billion, you can interpret it as saying as basically get out of the middle development; institutions should get out of the middle-income countries, they can take care of themselves with the commercial money and all that, that's fine. I think Nancy put it very differently, said this is a global cooperative. So I think here there is a lot to talk about. A lot of debate has to take place. And it's quite clear that the traditional way of doing work in the middle-income countries won't work anymore in my view. Okay.

Even in my own experience, the lending part was in financial terms, I would say totally irrelevant. What I was worried about was the IMF and the amount of G7-backed, G8-backed financing that one could get from the IMF in a crisis mode at least, and of course the commercial banks and the whole bond markets and all that. The one billion, 1-1/2 billion, 800 million disbursements from the banks were really not relevant in terms of the overall financial plan that we had.

On the other hand, this is a question I kind of come back and – and I'm not – I don't have a very clear-cut – Ngaire has arrived – clear-cut position, is to what extent is the quality of the advice and of the knowledge work increased, enhanced by the lending activities of the World Bank. And I think this is what really needs to be discussed, because if it isn't, then I think one could argue that the traditional lending really has not much future. But if it is, if the quality of the advice is somehow linked to the fact that bank teams must prepare loans, must prepare sector loans, adjustment loans or even projects, then I think you get another type of justification for the financial activity in middle-income countries. I think there's a case here, but I think one has to look at is carefully and analyze it quite carefully. I would disagree on the other hand, and we debated this 20 years ago I remember; I would not be very favorable to economic work for fee type of approach actually, because I think the more you can differentiate the World Bank's advice and knowledge provision from a kind of traditional consultant work, the better it is actually, and I think turning the bank into a consultant that works for fees, exactly takes away the one advantage that I thought was very important, and namely that fact that you're actually arms length and that the bank will not tell you what you want to hear. So I think this is an area of discussion that needs a lot of work and a lot of thought.

Now, on the global public goods side, which I think is very, very important, and here again the link to the middle-income countries and to the low-income countries. I strongly believe that the global public goods agenda with the low-income country agenda is the main reason for a very strong World Bank in the future. And I would say that the climate change issues are now providing a new impetus and a new area of activity for the World Bank within the global public goods area which will give the bank a huge new challenge and also a huge new opportunity. The other global public goods of course, the disease area, the health area, where the bank has been active, but I think the climate change area in terms of the scale of the challenge and what can be and that should be done, I think is almost of a different order of magnitude right now.

And it is an area where the middle-income countries are going to play a huge role. It's of course an area where the low-income countries are affected by climate change – (inaudible) – really in fact, they're the ones who are the most affected. But in terms of solving the problem, the middle-income countries clearly must be part of the solution. And here I would say an approach by the bank dealing with the whole set of issues, and I'm taking this as an example of a global public good that – there can be other examples, but which introduces a degree of concessionality into its financial products, get to the middle-income countries, must be part of the solution. The very fact that we're talking about a global public good, and therefore major externality means that there is actually conceptually and theoretically – from the point of view of economic theory, a very strong argument for providing concessionality, so it's not the case here that the bank should offer no concessionality to middle-income countries. There is that link to the public good argument and not to the income level argument.

Now, how to provide that concessionality I think is going to be one of the big, big questions. Again, I don't have time to go into it. I think we're at a very crucial moment. I do feel nervous about the system where quantity controls, quantity targets, are the primary instrument – I wrote my Ph.D. on trade. It took the world decades to get rid of quotas and quantity restrictions in trade. Are we now entering an area where there will be massive quantity restrictions all over the place linked to emissions? I think one has to be very careful, but there's a huge momentum here, and in a way it's kind of funny. It is the way it is because the international community almost wants to avoid having to provide concessional resources in a transparent way, so it's much better and politically easier to do it in a non-transparent way via quotas.

And so I think how to deal with all of this and how the World Bank can take a leadership role here I think is very important. I would think that a big trust fund type of approach where there is much more explicit concessionality linked to clean energy agenda, energy access and climate change all over the world, including adaptation but also mitigation, should be part of the solution, and I don't see any other institution that could lead this process except for the World Bank. And I think it's too timid at this point, yet. Even the paper that is going to the Development Committee, I think says the right things but is very, very timid in terms of the level of ambition it takes.

Finally, one last word. My son – and now he's a lawyer, which cost me a lot – (Laughter) – but he first studied aeronautical engineering at Princeton, and then got a masters in aeronautical engineering and all that, and yet –

MS. BIRDSALL (?): (Off mike, laughter.)

MR. DERVIS: No, no. The law school after that was worse. But one day I was talking to him about the design of aircraft, and he explained to me how important it is to design aircraft not just with efficiency in mind but with robustness in mind, okay. You don't design an aircraft in an extremely efficient way, meaning with the least amount of resources so that it can just fly, okay. (Laughter.) You design it in a way that if there are all kinds of problems, there are fallback mechanisms and it's robust, so if one thing fails, then the other thing works. And there is something about the international system discussions I think, which I think maybe there's an analogy here. Okay. We have to have an international – the dangers of breakdown, and of course also in terms that these are going in other areas like nuclear proliferation and all these things, but the cost of a major crisis, whether it's at the country level or it's an international level, are huge. Okay.

So when we think of the international architecture and how we build it, I do believe we have to use robustness. Of course, there has to be efficiency, and that's absolutely true, and there is inefficiency and there is duplication and there is fat in the system and all that. But on the other hand, we shouldn't push it so far that we don't have robustness in the system. So some amount of almost – I don't believe in this thing that there's just one institution for one problem. I think there can be backups, and if one institution fails, well, another one is there to make it happen. And I wanted to end on – it's a dangerous point because I don't want to push it too far into inefficiency of course, but I do believe robustness and efficiency both have to be there in the international system.

Thanks a lot. (Applause.)

MS. BIRDSALL: Terrific, Kemal. I'm glad to say that I think I found one issue at the margin where we might disagree, so we're going to come back to that, but it's not easy.

Jessica?

MS. EINHORN: I think we found the next book that he'll do for CGD, and it's going to be called "Flying With One Engine." (Laughter.)

Anyway, I have to say that – this is working well, I hope. If not, let me know. On global public goods, it occurs to me as I sit up here with great friends and a very distinguished panel that maybe one of the great global public goods of the World Bank is producing finance ministers as in Turkey, as in Nigeria and as in frankly the United States with Larry Summers, so that's one of the things that ought to keep turning out, and I hope Ngozi will see to that while she's there.

Anyway, Nancy asked me to speak of three key tasks for the World Bank, and I am, with a terrific distinguished panel and a distinguished audience.

I want to start by saying – okay. I want to start by saying that I think Bob Zoellick took a giant step in that direction this past week. It's a great beginning, his speech at the National Press Club, where he speaks of sustainable and inclusive globalization and lays out his first impressions after 100 days of the bank. The first task of the World Bank, the overarching task of the World Bank, is to define a mission that relates to its size, its location, and it's a comparative advantage in the international system. A unique emphasis on poverty alleviation, unique to the exclusion of everything else, while both necessary and admirable, does not meet the criteria. I find it extremely useful, and some, including Nancy, have heard me speak this way before, to remind ourselves that the bank historically over its 65 years or whatever it is now has played at least three roles over its lifetime.

First, as a Bretton Woods institution it played the systemic role of working with developing countries to help them grow through integration into the liberal international economic system. Those cases of countries that were partners to the World Bank or where the World Bank could be a partner to a country, in opening up and believing in integration into the liberal international economic system as a path towards growth and poverty alleviation are arguably the greatest successes that the bank has enjoyed. And clearly of course the bank is not even beginning to be the whole story there, but it's a good part of the story.

Second, and with an almost exclusive focus in the past 12 years, the bank has tried to take the lead in fighting poverty with that dream, or quote, that dream of a world without poverty. That fight was undertaken almost entirely by working within countries, and so the systemic leadership of the World Bank really fell to wayside.

And third, as we will hear and continue to discuss all day, the bank is often called on to step in where its expertise or its capacity to build expertise and lending capacity are needed for a problem important to the world, reconstruction, as Kemal has taken the lead at the bank and different areas, climate change, or I would say energy security probably more accurately in terms of the bank's capacity to get things done and more. And actually my newest one is food security, which I think would be a terrific global commons issue for the bank to work on with those middle-income countries. In my view therefore, inclusive and sustainable globalization is the long-needed statement of the mission of the bank that allows for thoughtful implementation in all three of the areas with poverty alleviation maintaining its rightful and urgent pride of place.

The second task then of the World Bank, after getting that mission that puts it in the right place in the international system, is to align its operations with achievable goals that relate to the institution's comparative advantage. The bank has decentralized over the years, but it's a large global, financial institution headquartered in Washington D.C., large, global financial, headquartered in Washington D.C. taking on tasks that need large amounts of money like agriculture, infrastructure and clean energy. Those are the naturals. While the bank can do research and advocate for styles of lending that focus on voice and participation, it's not a portfolio for lending and for action. The closer the bank gets to the distant community and the grassroots, the farther they are from the bank's comparative advantage. The bank should find ways to help the poor without pretending that it can turn itself into a small and nimble and independent NGO.

The third task then for the World Bank is to build the bridge that makes it relevant to middle-income countries. Bob Zoellick's speech was strong in framing that question, but frankly I think the answers he's getting from the bureaucracy so far are pretty feeble. I don't think the role of the bank, or major role of the bank, is to help with hedging or advice on asset management or even the local securities market which is very worthwhile and important. I think the role of the bank in the middle-income countries will be twofold. And I guess it's fairly obvious, so I'm saying what most of you know. It's to work with them on the problems of poverty within their countries, both rural and urban, and the migrant labor issues that come between the two, and to work with them on the global commons issues related to globalization.

But of course, as everyone here knows and especially they know if they read Kemal's book, there is no future for the bank in the middle-income countries unless they become much more important in bank governance. I frankly don't believe it matters who has the votes. I think the major countries, actually the large middle-income countries have more power through refusing to borrow than by having larger voting shares. And indeed, if they were ever to take a holiday of one year, and not borrow from the World

Bank, I think you'd see governance move a lot faster than it's moved over the past 15 or 20 years.

But the politics has brought that voting to the fore, and decades of idle and the most tedious negotiations that could possibly take place should be overcome. I think everyone knows that middle-income countries – that the bank needs those middle-income countries even more, and this is what Kemal was talking about, than they need the bank, but that doesn't mean – and this is what Zoellick captured – that the World Bank would not be on a – or that the world actually would not be far better off if the bank could work with those countries in meaningful sectors such as food safety, energy security, climate change, social security and public health. It's a lost opportunity that I think Bob Zoellick is going to try and reverse.

So picking these three doesn't mean that I don't think that the world's hardest job includes more than three, but I thought I'd get our conversation going that way.

Thanks, Nancy. (Applause.)

MS. BIRDSALL: Thank you very much, Jessica.

Ngozi?

NGOZI OKONJO-IWEALA: Thank you. I think you really stacked the deck here by bringing people friendly both tot the bank and to CGD. (Laughter.) Like Kemal, I want to say that –

MS. BIRDSALL: Ngozi always goes right to the heart of – (unintelligible).

MS. OKONJO-IWEALA: I have particular fondness for CGD since they also helped me out when I was doing the debts, we were working on the debt deal in Nigeria, and Nancy and Todd Moss and others were instrumental in coming up with new ideas for helping to breakthrough the impasse and the debt relief. And saying that one of the things that excites me about CGD is just the freshness of the some of the things that they say. I may not always agree with them, but at least it gets you thinking, and I'm saying it because I think this is a kind of thing we need to introduce into the bank. And if we produce – if the bank produced one or two papers like the CGD one going to the development committee, I think we'd have a rather exciting time, wouldn't we? (Laughter.)

So it's obvious to you that I think the bank is relevant and has a future in many of the categories of countries that we are talking about, otherwise, I wouldn't be going back. And I think that there's a chance for the bank to actually change its ways and do things differently under Bob Zoellick, and like Jessica said and Kemal said, I think the new directions that we are seeing from the World Bank, the new World Bank president – (unintelligible) – well, and I think we just need to push and give the support so that the bank can change the way it does business, because it does have an agenda in all the categories of countries and in the global public goods arena in my opinion.

I think my main problem with the bank is that having been on the outside now, I find that it just hasn't developed the kinds of instruments, new approaches and new ways of doing things at the speed that is needed in many of the countries is working on. If you're an outsider, just so many exciting things happening, people thinking about new approaches, people trying and experimenting, even countries coming up with new things. When you get to the bank somehow it doesn't translate. Now, I'm exaggerating to make the point because there are some good new things that come up, but I feel that with the kind of (brand ?) trust the bank has that it should be able to come up with new instruments, new approaches, new ways of doing business to match the changing pace of development in the country and the new challenges that these countries are facing, be it under the category of global public goods or even low income countries or middle-countries. There's a standard set of instruments that hasn't evolved very much overtime, as much as we would like.

I know I'm supposed to focus on low-income countries only, but I'm not going to, because I think the bank has a role even in developed countries, and I'll get to that. People don't talk about that. But let me say that I think it would also be good for the bank to run an opinion survey in the countries that – (unintelligible) – clients just to see what people think. I don't know if it has done any such thing recently to discern what people think about it and what the policy makers also think about its role. I think it would be instrumental working on the opinions in Nigeria it has shown very interesting things, some very (biased ?). I think you can learn a lot by giving voice to some of the issues. Many of the debates taking place about the bank are occurring I think outside of the bank. I may be wrong, but that's the feeling I get, and the banks needs to engage itself to stew and formulate and think about some of these issue so it can participate in the debate and not just be a recipient of advice from outside.

Now, in terms of low-income countries, people – I guess everybody agrees that there's no issue. This is where the bank has a mandate. Kemal said it very clearly, and it is true. This is why IDA is very important and the replenishment that is presently ongoing is key. However, I want to say that people shouldn't take the bank's role in low-income countries for granted, because I think even there, there are important changes to be made in terms of the way the bank works and the way it does business. I think there's need for much greater differentiation in the instrumental approaches to low-income countries. And there's need to realize that there's some frustration also on the part of these countries with the way the bank does business. We've got The Bottom Billion that Paul Collier talked about and among those there's an exciting array, even if you don't agree with the book, you find a very interesting set of ideas on challenges and I'm not touting it because my name is mentioned three or four times in the book – (laughter) – but because actually I think there are some interesting ideas.

It arises from the work we did on the Low Income Countries Under Stress in the bank where we advocated that among these fragile states or low-income countries there are a group of countries where the bank needs to be considered, not withdraw as it used to do but staying but building knowledge. There are countries that really can't do much either because like Myanmar, the situation is so tough in terms of governance, or Zimbabwe, or others where there are conflict situations. There are cases where just maintaining its knowledge of the country and trying to keep up so that when there's a chance to work, you don't start from scratch, so that's an instrument, a knowledge instrument in countries where you can't do any work.

We advocated in some of these countries that NGOs and others, bilaterals are allowed to do lending and the bank should not focus in those areas. The more I think about it, the more I also think that then bank needs an instrument that allows it the freedom to reach the poor as directly as it can. I know many people don't agree with this. They say it's too little. But why can't the bank think of an instrument that does not involve the government with which it can work, with NGOs and others directly with poor communities in some of these countries, because it does have that objectivity that Kemal talked about and people do trust that when the bank is doing something, it's not because it has an agenda. Bilateral – (unintelligible) – even NGOs are sometimes suspect in many of our countries as having an agenda, but the bank has this great asset that it needs to exploit even in difficult low-income countries, but it doesn't have the instrumentation to do it, so we need to think now that it has a grant making capability in certain countries, why can't this be deployed to support some of these organizations to work directly with poor people? Why can't we think as The Bottom Billion mentions of an aid venture fund? You know that that supports maybe (10 around ?) countries among the low income. The bank is sometimes slow when a country's reforming because of the CPIA, a nice – (I heard ?) from this when I was in Nigeria. You know, the CPIA is a couple of year behind so that by the time you finish reforming and they change, the CPIA is out off government and out of power. (Laughter.)

You know, the bank needs to develop an instrument that gives and recognizes work being done to reform, adapt momentum support thing, and if it has this kind of approach so that you help reformers to sustain and support what is going on, whilst they are doing it, I think this is one of the instruments we need to think about rather than waiting till they're out of power and then you come with a new CPIA and a new IDA location. And the other thing is also thinking of one instrument independent service authorities that Paul mentioned in the book which I think like the independent revenue authorities is an interesting idea, where the aid community comes together again to maybe put together a fund that can support service providers that are independent of government but at least can tackle some of the dire problems of poverty that face constituencies, poor people in low-income countries in difficult situations.

So I just throw some of these out as an idea, because my big (thing ?) is even in low-income countries we need to be more versatile, more interesting, have a different approach to doing business because some of the countries they are coming up with these ideas on doing them of borrowing from others, and the bank can do so much in helping to spread these ideas and share best practices. In many stable low-income countries there's a challenge. Many of them have done the ground work in terms of macroeconomic stability, have put in the reforms and so on, and yet, the supply response is not there, growth is not as fast as it should be, although it's improving. Many African countries, as you know are now doing at (growing-up ?) rates that even five, six years ago we wouldn't have thought about, but – (unintelligible) – 7 percent edging towards six and seven according to World Bank and IMF projections.

But the issue is that they could do even better if some of the bottlenecks constraining growth are taken away and this is where the bank can play a role, but needs new instruments. The biggest bottleneck is infrastructure, both human and physical; physical infrastructure of course, the roads, the ports, the utilities and so on that are needed to really get the private sector the kind of environment it needs, human infrastructure in terms of education, of facilities including skills that need to be built and even health facilities. So there's a big job to be done here in terms of this infrastructure build in that the bank can play a role, but it's not the role where – it's money is going to make the biggest difference. I think of the amount needed now on the African continent with estimates ranging from $20 to $40 or $50 billion for infrastructure. Alone, the bank or multilateral system doesn't put in more than $3 to $4, $5 billion in that. So it's a small amount, but the bank has convening and catalytic power to give guarantees that can really catalyze the massive flows, that can tap the liquidity that it out there in the system, and yet, it's not really doing this. Efforts aren't going in than in a (scattered ?) fashion, but why can't we look at this? This is a very important role in the more stable developing low-income countries that the bank can play, and I think the IFC too and I think it needs to play very systematically and quite quickly and rapidly because the bottleneck is there.

So I've just taken the low-income countries to show that even among where the bank has a role, it cannot be complacent and say, look, we have a role, so we continue doing business as usual, so as I'm concerned, the bank has to change its way of doing business in low-income countries.

Middle-income countries have already been spoken about so I won't say much, but I just want to stress that the bank needs to carve out its role in middle-income countries, and I think Jessica has talked about it, helping solve the poverty problems, working, making long-term money available for some of these countries to develop new ways and approaches that ordinarily the 10-year money or five-yeas money that they can get from the capital markets would not finance. So there's a niche there. I think the reason I want the bank to also stay in middle-income countries is because the low-income countries needed to do that. The middle-income countries present approaches and ways of doing business that need to be transferred from where they are to the low-income countries. Of course, you can do this without necessarily being involved in lending, so I'm not saying that because of this the bank should just carve out a lending role, no, but it needs to maintain and define carefully its niche in these countries, because I think there is one.

Moving quickly, I also think that the bank has a role in developed countries. Rarely is this talked about, but it's very clear to me that the bank has a very big advocacy role to play in developed countries, and for many of my years in the bank, this never happened. It was I think during the time of Wolfensohn that we began to see the bank come out and talk about and represent developing country views on trade issues, talk about the huge subsidies that are going on in terms of agricultural – or in terms of agriculture in these countries in Europe and in the U.S. and Japan, and that's when the analysis of the – is it the $2 per capita cow became famous and so on and so forth.

The bank played a huge advocacy role in doing – first, a huge role in doing the analysis of the underlying issues on the trade front that were pertinent to low-income countries, and then coming out and speaking in the developed countries about how to tackle such issues. The bank is also playing a role now as Nancy said on the issue of asset recovery. You can call it a global public good – I like that – in which developed countries keep money have corruptly stolen out of developing countries whilst talking about governance issues when they themselves have a governance problem that they refused to tackle, and now they say if you're keeping stolen goods in any country, then you too, you are liable. The bank needs to speak out on such issues. On issues of migration, and the impact on low income countries, the bank needs to speak out.

And I could go on and on but there are a series of advocacy issues that the World Bank needs to promote in developed countries, so to me that is a niche and a role it needs to carve out as an ambassador for low-income countries, and of course coming to the global public goods, I don't need to add much because I think all has been said. One of the things that surprised me recently at the Clinton Global Initiative in New York was how often in the small sessions people called on the bank to step in and do one thing or the other on microfinance. People talked about the role that the World Bank and the IFC could play in promoting this an instrument beyond what is happening now. On SMEs the same thing. Of course, on climate change and global warming, the same thing. And so whilst we know there are issues, there seems to be a clear demand that on some of these problems, the bank definitely has to step up to the plate. People are expecting it to take charge, people are expecting it to help scale up on some of these issues, and the question is will the bank do the necessary – I should say the bank group, will it do the necessary changes needed to be able to step up the plate?

