CENTER FOR GLOBAL DEVELOPMENT

Presents

A Discussion with Robert Zoellick

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Nancy Birdsall: Good morning, ladies and gentlemen, I am Nancy Birdsall, the president of the Center for Global Development and I am very pleased to have this opportunity to bring to you Bob Zoellick, the president of the World Bank.

Many of you know that the mission of the Center for Global Development is like that of the World Bank, to reduce poverty and inequality in the world. However, we do it in a very different way in some respects from that of the World Bank, we focus on the policies and practices of the rich world. And I would define the rich world broadly to include the powers that be, the major global institutions obviously, the major international development institutions and most obviously, the World Bank.

I am very pleased to see what is a large and very distinguished audience to welcome, members of the diplomatic community, the think tank community, US government officialdom. Bob, you have brought out an important group. In particular, I would like to signal and welcome the chairman of our board, Ed Scott, who is here and his lovely wife, Cheryl Scott who have been the backbone of support in every way for the Center's work.

We have taken the view at the center that the world needs a strong World Bank. We also pride ourselves on our independence and I wanted to recollect for Bob that at our launch just over six years ago, we had the then president of the World Bank, Jim Wolfensohn. And he did a good job with a good joke, but it was a meaningful joke saying "he hoped that those of us at the Center with our rigorous research and our independent views would hold his feet to the fire". I am very pleased that Bob Zoellick obviously is coming here in very much the same spirit.

We welcome him. All of you will know that Bob was had a distinguished public career in the US government as deputy secretary of state and before that, as the United States trade representative. He has obviously brought already to his not quite full first year at the bank, the kind of skills and leadership and the willingness to grapple with tough issues that can help ensure the World Bank is indeed the strongest possible institution in a world where we really need these global institutions. With that, let me turn it over with pleasure and honor to Bob Zoellick.

[applause]

Robert Zoellick: I want to start by thanking Nancy and Ed Scott for all the work that they do at the Center for Global Development. From the very start of my tenure, they have been very, very helpful in helping to introduce me to people, to prod us, to share ideas and it is a wonderful complement to the work that we do from a different prospective and from a private and independent agency or office. I am very, very appreciative of them also organizing this event today.

Last October, shortly after I joined the World Bank Group, I proposed a vision to guide our work: to help build an inclusive and sustainable globalization; to overcome poverty; to enhance growth with care for environment; and to create individual opportunity and hope. The next month, I flew to a meeting of the G20 outside Cape Town. That is a gathering of finance ministers and central bankers from developed as well as developing countries carried on that occasion by South Africa's very able finance minister, Trevor Manuel.

During the formal discussion, some participants began reviewing some of the financial turmoil of the summer, and they foreshadowed some of the run of events that would rock markets in months to come. Now, as is often the case, the informal exchanges during the coffee breaks were richer with warnings and questionings about risks. The months that followed brought the recognition of huge losses in housing values and mortgages, credit losses, losses of CEOs, more losses recognized as the new CEO sought to clean up balance sheets, the trauma of the monoline insurers with shock effects on structured transactions, concerns about counterparties, and eventually, recapitalizations and takeovers. Most recently, we've witnessed the hits due to the balance sheets of commercial banks which did not have to mark the market right away.

Short term liquidity dried up and under the heed of the different financial and information drought. Leverage funders of all types, investment banks, private equity funds, hedge funds and even companies commercial paper were parched for liquidity. As thirsty financial institutions conserve their cashes, the securitization model of tiered cash flows, subordinated losses, and credit enhancements shrunk back, leaving these loan originators low and dry. We saw the human face of people struggling to cope with these seemingly impersonal forces. The United States is fortunate to have had steady, practical financial stewards at this time of trouble, secretary of the treasury, Hank Paulson, federal reserve chairman, Ben Bernanke and Tim Geithner, the president of Federal Reserve Bank of New York. Finance ministers and central bankers around the world are in close and constant contact.

Part of their challenge and ours is understanding the effects of this financial turmoil on the so-called real economy, on growth, jobs, prices, wages, profits, trade, homes, businesses, on individual and families. Moreover, the financial descent is combined with two other shifts, a rise in global energy and commodity prizes and a lessening of the price dampening that had resulted over the past decade from bringing hundreds of millions of new developing country workers into the worldwide labor force. We know the macroeconomic effects of these reversals are not good. But the scope and the exact type of influence are still murky.