Now, finally, I believe it cannot do any of these things unless the governance changes, and (I agree ?) completely with what CGD and my previous speakers have said. I think that these reforms cannot be done without a change in the attitude towards governance of the developed countries. I believe that the developed countries have a blind spot. They have a blind spot. They cannot see as Nancy said that it is time to really move on this governance issue, that developing countries, middle-income countries do need that stronger voice, and even though the voting may not be the key thing, but it's a signal of something, is a signal that people recognize our right and that you have a say and that you have an input. So this needs to be taken into account.

The low-income countries need a voice. You cannot be doing development to support me. If I have no say in how it is being done, or I have very little say, and this is a big flaw. It's for this reason that we advocated in the Malan Report on bank fund collaboration that I worked on with Pedro Malan, Caio Koch-Weser and some others, the idea of a separate IDA board where low-income countries have a stronger presence, a stronger voice and a stronger share, stronger voting power whichever way it is done, and we really need to think about this, whether we can work with a separate IDA board that can give low-income countries a stronger voice. So it's not only middle-income countries that need a voice. We have to think of low-income countries.

So to summarize, a strong role for the bank across the board, the areas mentioned, yes, a need to do it, I put in (lix, mix and dix ?) in low-income countries, middle-income – (laughter) – countries, developed income countries if you want to call them that. In summary, yes.

MS.   : (Rick, Drix ?). (Off mike.) (Laughter.)

MS. OKONJO-IWEALA: Okay. I think it's more polite than (dix ?). (Laughter.) Anyway so lix, mix and dix. The bank has a role in all of them, but it has to do this by restructuring its instruments, restructuring itself to produce those new products, new services, new approaches and instruments and it cannot do this unless it's governance, and the people who are shareholders realize that there's need for a change. Thank you very much. (Applause.)

MS. BIRDSALL: Thank you very much, Ngozi. Now to Ngaire Woods. We introduced you earlier, Ngaire. Would you mention the full title of your excellent book, The Globalizers, or is that it?

NGAIRE WOODS: "The Globalizers: The IMF, the World Bank, and Their Borrowers."

MS. BIRDSALL: There we go.

MS. WOODS: All right. It's a huge pleasure to be here with the Center for Global Development and in the Carnegie Endowment building. Sorry I was late. In Oxford, it being an old university we move very slowly so I still have the program which says that we're starting at 9:00 a.m. – (laughter) – but you Washington D.C. are always so fast. (Laughs.) It all moves beyond this.

I think what I'd like to do on this panel, my co-panelists have ranged over a series of specific tasks that I think they've argued very persuasively the World Bank could pick up, and it's a quite a daunting range of tasks and modalities. But I think we also need to reflect as Kemal and I suspect Nancy in her introductory comments given having read your excellent paper with Arvind, that we do need to reflect about whether some of these tasks can't also be done by bilateral donors, by other donors, by foundations and so forth, and to think therefore to come back to I think what Kemal said about what the bank is uniquely placed to do.

So in the three tasks that I want to set out, the very first which I think is the most important task is a far more political one, and that's the World Bank as a multilateral organization. And what I'm going to put to you this morning is that the bank needs globalizing, and that's going to seem strange to you because you probably do think that the bank is a global organization. But let's think about the broader canvas on which, or in which the World Bank is now playing. We are living through quite a significant power shift or the beginnings of quite a significant power shift. If we think about the whole way we've come to understand cooperation and the role of the World Bank and other international institutions in the post World War II era, it is hinged upon a coalition of great powers led by the United States which has produced for the world some stable foundations of a trading order, an energy order of stable oil prices and a global monetary order.

And in all three of those areas, the tectonic plates are shifting. Whereas 20 years ago, the seven sisters Anglo-American consortia in the main controlled most energy supplies, today, somewhere between a third and a half of oil and gas production and distribution is being controlled by national oil companies based in emerging markets. The same story holds true of the shift in trade, that's probably already been discussed, and of course, in monetary cooperation it's the case not just that emerging markets are now sitting on billions and in the case of China $1 trillion worth of their own reserves. I think the key power shift that we've seen occur is that international financial stability now depends at least in part on the decisions that emerging market creditors make in respect to the United States as (debt ?).

This is a real shift from a world in which the coal industrialized countries could make decisions and could in a way globalize those decisions using organizations like the World Bank. And so I think unsurprisingly, there's been a lot of hysteria about the rise of the new donors, China, the Gulf States, the Gates Foundation, donors who are dwarfing in some countries and in some sectors, dwarfing the World Bank's efforts to a wholly new magnitude. And I think alongside the hysteria that surrounds the debate about these new donors and their political objectives and effects, we do have to take into account the fact that what those new donors are highlighting are three very deep flaws in the system of development assistance that the wealthy countries with the World Bank at its heart have put together, three of those.

First the promises of new aid. If we look at the promises of new aid over the last three years as the World Bank has documented, as the OECD, DAC have documented we find that net new flows to sub-Saharan Africa have actually been reducing, but if we look at China's flows, if we look at the Gulf States flows, if we look at the new emerging donor flows, we find that they're all increasing and that they are on track to double their aid to some countries. If we look at conditionality, some of hysteria, and let me focus on China because I think the hysteria is being mainly focused there, but I think some of the lessons are true of the other donors, the hysteria surrounding the idea that China is promoting bad regimes, it's undoing the good governance agenda that Western donors have tried to put in place.

Now, that might be the case in countries and I'm not here defending Chinese aid. What I want to highlight to you is the flaw that it highlights in Western aid which has neither succeeded as conditional lending in setting a gold standard for what projects should look like in spite of the aspirations of some who have tried to do that. It's neither succeeded as a kind of goal standard, nor has it met borrower priorities. So traveling around sub-Saharan Africa, I think the refrain that we hear from officials is look, we had 10 or 20 years of structural adjustment, and now, we're going to have a decade of poverty reduction, but throughout all those 30 years, we've been asking for one thing which is growth in our productive sector, which is supply side assistance that will actually help us to grow an export into a better position in the global economy. When China goes in bundling large amounts of aid into special trade deals and investment deals, China with its own 20 percent growth rate, it's a very persuasive argument, and it does put the Western donors in a very different and uncomfortable position in arguing why their aid might be better.

So what I would say, one of the responses to China, the Gates Foundation, the Gulf States has been a constant refrain within the G7 to come up with principles, for example the principles on responsible lending which should apply to these new donors, and this seems to me to highlight what's wrong with the multilateral system that we've already created. I don't believe it will work for the G7 to produce codes and standards on things like development assistance and then expect the new donors to simply be standard receivers and to apply those. What's missing is a table at which those new donors are genuinely engaged.

If we think about the OECD,DAC, the G7, even the fund and the bank as your debate this afternoon, later today on governance, these are not table around which the low-income countries or the middle-income countries or the emerging donors actually have a significant voice, and so what we lack in the global system and what I think the World Bank is uniquely placed to deliver for us is a table around which there can be a multilateral engagement, but for that to happen, we need a quantum shift in the confidence of emerging donors and emerging economies in the bank as a multilateral institution, and here I think there is a huge divide between the debate that happens in Washington D.C. about quota reforms and voting reforms and the debate that's going on in Beijing, in the Middle East, in Latin America about whether or not the World Bank is relevant or has any role to play.

And in bridging that debate, I think we have to think in a much bigger way about what kind of change is required, and that's why I started my comments by saying we need to globalize the bank, because I think the bank, which has done a huge amount of good in the last 50 years was constructed as part of a great power controlled world order which delivered, as I said in my opening – delivered a monetary system, a trade system and an energy system and so forth that was stable in the post-war period.

I think that the great power management system is actually breaking down and it's breaking down not just on development assistance, and so what we need is a globalizing of the World Bank to recognize the fact that power is and will be shifting, and that probably means a highly devolved bank in the first instance, not because we can argue as economists or as rationalists that that makes sense because there are good reasons for doing global public goods at the center, but because I think what the bank is going to need, if it's going to work as a multilateral forum to engage the emerging countries on the really big issues that matter to them, we're going to need a stake change that completely reinvigorates confidence in the bank as a multilateral institution, and you won't get that through a small voting share change or a small change in voice on the board, and that's very clear when you step into each of the regions in which these countries are rising.

Just two final comments. I do think that the bank has a very important role in global standards setting, and I'll be totally honest, I'm not sure how this squares with my vision of the bank as a multilateral forum, because I'm very aware as most you in this room would be that if we look at China, it is the case that even when China hasn't been part of forging international standards, it takes them seriously, and I think that there the bank has had a role in some of the thoughts pieces that the bank is now producing, this idea of the bank setting for itself not lending to all, but lending as it were to demonstrate best practices is an important idea.

And then finally, I just want to come to the global public good which most mentioned in bank discussions which knowledge. Just to make the point that I think that there's an enormous difference between the bank fulfilling information gaps for individual countries and for regions and for the world, and the bank as a research institution, let me be provocative and say, I don't think that the bank has any unique role as a research institution, and I think what we've seen in the recent evaluations undertaken of the bank's work like the one that they're just published on middle-income countries demonstrates that there is a very large gap between the research that the bank is doing and the kind of information that member countries actually want and would use.

So I think when we think about the bank providing a global public good in the information realm, we should distinguish these two and think about what kind of information actually does assist governments, actually does reduce transaction cost, does alleviate the information gap, and leave research to all those institutions, universities, institutes, the Center for Global Development who do research, and I'll stop there.

Thanks. (Applause.)

MS. BIRDSALL: Well, thank you very much.

Really, I've been on the edge of my seat for all presentations. What a wonderful panel. Let me go to a few questions to each of our panel members. Maybe they can debate a little bit with each other. I want to start with Kemal's issue. He spoke about the logic, I would put it this way, the logic of the bundle, the famous of infamous bundle of advice with lending that has been the now 16-year-old key product, key instrument of the bank for its engagement in the developing world. And one of the things that we say in the essay that I think you have is that it's time for the bank's leadership and the shareholders to think more clearly about what to do on generating signals of the demand for advice from the member countries, the borrowers – or I shouldn't say the borrowers, and I don't want to say the part two countries either – but from the countries that use the services of the bank.

Let's take it as a given for a moment that borrowing from the middle-income countries and the large emerging markets is going to continue to decline, that's a sign of success. In Jessica's liberal international system and in – so it will continue to decline, so the question is how will the bank continue to accumulate and sustain its brand trust function which requires really in way that it's constantly working in a full range of countries on a full range of issues, so what we suggest Arvind and I is that at least it's time to be more clear about the option countries have to purchase advice and knowledge sharing, not that – they could still have both, but just have the option of buying advice and see where the market takes the bank, and I wonder if you'd just comment on that from the point of view of how you saw things when you were in Turkey. Are there any areas where you would have been willing to purchase or interested in purchasing advice which were outside the areas where the bank could or was doing operations, doing lending operations?

MR. DERVIS: Well, let me just say two – one thing, and then I'll give an actual example which might be helpful. First, I think in terms of the bundle, it is high time to change the composition and also particularly to look at the lending side for the middle-income countries, so I'm not at all saying that the bundles should remain what it always was in its fairly rigid and traditional form. And I think things are beginning to change. They need much more than that. But let me perhaps in illustrating what I meant give you the actual example that I experienced in the energy sector. We had a very, very messy energy situation. There had been an energy shortage in the early '90s which had led to a panic, outages and all that, and negotiations of all kinds of contracts, mainly by the Energy Ministry, but there was the need for Treasury guarantees thankfully because some of these contracts had electricity prices – Turkey buying from international companies or even domestic investors electricity at $0.15 kilowatt hour for 20 years, all kinds of clauses which in the view of the treasury put the whole advantage on the side of the investor and very little on the side of the country.

On the other hand, these things had been negotiated, there were energy problems, there were problems in terms of how secure we were in terms of future energy supply and all these kinds of things. It was invaluable to sit down with World Bank counterparts and experts to discuss the situation based on international experience, based on the infamous Pakistan project, some of you may remember. They based on what was happening in the world, but in way where we felt on the treasury side that really the bank was independent but also was not going to necessarily tell us what we wanted to hear. I think if you hire consultants to do that, the tendency will be for the consultants to kind of try to figure out what you want, that's their job in a sense and then respond to it. That was not the chemistry with the World Bank. The chemistry there was to really look at the situation from the overall international experience point of view and then look at the options. Once that was done, we went and hired consultants and lawyers, and in fact, the World Bank financed some of them, and their role was different.

MS. BIRDSALL: But is your point that if the bank was not lending to Turkey it could not have had that independence?

MR. DERVIS: My point here was more trying to differentiate between a consultant we hire and the dialogue we had with the World Bank. I think that's an important distinction. Now, in terms of the package, I do believe that the fact that the bank staff had been active in the country trying to lend, failing to lend, discussing it with the minister of energy, there was this whole history of engagement, I think their advice was much more practical in grass roots than for example academic advice will be. There is a big difference there. However, I don't necessarily say that the kind of traditional loans, what's needed to have the bundle, and as I said in my opening remarks, I don't have the magic answer. I think some kind of involvement through a financial kind of stake, whether it's in form of guarantees, partnerships, a concessional element when it comes to public goods, I think will enhance the quality of that kind of brainstorming advice. In the absence of that, I think it risks being much less practical.

Last point, the concessional element that the bank should have and it does have in the sense that there's not return to capital that the bank pockets already, so even in the traditional lending there's a little bit, tiny bit of concessionality, but I do believe one could argue for a much more significant level of conditionality – in fact, Nancy and I wrote a paper on this rather focusing on the poverty and (energy ?) issues, but I think we could argue the same things for climate change issues. There is in fact a very valid conception, valid point or case for building some concessionality into the World Bank's financial product with the middle-income countries, provided that that is targeted at the global public goods agenda including the extreme poverty agenda which in some sense is also a global public good, and therefore, the financial – if the bank didn't have that, I think it would be very difficult to see a financial future in the bank in the middle-income countries, but I think with that, for example, in the energy sector – in fact, very large scale lending for energy security and clear energy, thanks to the concessionality element, if the international community is willing to build that element into the World Bank's resource.

MS. BIRDSALL: Right. Right. And that goes back to your point about a trust fund and maybe our $3 billion point. We'll see.

MS. OKONJO-IWEALA: Can I just comment – (inaudible)?

MS. BIRDSALL: Yes, indeed. Please go ahead.

MS. OKONJO-IWEALA: I want to comment on this unbundling question from the point of view of my experience as finance minister working to try to get debt relief for the country, because there was a beautiful piece of work that the bank did. We were trying to think conceptually how do we persuade the Paris Club that at a time when Nigeria has oil and oil prices are climbing, it should give the country debt relief. Nobody ever believed it would happen. But sitting down what came to me as I looked at all these issues is the fact that on the one hand, donors who are telling us that we had to reach the

MDGs by 2015 which would require tremendous amount of investment. On the other hand, they were trying to tell us to pay back significant amounts of debt. Nigeria is a non – (unintelligible) – country, was getting these contradictory signals, and if you did your homework to look at what it would take, it seemed to me it would be a big jump. But we needed someone to help us to a very good piece of work.

MS. BIRDSALL: I think you said that the bank did that piece of work. Is that what you meant?

MS. OKONJO-IWEALA: Yes. So the bank, we went to the bank –

MS. EINHORN (?): (Off mike.)

MS. OKONJO-IWEALA: No. There are two pieces of work. There is one piece of work – (laughter) – (a good board member ?). There is one piece of work that CGD did on coming up with a mechanism for us to try to buy back debt and get the Paris Club members to agree to some deal, but we need that. There was another piece of work which you probably – (unintelligible) – done by Brian Pinto at the World Bank with Hafez Ghanem, the country director was marvelous in trying to look at debt sustainability with the MDGs in mind, and it was this piece of work that was another piece in the puzzle of convincing the Paris Club that one, along with the new instrument, we really could not have debt sustainability. We really could not finance the MDGs. At the same time, as we're paying them, the debt and have a country with the kind of debt sustainability profile that we were talking about. Somebody needed to do the underlying piece of work to show that there was a contradiction in terms, and if we wanted to reach the MDGs, we needed this debt forgiven because the amounts were enormous. That was done by the bank.

I'm telling a long story but all I'm trying to say is that I would have at that point in time been willing to pay for that piece of advice. So there is a market, a demand, I think, out there for some aspects of (unbundled ?) advice, I say some aspects, but it has to come quickly, nimbly and respond to the policy issue, and the bank is not always as good in doing this because they take too long. I could equally give examples of when we asked for advice, and by the time the work was done, the issue was passé. But this is one good example for a very targeted unbundled piece.

MS. BIRDSALL: Very good. Thank you very much, Ngozi. Jessica, I spent some years at the Inter-American Development Bank.

MS. EINHORN: Executive vice president, senior vice president.

MS. BIRDSALL: Right. And – that's not the point. (Laughs.) The point is that at the Inter-American Development Bank, a fact still little known to many people working with and in the World Bank the borrowers, Latin-American and Caribbean hold 50 percent of the votes. So I just want to put on the table that I don't agree at all that the votes are irrelevant. There's no question – I mean, the most interesting single factoid that reflects this power at the IDB is that at the IDB, those borrowers including Brazil, Mexico, the big borrowers have never agreed to a transfer of the net income from the hard window to the soft window.

So there's a sense in which at the IDB – the IDB is a little more in Ngaire's sense truly multilateral, only a little bit more, but the other issue at the IDB that's very interesting is that the president of the IDB by nature of the setup is always going to represent a borrowing country, and to be elected requires the U.S. has an effective veto because of the needed weighted votes that you need to be president. But the other countries, the borrowing countries, also if they get into a coalition have an effective veto since you need to have a sort of double majority, sufficient weighted votes and a majority of the members, so it's a very different system which in my view has generated ownership.

So I just wanted to put that on the table, but I then wanted to proceed to note some slight tension between Jessica's point that the grass roots activities are far from the comparative advantage of the bank, which might imply a little bit less emphasis on the continuing decentralization of the bank's operations, and Ngozi's point that even in the so called LICUS countries the bank could support – I guess you would call indirectly support retail operations in a sort of first tier, second tier sort of arrangement and ask each of you to say a little bit more about this point, Jessica, and on Ngozi's part, to indicate to what extent should the bank have a threshold of governance within countries below which it really continues to provide advice, continues to have a presence but absolutely doesn't more any money, LICUS, independent service authorities whatever given that there are plenty of other donors who have a comparative advantage in working with NGOs, dealing with grassroots, on that – for that group of countries I find myself a little bit with Jessica but maybe both of you could say a little bit more about that point. First, Jessica.

MS. EINHORN: Okay. Let me say on the vote, I think that's an excellent example, so I'm not against having more votes. I'm just saying that I think on the margin, these are not the decisive issues. I will say I had it written down since Kemal spoke and all the way through, we probably should sometime today talk about the fact that the bank is actually a money bag that earns income that then the donors who don't want to make more budgetary contributions to IDA use to take money and put it into IDA, and I think the most recent number was $3.5 billion that was going from IFC and IBRD, so if you're looking for a $3 billion trust fund that could be used for middle-income countries with might start with middle-income countries are paying –

MS. BIRDSALL: Could be used for global public goods.

MS. EINHORN: For the global public goods or anything else. So the reality is, there used to be an expression I think it was Herman Kahn at the Hudson Institute talking about income levels and he used to speak of the U.S. political system, A is the riches, on down A decides what B should vote that C give up for D? (Laughter.) I think that's a little bit of what goes on –

MS. BIRDSALL: If I can interrupt with just a tiny anecdote. In about the year 2000, I managed a commission chaired by Paul Volcker and Angel Gurria. Angel Gurria is now the head of the OECD, he is a former finance minister for Mexico, and one of the things that that commission recommended was the establishment of some sort of a fund in which the borrowing countries who indirectly finance some of these transfers now to IDA would have more control and more votes and that would be repeated in the 2005 report. This is a way as you're suggesting to establish a global goods trust fund and have representation with power from the middle-income countries. Now, I mention it just because it was not easy to get Angel Gurria to agree, but in the end, he did, and that was extremely interesting to me because of course Mexico is a very big borrower and the effect of that kind of a transfer is to sustain or even increase depending on other circumstances the cost of the liabilities that Mexico –

MS. EINHORN: All I'm saying is that I don't think, and we don't want to go into all the financial instruments. It doesn't have to be that complicated that the bank earns income – the first – (unintelligible) – on the income under the articles have agreed to make sure that it has sufficient funds for reserves to cover its balance sheet of lending because there are risks when you lend to emerging markets, they may not have been apparent during the last five years. They were certainly apparent in the 10 years before that. But there is income in the system and the question is that that income stay within the system for the purposes or is it off budget financing which is what it's turned into for everything that any part one country wants to get done without having going back to their own parliaments or congresses.

On the issue of what should be done with the poorest, I think it would be absurd for me to tell Ngozi what should be done for the poorest, so I'll divert to her. I did just want to say that I don't think the decentralization has to be linked to the grassroots. The decentralization makes sense because even if you're doing the largest of projects, having some proportion of your colleagues as the World Bank closer to and more expert and a number of you are in the audience – (unintelligible) – from Nepal and others, who have that experience, so I think the idea of decentralization is not necessarily linked. On the contrary, I think it helps in terms of the sector kinds of discussions that Kemal Dervis was talking about.

MS. BIRDSALL: Ngozi. Can we get the World Bank out of lots of money in countries that –

MS. OKONJO-IWEALA: Yes. Maybe I didn't make myself clearly understood. I said – I don't disagree with what you said at all. I think in doing the LICUS work, we did note that there were countries where the bank would not or should not be lending because the governance institution was just not adequate for the bank to do that, but what we said, we noticed in the background work we did that the bank tended, budget tended to be withdrawn completely and the bank tended to become completely absent overtime from these countries, so that when the situation presented itself for the bank to do something, it had no knowledge, it had lost its knowledge of the – (unintelligible) –

economy and the way it was functioning, had lost contact, and we thought that we needed to maintain a minimum level in such countries. Obviously, one very good example is Myanmar-Burma. At some stage down the line we need to recognize that the situation in that country will change, and when it does, will the bank be positioned to act, so it needs to maintain a basis. Maybe Zimbabwe is another example. So that's what I was talking about.

On the other hand, you had places where in addition to knowledge in these fragile countries, maybe the next step up, say Haiti type situation where things (are ?) improving a bit, where the bank could also think in terms of maybe instruments that could support either NGOs or work with other bilaterals to deliver services, because the issue of these global public good are (bad ?). You can't completely – if you have things like HIV/AIDS and diseases that cross borders and so on, you need to think in terms of how to work with those countries without lending to the government. What other instrumentality can you have? And I wanted to say this that we noticed that in many cases when the bank completely left a country the bilateral did too. The bank is a leader in many of these things, so people get cold feet when it leaves a country, so do the work and you'll find that many of these people are not there as well, so you have to look at it and see is there a herd mentality among donors? When one leaves, the others leave?

MS. BIRDSALL: But you mean leave in terms of lending or leave in terms of staff presence and commitment of administrative budget? Isn't that just a problem to be solved with way the budget is administered – the bank's own budget is administered? You can stay in a country that the link has been too long between budgeting for a country of the bank's own money, right, and lending. Is that what you're saying, or are you saying donors leave with respect to operations?

MS. OKONJO-IWEALA: No. They've left with respect to operations. They left with respect to everything. We had situations like that.

MR. DERVIS: Could I come in just in between there, make a pitch here for the United Nations-World Bank partnership. It's a continuum, but I think one of the strengths of the United Nations is that the presence continues even in the worst cases and even when sometimes it's criticized. I think with a stronger partnership, particularly with UNDP but also with UNICEF and others, some of that could be managed. I'm not saying the bank should leave but there is usually a stronger UN grassroots presence in conflict situations and in very difficult situations, which also I think to some degree could address Jessica's how decentralize that – because the UNDP is extremely grassroots and local.

MS. BIRDSALL: Yes. It's a matter of comparative advantage.

MR. DERVIS: And there may be some comparative advantage to UN presence and more high-profile activity in both situations.

MS. BIRDSALL: Okay. Ngozi. Yes.

MS. OKONJO-IWEALA: Sorry. I want to agree strongly, actually one of the things we recommended on the fragile countries then was that where there was a case where the UNDP or any of the other organizations had a presence, the bank could support with its resources this organization to be able to do more because there was often an issue of they not having enough resources to do the necessary work, so I strongly agree with Kemal on that.

MS. BIRDSALL: Very good. I want to ask Ngaire, Ngaire said we need to globalize the bank and in fact, I was spellbound by everything you said, and I think there was a silence in the room. You were getting through on some issues for sure. The question is what do you mean – if you were Bob Zoellick, what would you do in order to globalize the bank, in order to change it from what appears to be part of an old system in which the U.S., the G7 were running the world to an institution which really does represent all of its members? Kind of the mechanics. And anything else you want to comment on because you've been polite in waiting.

MS. WOODS: Exceptionally for me. (Laughs.) I guess the very first thing is instead of asking the question in Washington D.C. what is it that the G7 might be prepared to give up, I would have Bob Zoellick go to China, South Africa, Brazil, the Gulf States, to Nigeria, absolutely – (laughter) – to New Zeeland, and to ask the question differently which is to say what kind of international organization would you have confidence in as a forum in which to create mutual arrangements to start the question on a much more open slate.

Let's go right back to basics. Why do governments participate in multilateral organizations? There's three very rational reasons why they do so. The first is not about binding themselves into rules, there's a lot of literature about why states don't tend to do that, but they do try to set up mutually predictable understandings of each other's actions, right? Quite basic. They do use international institutions to reduce transaction costs and they do use them to reduce uncertainty and to enhance information. These are core reasons for states to use the World Bank and I think what we do need to ask because we can't leave the discussion without coming back to Ngozi's dix, right, so we need to ask why is it that the dix are not using the World Bank which they created and they do control?

And I think that's the question in a way that's been a little bit missing from this discussion is that one of the reasons why the World Bank has much less leverage than it used to have is because when it's in country now, it's in country alongside 20 other megaphones, DFID, PECFA, the Global Fund, the WHO, the UNDP, Gates, Medicines Sans Frontiers, USAID. As the Ugandan budget director put it to me, she said, so I listen to all these guys all day long and then I realize that there's hundreds of them but it's the same six governments and they're coming in different disguise, right? (Laughter.) So it's the same guys and they go out, they get into new clothes and they come in and they tell me to do one thing and then they go out the door, they get into a different hat, they come in and they tell me to do something different. This is really serious because we have a multilateral organization in the World Bank to deliver some of these benefits of multilateralism, and there are even those who are in control of that organization are not using it.

So for Mr. Zoellick, two things: one, not just get out and about to do the meet, greet and I'm here to listen which every World Bank president does and has to do, it seems, but – (unintelligible) – ask the other question or to have people ask that and to get an honest answer. The first answer I get when I ask that is it cannot be in Washington D.C., and that's going to be a difficult one for Mr. Zoellick I suspect. Anyway, and second to take seriously why it is that even those with a stake in the institution aren't using it before we ask why countries without a stake aren't using it as a forum for multilateral discussion.

MS. BIRDSALL: Okay. Very good. We have a few minutes, not too long, but a few minutes to hear questions from the audience. Try to please keep them short and introduce yourself of course. Jo Marie. And please wait for the mike because we're making a transcript.

Q: Hi. I'm Jo Marie Griesgraber with New Rules for Global Finance Coalition, and I have two quick questions: one is first a comment for Ngaire, yes. World Bank (get ?) out of this generic alleged research which isn't intellectually rigorous. It's been edited 75 times and it turns out – (unintelligible). Rather the rigorous research that can be done with the independents of a research institution. Number two is Ngozi. In terms of the – you alluded to the Melan panel and the work between the bank and the fund, and there's been little reference to the relationships between those two institutions and I'm wondering if you could address the need for or how to have those two institutions collaborate on assessing the impact of their works especially before they begin requiring governments to do it?

MS. BIRDSALL: Maybe we'll collect a number of questions because we don't have – then we get maximum chance to hear other people and then ask each of the panelists to have a last word. On this research question I wonder also let me add to it, what about impact evaluation? I just saw Francois Bourguignon come in. He's been a major leader in pushing the bank to get more engaged in serious impact evaluation. Do you count that as research, Ngaire, in what you said about research at the bank? I saw Nora Lustig.

Q: Nora Lustig at George Washington University. One question I have is when you discuss global public goods, there is one that the bank has been involved and I think it should be involved even more which is the production of data which is used for country assessments, comparisons, et cetera, and there's so much to be done in that area that could be tremendously useful that I think has to be kept as part of one of the key priorities for the bank has the comparative advantage.

The second thing is about research, I disagree very strongly. I think it's very hard to have a knowledge oriented institution, a knowledge bank if you don't have researchers because they are the interlocutors with the research community that is in academia. If you don't have those interlocutors, the bridge is not built, and I have been in different settings in my career and I tell you it makes a hell of a lot of difference when you have the interlocutors there that are commanding the respect of academic and policy making communities alike, otherwise the bridge is not there.

Thirdly, about the idea of not lending just to government, I would go beyond low-income countries. I think maybe we should also think about the poor and middle-income countries. I don't know whether we can – if you think about power relationships, obviously you always need to think about governments. We talked a lot about governance requires governments as partners, but perhaps we need to think about the poor and the disenfranchised more broadly when we think about development, and I always bring this piece of information. If you take the people who live below $1 a day of Mexico and Brazil, it is equivalent to the total population of 17 least developed countries. The numbers are staggering when you start to add up the poor in the middle-income countries. So maybe we need to think about instruments that are not just for the low-income countries, but for the poor in the middle-income countries that are not getting the benefits of development through the normal processes, and I would like to hear a little bit more about how would these instruments actually work. Thank you.

MS. BIRDSALL: Thank you, Nora. I saw somebody in the back, a hand up. I can't see the person but –

Q: Nancy Alexander, House Financial Services Committee consultant. One word that hasn't come up on this panel is the word employment, and the World Bank released its long term strategy draft not long ago, and the overview didn't contain the word job, didn't contain the word employment. There's a wonderful UNDP economist that says if one were to pick a sustainability indicator for the MDGs, it would be an employment indicator, because by having employed individuals in the household, one has a chance of getting children to school, getting family to help clinics and so on. I find it very mysterious that this is the absent issue in important high level discussions, and in terms of the World Bank's input, it loses some legitimacy because the reforms that it promotes key off the World Bank's evaluation of the employment context in the doing business report, and that report and the way that it scores countries enables human rights and labor abusers to achieve very high scores. So I think that this is an issue that –

MS. BIRDSALL: So let me ask you to come to your question, Nancy. I think you've made a very important point.

Q: Well, my last point is that the figures show that collective bargaining is being dismantled all over Africa, and so I want the panelists to answer the question of why this is an absent issue and what you would do about it if you were to give advice to the bank?

MS. BIRDSALL: Okay. And I saw Arvind with a two-hander? No. He's okay. One more? Two more. But if you have to keep them short. First this and then – very short. I'm told I'm behaving badly and we're over the time.

Q: I'm Armand Pereira, director of ILO in Washington. A related question to the point of multilateralism in the last question that was just raised. It may be interesting to maybe research the question of what is exactly the kind of research that the World Bank should do. Should it do more and better research on impact of its own policies? On the multilateral issues that have been raised, I think when one talks about the future of the World Bank I think it's probably very important to look at the composition and the implications of this multilateral system, and in that context, the question of coherence, policy coherence among the multilateral agencies is probably also a very important one. One of the disturbing –

MS. BIRDSALL: Okay. I'm sorry but we're so over. If you could just go to your one question.

Q: The question is what is the policy coherence issues, where are the policy coherence issues that should be addressed today for the bank to rethink itself in the future and globalize itself better?

MS. BIRDSALL: Okay. And one last point. Paul.

Q: Thank. Paul Eisenman. I'm an independent –

MS. BIRDSALL: Outsider-insider.

Q: Outsider-insider, and I have a question or challenge whatever for Ngaire and for Nancy who were saying, you know, there's all those bilateral donors and Gates around there who can really do everything that the bank can do in low-income countries. I got to say from my experience not just in the World Bank but for a number of years in the DAC secretariat, that just ain't so. Even if there were no Paris declaration, no agreement to work together, it's very clear that to address major problems such as poverty, health, education, energy, you need broad systemic approaches, systemic approaches that deal with procurement, public, finance, public sector management local accountability, you name it, and I see Owen Barder is here from DFID, and DFID is terrific as a bilateral, but even DFID would have trouble doing the kind of integration that only the bank can do. Sometimes the regional banks in countries can play this similar role. But I didn't hear really much talk about that integrating role and about how central it is to achieving development objectives and about how central partnership amongst this very wide group of donors. (So I think you're a bit off.)

MS. BIRDSALL: Okay. Paul. Very good. I think we're so far behind that I'm going to mention to Paul that I think outside is our report of my colleagues on the IDA and it goes right to the heart of the point you're raising, Paul, and says indeed the bank has a special role on the system as an honest broker. I think the point is that it doesn't necessarily mean it needs to be moving and pushing a lot of money. Now, what I'd like to ask the panel is do you have to say something? (Laughter.) These were excellent questions. I think the answers were implicit. Some of the answers to some of the questions were implicit in what you already said. If you're dying to say something, you can, otherwise I vote for a hearty round of applause for a fantastic – (applause).

(Begin "Policy Issue 1: What about global public goods?")

MS. BIRDSALL: Okay, ladies and gentlemen, we are about to recommence. We are recommencing, if you can sit down, please.

So we heard a lot in the last session about what the Bank could and should be doing. On the global public goods front, we are very pleased to have with us now Francois Bourguignon. Many of you know, of course, that he has been for some years the chief economist of the World Bank, and that he has just completed -- it's too long, Francois -- (laughter) -- but I'm sure it has a fabulous summary -- "Meeting the Challenges of Global Development." It's the outcome of his leading a long-term strategic exercise. So he -- this report has something to say about the Bank's role in global public goods, and I hope that Francois will tell us what he thinks about it and what his report says. And then we will have Arvind Subramanian, who is a senior fellow at the Peterson Institute for International Economics, and at the Center for Global Development, comment on what Francois has to say. And then we'll have some time for interaction with all of you.

Francois, I'm very sorry you didn't hear some of what our panelists were saying on the global public good issue, but we'll try to share it with you indirectly -- Arvind and I and members of the audience, after you put your agenda on the table. Welcome, and thank you.

MR. BOURGUIGNON: Okay, thank you very much, Nancy. It's a pleasure to be here. Although I'm not clear about my identity at this table. Am I still the World Bank chief economist, which officially I am until next Tuesday? Or am I already an ex-World Bank economist?

MS. BIRDSALL: I think you should consider yourself for us already an ex. (Laughter.)

MR. BOURGUIGNON: You know, it makes a big difference because the in the first case --

MS. BIRDSALL: Yes, that's the point.

MR. BOURGUIGNON: -- about the Bank and it's okay -- there is no better institution in the world. In the second case I should already be prepared to be extremely critical. Like many people who have left the Bank, I have seen a good check -- I should make a survey on this -- but a good check that the opinion changes very quickly. So it's interesting to analyze it.

No, really I will be midway, and I'll be relying very much on this document that we produced in the Bank a few days ago on -- which is this long-term strategic exercise that I've been reading. For those of you who are interested, there are copies outside, but I can see that several of you have already a copy.

Nancy said it was very long. I mean, I think that during my time in the World Bank I never produced such a thin report. I mean, compared with the World Bank Development Report, et cetera, this is -- I was ashamed to circulate such a thin report.

MS. BIRDSALL: Welcome to the new world and a new life. (Laughter.)

MR. BOURGUIGNON: Okay, so let me summarize some of the things that we said in the document on the global public goods. And I would also rely on the paper which has been produced recently in the Bank on the short-run or medium-run strategy of the Bank for global public goods.

I would like to organize my short presentation in three parts -- or maybe two parts and a conclusion. First, I would like to say a few words about global public good related to challenges for development in the global development community. I think this is really where we should start before we look at the World Bank. Then, second, I would like to say a few words about what I believe the World Bank can do to meet some of these challenges. And, finally, I would like to conclude by insisting on the fact that the World Bank is not the only player here and that there is an issue -- a way in which we have to think about what the World Bank should do, but also to think about what the other players can do.

So one word on the global public good related challenges for development. It seems to me that the way in which we see development today has changed a lot with respect to the old model. We used to see development as a country-centered problem, so typically in a textbook on develop or typically in the theoretical papers on development, we have, say, let country A be this, this and that, and let's see how we can accelerate the development of country A.

Now, what is important -- what we realize today, that development is not something which is isolated. Development within a country depends enormously on the environment of that country, on the constraint that the external world is imposing on the country. It depends very much on all the externalities which are linking one country with its neighbors, with the rest of the world. And I would say that today when we think about development this role of the constraints coming from those externalities, what we can call the global or maybe original public good, but by extension we call them global public goods, that those constraints are extremely important in determining the development potential of a country. And this is the reason why we have today so much emphasis being put on those global public goods.

Now, there are many of them. And I think it is interesting and important to do some kind of typology in the global public good that we are now used to discussed or analyze more every day. And the typology that we used in this strategic analysis is the following. We're distinguishing really three types of public goods. The first one is what we could call global frameworks for international flows of goods and services, finance, people and knowledge, et cetera -- exchanges between countries. We know that what one country does has an impact on what the other countries can do. And this is basic externality -trade is a best example. We know that in the old two-by-two-by-two model of trade theory we know that if one country decides about some tariffs, then this has an impact on what the other country can do, and the other country an retaliate, et cetera. So this is really typically a kind of public good environment that comes with global frameworks.

Second type of global public goods are what we call the commons: global commons, regional commons. Environment is of course the most obvious example. Global warming is probably the example that we all have in mind these days, but there are others. Communicable diseases is certainly part of the common -- or the absence of communicable diseases is part of the commons. At the original level, water resources are becoming more and more an important issue, and the logic behind that is the logic that we find in the structure of commons.

And the third type -- and I understand you already talked about this in the morning -- is really the development knowledge. And by development knowledge what I mean is the following: again, one important element in our thinking about development is the fact that we are seeing less and less development as a uniform model that will apply to countries, but while taking into account more and more the diversity across countries. Now, if we want to understand given the diversity what is going on, then it is absolutely essential to monitor country experiences in many areas to see exactly what can be translated from one country to another, one cannot be; what is the impact of local circumstances , et cetera. And what I would call development knowledge is really knowledge about these experiences, and of course the need to synthesize this knowledge. And somebody referred -- I think it was Ngaire, referred a little while ago to development data. Development data is part of this development knowledge. It is important to have good development data to monitor what is going on, but also to provide benchmarks for country experiences.

So these are the three types of global public goods that are, from my point of view, asking for different types of intervention. Now, what can the World Bank group do in these?

I would say that the main advantage that the World Bank group has is really the ability to link issues of global importance, global relevance, to action, and very often to financing in widely different country circumstances. What is really the advantage is the fact that at the same time the group can -- is aware and participates with a dialogue on the debate on global issues, but at the same time the group is intervening at the country level, is exchanging ideas with country partners and can implement or try to implement some of the recommendations that may come at the global level.

But there are also other advantages. I believe that the accumulation of knowledge and the creation of knowledge by research is something which is important in the Bank, and we have shown that in the past. It can be improved in the future. And, finally, something which we called the convening catalytic and coordinating power of the Bank; that is, its capacity to put several actors around the table and try to obtain some common decision -- try to coordinate the decision made by each actor.

Now, if I am trying to apply those advantages to the three types of global public goods I mentioned before, here are a couple of ideas of what can be done and what the Bank can provide as a global service.

For the global frameworks, certainly the Bank has played and will continue to play a very important role in terms of advocacy. We have done that for trade, everybody knows, and many people discussed the figure that we gave for the benefit to be obtained by developing countries by developed countries from the an agreement obtained in the Doha Round. But we can do it, or we have done it, in many other areas. Tomorrow maybe we'll have a big discussion taking place, which might be a Kyoto number 2, where developing countries will be involved. Then there will be a huge role to be played in terms of advocacy for what should be the role and what should be the way in which developing countries should be treated or should play a role in this Kyoto number 2. We may from that point of view expect that -- (inaudible) -- Bank, which has essentially as an objective the poverty reduction in all the developing world, will be part of that debate. This is advocacy.

And we are doing -- there are many areas where we are doing more than advocacy. I was referring to the flows of knowledge -- or I should have referred directly to property right, to intellectual property rights. For example, we are right now involved in a pilot on what we call market advance to commitment, which basically is to put on the table a sum of money guaranteeing to pharmaceutical laboratories that the day they will be putting on the market some new vaccine with this, this, and this property, then they can be ensured that the market they will face will have that size, and the Bank is guaranteeing or will be guaranteeing this. There is some pilot study going on with some vaccine for lung disease, but I don't remember exactly --

MS. BIRDSALL: Pneumoncoccal.

MR. BOURGUIGNON: Okay, thank you. Maybe I should leave. Maybe she would like to continue. (Laughter.)

So this is a kind of role that we can play -- those global frameworks.

On global commons, we already again had a lot of action in different areas -- in avian flu, in HIV/AIDS, in malaria -- operating in all these cases -- and this is very important -- with many other partners.

In global warming, again we have been among the pioneers in launching carbon finance in the developing countries. And I think that there is probably in the future a very important role that the Bank can play which really uses its absolute advantages of managing finance knowledge at the country level. It seems to me that it is difficult to imagine that if there is a Kyoto 2 there will not be some incentives given to emerging countries, developing countries, for reducing greenhouse gas emissions. And those incentives one way or another will come through -- will go through some financial resources being made available. We are experimenting today with a fund which has been made available by the U.K. which basically allows us to make concessional loans at zero rate of interest to countries which would like to make progress in reducing the energy consumption or making their economy more energy efficient. This I believe is a model which can generalize over time and which really puts -- is asking for all of the expertise that the Bank can have in these various fronts.

One word about knowledge. I already defined what I thought development knowledge was about, the systematic expectation of country experiences. It is important to see that impact evaluation is not the only thing. We are interested in the country in the evaluation of policies which cannot be impact evaluated. How can we evaluate trade policy? How can we evaluate the tax policy? We need to have other instruments. These are not the instruments to produce counterfactuals, ex ante and exposed; and, from that point of view, it is absolutely essential to have some researchers available who will be able to do this very difficult work of trying to extract from actual experiences that we have witnessed what is to be done in terms of the impact of policies. Now, those researchers may be in house, they may be in the university, but this kind of work is absolutely essential. So when I'm talking about development knowledge, it is a mixture of research, including impact evaluation, as well as what the operation people get directly from their experience in the field. This is something which is essential. I believe that we have not -- and this is where I am becoming critical of the World Bank -- I think we should have done that a long time ago. It is somewhat incredible that after 60 years of existence we don't have this kind of catalogue about country experiences. And we had people who had direct exposure to fantastic experiences, to innovations, and the memory of these is simply lost. There is something which is, I believe, completely definitely wrong in that and must be correct.