The question of the effects on the real global economy is what links today's financial agitation to our work on inclusive and sustainable globalization and development with the effects on those seeking better lives. Now, the remarkable difference between this period of financial upheaval and those in the past is the performance of developed and developing countries. At an August seminar I attended, a Mexican official rightly noted that this time, his country was not responsible. Indeed the Unites States will need to learn the lessons about financial regulation and supervision in an ever changing marketplace even as it works to counter the damage and rebuild. Not only has the epicenter of the quake shifted but so far, the tremors have shaken markets very differently. The historically tight borrowing spreads on emerging market debt have widened somewhat but modestly in comparison with most every other credit product. Most important, there is something strikingly different about this downswing. China, India and the other rising economic powers are offering alternative poles of growth for the global economy.

This is not a decoupling because the interconnections of globalization will transmit effects from the developed world's financial problems and slowdown. It represents instead a welcome diversification of the sources of growth. More than half of the growth in global demand for imports is now originating in developing countries providing export opportunities for both developed and developing economies. This amounts to a rebalancing, not a decoupling that supports an inclusive and sustainable globalization. Just as diversification is beneficial for investment portfolios, so it is for sources of growth in the world economy. There is a challenge for state craft in times such as these. To recognize the changing landscape, often as events and as fate rushes by, so as to address the pressing needs but while also planning seeds that maybe come the support for timbers of the future. Today, we need to counter the immediate threats while also building an inclusive and sustainable globalization that will offer more sources of growth and innovation for the future. Enhance multilateral cooperation to deal with shocks and downturns and to maximize opportunity and hope for all.

Therefore, today, I will highlight four immediate needs that also offered longer term opportunities and for each, I will aim for action. As financial markets have tumbled, food prices have soared. Since 2005, the price of staples have jumped 80%. Last month, the real price of rice hit a 19 year high. The real price of wheat rose to a 28 year high and almost twice the average price for the last 25 years. The good news for some farmers adds a crushing load to the most vulnerable. Children, as young as four or five forced to flee the safety of their rural communities to fight for food in teaming cities. Food riots that threaten societal breakdown. Mothers deprived of nutrition for healthy babies. The World Bank Group estimates that 33 countries around the world face potential social unrest because of the acute hike in food and energy prices. For these countries where food comprises from half to three quarters of consumption, there is no margin for survival.

The realities of demography, changing diets, energy prices and biofuels and climate changes suggest that high and volatile food prices will be with us for years to come. We need a new deal for global food policy. This new deal should focus not only on hunger and malnutrition, access to food and its supply but also the interconnections with energy, yields, climate change, investment, the marginalization of women and others and economic resiliency and growth. Food policy needs to gain the attention of the highest political levels because no one country or group can meet these interconnected challenges. We should start by helping those whose needs are absolutely most immediate. The UN World Food Program says that they require at least $500 million of additional food supplies to meet emergency calls. The United States, the European Union, Japan and other OECD countries must act now to fill that gap or many people will suffer and starve. Skyrocketing food prices have also increased attention to the larger challenge of overcoming hunger and malnutrition what I call the forgotten UN Millennium Development Goal.

Even though hunger and malnutrition are under the very first of the Millennium Development Goals, beyond traditional food aid, they receive only about one tenth of the resources that are appropriately directed to HIV/AIDS, another killer. Yet malnutrition is the Millennium Development Goal with the greatest multiplier effect. It is the largest risk factor for kids under five and the underlying cause of an estimated 3.5 million of their deaths each year. More than 10% of maternal deaths are traced to malnutrition. When impoverished families are cut back, young girls are the very first to lose out. Hunger and malnutrition are a cause not just a result of poverty. A shift from traditional food aid to a broader concept of food and nutrition assistance must be part of this new deal. In many cases, cash or vouchers as opposed to commodity support is appropriate and can enable the assistance to build local food supplies and farm production. When commodities are needed, purchasing from local farmers can strengthen their communities.

Funds can also buy micronutrients that can be customized to locations. School lunch programs draw children to classrooms while helping healthy kids to learn and some offer the parents food too. The World Bank Group can help by backing emergency measures that support the poor while encouraging incentives to produce and market food as part of a sustainable development. Countries as diverse as Bhutan and Brazil, Madagascar and Morocco have feeding programs for vulnerable groups. Mozambique, Cambodia and Bangladesh employ locally selected public works projects in exchange for food, developing roads and wells and schools and protections against natural disasters and forestation programs. Others such as China, Egypt, Ethiopia and Mexico offer cash transfers that are conditional on self help steps such as sending children to school or preventive health checkups. Countries also have to stop the very dangerous boarder barriers to the trade and food which puts their neighbors at greater risk and stifle the signals that will stimulate more production.

We will work with countries especially in Africa and partner institutions to seize an opportunity for the higher demand from food. We can help create a green revolution for sub-Saharan Africa by assisting countries to boost their productivity throughout the agricultural value chain by helping small holder farmers to break the cycle of poverty. We plan to almost double our lending for agriculture in Africa from about $450 million to $800 million in about a year. And we can help farmers in countries manage systemic risks including through financial innovations to counter weather variability such as drought and we can offer access to technology and science to boost yields. The International Finance Corporation (IFC), our private sector arm will scale up investment and advisory support to agribusiness operations in Africa and elsewhere including through working with the bank on land titling and productivity, local currency financing, working capital, distribution and logistics and support for the intermediary services on which farmers depend.

A new deal for global food policy will contribute to an inclusive and sustainable development. Poor, middle income and developed countries can benefit together. Income gains from agriculture have three times the power in overcoming poverty than increases in other sectors and 75% of the world's poor are rural with most involved in farming. Almost all rural women active in the economies of developing countries are engaged with agriculture. With support, these women can seize the opportunities of globalized food demand. The poor need lower food prices now but the world's agricultural system is stuck in the past. If there is ever a time to cut distorting agricultural subsidies and to open markets for food imports, it must be now. If not now, when? A fair and more open global trading system for agriculture will give more opportunities and confidence to African and other developing country farmers so that they can expand production. The solution is to break the Doha development agenda impasse in 2008. WTO Director General Pascal Lamy is looking to convene a meeting of trade ministers in coming weeks.

This is the moment of decision for the Doha round. Lamy has patiently but persistently when working with the WTO committee chairs of the negotiating groups to narrow the differences. There is a good deal on the table. It is now or never. These negotiations are not worldwide poker contests where ministers hold cards tight and a winner sweeps away the pot of chips. They are complex problem solving exercises.

Everyone has to return home with benefits and a political explanation.

Political leaders need to also push for the big picture benefits. An accord would help contribute to an inclusive and sustainable globalization, more opportunities for developing countries big and small, middle income and poor to become productive and to lower prices through trade. A greater sense of fairness for all that the international economy achieved by a modernized half century old trading system. A breakthrough in the Doha round would also infuse confidence in an economic system stressed by financial anxiety.

The moment of decision is not only for the Doha round. It is for trade itself. Powerful voices across the political spectrum including in my own country are calling for and rationalizing protectionism. This economic isolationism signals a defeatism that will reap the losses, not the gains of globalization. In this era of globalization, the fate of the Doha negotiation extends beyond trade and traditional economics. These trade talks are actually a critical test for this challenge of striking a global deal on climate change. The economics under pinning trade negotiations have generally been accepted for many years. If negotiators of 150 economies cannot manage the political tradeoffs of the Doha round to reap the clear benefits, it does not auger well for developed and developing countries coming together on a new accord for climate change.

Today’s high prices for energy and minerals posing cost to some, offer great opportunities for others in the developing world. Some countries have used their natural resources as a spring board for development. But for others this treasure can become a curse. Both developed and developing countries have experienced the risk of these sectors. Dual economies that leave most citizens excluded, corruption from licensing and sweetheart deals, volatile returns that tempt officials and weaken sustainable budgets and growth, the Dutch disease of exchange rates driven by resource exports that harm broader base trading and employment, resource rents that can actually fuel conflict among fortune hunting factions, huge environmental costs and even a sense of loss of sovereignty as the privileged few seem to gain the benefit from the sale of national patrimonies.

The Extractive Industries Transparency Initiative, EITI was launched in 2002. EITI improves governance in resource rich countries by calling for the full publication and verification of company payments and government revenues from the oil, gas and mining industries. EITI has evolved now into an international coalition of governments, the World Bank Group, companies, investors, and civil society origanizations such as Transparency International, Oxfam and Global Witness. Today 24 countries are implementing EITI, 17 of them in sub-Saharan Africa.

But transparency of revenues is not enough. To help ensure that the high prices of energy and mining resources translate into improvements for the lives of the poor, we are going to work with our developing country clients and other partners to expand the transparency and good governance concepts of EITI both upstream and downstream framing an EITI plus plus as a comprehensive approach to supplement the original project. We are identifying steps to help extractive industries contribute to sustainable development by trying to address the risks all across the value chain. These will include the awarding of contracts, monitoring operations, collecting taxes, improving resource extraction and economic management decisions, better managing price volatility and investing revenues effectively in sustainable development. We are seeking the strongest possible partnerships in developing these ideas with our clients because the national ownership of EITI plus plus approach is critical to its success.