Let me --

MS. BIRDSALL: Can I ask you -- I know you have a part three --

MR. BOURGUIGNON: No, no, but this -- give me two minutes for part three.

MS. BIRDSALL: One minute.

MR. BOURGUIGNON: One minute.

MS. BIRDSALL: Because I think it's the sort of issue that will come up in the questions.

MR. BOURGUIGNON: Okay. Part three is simply the following. I mean, you will have noticed that I talked about advantages. I didn't talk about comparative advantages. And this is really where the problem is. What the main issue, the main difficulty that we found in this exercise was exactly to define what is comparative advantage, because by definition of comparative advantage, it's like tango -- you need to be two to tango. You need to be two at least to define comparative advantage. So we cannot analyze the comparative advantage of the bank if at the same time we are not considering the comparative advantage of other multilateral institutions, of the U.N. institutions, of multilateral development banks and bilateral institutions, and of course governments in the European countries themselves. And this analysis, from my point of view, is missing, and if I would like to recommence something to CGD, I feel that the CGD would be well placed to try to organize this kind of reflection across institutions which would lead to a better definition of comparative advantage.

MS. BIRDSALL: Thank you very much, Francois. (Applause.)

MR. SUBRAMANIAN: Thank you, Nancy, for having me here. And, Francois, thanks for the excellent delineation of what the Bank is doing.

I have just two points to make, and actually one strong make to make. The two points are: one, global public goods obviously represent a huge opportunity, both from a push side because, you know, the lending business is getting overcrowded, so clearly the Bank has to find a niche. And on the push side I can set up all kinds of global public goods where the returns are huge. So that's not an issue, and Francois has explained some of them.

So my big point is the second point, is that I am actually very, very pessimistic about -- or let me be a little bit more -- I am fairly pessimistic about these opportunities being exploited by the Bank. But I want -- actually this pessimism of mine relates to the broader issue of change at the Bank, including the kind of governance reforms that Ngaire so beautifully and eloquently spoke about, i.e., the whole globalizing the Bank. So I'm deeply pessimistic about that, and I'll explain why.

Now, in the session that preceded -- and a lot of the talk this year is going to be on what needs to be done -- should we do this, or this, et cetera, et cetera. And then once you've done this that kind of implicit Nike approach takes over, "Just do it." Let's just do it. And this is kind of the way the Bretton Woods institutions have also been in their policy advice, you know, "Just do it. We know what's good for you." Or, you know, it's kind of augmented by saying, well, you know, we have strong leaders to do this. So strong leadership is kind of an adjunct to the Nike approach to policy advice.

But I think we have to grapple seriously with this question of how will this change come about. So kind of what is the political economy of change at the World Bank? And I want to give you three reasons which make me -- which kind of undergird my pessimism about the change.

Point number one. We know from international experience all around the world with policy reform that almost invariably the real spur, or the most effective spur to reform, is crisis. Unfortunately, there is no sense of crisis at the Bank. At my institution, at the Fund, where I'm on leave from, there is a sense of crisis. But at the Bank there isn't a sense of crisis because the income position is very solid. In the Fund, people are wondering whether they'll still have their jobs. But there is no such sense at the Bank. And the Bank has this amazing ability to be all things to all people. So everyone is happy. You know, you have the trust fund which does A, it does B, does C -- so there is no real -- no one really has a sense that things need to change. So no crisis, less pressure for reform. Point number one.

Point number two. Who are the demanders here? Who ought to be the demanders for reform? Well, unfortunately, these are all governments sitting at the table and when push comes to shove governments want loans. The borrowing governments want loans, and this is the Bank's business, so loans are pushed. And one example of that is look at middle-income countries. You know, one would have thought that there was no push for reform and so on. But even they -- you know, they get an interest rate cut and they're kind of happy with the situation as it is. So even from the demanders' side there isn't the pressure for reform for various reasons. Poor countries want loans, push comes to shove; middle-income countries -- this is a big puzzle -- it is not clear why they are not exerting much more serious pressure for reform at the Bank and Fund.

Point number three is that all reforms have to be mediated through institutions, and the World Bank is an amazingly complex institution where the incentives are still in favor of country-based work and incentives in favor of lending. So if you want to move this giant behemoth to go from lending to suddenly start doing global public goods, it is not clear how this can be achieved in a kind of operational sense. And I share -- I frankly don't -- sometimes my eyes, even starting to think about how this is going to happen -- is very difficult.

Let me give you two examples. Global energy -- issue of the day, Al Gore, Nobel Prize -- very important. But how is the Bank going to respond? Probably through more projects. As Francois said, we give you a project for this, a project for that, money to do this project, money for another project. But what the Bank actually needs to do is to seize the initiative and get a strategic vision on how you address the global warming problem, seize -- you know, become the forum for Kyoto 2, et cetera, et cetera. But that's not one.

Second, the New York Times had a report two days ago saying that the internal evaluation said that the Bank had neglected agriculture. Now, what do you think the Bank's response is likely to be? I think it's going to be, "Let's do more agricultural projects." But now -- you know, but is that -- do we know that that's the best way to improve agricultural performance in Africa? I would say that's, just as we have R&D -- there's an R&D deficiency globally, there's a serious R&D deficiency in terms of agriculture help for Africa. How do you promote that? That needs a completely different mind-set. It's sort of unclear which stakeholder in the system is going to push for that reform. Are African country governments going to do that? I don't know. I don't see them really active on this front on global public goods.

So for all these reasons I -- and so the central question I want to put to you, and especially to Ngaire, is 100 percent we agree that the Bank needs to change. But what is the underlying pressure for change? Where is it going to come from? And middle-income countries, for example, they didn't really kick up a fuss about Bob Zoellick's appointment -- no reflection on his abilities -he's going to be superb -- but the question is the underlying process was flawed. And why didn't they kick up more of a fuss? Not obvious. So the middle-income countries, it seems to me, are in some ways getting disengaged. Maybe this is a process that can be arrested, but it's not obvious how -- what will happen to get them to view the Bank as a forum where in fact they should have their agenda of more power, more voice, more global public goods.

So I just want to end with this deeply depressing -- (laughter) – Matthew Arnold quote which says the old order is dead and the new is too "powerless to be born."

MS. BIRDSALL: Thank you very much, Arvind. (Applause.)

Now, I think what I'd suggest, because we're so far behind, is that we collect some questions -- short, short, short questions -- from you, and then I'll give Arvind and Francois one minute to respond. This is all my fault, because I dragged on too long with our fabulous initial panel.

Phil Musgrove. Short questions and short answers.

Q: I'm Phil Musgrove. These days I help out at Health Affairs. I'm an ex-Bank -- 12 years there.

Two quick questions derived from earlier from what Francois said. First of all, how does the Bank get over the very quick --

MS. BIRDSALL: Only one question. Pick the one you prefer.

Q: If I keep them short, I can't have two?

MS. BIRDSALL: Okay, hurry up.

Q: How does the Bank get over the tendency to routinize anything? The moment that people are told they should take account of prior experience, they write a canned paragraph and that's it, and they don't get the memory that you're asking for.

And the second question is how does the Bank -- I'm thinking of a lot of the traditional economists at the Bank -- get over the generally reasonable tendency toward -- not all the way toward free market fundamentalism -- so they can actually grapple with public goods, which an awful lot of them I think probably still don't really quite believe in. How do you get non-market solutions where those are the necessary ones and still use the market intelligently.

MS. BIRDSALL: Thank you, Bill. Bill McGreevy.

Q: Bill McGreevy. I used to work at the Bank, too – now at Georgetown. I failed on retirement, like most of the people here -- still working. I won't ask about incentives, because you laid it out correctly. But in this last month at the World Bank, Robert McNamara gave an interview to Edwin Dale at the New York Times. And in that interview he was asked, "What would you have done differently?" And his answer was, "I would have devoted more time and money to research and related activities."

I'm going to read quickly a list --

MS. BIRDSALL: No, no, no. Just ask your question, please, Bill.

Q: These names: Hollis Chenery, Nick Stern, Larry Summers, Francois Bourguignon, Stanley Fischer, Paul Collier -- some of the great people who have led research. Why doesn't the Bank do even more?

MS. BIRDSALL: Okay. Any other questions out there? Yes, please.

Q: Question. Isn't there a contradiction between a focus on public goods in the Bank, after spending 20 years privatizing everything from water to other public goods?

MS. BIRDSALL: Okay, and I'm going to ask a question, Francois, for creating a trust fund for concessional, for grant money? Would that not, Arvind -- a question to you -- help generate internal incentives since staff would have to figure out what to do best with that trust fund? Ngaire, you want to say something? You get pride of place since you inspired us earlier.

MS. WOODS: Really just to say -- Arvind said what would force the bank to change if there's no crisis. Very simple -- institutions change either for reform, rebellion or exit, and it's exit and competition. It's the fact that there are many other places now to get the money and there's, you know -- I think competition will require the bank to change if it wants to stay central.

MS. BIRDSALL: A point that Arvind and I make in our essay so it's interesting. I guess he doesn't think it's enough. Okay. You each get a minute --

MR. BOURGUIGNON: Okay. So one minute.

MS. BIRDSALL: With my apologies -- my apologies.

MR. BOURGUIGNON: First, I would like to reinforce what we just said -- no sense of crisis in the bank. This is wrong. I mean, I was in Mexico a couple of weeks ago. Do you know how much the bank lent Mexico in the fiscal year 2007? Twenty-nine billion -- million dollars for an average of $1 billion over the last years. This is urgency and we know that the crisis is coming. We know that there is an issue of relevance of the bank in middle income countries, and I can tell you this is in the report and I can tell you that many people in the bank are aware of this.

Second point by Arvind which very well taken -- the issue of the governance in the bank. Why is it okay that the medium income countries don't do more in the bank? Medium income countries in the board has a very interesting role because there are more -- (inaudible) -- voter in -- from the -- from -- (inaudible). Now, the point is that medium income countries are interested by what they can get themselves from the institution. They are not interested by global public goods. They are not interested by reducing poverty in low income countries. They are interested by what can be done for China, for India, for Brazil, et cetera. And this is something important because it's been that if there is something going against global public goods it is indeed the governing structure of the bank, and I tend to agree with the point made we probably have to change the governing structure if you want to move more radically ahead.

Two last remarks on the market fundamentalism and how come we could talk about the public goods after having talked about promoted the privatization. I mean, I don't think that the bank today can be considered as a market fundamentalist. I agree with like any institution in the world the bank has an evolution. It has a past -- it has a present -- it has a future. When we look today to what is the relevant thinking in the bank it is very, very far away from a very narrow view of privatization, no subsidy, et cetera. I was the other day in a discussion on subsidies --

MS. BIRDSALL: We're convinced about that. We're convinced. I mean, many people here would be convinced and that --

MR. BOURGUIGNON: Not everybody -- (inaudible) -- convinced.

MS. BIRDSALL: Anyway, we want to look forward. We don't want to look back to --

MR. BOURGUIGNON: Okay -- fine. But I tell you that it is important to make sure that this is --

MS. BIRDSALL: Your opinion, yes. Okay. Thank you, Francois. Arvind, a last word.

MR. SUBRAMANIAN: Just very briefly -- I wish I could have as much faith in exit as Ngaire does and maybe it's a question of the horizon. I think maybe, you know, 15, 20 years maybe the pull -- I mean, the pressure of exit will get itself felt. But I just think that it is not, at least as far as I see now, generating the magnitude of the pressure, one. Two, you have to remember the magnitude of the pressure has to be mediated through this humongously complex institution. And, you know, so it's not just a matter of, you know, policy having to change but the whole internal organization having to change in order to, you know, regear itself to global public goods and, you know, good luck to Bob Zoellick. (Laughter.) And good luck to Dominique Strauss-Kahn to understand the -- to undertake the reform that you believe the crisis in the fund regenerates. I would like to see the reform which will take place in the fund. (Laughter, applause.)

MS. BIRDSALL: Let me thank both of you. I'm sorry -- (inaudible) --we'll have to -- you'll have to hold your question for the next, and I see Trevor Manuel has come so he probably has answers to some of the issues raised. So we move on to the next panel very quickly. Don't move -- please don't move.

(Begin "Policy Issue 2: What about low-income countries?")

MR. DE TRAY: Ladies and gentlemen, Francois, Nora and other collective friends and colleagues, I'm being ordered by the only person that matters, our communications director, to move on so I have to move on. Which is a shame because I had a series of brilliant introductory remarks to make to all of you that would have tied together this complex conversation that we've been having and show you how to reform the bank and the fund but I don't have the time, so maybe another time in another place.

I want you all to take a deep breath because we're going to change gears very dramatically right now in two senses. We've been talking about what the bank should do in taking on new agendas, in a sense, going forward. We're going to start talking now about how the bank should do what I think has been and I hope will remain its core objective going forward, which is to aid in the development of the poorest countries around the world. I agree with Nancy that the world does not need just another development agency but at some -- there are times when I think that the world is losing sight of the fact that the bank is the principal actor in the low income countries and needs to remain so going forward.

It always puzzles me that in the long list of global public goods that people put on the table development of the poorest countries isn't the number one item. It is a huge public goods agenda. It has amazing and important spillover effects that go beyond its borders as anybody who reads the newspapers today and looks at experiences around the world can attest. It is -- it meets the global public good standard. It is an issue that the bank has been grappling with. The question is not should the bank be engaged in this or should I be engaged in this but how to do it better.

The key issue that the bank faces is improving its performance in these countries, and one of the key issues in that debate is the instruments and approaches that it uses. I think it was IDA 14 was -- there was a heated debate about whether or not the bank -- IDA should move to an all-grants program or continue to provide subsidized lending through its concessional window. That debate was as much ideological as it was intellectual. We are, I think, fortunate today to have two people to help elucidate that debate in a more balanced and more analytic way.

I'm very, very happy to introduce to my right Pierre Jacquet. Pierre is right now the executive director and chief economist at the Agence Francaise de Developpement. I think that counts as Francois Bourguignon's counterpart in effect at AFD. It's an interesting speculation on globalization -- that the French are taking over most of the international organizations -- and there's this subtle underneath process of taking over the intellectual capital as well, so we'll talk to Ngaire later as whether this constitutes globalization or not.

Before Pierre took on his current assignment he was deputy director of the French Institute of International Relations. He has been a senior advisor to the French government and to the prime minister. He's been a senior professor and he's authored many, many documents. He has also brought along some of France's leading intellectual lights along the way by coauthoring with them. Some of you may have heard of Dominique Strauss-Kahn. He's a coauthor of Pierre's "Going Forward". Pierre taught him everything he knows so now you know what needs to happen at the IMF. Pierre, it's a great pleasure to have you.

MR. JACQUET: Thank you. Thank you very much, Dennis. As you -- it's a pleasure to be here. I really want to thank Nancy and the organizers for inviting me. As you correctly pointed out, what I wanted to discuss is a small set of the issues and -- (inaudible) -- what about low income countries, which is a huge agenda, and I happen to think that most of what discussed this morning does apply, of course, to the poorest countries as well and let me take this approach -- (inaudible) -- because I won't talk about that to mention that we, at least at the French development agency, do see the role of the bank as inescapable in a sense, and no other institution than the bank can play the role of coordination that is needed even though coordination has not really taken place so far.

But the instruments and the institution are there, both at the bank and the PRSD (ph) in the modern way can really play a very useful coordinating role. And by the way, I think that is the right way to organize and align. At the same time we need the poorest countries to develop their own sense of what they want to do and we need to, of course, discuss with them and agree on that and let them fail, by the way. Failure is a major aspect of the loaning process, rather than thinking that we bring them the -- (inaudible) -- and then donors find their niche in this overall program and that we coordinate them and mentor and competition at the same time.

The second thing I wanted to mention as an introduction is that I do believe that the global public goods agenda also needs some specific attention but also really needs to be integrated with the development agenda. When you look at the poorest countries and the poorest person in the poorest countries most often they -- the major form of capital they can use to develop is nature -- is natural -- is a natural capital and if you take the soil, for example, the erosion of soils is a major problem for the poorest farmers and therefore mentoring biodiversity is really working for development.

And there are many instances in which the two agendas -- a global public good agenda and the narrower development agenda -- really are closely integrated and that's why that also applies to instruments. We try to develop the kind of instrument that Nancy was mentioning. She was mentioning a fund earmarked for concessionality to finance global public goods. We try to do that on the -- on an operation per operation basis using credit lines, for example, to banks so that they can make loans to enterprises that will advance the global public good agenda and the concessionality -- we have that as a counterpart. So in a way we are -- all of us I guess are trying to find ways to broaden the set of instruments that we have.

Let me turn now to the central topic I wanted to discuss which was how to think the resumption of loans to the former -- (inaudible) -- indebted countries. It is clear that the debt cancellation has restored solvency. The point of restoring solvency is to lend again so let me develop this a little bit. They -- it is true that the debt crisis and the initiatives of debt cancellation have raised huge doubts on the virtues of lending to the poorest countries, and there are -- there is an alliance of NGOs and well-known academies and to develop the ideas that grants would be better instruments.

And these arguments are serious. A recent paper of -- (inaudible) -- for example argue that the poorest countries have no access to the financial markets for a good reason -- they are not able or willing to repay, and if that's the case the -- unless the development finance institutions command a superior enforcement technology they (should implant ?) and you also know that there is this work by Larrick and Meltzer (ph) arguing that a concessional loan is a combination of a grant and a loan, and then unless the development finance institution have -- and a market role unless the development finance institutions have a superior technology they should leave the market loans to the markets and focus on the grant aspect.

And I will -- all what I want to say here is that there are other reasons why poorest countries have no access to financial markets or limited access to capital markets, and of course, this question of access to capital markets is a central issue in the grant versus loans debate. If countries have a full access to capital markets there is no argument and indeed as a public institution should focus on grants. But if we find some good reasons why developing countries, the poorest of them, have a limited access to capital markets then there is a role to play for official development lending as well as subsidizing, and there are four reasons to -- for -- (inaudible) -- concerns.

The first one is indeed as -- (inaudible) -- pointed out -- low institution quality, limited market access. Concessional loans make sense if development institutions have an advantage -- informational advantage or -- (inaudible) -- status but period, that's it. But there are other reasons. One is the Lucas Paradox. Why doesn't capital flow to capital-poor countries where in principal, according to the neoclassical theory, it should produce higher returns? Well, the fact is that there are externalities to physical and human capital and therefore primitive capital accumulation is needed for further investment to be productive, and that's the case for intervening to create this primitive capital accumulation. And since over time this capital accumulation will be profitable lending is better instruments than grants for that.

The third reason is an institution integration into -- (inaudible) -- trade. Investments may be socially profitable in poorest countries but given the fact that they're poorly integrated in the world economy the local relative price of capital is too high and that, again, provides an incentive for the public institutions to intervene.

The main reason I wanted to focus in here is that poor countries are too volatile. Commodity price shocks in the low income countries on -- they happen on average once every 3.3 years over the last three decades. That's huge -- a huge frequency, and this is the reason why the risk premium can be very big and that excludes them, at least partly, from financial markets. We also know that financial markets may work well but not perfectly, and a wave of enthusiasm followed by waves of disillusion. For example, the enthusiastic borrowing against oil reserves in the 1970s really created the seeds for the forthcoming debt crisis.

Nowadays, it's customary to really be enthusiastic about the fact that private investment seems to go back to Africa. Well, that's very good news indeed but let's be sure that it's not unstable and that's something that, again, argues for something more than the market to provide lending resources to developing countries. We noted also that 70 percent of total exports of least developed countries are unprocessed primary commodities, and for a sample of the 24 hippic (ph) countries that we looked at export revenues have fluctuated from 42 percent to 205 percent of the average level during 1970 and 2005.

So a lot of volatility -- of vulnerability to price shocks. What we have done at AFD is to conduct a study on the link between volatility and debt distress episodes. For volatility we used as a yardstick an episode where a country's export earnings fall below and moving -- (inaudible) -- defined as 95 percent of the average over the past five years. So instead of looking at commodity prices or quantities we look at export revenues which allows to have a mix of the two aspects. And in this yardstick there's a number of problems and -- (inaudible) -- as well which we might discuss further in the discussion but let me move on.

We investigated relationship between this export shock, as I define them, and debt distress episodes over the 1970 to 2004 period. We use as our sample the one used in Kwayza Nehru's (ph) paper in 2004 on debt distress and we define debt distress -- (inaudible) -- same way and what we find through -- (inaudible) -- is a simple one -- is that the likelihood of a debt crisis is significantly triggered by the occurrence of a shock in the preceding three years. The effect of a governance index is comparable to the effect of the export shocks.