In concert with the African Development Bank, the African Union, the Economic Community of West African States, the West African Monetary Union, we are now launching the EITI plus plus in Guinea. The successful development of Guinea's rich resources can strengthen sustainable development for the entire region. The EITI plus plus can advance inclusive and sustainable globalization by broadening the beneficiaries of resource deployment and development. Anti-corruption and transparency will strengthen citizen's confidence in their governments as fiduciaries for a common wheel. Respect for the environment will add to sustainable growth and effective access to these minerals and energy resources across cycles will strengthen the sustainability of globalizations benefits for others. The rising economies of China, India, Brazil and others have strengthened and rebalanced the international economy providing for new poles of growth. These are the new stakeholders in globalization. The bank group will be alert to ways in which we can assist these clients if the credit storm and the liquidity drought sweeps their way.

But we have a larger strategic goal. We should make it possible for the growth economies of Africa to become a complimentary pole of growth over the next 10 to 15 years. We are devising a 1% solution for equity investments in Africa to be an important step towards this goal. Where some see sovereign wealth funds as a source of concern, we see opportunity. Today's sovereign wealth funds hold an estimated $3 trillion in assets. If the World Bank Group can create the equity investment platforms and benchmarks to attract these investors, the allocation of even 1% of their assets would draw $30 billion to African growth, development and opportunity. That is about the total of development aid each year. This 1% could be the start of something much bigger across more types of funds in countries because the investment of wealth and equity for development offers opportunity, not something to fear. Doubters may shake their heads. They should consider the uncertainties in China's and India's prospects in 1993. Five years later, the world looked to China only to maintain currency stability amidst East Asia's turmoil.

Today, China and India are engines still facing complex and difficult problems but driving motors of growth. Goals that one day seem impossible, the next day can seem inevitable. What of Africa? Between 1995 and 2005, 17 countries of sub-Saharan Africa representing 36% of the population grew on average 5.5% without the impulse of great natural resources. Eight oil producing nations representing another 29% of the public grew on average 7.4% over that decade. These countries want to build on the social development foundation of the Millennium Development Goals. They want to grow. They need low cost reliable energy, infrastructure, regional integration that gives them access to global markets and stronger private sectors. They offer investment opportunities. A lesson of recycling of petrodollars in the 1970s is that equity investments are more sustainable than debt. Several emerging market funds have already started to invest long term in Africa.

One of the ironies of today's global economy is that although short term liquidity is dried up, long term liquidity remains ample. Witness the sovereign wealth funds which are another prominent feature of the new globalization and the growing influence of developing economies. Some sovereign funds are built on the demand for oil and gas and other commodities. Others especially in East Asia arose out of the trauma of 1997 to 1998. They are basically created to self ensure against calamities and capital markets. Governments built reserve cushions based on exchange rate policies, trade surpluses and prudent fiscal management. Sovereign funds are already serving as a brace for the recapitalization of financial institutions and I expect in coming months, they will continue to sustain globalization and to broaden its inclusiveness to further equity investments as the deleveraging of the financial system runs its course and better information clarifies the best buys.

Yes, sovereign funds need transparency and they should be guided by best practices to avoid politicization. But I believe, we should celebrate a possibility that government sponsored funds will invest equity in development. The World Bank Group especially through IFC can help connect long term global liquidity with African investment opportunities. IFC has invested some $8 billion in sub-Saharan Africa since its inception, about $160 million in equity last year alone. IFC is setting up two new $100 million funds for infrastructure and microequity. We believe the equity prospects are expanding fast. IFC is now working on an open architecture platform for funds trying to draw on IFC's assets and knowledge and capital but also welcoming joint ventures with governments and their funds. We can help others overcome the initial hurdles of investing in new equity opportunities in Africa. We can help countries resolve the legal impediments and improve the regulatory and pricing regimes for infrastructure investments.

MIGA can offer political risk insurance. Then sovereign funds can join us, even invest with us, not as another source of development assistance but as long term investors. Our position makes us a preferred partner. Just as the bank group's GEMLOC project is trying to help accelerate development of domestic local currency debt markets in developing countries as a separate asset class measured against a new index of performance so we can encourage investor's allocations to African equity as the viable frontier asset class. These assets will add benefits and portfolio performance and diversification both geographically and by type of investment. By helping to construct new indices for African investments, the bank group can also attract investors that will need benchmarks for performance. Then we or others can develop index funds for Africa. Over time, these vehicles can draw in a broader range of investors including pension funds. This 1% solution is a pathway to include Africa in the full gains of globalization.