So it -- our point here in the paper that we wrote to develop new financial instrument is not that governance is not the reason why we had debt problems in poor countries but it is one of the -- it is one reason among others, and one of them is the vulnerability to shocks. It has been known for decades -- there is nothing new in that but we haven't been able to deal with that. And what we have been arguing in a recent paper that we published at the OECD, we -- my colleagues, Daniel Cohen and Helmut Reisen -- that it is time to think of new ODA debt instruments, and there are many ways to do that. Once simple way to expand on existing proposals is to use a subsidy element of a concessional loan to provide instruments against shocks and therefore to be able to reduce a debt service when a shock occurs. The difficulty, of course, is to measure a shock objectively and to be sure that this won't be manipulated. There is a moral hazard aspect that needs to be taken care of but there are solutions to that.

The second solution that we developed in the paper with Daniel Cohen and Helmut Reisen is a most important, more radical -- (inaudible). It is more radical in the sense that the current accounting system of ODA doesn't really allow it to happen but it's a further reason to really propose it so that the way in which ODA is computed might change. It is to provide an automatic debt reduction mechanism when you grant a loan -- when you give a loan -- and in a way you could provision when you make the loan the risk of default. We could classify the countries in risk categories -- from, let's say, four risk categories and with a 25 risk of debt distress -- 50 percent -- 25 percent -- 50 percent -- 75 percent -- 100 percent, and we would provision 20 percent of the amount of the loan we make to a well-governed country with a small risk and 100 percent of the loan. That is, we will make a grant only to the less well-governed countries.

So in a way we would use ODA to provision and we would make market loans, the point being that if things go well the countries can refund. So why -- what strikes us in looking at the way ODA is granted nowadays is that there is a constant premium to waste taxpayers' money. Our mission should be to save on taxpayers' money and therefore to think when it is -- when is it really useful to use taxpayers' money when we finance development. There is no rule that financing development should be concessional. It should be the contrary. Development is about profitable activities. So in a way, the concessionality needs to be redelegated (ph) so that we make a good use of -- (inaudible) -- taxpayers' money.

One way to target it is indeed to focus it on global public goods on reaching the poorest persons in the country. That's a very important way to target concessionality. Another one is we need to cover risk that the market will not cover, and that is something that we are increasingly working on. So our proposal in this paper is to develop a new debt instrument that will take into account the risk of default and -- (inaudible) -- in a way -- (inaudible) -- a risk of non debt repayment.

I will end with one or two sentences that we are trying to implement at the French development agency. Of course, this is too radical for developing a practical instrument right now but what we are doing is to put in place a counter -- (inaudible) -- loan that allows for a fixed grace period and a floating grace period. And there is a fixed five-year grace period instead of the usual ten years of grace in the long-term loans of IDA, for example. Five-year fixed, and then you have the potential to draw on a five-year additional grace period if there is an export shock that takes place. You have the possibility to draw on this but you don't have to draw on them. It's supposed to be -- it's an option -- and if you don't use these grace periods then to provide an incentive to be well governed and not to use the grace period when you can afford not to do it so we capitalize on the refund that we get from the countries at the 3 percent interest rate and we refund that in terms of a shortening of the loan maturity.

So in a way it's a very simple system at constant present value so it doesn't change the ODA accounting but it allows much more flexibility to react to shocks. If we believe that shocks are one of the reasons for debt distress then this is a way to go for responsible lending to developing countries. Thank you very much. (Applause.)

MR. DE TRAY: Steve Radelet, my colleague at the Center for Global Development, is known to many of you and needs no introduction and is not going to get one. Steve?

MR. RADELET: (Laughter.) Oh, my mother would be proud. Thanks, Dennis, and thanks, Pierre, for the paper and the presentation. I enjoyed reading the paper and listening to the presentation. The paper and the particular topic that he focused most of his remarks on is the latest in a fairly old debate actually about the level of concessionality in foreign assistance. It goes back several decades as we began to move from pure market loans to ODA as we know it to concessional types of loans, first with IDA, and then many bilateral countries moving from loans to grants, and the debate has been there for a long time about levels of concessionality. It has been sparked in recent years again by hypic (ph) and by debt forgiveness which in effect is the conversion of a loan to a grant ex post and is -- has in effect raised the debate about well, if we're going to give loans and then turn around and forgive them as grants wouldn't it make a whole lot more sense to provide them as grants in the first place and stop kidding ourselves.

I find that argument actually rather compelling in certain circumstances, and in certain circumstances is, I think, where the debate should be joined. I agree in the conclusion of their paper. We agree, I think, that the IDA formula that's used right now for allocating grants is flawed. The IDA formula that they came up with several years ago and they refined it a little bit is basically a formula around debt levels. The higher your debt levels the more you get grants and the lower your debt levels the more you loan, and it follows completely logically from this idea that grants should stem from the debt forgiveness argument.

But there's more to it than just debt forgiveness and there's obviously moral hazard issues when you reward countries with prudent macro policies that haven't borrowed much by saying you can borrow more, and those that have borrowed a lot by saying your reward for borrowing way too much is that now you get grants. So there's huge moral hazard implications in the way that IDA has decided to do this which just doesn't make a whole lot of sense to me, and it's certainly quite inconsistent with the way we have allocated concessional loans for nonconcessional loans in the past -- the difference between IBRD and IDA. If you believe IDA's allocation story about grants versus loans that should be tied to debt then logically you'd say well, we ought to change how we do IDA versus IBRD, and the less that you have the more you should get IBRD loans and forget about the income cutoff.

So there's a complete difference in logic of how grants versus concessional loans are being allocated relative to how concessional versus nonconcessional loans, and I haven't seen a whole lot of people that are picking up on this enormous inconsistency. And unfortunately, I think that's one of the problems in the paper that we have today. Although we agree that the IDA formula is incorrect, I think some of the logic in this paper is not quite compelling. But the other thing we do agree at the end of the paper they get to making the point that the allocation for grants and loans should be something about risk and that, I think, they've got it right although I would frame it in a little different way. So where they end up getting to I think I'm a little bit more comfortable with than some of the logic of the paper.

The basic argument in the paper is that loans are superior to grants for a variety of reasons. One of them is it expands the resource envelope -- that if you have full grants then that takes more donor input. As you have nonconcessional grants there's less concessionality and therefore the loans can be larger in the gross amount. But there's a couple problems with that argument. That's true when you make the loan but once you bring repayments into it later it's not so clear, and as they point out in the paper in the 1990s we had a bunch of defensive lending and if you're making loans and then the repayments start to come in and you have to make larger loans to finance those repayments, then it's no longer true that loans are actually giving you a larger net resource envelope and that's an issue that actually they don't touch on in the paper is the difference -- what happens when you get the repayments and the resource envelope.

So it's not clear that the resource envelope is necessarily bigger. Also, again, if that's true -- if you buy that argument that loans give you a larger resource envelope -- then the logical conclusion is to get rid of concessional loans altogether and go to IBRD loans for everybody because then there is largely not much of a budget constraint because you can have a large amount of IBRD loans without going to the donors for concessionality. So if what's -- so if you believe that we should go from grants to concessional loans then I think the logic compels you to go from nonconcessional loans to concessional loans which isn't there.

The other argument they make is that loans -- they cite many other studies that suggest that loans have a better performance than grants but these studies have been criticized for a number of reasons. They rely on data that go back to the 1970s. What happened in the 1970s I don't really care that much about. I think it's more compelling when you look at the 1990s and when you do those same studies in the 1990s the evidence is not so strong. But also those studies do not distinguish between grants versus loans and bilateral versus multilateral, and if you think about it it's the multilateral institutions that are making loans and it's the bilateral institutions that are making grants, by and large.

And when these studies say that they're looking at grants versus loans if you actually switch it to say well, we're looking at multilateral organizations versus bilateral organizations you get almost the same results. So is the difference in results because it's a grant versus a loan or is it because it's a bilateral institution versus a multilateral institution? And I haven't seen a study that does a good job on making that distinction. So I'm not convinced on the arguments in this paper and in others on the superiority of grants versus loans.

But there are two key things missing in the argument. One I've hinted at already. The logic -- one, it's -- there's no mention here of nonconcessional loans -- an IBRD -- and just about every argument that they make about the superiority of moving from grants to nonconcessional loans you could make about moving from nonconcessional loans to -- sorry. The arguments that they make about moving from grants to concessional loans you could make about moving from concessional loans to nonconcessional loans, and I don't see the logic in the paper of you would reject grants and reject IBRD and settle on either. So there's a logical inconsistency, I think, there.

The other thing that's missing is a discussion of income levels within this debate. It doesn't say but it seems to imply this is all about all developing countries whether they're the poorest countries, whether they're lower income countries, lower middle income countries, upper middle income countries, and to me that's a huge, huge issue. He mentioned it right at the end of his comments that one of the ways you could go about this would be to aim concessionality based on poor countries and I think that is absolutely right. That's the way to go -- is to think about this in terms of income levels and concessionality being geared at the poorest countries.

The proposals that they have I think just -- they're interesting but they're unnecessary (sic) complex I think -- the idea of making loans -- one of the proposals is to make loans but then ex post come back and have an independent authority that decides based on shocks or other experiences that a country has had to forgive some or all of the loans. The idea of ex post going back and somebody deciding this loan ought to be partially forgiven, this loan ought to be fully forgiven, this one not at all makes me a little nervous, to say the least. And the instruments that they discuss I think just add too much complexity to the story.

So my suggestion would be the following. Focus on this idea of risk that they do at the end of the paper. Where are the greatest risks? The greatest risks are in the poorest countries. At the end of the day debts get repaid when economies grow. What do we know about the poorest countries in the world? Well, if a country has income per capita of $200 today we know one thing. There has been no growth forever. They're basically at the same income level that they were 200 years ago, 300 years ago, maybe slightly higher. What we know is that there has been no growth and to me that suggests we ought to probably think that there's not going to be much growth going forward. And my view is that until there is a record of some modest amount of growth that all of the financing should be as grants. So my view would be to make this very simple and to make it consistent with how we allocate IDA versus IBRD to do the following thing. All countries with incomes below some level, say $350 or $400 per capita, it's all grants, period. No ex post going back, no worrying about shocks. Those are the high risk countries. It's not a perfect allocation for risk but it's a pretty good one.

Once countries go above $400 per capita, which is around where, say, Vietnam is at the moment -- I think Vietnam's a little higher than that -- then they go to IDA loans. And once they go to a higher income level then they go to IBRD. So you have a cleaner evolution consistent with the way that we allocate concessional versus nonconcessional loans but you make the logical extension, and to the riskiest countries which is the poorest countries where there's been no growth, that's where you focus the grants. So that would be my suggestion. Thank you very much. (Applause.)

MR. DE TRAY: Thank you, Steven, and thank both of you for more or less sticking to the time constraints in a useful way. We have just a few minutes for questions if any of you have questions. If not, I do, and that's a dangerous vacuum to allow me to fill. Nancy? This is very unusual. I almost never call on Nancy.

MS. BIRDSALL: I just wanted to ask Pierre -- he made this interesting comment about how difficult it would be even for AFD to move to this more innovative approach. It might be interesting for this group to hear what you think about the constraints -- whether they're bureaucratic, whether they're institutional, whether they're political -- to the kinds of -- the kind of change that you're suggesting just because it goes back to some of the issues raised in the last session about the difficulty for the World Bank in making changes.

And then I wanted to ask Steve, you know, I'm not sure that I understand exactly what you're saying versus what Pierre is saying. It seems to me that if he's suggesting a facility which would make market-based loans and then use ODA resources to provision against them, he is not being inconsistent with respect to grants versus concessional and concessional versus nonconcessional.

MR. DE TRAY: Thank you, Nancy. Let me add, while the rest of you are thinking, questions too to the list. One is -- the first is for Steve which is how this division that you put on the table gets around the welfare tax problem which is that as you succeed you actually have to pay more for your money, and there's going to be a breaking point where that money actually at the margin becomes quite a lot more expensive. This is a major welfare issue. And second for Pierre, having spent a lot of time in Central Asia -- and I don't think it's an ex post issue -- it was obvious when the -- when IDA was lending to the post-Soviet countries in Central Asia that this was money for consumption (smoothing ?) and not investments. I mean, these were countries that had -- subject to huge consumption shocks. What -- why did anybody -- why would you ever lend money in those circumstances? There should have been -- and the question is shouldn't the purpose of the project influence the nature of the type of transfers that you're making? Other questions before I give our speakers just a couple of minutes? Okay. Sorry. I apologize.

Q: Thank you. I really appreciate the comments and I'd like Steve to sort of pick up where he left off in terms of assuming that no-growth countries will continue to be no-growth countries and just mention a couple trends that really -- I mean, this has to be turned around, doesn't it? And so I'd like to mention a couple of trends by which it could be and get your response.

There's actually regression among these countries in the sense that the number of fragile states is growing quite rapidly. Secondly, we have a situation where inequality is growing quite rapidly and so the poverty numbers are a bit misleading and CDD has been -- done important work on inequality. I found the statement of the long-term strategy, at least the draft strategy of the bank, really shocking when it said that in developing countries there are 400 million people in the middle class -- 400 million. This is trivial. And so what should be done in these low income countries where inequality is leading to violence which is really affecting the investor climate and a cycle of misery?

And lastly, the resource curse -- the fact that I think it's important that you've mentioned that the exports are overwhelmingly of primary unprocessed commodities. Well, what can be done about that, and what can be done about the fact that many of the most resource-rich countries are actually paying on a net basis for their resources to be exported when you take into account all of the investor perks, the lack of royalties, et cetera, et cetera? They're paying to have the exports --

MR. DE TRAY: Thank you very much -- thanks. Okay. We're going to give to our speakers each just a minute or two to respond, and then I'm going to wrap up. Pierre?

MR. JACQUET: Thank you very much. Let me say something a little bit different. I see development finance as a combination of market instruments and grants, and I think that the blending between the two should also be done at least and probably primarily be done by development finance institutions. So the division of labor that is often presented in the literature -- that let's focus on grants and let the market make loans -- misses the virtue of blending the two, and I think that development finance institutions including the World Bank are uniquely placed to do that blending.

So my point is not to argue that grants are wrong and loans are better. It's not the point. The point is that we need these two instruments and many others, and that brings me to the question that Nancy asked.

Right now, ODA is a statistical construct in which you put grants plus concessional loans, and therefore when you make a granting it doesn't count as ODA which is a problem because in many cases grantings can only advance as a reduction of poverty in a number of countries.

So in a way we are very limited by the statistical construct itself and I think that there is no reason why development finance to the -- all the developing countries including the poorest shouldn't benefit from the innovations that's taken place in the financial markets. Why wouldn't we be able to use financial engineering to improve the effectiveness of development finance even for poverty reduction? So that's basically -- and this paper is a small contribution to that. It has no pretension to universality. It's one example of the way we could think about this issue.

Second, how can we proceed if we want to change this way in which ODA is constructed? Well, it's a debate between the major donor nations and there we might have a problem basically because this is mainly a bilateral group and most of bilaterals, as you said, make grants. Therefore, when you try together and say, "No, grant is not the right way to measure it," then there is a lot of explanation to do, and part of this explanation is technical but it is the easiest part. The major part is political. It is a feeling that if you count (?) something else on grants you give a premium to the countries that depend less on grants and therefore use less taxpayers' money -- something like that, you know. There are some misgivings about this whole debate that may make things difficult. We have raised the issue at OECD but it's going to take a lot of time.

You mentioned about exports and yes, diversification of the economy -- basically specialization and indeed of the exports – is a major objective. What we propose here is at least in what I mention in using export shocks as a -- export revenue shocks -- has one advantage in that it keeps the incentive for diversification since we don't pretend that we will stabilize prices. We don't pretend that we'll stabilize quantities. We help to smooth out shocks on revenues so this is compatible with market incentives, and to my view one of the reasons -- well, let me not put it that way.

One of the difficulties is that part of what we try to do when we try to do good -- you know, trade preferences and so on -- risks creating an incentive for poor countries to keep their specialization. So I think we should have second thoughts on the way in which we conceive preferential trade agreements and so on. I understand the (idea ?) but I think that we should be careful of not creating a specialization trap -- that we say poor countries should specialize in exporting commodities. Well, this is a very dangerous way to think about the -- (inaudible).

MR. DE TRAY: Thank you.

MR. RADELET: I'll try to --

MR. DE TRAY: Literally 30 seconds, Steve. Very quick and --

MR. RADELET: Welfare tax -- we're already there. We agree -- and this is your question, Dennis -- if we agree that the poorest countries basically could get grants and -- (inaudible) -- should be all loans then however you do it there's going to be a graduation from harder terms as you move up.

MR. DE TRAY: I agree.

MR. RADELET: So we're already there and I think this issue about grants and loans is not a huge issue along those lines. Nancy's point -- I think you're right and the way that you framed it around blending is exactly right but we don't get that until Page 19 of the paper. Most of the early part of the paper whether you mean it or not is actually framed around the -- (inaudible) -- of loans and grants. I would rather see this reframed around this issue of risk right from the beginning, not on Page 19.

Now, you're right that the market mechanism with provisioning could be exactly the equivalent. However, what their --

MR. DE TRAY: Fifteen seconds.

MR. RADELET: -- argument is is that that -- that the trigger on risk should be equated with governance -- that that is the measure of risk whereas what I'm saying is that it should be equated with income levels and use the blends that they're talking about but the graduation should be a function of income rather than governance. I think we get into some moral hazard issues around -- if you do it purely on governance.

MR. DE TRAY: Thank you, Steve. Pierre -- (inaudible) -- 15 seconds and counting.

MR. JACQUET: I don't like very much income categorization that Steve made for one reason. I think it keeps the vision of aid as from government to governments so you have a poor country government and therefore you make concessionality. I think increasingly we should diversify and that was mentioned -- that was a bit mentioned this morning. Aid is no longer a relationship of governments to governments. It is using public money or using taxpayers' money or using citizens' money in a way that could be from foundations as well as development institutions and reaching out to governments, public institutions, private firms, NGOs in the field, and that I think is the future of it.

MR. DE TRAY: Pierre, Steve, thank you both very much. Pierre's paper will be on our website this afternoon for anybody that wants to find it with his kind permission. I want to thank both of you for a good panel. I want to tell you that we picked up 25 of the 30 minutes that have been lost so far, which is not bad. I thank you all very much. (Applause.) I think that means we got at least ten more minutes -- (off mike).

(Begin "Policy Issue 3: What about Bank Governance?")

MR. MACDONALD: We will now resume if you could take your seats please. I'm Lawrence MacDonald, director of communication and policy at the Center for Global Development. I have read that there is a saying in southern Africa that trouble connects at the back of the trail. If you have a line of people walking in the bush that's where the trouble arrives and so I was afraid that that was going to happen with this session -- that we would be up against a binding constraint of Bob Zoellick's arrival at 1 o'clock. Just a time check and the question you're all really asking is when is lunch. Lunch was scheduled for 12:30. I think we'll be close to 12:30. We've also arranged for lunch to be available after Mr. Zoellick speaks so those of you who are inclined to eat later can do so and those of you who are really hungry can grab your lunch before Mr. Zoellick arrives at 1 o'clock.

The title of our panel is "What About Governance?", and I was thinking about governance in the bank -- how much the bank likes to talk about governance and very often, as you know, governance is in fact a code word for corruption in developing countries, and more broadly what underpins that problem is often lack of transparency, lack of voice, lack of accountability and we talk -- when we talk about the governance of the bank itself those are the things that we are in fact thinking about rather than corruption, and to put it in more straightforward terms it comes down to who's in charge -- who's calling the shots.

And there are two particular aspects of that which are very concrete although certainly not the entire question. One turns on the selection of the president and the process that accompanies that, and the other has to do with the votes on the board. We actually know what the development community broadly thinks about the selection process because back in May, during the selection process for the successor to Paul Wolfowitz, CGD did a survey. Some of you I'm sure participated.

We had about 700 respondents from 71 countries in the course of the seven days the survey was up, and there was a very strong agreement across the board that the respondents rejected the current system of the U.S. having the prerogative to suggest a single candidate to the board, and there was a similarly strong consensus across the respondents in favor of a more open, competitive, and transparent process. There was also, by the way, agreement about the kinds of qualities that people would like to see in the president. Interestingly, there was no real difference between the American respondents and others. There was no real difference across low, middle, and upper income countries. There was a real consensus that was quite striking.

In his speech last week, Bob Zoellick made what seemed to me to be some sort of tantalizing hints that he may be prepared to address the question of voice, perhaps the votes in the board. There has been so far as I know no mention of the selection process and so one of the things I will be listening for carefully when he arrives today is -- when he speaks today is whether he says anything about that.

We're really honored today to have somebody address the question of governance who I think is uniquely qualified to do that. Trevor Manuel is minister of finance of South Africa. He is one of the longest serving ministers of finance in the world I understand having for the past ten years. Is that right?

MR. MANUEL: Eleven and a bit.

MR. MACDONALD: Eleven and a bit. Appointed in 1997 --

MR. MANUEL: Six.

MR. MACDONALD: Ninety-six. Well, the bio is wrong. And more importantly, I think, for our purposes he is formally the chair of the development committee and it was interesting to me that neither the bio we got for this conference nor the Wikipedia bio actually mentioned that and I think that's a reflection of the fact that the governance of the bank and the fund are so opaque that people looked at the -- (inaudible) -- development committee and had no idea what it was and left it out. But in fact as you all know it is the collection of finance ministers who oversee the operation of the bank and the fund, and during Minister Manuel's tenure he was very forthright in speaking out for the interests of developing countries so I'm really excited and looking forward to hear what you have to say. Thank you for joining us today.

MR. MANUEL: Thank you very much, Lawrence, and thanks to Nancy for badgering. That's why I'm here today. The issue of governance and the bank for us as Africans is a -- for now a theoretical construct -- something to be considered way in the future. I mean, we're just a little cork bobbing on this wide ocean. We need these institutions very badly but we don't feature much in governance and so these are exceedingly important issues for us. And by governance I mean yes, you're right about that code and it's a battle we had with the former president. But it has to be about people, systems, and accountability and fundamentally I think the question that must arise is to whom are these institutions accountable. Nancy says focus on the future but part of what we need to understand is that the solutions lie in what was inherent in the system over the last 62 years but ignored.

These are, I think, issues we need to come back to. I mean, we are still operating in an exceedingly benign environment. Growth is positive. Interest rates are still relatively low. Inflation is low. Commodity prices are strong, and I was speaking to my colleague, the minister of finance of Nigeria this morning to try and understand their -- what their take is on the $90 a barrel oil situation, and well, they're not saying, "Oh, thank you." I think that they're looking at tomorrow trying to understand the implications of Dutch disease and all of the other risks that come along with it. So, you know, but I think it's important to understand that we are operating in a benign environment and it's quite important that we take the long view on some of the issues.

Now, (Francois ?) in this paper that laid the basis for Bob Zoellick's speech last week makes a very important point and he says despite dramatic progress the end of poverty is not imminent. Something we take for granted but I think something that's quite important in the context of trying to define the raison d'etre because if we're clearer about that then I think we know what we want the institution to do, we know what kind of people need to be there taking decisions, and we understand to whom these institutions need to be accountable.

Now, three things that the bank clearly needs to focus on -- the first is a massive increase in development aid that is well managed and well directed, and here I want to commend Bob Zoellick for that very significant announcement in the $3.5 billion of IDA and the lowering of interest rates to countries who have found it easier to go to capital markets in the last few years -- something that we should not underestimate because this has been one of the most difficult issues in the past and I think it was perhaps for Paul Wolfowitz one of the most difficult issues to deal with, and I think that this is a very important step that will define the bank into the future.

The second issue is a matter of increase in technical and institutional capacity. That resonates not with the interests of those who work in the institutions but with the development needs of countries that require this and there's no monolith. So I think that the -- this part of governance speaks to the accountability and the relationships that need to be constructed. And the third would be that this issue that was referred to earlier -- the institution and its people and the intent of structures within are very important. But I think that you can't get there unless you believe fundamentally in multilateralism. Now, Pierre, yes, the issues of development finance as you raised are very important but I think we need to understand as well that these institutions they exist not in competition to Wall Street but they exist to define a very different set of objectives and sometimes we lose that in the discourse.

Joe Stiglitz makes three points. He raises these as cornerstones. The first, he says, is social justice -- views about equality and poverty; the second, political values -- views about democracy and fairness; and the third set of views that he defines as important would be views about relationships between people and the communities that they serve. And I think that part of the accountability construct that we need for the governance in the institutions needs to go back and draw on these issues. You'll find that Amartya Sen raises these issues similarly but also differently, but you must have a set of values that will define these institutions in very complex multilateral environments.

I think that in dealing with these issues it's necessary for institutions like the World Bank to look beyond, I mean, the sort of trite arguments about globalization and rising tides and all of that stuff. I've been quite persuaded by the argument set forth by Ann Harrison and McMillan which deal with the fact that the poorest don't benefit from market access. If you're a poor peasant growing a plot of maize the fact that France has suddenly opened its market to you doesn't -- or to your country doesn't make an iota of difference to your life. How do you deal with that -- (inaudible)? How do you deal with the fact that so many people are left behind? When is agriculture agriculture? When is it sustenance? How do we bring these things together differently? How do we get this in the discourse and decision making of institutions like the bank?

And I think what's important about this is is who advises and who takes these decisions and, you know, some of the very smart people in the bank and who've been there and some of them have very sound theoretical knowledge but part of what's missing is the kind of experiential information that needs to interlink very, very closely -- something that informs decision making in this institution.

Big challenge, I think, for all of us is how to get the balances right. I mean, take the issue of the MDGs. Now, who in this house would disagree about the value of the MDGs? Pierre and I would -- look, I mean, one of the biggest challenges is that it's exceedingly laudable but it so lacks the comprehensiveness and the battle that the poorest countries face is that the pressure is on to deliver on the MDGs but there's no pressure to deliver on the productive side of the economy. And so the ability to get a country and its people out of poverty is not there but this is what happens when you don't have that matching between theory and experience. And I think it's so central to part of the difficulties of decision making in the Bretton Woods Institutions.

Now, you know, Kemal Dervis in his book reminds us that there's nothing automatic about the inclusion of countries affected by geography, history, civil war, strife, other people's wars fought on their territory. There's nothing automatic about the inclusion of these countries in the global economy. So I come back to the question about how the bank is able to align the incentives -- (inaudible) -- with the needs of project. I also with that have to drill through this notion of a knowledge bank. (Inaudible) -- at whose disposal? To what end?

The key question, I think, is about whether the bank in its design, in its staff, incentives, enable the means of developing and measuring sustainable development, and more importantly, after we get through the complexity I need to be provocative and I need to ask this question somewhere. Do we still need 24 full-time executive directors adding to layers of complexity in this institution or is it merely something that digresses from a different kind of accountability that we need at this point in world economic history?

Now, you know, in politics you need to be careful about what you say. There's a quotation I found rather useful. It's about five years old. It says, "To master globalization we have to answer three basic questions. Firstly, what institutional architecture do we need for international governance? Secondly, how do we achieve legitimacy in decision making? And thirdly, how do we arbitrate between these domains?" Wonderful quotation -- in 2003, Dominique Strauss-Kahn. It's going to be very interesting with Dominique -- (inaudible) -- being reminded of that wonderful quotation because we've been in discussion, Dominique and I, and, you know, about his appointment he said, "Well, the next MD of the fund -- I mean, we should have an open process." This has been the discussion for the last four months and so. The next one would be -- should be an open process but I'm saying that the key issue is the holy grail of accountability, the responsiveness of the institution, and it clearly is beyond aid financing and the international monetary system.

Part of it is in the past of the institution, that which has been ignored. That which was the fundamental engine for the establishment of the Bretton Woods Institutions -- cooperative efforts -- cooperative efforts that have now been replaced by a shareholding structure and the issues of -- (inaudible) -- are late attempts to try and deal with the shareholding structure, not the essence of cooperation between states, and I think that it's understanding that we need to get back to some of that cooperation. Be bold about it. Stand back from the present structure. Separate the institutions from foreign policy of large -- of its larger member states and focus on that which will make a difference.

Against that backdrop I mean, you can then throw overboard this notion that (Dad can employ ?) some to preside over this multilateral institution. You can throw that overboard because the fundamental relations between those who need to utilize a skills base in this institution would be so radically different. So let's not plead, you know, for open processes when the structures and the accountability of the institution I think are still going to hold us back. Thanks, Lawrence. (Applause.)

MR. MACDONALD: Thank you very much. For discussant we have Domenico Lombardi. He is the president of the Oxford Institute of Global Economic Policy and his work at present focuses on the reform of the international financial and monetary system and the creation of a new aid architecture for low income countries. Domenico, I'm looking forward to hearing what you have to say.

MR. LOMBARDI: Yeah. First of all, thank you very much. Let me say thank you to Nancy Birdsall and to the CGD for inviting me here. Having listened to Minister Trevor's remarks -- especially on accountability, the decision making structure, the role of the board at World Bank -- let me try to organize my comments around three main themes. One is -- (inaudible) -- and forgive this historical -- very big historical digression. The other is symmetry and strategy and how the governance should affect the new strategy Francois Bourguignon has just talked about, and in doing so I'll try to see if I can push Minister Manuel even a bit farther.

Of course, I take for granted that the distinguished panelists we had earlier on have already made comments on the kind of big picture, Ngaire Woods in particular. So parallelism -- this is really the first time I've been invited to a session on banks' governance. The current reform debate typically focuses on the IMF and apparently what is said for the IMF tends to be applied to the bank by default, and I would argue that there's never been really deep thinking on the World Bank as such and we have come to -- by this attitude honestly.

In a way, it is a sort of remnant from the Bretton Woods Conference in '94. By that time there had really been extensive discussions on the governance structure of the IMF but the same was not true of the bank, and indeed prior to the preconference in Atlantic City in June of '94 -- of '44 it was not even certain that the bank would be on the agenda at a Bretton Woods conference. And apparently as I learned -- I was not old enough to recall direct, you know, a witness of the facts -- but apparently the delegates were so exhausted by the negotiations of the IMF's draft articles that they were very happy to quickly adopt many of the same provisions set out in the IMF's charter for that of the bank, and this has paved the way to the so-called principle of -- (inaudible) -- between the two institutions, and the principle that has been in existence ever since in a way it has driven my career.

I was first asked by my own government to join the IMF as a board official and then apparently I did quite well and then as a premium I was asked to join the World Bank doing essentially similar things. So perhaps it is this sort of bias has been -- (inaudible) -- in my own thinking as well. But in any case, the set effect has been that of introducing some bias in the reform debate that really tend to overemphasize similarities between the two sister institutions despite of course, obvious differences in their respective mandates.

Let me just give you two examples, again, following up the very big picture that Minister Manuel has so beautifully given to us. So the first one has to do with quotas. Where IMF quotas are really in the press now they are practically -- they are revising the quotas so but the notion of relative position in the world economy is a basis to determine a member's quota has been thoroughly spelled out at the IMF. It is based on indicators of economic size, external vulnerability, reserve assets and so on and so forth.

And so when I joined the bank I asked, "Okay, how do you compute quotas for the World Bank?" And frankly, some very kind people in the legal department and in the corporate secretary explained to me that essentially the IMF member quotas are used as a basis for determining member subscriptions at the bank, if not in a purely automatic way. So I think that if some observers are skeptical about a lack of transparency -- the lack of accountability in the IMF's governance this then becomes even more serious at the bank as a development institution I will argue. Membership contributions ought to be truly based on the development relevance of any given member, donor or recipients as the case may be.

Let me give you give you one further example, again, picking up on the role of the executive board that Mr. Manuel has recalled. Let's talk about acceptable representation. Again, I found out that the such -- the executive board representation is virtually identical in the two institutions. This means that at the bank's board we have country chairs that are neither donors nor recipients while other members find themselves lumped into huge constituencies that together represent about 50 countries or so, and incidentally these African countries -- Minister Manuel represent one of them -- are among the most important clients of the bank, and so it makes especially little sense to parallel such an undesirable feature of IMF representation, and again, to talk about African representation is very much linked to what happens at the IMF.

Then let me talk a bit about symmetry. Again, picking up on what other panelists have told earlier on this morning, there is a wide consensus today that governance affects an institution's ability to achieve its objectives, and the bank has itself contributed to this consensus. But just how is the bank's own governance doing and here I refer to the broader governance framework and not just quotas and voting shares, important though this may be.

The multilateral nature of the institution should not stop us from asking questions like does the current governance framework really support the institution's mission. Does it make the most of the scarce resources available for development? Does it ensure reasonable accountability? These are all themes on which Minister Manuel has touched upon. This is an issue on which really the whole membership should stand as one because it really -- because both donors and recipients have a large interest at stake. And yet, as I will argue this is an area where unhappily we've recorded almost no progress at all over the years and I mean since 1944 onwards.

Let me give you an example. If we look at the articles of agreement they do grant management and board considerable latitude. For instance, the articles do not define precisely the division of labor between the two. Right now at bank board approval is required for virtually every loan and guarantee, and this might explain why we have a board -- a resident board of 24 or 30 directors and that -- (inaudible) -- these invariable results in several thousands of documents circulated to the board that won't tell you how many exactly because you may not believe me but most of these documents have to do with the bank's lending activity, namely loans and projects. And I think we have learned this morning that really the lending activity is not in the future of the bank anymore.

But in any case, given that the board has to approve every loan and project and have to digest these huge piles of documents, then who is to blame if a project fails to deliver the expected development results? The staff who came up with the projects? Management for recommending it to the board? Or is it the fault of the board itself for approving the project in the first place? Then we talked about the board's -- (inaudible) -- lending activities but what about strategic issues? Again, the current arrangements that date back to a memo of 1947 call for a board approval only in cases where there is a change in the bank's internal reviews so really the executive board is the rule making organ of the bank and/or a change in budget reapplications. So in theory --

MR. MACDONALD: Domenico, maybe one or two more minutes because we want to set up time for some questions.

MR. LOMBARDI: Yeah -- sure.

MR. MACDONALD: Some of these things will come up in the discussion I'm sure.

MR. LOMBARDI: Sure. So -- (inaudible) -- we can have a new strategy that manages to -- (inaudible) -- any change to previously approved rules and technically this doesn't require any board approval and doesn't take an economist to see that in terms of accountability this doesn't quite (adapt ?). So let me stress that to change these arrangements -- arrangements that by the way have no analogous counterparts in the financial sector -- arrangements that are in a way evocative of the banks as a multilateral institution -- to change these arrangements all it will take is another memo like the one of the several thousands considered by the board last year -- like the one that was drafted in 1947 and still underpins the practical decision making of this institution.

Finally, just one more piece on strategy. We learn that there's a new draft strategy. Many economists have argued on the need to focus on global public goods, but then there has never been any talk about how is this current governance framework supportive of this new mission. And here I see a tremendous potential for an executive board that can potentially reconcile universal representation with a relatively agile decision making framework. Of course, this is true only potentially but, again, would be something to -- that the membership ought really to discuss and just, you know, having a new strategy without any feedback on the kind of governance structure that will oversee the implementation of such strategy seems to me a really -- a bad start but perhaps I might be wrong with it. Thank you. (Applause.)

MR. MACDONALD: I'd like to ask a single question of both of you that relates to a debate about in fact whether governance matters at all, and I think the line that -- the idea that governance matters and articulated very clearly in Kemal's book is it's a source of legitimacy. If the institution is not in some way representative then it cannot -- it lacks legitimacy and therefore cannot be an effective intermediary in solving global problems.

There is another view and there's been a very lively debate on the CGD website between Sebastian Mallaby -- who a lot of you know wrote a very good book about the bank, Washington Post columnist, astute observer of the bank -- and Arvind following on Nancy's rather provocative post about whether Bob Zoellick will be a good or great president, and she argued that to be great Mr. Zoellick is going to have to tackle governance. Sebastian came back and said that's not the case. In fact, we have lots of examples of institutions that are representative and not efficient, and institutions that are efficient but not representative, and there's no guarantee that by making the bank more representative you're going to make it more efficient. It's pretty good as it is -- let's get on with solving global problems and not worry so much about governance.

So I'd like to hear from each of you where you would come down on what I sort of think of as the Mallaby versus Birdsall and Subramanian debate on in fact whether governance matters or we should just get on with business of solving global problems or the banks should get on and not address governance, which I suspect is probably the view of those who would not want to address governance issues.

MR. MANUEL: Can I pass?

MR. MACDONALD: Please. I'm --

MR. MANUEL: Can I pass?

MR. MACDONALD: Can you pass? I hope you won't pass. I hope that I have provoked you to come down on one side or the other or split the difference.

MR. MANUEL: Look, the -- I think the arguments Kemal sets out in "A Better Globalization" calls for a structure that is more representative of both history and geography. It may be a tad formulaic or a tad too formulaic. But somehow I think you have to move from where you are now and I favor that but I'm saying that once you have that and you have certain systems in place and construct -- (inaudible) -- I wouldn't be averse to adding in a notion that was tabled by Champey (ph) when he was finance minister, namely that you must construct better accountability to a council of ministers instead of this notion suggesting that an executive board is your point of reference for governance.

Now, is the world ready for it? I don't think so but I think we've got to continue to raise this matter because you have to effect very significant reform there and that would then cover the other issues. If you have that kind of -- if you have the structure Kemal proposes then it's easy to deal with issues such as board appointments and so on. The rest I think would be significantly easier to do.

MR. MACDONALD: Thanks very much. Domenico?

MR. LOMBARDI: Well, governance matters. Again, having worked at World Bank I learned that it does matter for the World Bank. The World Bank jointly with the IMF established the International Standards Initiative in '99 and perhaps not many people know that this international standard on corporate governance for which the World Bank is responsible is uniquely responsible both vis-à-vis so-called part one countries developed -- (inaudible) -- countries and also part two countries and --

MR. SUBRAMANIAN: What about -- (inaudible) -- forwards?

MR. LOMBARDI: Well, I'm -- (inaudible) -- so this, of course, shows that at least given my own -- by bias as a former board official at the bank governance does matter for the bank. (Inaudible) -- pushing for the governance in the anticorruption initiative so this shows that governance does matter and then there has been a whole body of literature that has also sort of inspired the work at the World Bank -- pointed to the importance of institutional factors in determining the effectiveness of an organization of an economy. So in this I don't think that the bank should be different and I think that --

MR. MACDONALD: One minute.

MR. LOMBARDI: -- looking forward this whole emphasis on global public goods does require a greater engagement of the membership so in order for the bank to really be a multilateral forum as Ngaire Woods and others were advocating I think the founding fathers envisaged a relatively agile decision making body that as I said can potentially reconcile a universal representation but also operational effectiveness. Then it is a matter of how you operationalize this. But I do think that the answer is more in -- (inaudible) -- very much in conformity with what the (articles ?) would say -- the kind of nature or the way the auxiliary board should really work. But if we look forward there is no doubt that governance will be even more important in supporting the effectiveness of this new strategy.

MR. MACDONALD: Thank you so much. We do have time for some questions. Please raise your hand. Wait for the mike. I'm looking especially for somebody who has not spoken. I see that my boss would like to speak and I'm going to give her a chance but I want to hear some voices from somebody who's not been on the panel or spoken from the floor. Nancy, it looks like there's no competition. Arvind is competing. I'm going to recognize Nancy and then see who else comes up.

MS. BIRDSALL: I'd like to push Trevor a little bit. I know he's being careful because he's a good politician. One of the issues that was raised by Ngozi in the opening panel this morning was the idea of having a separate governance arrangement for IDA, and what Domenico has said reminds me that there's an odd parallelism not only between the IMF and the World Bank but between the way the IBRD functions and the way IDA functions. And IBRD really is the classic cooperative that provides -- historically did provide the multilateral forum and IDA has been an add-on which -- maybe it's exaggerating to say it but as time has gone on it has in a odd way infected the ability of the bank to operate as a cooperative because it is structured as the rich give and poor get.

So I wonder if you would just do a little philosophizing for a moment on whether having a difference governance structure for IDA in which the IDA recipients were much better represented would generate more of the accountability and more alignment of objectives with representation than those things that you were calling for.

MR. MACDONALD: Anapom (ph)?

MR.   : This is related to the question that you actually asked -- does governance matter -- and the question for three or four of the specific groups or strategic teams that we talked about this morning I think it's -- can be clearly laid out that governance does matter basically in terms of the legitimacy of the institution, whether it's global public good. The question I have is there's a big disconnect between what I hear in Washington in this morning's discussion about the bank being seen as an honest broker -- what Kemal and even Ngozi said that -- but my own experience after 27 years working primarily in middle income countries or so-called middle -- India, China, Brazil, Indonesia to name four -- where the bank is not seen as an honest broker.

And my question to the panel is is there anything that can be done to the board -- and incidentally, I believe that those views are quite justified having observed it -- is there anything that can be done at the board level which can enhance the legitimacy of the bank as an honest broker?

MR. MACDONALD: Anapom, I think you have a special perspective on this given your current role so for those who don't know maybe you can tell people what your current job is in the bank.

MR.   : I'd rather not.

MR. MACDONALD: You'd rather not? Okay.

MR.   : But if you -- (inaudible) -- I run the board's committees.

MR.   : Sorry. Let me -- I think -- (inaudible) -- does much more than that.

MR. MACDONALD: I'm going to recognize three more and I'm going to ask you to each keep them very short to one minute -- Kemal, Edith, and Arvind in that order.

MR. DERVIS: I just want to add one more dimension which actually I wanted to add this morning but it fits much more the governance thing. You know, we keep discussing governance only as an issue of waiting countries and I must say even in my book I viewed it that way primarily, and that's primarily correct. But there's another part of governance, and I did -- I do -- I did touch upon it in the book and that is who participates within governments and what are the time horizons. In other words, there's the whole issue that the World Bank, IMF, Bretton Woods, you know, is the family of finance ministers and central bank governors and not other parts of the governments of country. And I think that matters in some contexts and therefore the discussion has to go, I think, a little bit beyond just the composition and weighting of the boards.

But another dimension which is also quite interesting is this whole need to precommit. In other words, in a country -- in South Africa or in Turkey or in Italy or wherever -- we make central banks somewhat independent to allow them to precommit. We discussed climate change this morning. One of the big issues in climate change is that given the horizon, you know, there is an incentive problem. In other words, if you really want to commit to investments in climate change and the benefits will come 20 years from now, how does that fit with the democratic cycle? So we probably don't have time to discuss it but I just want to warn against viewing governments simply as the voting shares of the finance ministers. It's more complicated than that.

MR. MACDONALD: Thank you, Kemal. Edith?

MS. WILSON: Also very quickly -- I'm somewhat surprised that you know just -- oh, I'm sorry -- I'm Edie Wilson from the World Bank.

MS.   : (Off mike.) Are you going to tell -- (off mike)?

MS. WILSON: I'll try, yes, in a moment but I'd like to make a personal comment as someone who's watched a lot of board meetings and watched the governance process of the bank, and simply a couple quick points which is governance mattered this spring so I have to think governance matters in the future -- the quality of governance -- the quality of decisions -- how people were able to make decisions. And so to Minister Manuel, the representation of Africa at the bank is wrong. Isn't it right to fix it because it is so clearly wrong? Not just on how vote comes out but when you sit in a room and your -- you know who speaks -- when certain countries speak, you know, when certain groups of countries speak you know what position's being taken.

When I take notes I have no idea what particular views of Africa are being recorded at any one moment because Africa's complexity is in no way reflected in the discussion by the nature -- I live there. I know all African countries are not the same. And I can't hear those voices in that room. So I know we've changed it before. I don't see what the big obstacle is to considering an adjustment, as Ngaire says, you know, power shifts, time shifts, life goes on.

MR. MACDONALD: Arvind, I'm going to hold you strictly -- you're going to give up your time? No.

MR. SUBRAMANIAN: No. (Inaudible)

MR. MACDONALD: Okay. I'm going to hold you to one minute then.

MR. SUBRAMANIAN: This is for Minister Manuel. Point number one -- I was surprised what you said about the interest rate and it struck me more as a Faustian bargain where, you know, middle income countries give up their sellout on their -- (inaudible) -- of government reform to get a bit more cheap lending. But that's a -- the question I have is do you think middle income countries are in some insidious imperceptible ways turning away from the bank or actually disengaged, yes or no. And secondly, why is there not more pressure from middle income countries -- serious, concerted big time pressure -- to change governance?

MR. MACDONALD: Okay. I'm going to give both Minister and Domenico only two minutes so you're going to have to pick and choose your questions. There were a lot of interesting comments. I liked Arvind's closing question -- why isn't there more pressure. But there are many things you're going to want to reply to so, Mr. Manuel, would you like to go first?

MR. MANUEL: It is -- (inaudible) -- because she runs away but Arvind, the basic issue -- I mean, as finance minister to middle income country I can deploy a team now and by probably the end of the week be able to sign (debtees ?). I can issue debt as and when I please. I can negotiate the spreads and conditions. My problem is if I go to the bank because of all of the complexities it's going to be 18 months before this -- I can (smell the money ?) more expensively than the process that'll see me borrow by Friday. It's that kind of issue that I think talks to what the bank must do to change its own responsiveness.

Now, you know, I think the other issue frequently (the sweetener ?) is the technical assistance that comes along with it -- that's what you have to deal with. I think that the issue that Nancy raises is exceedingly important. I mean, I think what -- Nancy, one of the conundrums is in this era of globalization when companies sell -- produce and sell -- they produce somewhere, they are headquartered in a large country like this one and they sell anywhere, and because of the existence of double taxation agreements and so on the taxes are levied frequently here, not where the goods are sold. (Inaudible) -- battles to get some of the returns repatriated. But, you know, is the wealth then distinguishable by sovereign borders? I think that has to be the starting point. The consequence of this is that some countries are becoming significantly wealthier and others are being left behind in the process.

Now, if you needed to construct a road between -- a new road between Washington and New York, say, it's an investment. It's an investment that would be expended from taxes raised, normally by citizens of the United States. But it's all the Coca Colas and Nikes that we consume in Africa that contributes to that road that went -- it's a road for Africa somewhere. It then changes and it now is donor aid. So that the governance system is way behind the global economy, and decision making about these issues is even further behind. And that's what we have to unpack in order to resolve the issue of voice which is why, you know, it's quite impossible to disagree with you on the governance for cooperation in the context of IDA.

Now, Domenico spoke about the IMF and the World Bank. You take the regional banks and the same thing continues. I mean, we battled in the ADF. There's just -- in the African Development Fund there just is a -- an entirely new agreement because South Africa as a donor into the African Development Fund was excluded from decision making. So our donations were welcome but, you know, it's the nonregionals who are to decide how the money was used and we battled that issue as we have in the context of IDA. So yes, it has to change but it has to, you know, I think you must just accept that the fungibility of taxes is in fact at the epicenter -- the rationale for changing all of this -- (inaudible).

MR. MACDONALD: Thanks so much. Domenico?

MR. LOMBARDI: Yeah, just on the -- (inaudible) -- the governance issue. We have to be aware that in the case of the World Bank there's a lack of clearly defined benchmarks on which you can assess the effectiveness of the institution. So the only way you can ensure a reasonable degree of legitimacy is by really implementing good governance within the institution. On top of that, we have to be aware that World Bank, differently from the IMF, is a market-based multilateral institution. If you take the financial statements or the IBRD there is a stock of about $100 billion raised on the financial markets that is then passed into lending as of 2005 fiscal year. So again, good governance does matter.

Nancy's point was what about the IDA board and the (parallels ?). Certainly the -- this is an issue but, again, if we look at the overall architecture that may still be to some extent valid. The real problem is that the IDA board has in a way been -- (inaudible) -- intermediated by the IDA -- (inaudible) -- is really -- I mean, this is a broader tendency in multilateral institutions. We have members that on the one hand do establish multilateral institutions -- that do want multilateral institutions. Then on the other hand they withdraw political capital. This is part of larger problems that involves the IMF and Ngaire Woods and I have written something on this.

So again, it is really much of reestablishing the centrality of the World Bank's governance as the source of the legitimacy for the policies of this institution, and I think this is really the key to having the bank and other multilaterals to reaffirm their role as -- (inaudible) -- brokers. So this is even more true if we look at global public goods that will require a very high degree of engagement from the membership, and I think that the key pillars of the governance or the Bretton Woods Institutions may still be relevant with some adaptations. It's really the how you operationalize those key pillars that, you know, in some case needs to be revised. Thank you.

MR. MANUEL: Two -- three seconds. Just to go back to Arvind's point -- of course, the largest borrowers from the bank at the moment are China and India. Now, why would China with $1.4 trillion of reserves need to borrow from the bank? I don't think it's correct that middle income countries like those with large reserves -- (inaudible) -- are disengaged from the institution but I think there's a longer view that we have to take about the quality of the engagement and it would vary with time and circumstance. Thank you.

MR. MACDONALD: I'd like to thank Minister Manuel and Domenico Lombardi. (Applause.) I -- we face a really huge logistical challenge here and I'd like to ask for your cooperation. Because the discussion was so rich I let it run beyond the point at which I probably should have stopped it. Mr. Zoellick is going to arrive here at 1 o'clock. I hope that my remarks about lunch didn't scare off anybody. As it turns out there was sufficient time for anybody who wanted to to have lunch, but lunch will still be available --

MS. BIRDSALL: Ladies and gentlemen, we're ready to go to the -- ladies and gentlemen, if I can have your attention. We've reached the high point of the meeting -- of the conference. I've very pleased to welcome Robert Zoellick -- Bob -- to this conference on the World Bank, what should its future be. Let me -- I know, Bob, that you've been well briefed I'm sure by your staff and I'm glad you were. I hope they gave you a sense of the optimism about the bank and the worries about the bank that were expressed this morning. I think you would have found the entire -- all the sessions both inspiring and challenging in terms of the task you face. And I'm just going to say although I know you -- I hope you've heard a little bit about the substance I'm going to repeat the two issues that I raised at the beginning of the conference this morning.

One is about relevance, and there was a lot of discussion about the potential role not yet realized, difficult to exploit, but the potential of the World Bank to be much more engaged at a strategic level in dealing with global public goods -- climate change, research in agriculture and health, and so on. And I think I would say that was seen as one way to cope with the problem of relevance which is arising because of the decline in borrowing and the possible -- although that was controversial too -- disengagement of some of the middle income countries and large emerging markets from the bank.

And the second issue that has come up is the question of legitimacy and whether the bank can continue to have legitimacy without some reform of its governance. This is a very tough issue for any precedent (ph) new or otherwise because any change in governance requires a kind of collective action that's difficult to achieve in a setting like the bank. But there was lots of discussion of the question of whether in an institution like the bank, where it's very difficult to establish clear benchmarks of effectiveness and accountability, you can get away for a long time in a changed world that is so global with a system of governance that fails to reflect the global cooperative nature of the bank.

So forgive me for taking another couple of minutes to give you my briefing, perhaps not entirely unbiased. We welcome you warmly. I'd say that really everyone in the room I suspect shares with us at CGD the view that the bank is an extraordinary institution, and what we're looking for is to make it extraordinary in this century to sustain the qualities it has and to improve it so that it really does address the big global questions of the day. So with that, a welcome.

What I'd suggest if I may -- I know you're prepared to answer questions. I want to say ahead of time so I don't forget if you want to address a question to Mr. Zoellick I'd first ask -- there are staff from the World Bank here -- if you could desist. I'm sure you'll have other opportunities. And maybe I should say that for the few who are here also who used to be in the bank but that wouldn't be fair. (Laughter.) So for those of you from the bank if you could desist, and when you do ask questions please introduce yourself, keep them short. I'm going to assume that you're happy to manage them but I can come up if you want and you can just point, okay? Great. You have the floor. (Applause.)

MR. ZOELLICK: Well, I want to thank Nancy and all her colleagues here at CGD. She was extremely gracious to help me when I was first nominated. She put together an excellent discussion group. I got to read her book about the hardest job in the world. Had no idea it was increasingly becoming the most dangerous job in the world as well but times change. And I think it was with CGD that I attended the address that Ngozi gave and so you all know how that turned out. So thank you for that as well. And I understand that Ngozi was here with a really excellent panel. You had -- (inaudible) -- and I see my friend Trevor Manuel and others so you got a great group of people contributing to the discussion.

Since this is as all of you know a very hectic week, I just wanted to come by even if for a short time to share some views but then to get your questions and comments and critiques because it's a great way for me to learn. So I'll just start with a few introductory comments and then I don't remember all the categories you put people in of whether they can ask or desist or whatever but anyway we'll just take the hands as we get them.

I think as everyone in this room knows, globalization offers some extraordinary opportunities. When you consider the fact that some 300 million people have been taken from extreme poverty one cannot underestimate the potential. But the point that I've been trying to emphasize over the past week and will be during the course of these annual meetings is that we still face some very, very challenging problems of exclusion, grinding poverty, and environmental degradation and, of course, it's the weakest who suffer the most from this process, whether they be indigenous people, women in developing countries, the rural poor, Africans, and the children of these people.

So the vision of the World Bank Group that I have suggested is one of an inclusive and sustainable globalization. So this combines the focus on social development through the Millennium Development Goals with a very important attention to -- combined to having sustainable growth driven by the private sector and supported within a framework of public policies. The needs, as all of you know, are great but a point that I try to emphasize with the press is that this is not just a question of money. And again and again when people come back to the World Bank Group they're always focusing on it simply as a source of financial resources.

My view is that the role of the World Bank Group is to try to help countries to help themselves through a mix of ideas and experience, developing of private market opportunities, support for good governance and anticorruption, all spurred by our financial resources but the financial resources are really a catalyst in a process for bringing other things to bear. And one advantage that we have that I think we can use better than we have in the past is we have an extremely strong capital base both for IBRD and IFC, and so you could see some of the early steps that we started to take with the board or trying to draw on that and I think there's a lot more to do. But our role is also one of trying to advance ideas about international projects and regimes and treaties -- whether they be in trade, whether they be in finance, health, education, climate change -- so they can benefit all and most of all those most in need.

So the World Bank Group should be trying to expand the frontiers of knowledge in policy and markets -- trying to pioneer new possibilities as opposed to just recycle the passably proven with a slight financial advantage. So in the speech I gave last week I suggested six strategic themes. The first is the challenge of the poor, especially in Africa. This is in part the work on the Millennium Development Goals but the message I got very strongly when I visited sub-Saharan Africa -- and Trevor was kind enough to host me in South Africa but I was also in West and East Africa -- was the very strong interest on the part of many countries to move -- become the African (cheetahs ?) -- to move to a new level of growth, and so their message to me was one of energy, infrastructure, regional integration. And the facts support them. There's been some 17 countries between 1995 and 2005 that have grown on average about 5.5 percent growth, which is not anything to slough off -- it's also not good enough. These countries can certainly do a lot better.

There are another eight countries -- and each of these represent about a third of the population -- another eight countries that grew at 7.4 percent over that ten-year period but there it was driven primarily by oil and so our challenge with those countries is of course different. It's a challenge of how do we help countries build the capacity to use the oil resources and how do we improve the governance standards.

Now, with these countries IDA is our principal financing tool but I want to emphasize it's not our only financing tool. I think we can do a lot more with IFC and others, and part of the decisions that the board came to in our first months was how we can get IDA and IFC to interact more effectively. But I was also extremely pleased that we were able to break in some ways a conceptual logjam about how to use the resources of the World Bank by agreeing to pledge the $3.5 billion to IDA 15 in contrast with the $1.5 billion pledge that we had for IDA 14.

Now, as many of you know, because I know this is a very sophisticated group and watching the bank, that required a substantial commitment of IFC income and revenues. This is one of the few times in life you could really have your cake and eat it too because IFC's capital base is quite strong -- I think allows a very, very strong growth agenda but frankly it also made $2.6 billion and that gave us the possibility to allocate $500 million to go to IDA 15 and then also have at least the expectations of commitments in coming years. It's an example -- a little bit of what I would suggest I hope we can do more of managing the capital and risk assets. Another area that I hope we can look at is some of our credit decision policies with some countries, particularly those that might move into the blend category.

Second, there's the special problem of states coming out of conflict or seeking to avoid the breakdown of the state. The way I like to frame this is the fact that when the bank was created in 1944 the notion of the IBRD -- the hour for reconstruction -- was for Europe and Japan. I just did an interview with some French TV and alerted them that France was the first recipient of a World Bank loan. But now the hour has a very, very different meaning, and so the challenge is how do we take what have been some early experiences, whether in Bosnia and Mozambique and Rwanda and others, and try to really build a much better sense of an integrated approach to these countries.

Now, I do not mean to suggest by any means it's just going to be formulaic or easy. In fact, I think it's going to be one of the toughest challenges. But I think it's a challenge we can't avoid because when you look at those poverty numbers -- and this is true in sub-Saharan Africa but it's true in other places as well -- the breakdown of states make it extremely hard to be able to get any improvement, and it's not only a problem for the people in those states but it's a problem for their neighbors, and not only the insecurity issues but the refugee flows.

So I think what we will need to do as an institution -- and this reflects another theme I hope we can promote which is we're going to have to play better with other children here in terms of working through with the U.N. system, with other parties, to try to see how we deal with the security issues, the political framework issues, the refugee and reintegration issues, the capacity building issues. But I think that, again, this offers some possibilities for IDA because IDA has been one of the more adaptable and flexible tools in dealing with this challenge.

Third, we need to develop a much more differentiated business model for the middle income countries. It's interesting -- this catches a lot of attention in the past week I've noticed for the press discussions, and to me it's a pretty clear issue. I mean, first off, if you're concerned about the issues of poverty, China, India, our IBRD middle income borrowers represent 70 percent of the people under $2 a day so you really can't ignore these countries nor should you. But secondly, if you're interested in issues like energy and the environment how can you possibly get at them unless you're going to deal with these countries?

Third, I think these countries will be critical in terms of the evolution of the multilateral international system, and you can see this through the debate about the role that China plays with Africa or Brazil plays with Africa, or India. I'm having a session with Minister Kudrin of Russia where they're now starting to contribute to malaria efforts and some other projects in Africa, and I think from some years of diplomacy and experience it'll be a lot easier to work with these countries on issues in (third ?) countries if we're working with them in their own environment.

But there's a more fundamental problem which I think goes to the heart of the institution. This is supposed to be a multilateral institution. It's supposed to bring together the countries of the world that are its members -- 185 -- in some cooperative fashion. And frankly, within these countries there are still tremendous challenges of development and poor, and questions of poor regions, poor groups. To take, again, the case of China and energy, I was looking at some statistics that Kathy Sierra (ph) put together from our sustainable development office and one really struck me, which is that in 2005 China was on average building a new coal-fired electricity generating plant every other day of about 100 megawatts. Now, that certainly brings home the fact that if you're going to try to deal with carbon growth strategies you're going to have to figure out how to deal with the developing countries' needs, and China being one of the most important.

So with these countries I think what we have to do is first listen to our clients and try to develop a menu of development solutions, okay? I do think there's still a role for lending but it's not my purpose to overemphasize the lending. I see the lending as part of a package with knowledge and other services. The effort to simplify and cut our prices I see as a first step in that commitment. It's certainly not the only step. It's quite important, however, and that I -- as I've talked with a number of ministers in potential borrowing countries I've been quite surprised as they compare what they feel that they pay in markets versus what they could get through us that they really -- we haven't done a very good job of explaining the price differential, and so the simplification is going to be as significant as the cuts.

But increasingly I think the challenge will be how do we apply some nonlending services and risk different types? In a sense, how do we apply the global know-how that should be the bank's greatest forte to the challenges of local markets. So this may be risk management, it may be securities market development as we're doing with this Gemloc initiative where we're putting together the $5 billion fund for local currency bonds and having an index to match it. It can be working with subnational authorities and, again, you know, I -- as all of you know I've only been there about 100 days but I've gotten -- getting some feedback that I think in some cases some governments would like to have the bank play a role in lending to subnational authorities, again, so we can apply some of the fiscal management and other tools to help them strengthen at the subnational authority.

Emergency liquidity issues -- whether to use insurance or capital markets to deal with catastrophic issues -- we got Carolyn Anstee (ph) here who helped pilot this project we use in the Caribbean with hurricanes. We're looking at other ones with earthquakes. And the way that I see this -- I hope this will evolve -- is really offering countries a choice of compensation. The Chinese like to do these in packaged loans and I think their logic is -- and right now it's interesting -- I was talking with David Dollar, our country director. About 70 percent of our business going forward with China now has environmental aspects to it. And what they seem to do is work with us on a project that they rigorously evaluate -- work with us because they believe by having money involved we'll be more concerned about its effectiveness, and then they use the lessons to spread in many other places throughout China.

Well, there may be other ways we get compensated. As you know, we have some fee-based measures. We have some where it might be something connected like some asset management services. So to me our role is to try to offer more choices and some of this may evolve with countries over time. And as I said, I think what I hope to be doing, for example, on my trip to China later this year is talking with the XM Bank and others about how we can develop partnerships in third countries and Africa being particularly significant.

Fourth, the regional and global public goods that transcend national borders -- I think the key point is the perspective of the bank has to be one that is constantly reminding the other players of the interest and needs of developing countries, and here I'm think that as many of you know it's often the developed countries that are pushing some of the public goods agenda. So I think our role is to work with developing countries to make sure that other voices are heard in that.

Now, there have been some good work done in this -- in HIV-AIDS, malaria -- this advance market commitment for vaccines is a good example of how you can use some financial ingenuity to -- (inaudible) -- capitalize the aid flow and advance to -- in a sense, invest if you want in technology because it's a question of pharmaceutical research -- in to deal with diseases for vaccines that the developed world might not -- companies might not otherwise do.

So I am constantly trying to encourage this aspect of the bank, and since Nancy mentioned the optimism and pessimism I hope one point of real optimism should be as all of you know there's a tremendous amount of talented creative people in the bank that are trying to get some of this stuff done. And so, you know, part of the challenge is to create the environment and bring it to market in some fashion so we can see how it works, and some of it will work and some of it won't but that's okay. That goes to my point about trying to push the risk frontier on this as opposed to just doing what's been done before.

Now, at the annual meeting I hope to talk a little bit more than I did in the 100-day speech about the particular role of climate change. Our work with this is going to be one that will certainly have to be done in concert with others, such as UNAT. But I see a multiplicity of possibilities here. First, building on this notion that our role has to be to connect these interests with the needs of developing countries. The first part is to try to work with countries to mainstream mitigation and adaptation strategies. Now, it all sounds like jargon but what does it mean? Well, it means that developing countries are concerned about their energy development. They're concerned about their agricultural policies and land use policies. They're concerned about urban policies. As they develop those policies how do we work in considerations of carbon and climate change?

Second area that I think we can make a mark is innovation in concessional finance, and again, Kathy's here and her people have already started to do this with these carbon partnership funds -- one dealing with forests, another that will start to explore different savings that can be done in particular sectors. So there's a financial aspect of this.

Third is a market development aspect, and this again underscores the point that our role isn't always financing even though it may be related to markets. So in markets I would like the bank to become a real clearinghouse of knowledge about carbon trading and what can be done to improve it.

Fourth, technology adoption -- if you take the example that I mentioned of coal-fired electricity generation it's very hard for me to see how one will seriously get at this problem unless one moves beyond clean coal technologies to some type of technology like carbon sequestration. If that starts to get developed in a serious way, well, I hope there's a role for the bank in being able to get fast adoption of that, and I find there's a number of countries that are eager to do this. So the connecting the technology with development.

Also create an enabling environment for the private sector. When you consider the sums of money involved with these efforts, they're way beyond what you would expect to get from governments or from us as a public institution. So again, we have to play the role of creating the enabling environment, catalyzing the transactions to draw private capital to this. And then another dimension which I -- fits into something that I'd like to do across the board is -- to try to integrate thinking about climate change economics with development economics in developing worlds. I had some early exposure to some of the partnerships we're starting to develop with developing country research institutions, and I'd like to try to work with our economic staff and the knowledge developed to see more what we can do. But this is a good example of how we can expand it with the climate change agenda as well.

If we do these items well together it should position the bank that when it comes time for people to determine what international regimes should follow that people will turn to us as a source of expertise -- maybe a participant in some fashion -- because we'll be bringing some insights about the experience of developing worlds in terms of the adaptation mitigation strategy, financial strategy, market strategy, technology, and I hope that will enable us -- and this is one of the reasons I wanted to go personally to Bali to sort of emphasize the role the bank could play in this -- while being very careful to say we're not substituting our role here for the sovereign states because if you sit in my board meeting you'll understand there's a great sensitivity among developing countries on this.

And one point that I have tried to emphasize in some of the lead-up to the annual meeting and will in my remarks in general is that I think the climate change issue is on the borderline here of going one way or the other, and I've seen this in other areas including trade. There's no reason, of course, that climate change should be in contrast with the developing countries' interests but I just was so struck.

The -- it was the coincidence of being in sub-Saharan Africa at the time of the Heiligendamm Summit and all the news stories were climate change, climate change, and how the G-8 wanted to have the World Bank and others play a role in this area, and all the Africans I talked to were saying, "Well, wait a minute. What about our development and growth agenda? Is this the G-8 now hijacking the World Bank again to devote its resources to climate change?"

Now, again I want to emphasize, you know, it's -- if you look at the -- some of the agricultural issues or certainly if you're in Bangladesh or the Mekong Delta or in the Caribbean you better be darn concerned about the effects of climate change. But it's this fear which I've seen in many other places the developed countries are just going to walk all over people. So it is very, very important for the developed countries as they push this to recognize the face of the issue from the developing world, and I think there's a role that we can try to play in it.

The fifth point is the foster development and opportunity in the Arab world. This is a part of the world that I, frankly, think has been underserved by the bank. I received, as you would expect, many, many cautions from all the careful people at the bank about talking about this except from the Arabs, of course, and all the Arab ministers who've come in and said to me, "Boy, it's about time somebody at the World Bank is talking about these issues. We really would like to work with you on this." The needs of inclusive growth to create jobs are critical in every country, even if you've got oil wealth. I just talked to a minister from Algeria. What's his main concern? How does he create jobs, okay? He's got great GDP growth. He's got his inflation under control but he's not creating jobs, right?

So if you're in Egypt and you don't have oil wealth, what's your concern? How do you expand social development so that your public sector's providing it as opposed to having other people provide it, and how do you create jobs? So I, frankly, want to move relatively early in this process to start a consultation to hear what they have to say about it through some past experience in the public and private sector. I've got a little bit of a leg-up on this but I think this is an area where we can make a difference.

And indeed, for those of you that watch the Doing Business report you already see that Egypt, Saudi Arabia, and others are making a difference in this area and, frankly, it also fits very nice with the governments and anticorruption strategy because, frankly, getting rid of some of the licensing and regulations and sort of (over sense ?) of government rules removes some of the ability in these countries to ask for a little money on the side.

So I think this is another area where I hope we've launched a discussion and debate and, frankly, you know, we're -- right now we're very involved, for example, with some of the basic services in the Palestinian territories. But again, if the parties choose a path for peace this is going to be an area where you're going to have to create the economic development opportunities, and I think we're positioned to play a key role in that.

The sixth and last point is one that I've drawn out from some of the work that Francois Bourguignon and others did on the long-term strategic exercise because this really came at the advice of Malan -- Pedro Malan in Brazil. I wanted to highlight it and that's the role of the bank with knowledge services or what he suggested is to emphasize learning so as to distinguish it from a university and have the constant sense of reworking these issues. Francois Bourguignon has talked about the lending learning knowledge cycle -- how it's constantly developing it. I refer to it as a brain trust of applied experience. And this is really the most important work that we do because, again, as I emphasize it's not a question of whether we can save somebody 30 or 50 basis points ultimately that will drive the future of development.

It's a question of what we learn, how we apply it, how we test it. We're going to have to get better at the results management. We're going to have to get better at being honest about the effectiveness. And here I'm not trying to be critical of those that have gone before -- I'm one of them -- I've been involved with these things for 20 years. It's easy when you're fighting hard to overcome difficult problems to kind of -- (inaudible) -- okay? And look, we can make the world better piece by piece. But if we really want to make a difference we're going to have to keep pressing ourselves with a sense of honesty and integrity about what we can try to accomplish.

So this agenda as I've touched on will also require the bank to be more nimble at working with others. I know that the favorite parlance here is aid architecture and structures and all that. I tend to look at this more in a network framework. I see this as a question of how the bank can operate in a more nimble fashion as part of a network system, whether with the U.N. and specialized agencies, the regional development banks, IMF, WTO, bilateral aid, foundations, and again, you know, I don't see this -- a lot of people talk about this as competition. I see it as kind of a -- maybe it's because I think competition's a good thing but, for example, in my work with some of the foundations these are some of the people that are coming up with great ideas and they come to us, they bring us ideas and they say, "How can we work together?" I don't know -- that doesn't strike me as a threat -- it strikes me as an opportunity.

And so many of these topics I just think that, you know, we all know how difficult they are and if people can come to me with ideas about how we can use mobile phones in Kenya to increase banking services I find that to be pretty stimulating. And so what I hope we can do with various partners is sort of broaden the network of people involved in development. You see there's a little discussion in the FT -- we're still working this through in the board about maybe can we get the private sector in with sort of the IDA process, and there was a -- I've already gotten emails from some people in the private sector saying, "This is a very interesting idea. How can we be involved with this?"

So, you know, here may be one perspective, Nancy, that I bring a little different. Many of the people in this room have devoted their life to the field of development. My -- I have a little bit of a sort of a kinetic (move ?) around different fields about seeing how you can connect trade with development and different aspects of the financial world and the private and public. And I think if we're really going to need to get at these issues we're going to have to see how we can interconnect those more effectively.

And so, again, my larger aim here as I talked on this speech is that we do face some challenge with multilateral institutions. You referenced this in your own internal debate. It's obviously a very sensitive subject within debate -- within the World Bank as people are justifiably proud of their work -- they're very committed to it. Nobody ever wants to say that, you know, things have been bad or difficult but the reality is you have to open your eyes, and these institutions are under challenge. And there's an opportunity here to make this system work and there's a lot of people that have good ideas -- we certainly have the capital and the resources. There's a lot of good partners in the developing world and the private sector. So that's what I hope we can try to do. So over to you. (Applause.)

MS. BIRDSALL: Well, thank you very much, Bob. I think all of us who are not in the World Bank now can understand how happy our colleagues whom we know who are in the World Bank now are with your arrival, and after just 100 days your tremendous not only grasp of things that some of us think it takes years to figure out but more than that the freshness that you're bringing to the challenges.

I'm going to ask one question and then leave the rest to the others. I have to say that you've touched on so many issues we discussed this morning but let me ask you -- and sorry to be not facing you -- what is your biggest worry in terms of your role over not just the next year because you're clearly on top of the immediate challenges but over the next many years? What is your worry about -- what's the biggest challenge as you see it from your point of view? What's the barrier that you have to overcome in order to be a great president of the World Bank?

MR. ZOELLICK: Well, it's interesting. Your last line suggests -- my goal is actually not to be a great president of the World Bank. My goal -- no, it's an interesting point -- my goal is to pursue this agenda and try to achieve the objectives that we've set forth. If we do that I think the rest will take care of itself. Now, reason I have a difficult time with the way you phrased your question but I'll come back to it is I tend to think in portfolio models so I tend to think of how things interconnect -- you can see it in my speeches in this field and speeches in others and comments -- and the world's a complicated place. You actually have to get the interconnections right. And so the -- I think where that leads me if I'm going to sort of pick one area is is that -- is the execution

-- is that I've set out a framework -- there could be other frameworks -- I've designed a framework that had flexibility so that we could learn over time and get other people's inputs.

But I think the real challenge will be taking that framework and connecting it to a ongoing process. There's a -- since we're cutting across fields I'm going to give you another one at some risk in this audience -- there's a topic called OODA loops that comes from the military experience, and it's called observe, orient, decide and act. And the logic is the one that succeeds is the one who's quickest at observing the situation, reorienting self, deciding, and acting and so the tightest OODA loop is your goal. It's not a bad concept to think about in many walks of life whether it be financial markets and others.

So the question is, you know, how quickly will we as an institution be able to observe, how quickly we'll be able to reorient ourself, how quickly we'll be able to decide, and how quickly we'll be able to act, and hopefully evaluate and see what we've done to have the next OODA loop. And so the -- I think one of the challenges -- and this goes to the governance issue in a different way than maybe you have raised it in other context -- is there are structures and patterns of the institution that have evolved over many, many years. And I'm not trying to be critical of them -- I'm a student of organizations and bureaucracy. But it will -- I think the greatest challenge will be how we can in a sense unleash some of the creativity and the new ideas and support our clients while recognizing that we have a huge bureaucratic structure, and the bureaucratic structure what I'm referring to is not just the staff. It's the overall system.

And what I've watched in the -- you know, again, as a student of institutions -- it's quite intriguing -- what I've seen happen there more than many other institutions in brief time so these are hypotheses subject to testing is how process controls everything, okay? And so you can see what happens is that there's a -- again, people have had to deal with various types of, you know, challenges, environments, and so organisms or institutions, like organisms, adapt and the way this (sic) institutions adapt is it creates a new process for everything. And yet the sense of accountability and responsibility is often diffuse and again, it's not necessarily the fault of the people. If you ask somebody to be responsible and accountable like many other aspects first they get a little nervous but then they might even feel empowered in the process.

So I think that set of issues may end up being the toughest set of issues that we have going forward, and just so you understand what would be the next follow-up which is okay, so what do you do about it is that the whole reason that I've set out the framework and set out some of these issues in the way that I try to lead and manage an institution is to create a sense of okay, here's where we want to go. There's a lot of room in here. Let's have iterative loops in terms of bringing back ideas instead of innovation, and then let's test it and see what works and sort of keep moving forward. And I try to give people some sense of anticipation of sort of the next set of issues that we need to try to address.

The world always has its surprises so you have to have its flexibility in dealing with that. But it's a way that you empower people but within a framework, and sometimes people think you empower people by just sort of letting everybody go off and do what they want. I haven't seen that work in too many institutions, private or public. It has to be within a framework and, frankly, what I'm trying to do in the first couple months start to establish the framework for people to do that through the external communication and also through the internal management. Yes, ma'am? I hope you're not in the cease and desist category. I don't want to get Nancy angry.

Q: Thank you. My name is Soni Short (ph). I am a Latin American journalist and my question to you is --

MR. ZOELLICK: See, I hone in on journalists. It's just like a natural thing. (Laughter.)

Q: Well, despite all World Bank efforts to be politically neutral, the implementation of its policies has always been related to major political crisis, especially in the Latin American region. I would like to know what will you say are the lessons to be learned from the past and to be a better relationship for the future? Thank you.

MR. ZOELLICK: That's a big one. Did you say Latin America or Lebanon? I thought you said Lebanon. (Laughter.) No, honestly, I didn't hear her. What'd you -- Latin America -- okay. Well, look -- here's an important starting point. If you look at the history of the World Bank and the other Bretton Woods Institutions, they are political economy institutions. They're not just economic institutions. They were designed with a view that the crises of the 30s helped lead to an economic debacle that led to political crisis that led to war. This is not a foreign view that I hold. This is easy for me to see the world in these terms. It's a good example of why some who look at the bank purely in narrow economic terms say, "Why are you doing business with the middle income countries?" And from my political economy perspective in addition to the economic reasons I would say it's pretty obvious to me, you know, and if people want a person who said it more clearly than I did recently was Sebastian Mallaby.

Now, I think, however, that recognized as a political economy institution one has to recognize we deal with sovereign states and the experience of those sovereign states is that development doesn't work very well unless they have buy-in and ownership. So there's a role that we can play in encouraging, bringing ideas, trying to suggest approaches, share information from others, but ultimately it's -- these are national decisions, increasingly in regional and subregional contexts as well, and that's another dimension.

And so, you know, there was a big debate on this in the whole trade field about, you know, whether you can do bilateral or regional or global agreements. My view is these can all be interconnected. I understand the trade policy risk but it's similar in this field is that the, you know, the challenges depending on your size of your country is how do you have national policies, how do you operate with your neighbors in a market, and how do you do it in a global context.

So in that sense I think the lessons to be learned is how do you work more effectively as a client and a partner -- how do you treat people with dignity and respect. But now and then -- this is not going to be a shock -- people are going to blame the bank and the fund for mistakes that may not be theirs -- they may be the countries' mistakes. But, you know, that's part of the job. You go along with that and keep moving forward and hopefully through the, you know, process of analysis and outside scrutiny and integrity you continue to improve. Yes, sir? I'll get you next.

Q: Thank you very much. I don't feel that -- (inaudible) -- that after one journalist another journalist want to ask you a question. Nevertheless, this opportunity is a great opportunity. I've traveled several thousand miles --

MR. ZOELLICK: Can I get your name and association first?

Q: Yeah. My name is Mashar Hassan (ph). I come from Karachi, Pakistan and I have traveled many thousand miles to listen to you. It's a great change as you have described in the total policy concept of the World Bank. Laudable -- everybody admires it. But as I feel you'll have two major challenges -- one, within the organization itself and the other, outside the organization.

Within the organization there has been a traditional role of the World Bank and the international bureaucracy that you have in the bank will be maybe a little resistant to change because they are -- they got used to a certain style of working and certain target achievements. How will you create a real good theme to lead to the achievement of the goals that you have suggested? That's one. And the second is outside world, which actually has some kind of reservations as you said that in the meeting of the emerging countries if somebody wants to listen -- (inaudible) -- to there why -- (inaudible) -- their reservations. That's another part where you have a big challenge.

MR. ZOELLICK: I'm sorry. The second one I didn't quite get.

Q: In the -- you said in your speech that if you hear the voices of the emerging economies in the board meetings then you understand how much of it is -- (inaudible) -- and biases and feelings and challenges that they have, and -- (inaudible) -- actually the total policy of the World Bank. How will you meet these challenges inside, outside?

MR. ZOELLICK: Well, on your first one -- even though Nancy said that the bank staff couldn't speak I saw Margaret Thallwood (ph) shaking her head behind you so she was obviously saying no, this is okay -- we'll try to put up with these objectives and things -- but I think there's a larger point here, and that is it connects with Nancy's question. In some ways, this isn't really -- on the internal side -- isn't rocket science. It just takes a lot of effort to execute. So what you try to do is you try to explain the directions that you're going. You try to then work with people to set objectives and objectives can some -- be of different types and I'll set that aside for a different day -- different types.

And then you try to have people take responsibility and some accountability for achieving it but then you don't just leave them -- you work with it in an iterative process and try to help and support, and not just me, by the way. That's the spirit that you want to try to develop throughout your leadership and management group, and so that it keeps building this culture of people feeling proud about the institution.

I mean, if you look around in institutions in the world this -- the mission is as attractive as any as you can find and some sense that people can be empowered but empowered within an overall sense of framework and teamwork, and this -- again, I know some of these just sound like general comments but it takes time and effort to build that. It builds confidence for people to do it and, again, I emphasize this feedback loop. I think a lot of people misunderstand that you don't -- when you set objectives with people you don't just sort of ignore it -- you have to create a system. So this has been commented in the press. It's a small thing, but it gives you a little insight.

I have a morning meeting every morning at 8:30 and the point of that meeting is multiple. One is to make sure that, you know, top 25 people at the institution have a chance to let me know something that I need to know, inform me on something that's about ready to hit me, allows me to share some information about either key issues or things I'm concerned about. Equally important, share information with one another so that they're connecting with one another and start to interact more effectively. We don't spend a lot of time on it. This is not for long policy discussions. If you get that you go offline and you do it something else (sic). It's a small way but it builds communication for people and a sense of commonality.

And the other thing is and I -- this is, again, what I've seen people respond to quite positively is is that, you know, I try to do this in a courteous way but I ask questions. I want to know answers. I want people to be responsible in different things and so pretty soon you sit around a meeting and people want to come prepared and -- or if not they want to be in a position -- and again, look -- this -- it's very -- it's not the job to put people through ringers. It's the job to help people.

And so in many cases, you know, I wouldn't expect somebody necessarily to know right on the spot but the sense is okay, you know, let's try to get a feedback loop. So there's a lot that can be done but it starts with having some sense of direction and some sense of momentum, and I've seen this work elsewhere and pretty soon you start to get other people that say, "Hey, this is kind of a interesting hot place. We want to be associated with it," you know, whether you're a foundation, a private business, and others. So that's sort of at least the approach to your first question.

On your second question, that's much more complicated and I think that the way to approach that and this, again, it goes way beyond me -- this is what I'm having the managing directors and others, the vice presidents, play a role perhaps as they did in the past but maybe not as much as they had the opportunity in recent past -- we need to spread the network of people out there talking, listening, engaging, trying to get feedback -- constant feedback loops. This is where this OODA model is actually kind of useful to think about.

And so part of this I get from the executive directors of the board but I'm not exactly a novice in the world -- I've worked with most countries and know most of these ministers so I have the feedback loops from them -- and constantly not be defensive. Things go wrong -- let's understand it, you know. Let's not -- so -- and look, there are real problems out there and look, sometimes criticisms are accurate and we should deal with them. Sometimes I disagree with them but, you know, you treat people respectfully when you do that. There is one in the back -- this gentleman.

Q: I'm John -- (inaudible) -- Wilson.

MR. ZOELLICK: Oh, John, I didn't see you -- I'm sorry.

Q: That's all right. Bob, I want to ask you about the trade capacity building -- Aid for Trade -- an issue for which in one of your previous guises you were responsible. Lot of money is now going into Aid for Trade. It's suffering the usual problems of too many donors doing too many things in two different places -- in too many different places. A lot of problems within governments because trade ministers are in a much less powerful position than they are in this country, for instance. What do you see as the bank's role in Aid for Trade? And what would happen to the whole issue, which I think is intrinsically important for your agenda, if the Doha Round goes into hibernation for a while?

MR. ZOELLICK: Okay. Well, it's a subject near and dear to my heart. It's one that I felt, frankly, in my prior experience as a trade minister that the World Bank did some first rate analytic work but wasn't very agile in providing these services in comparison, for example, with the Inter-American (De Bank ?) which I worked with with Enrique Iglesias, undoubtedly because Nancy had been at the IDB before and her legacy lived on. But I'm actually working with our people now on trying to frame some things in advance of an Aid for Trade session that I'll be attending in Geneva but I see it as a continuum, John.

First, I'd like to have the World Bank Institute expand its role and I'm learning some of the things it's doing now already but I think we could do more to help developing countries have access to a wide variety of sort of training and education at different levels from basic trade negotiation to the services negotiations to implementing, you know, phytosanitary and sanitary, you know, different complex aspects. So that's one aspect.

The second, I think, would be when people do have trade agreements is taking that sort of capacity and what types of support do we need to build, say, on the sanitary and phytosanitary side for people to make sure that they can take advantage of agreements with agricultural exports. Then it's a little bit like the challenge in climate change is that as you touched on. The finance ministers tend to control the public fisc. They're rather reluctant to spend any money so can we show people the opportunity to integrate the thinking about trade and an export and import agenda as part of their development planning, so the ports, the infrastructure.

I see countries becoming much more alert to this. For example, par of the energy needs that I encountered in Africa where people are saying, "Look, we're really getting a lot of things going now but, you know, we don't have the regular energy sources and it means investors are unwilling to come to sort of put in the plants and create the jobs for the export."

Then there's another dimension that I would like to encourage and this is one that shows some of the dynamism at IFC. A rather small group of people created a trade finance project at IFC that within the space of two years has backed about $1.33 billion worth of trade finance that we hold but a total of about $2 billion worth of trade. But the most important part of that is not that sum. It's that they've developed relationships with 40 or 50 small financial institutions to teach them export and import finance, and then develop network relations with money center institutions to help the connection with the developed countries.

It's a good example, John, of what I've tried to make a broader point is that our role is helping to make these markets work better whether it be local currency markets -- whether it be trade finance markets -- whether it be micro finance. And what we do have that a lot of places don't have which this institution doesn't have but we got money to kind of spice it and make it work. But the measure shouldn't just be how much money we're putting in. It's what we're creating on the development side. So I see a continuum of those possibilities and I'm being waved short here so --

MS. BIRDSALL: No more questions. He's being taken away. I'm sorry. Bob, let me thank you and say I think it was a very interesting answer to my question -- that you said you don't want to be a great president of the World Bank -- what you care about is the objectives. But I think many people in this room will hold out even more hope that you will, in fact, after all is said and done be a great president of the World Bank. (Applause.) Thank you to all of you. I think there might still be lunch if you didn't have a chance before.

(END)