It is a strategy to strengthen the globalized system to add sources of growth and promote the sustainability of globalization. Bismarck once said that the mark of a statesman is to recognize fate as she rushes past so as to grab on to the mantle of her cloak. This is a moment for statecraft in the political economy. Old structures are breaking down. New sources of economic power are rising but our views are blurred by the whirlwinds of markets as firms and fortunes as the commercial empires of this era are lost and made. The World Bank Group has sketched six strategic themes to alert us to necessities and opportunities as fate hurries past. They focus our attention on new development solutions for the poorest countries, states facing breakdown or coming out of conflict. The middle income countries, integrating public goods such as climate change into our work, creating opportunity in the Arab world and continually upgrading our knowledge and learning.

Our challenge is to take practical steps now that require work and will, guided by a strategic outlook. And what is more fundamental in times passed or years hence, than food, energy, minerals, trade and channeling equity and investments to productive opportunities in regions of opportunity strengthened by good governance. To seize the opportunity of a changing global landscape, this is our challenge of economic statecraft. Thank you.

[applause]

Nancy Birdsall: Thank you very much, Bob. That was really something new for all of us and in my view in a way that is very welcome because you have outlined a set of challenges for the World Bank that really capture the point that it can be and should be more of a global institution which brings together nations with many different instruments than it has been and perhaps become a little bit less focused on lending as the cookie cutter loan that for 50 years or more was the basis for activity and for the net income or for what the World Bank felt itself to be. I am sure people will have many questions. I would like to ask you to start with reflecting on this issue of how you see moving the World Bank more and more into making markets as you suggested in the case of the 1% solution, working with others as you suggested in the case of the food problem. What does that have to do with changes internal to the bank in the way its activities are shaped and perhaps in the medium term changes in the way the bank is governed, the structure of governance of the bank which is really built around the old initial principle product of the loan that is guaranteed by recipients?

Robert Zoellick: First, when I often speak to more general audiences about the World Bank Group, I often start by saying that part of our problem is we are called bank and so people think that our primary reason for existence is what you suggested, making loans. I believe that the World Bank is at its best when it connects three activities. One is the knowledge and learning that it must continually upgrade from our own work, from our work with partners, gain experience increasingly in the south

south context and trying to apply it in a customize fashion to the challenges of our clients.

Second, we want whatever project we are doing to extend beyond that individual case so the project should be something that helps develop markets and institutions. It may be microfinance. It may be carbon trading. It may be new equity markets but you want the effect to spread more widely. And third, what distinguishes us from the OECD or your center is that we do have capital to bring to bear and that can often become a device as in the case of what I just talked about with the equity funds for Africa where we can help drive and initiate the process. So the challenge is how do we bring those three activities to bear? Just to give people a sense of the fact that I think that there is an appetite for this in the market and a strong interest in the part of the World Bank staff, just consider some of the things that we have been launching. I mentioned GEMLOC which is a way to try to develop the local currency, domestic bond markets and again, the idea is if we can eventually create this as a separate asset class and think of what we talked about going out in world commodity markets, part of the money flowing in and out is people see that as an asset class. Why can we not develop these as asset classes?

From my time at Goldman and other places, I learned a little bit about what are the key elements of developing that so that is an interesting example. The advance market commitment in terms of vaccine development where what we are doing is saying, pharmaceutical companies may not have the economic interest to develop vaccines for certain diseases but if we can work with some in the donor community to make a commitment in advance that there will be purchases of so many of the set of prescriptions or whatever that then there is an economic incentive to create that. There are more basic things which your center has also been involved with, how we can use buy-downs for the interest of the loans. Again, whether one in the whole area of climate change where we can use concessionary develop different financing mechanisms, how we can use things to help make trading systems work.

A good example just to bring this home is that about a month ago, we were able to get through our board some additional flexibility in terms of the maturity of the loans which allowed us to develop a student loan program for Colombia that avoided what financial persons would call the duration rift between the assets and liabilities and we could not under Colombian law do a domestic currency financing but we could use derivatives so as to also deal with the exchange rate risks. So we are taking this and we are helping them manage two of the risks. There are tremendous opportunities for this and I think one of the concepts of seeing the bank is how do we apply that knowledge and experience and develop these markets. Now, you then mentioned in terms of the staff orientation. I think the most important thing will be to have a client focus and so we have talked about the knowledge and learning agenda but on the inside what we also have to keep disciplining ourselves is that the knowledge and learning agenda is not just a question of doing studies and analyses and printing papers.

It is trying to apply what we can know or can find out to what our client asks and needs. Caroline Anstey here who has helped with the Caribbean countries developed a risk insurance program for hurricanes. We are working with Mexico using some capital market devices to try to help them to deal with earthquake aspects. These are people that listen to what the client wanted and then tried to come back and apply the knowledge to it. But I think that discipline is something that still requires work. You see it stronger in the IFC culture than you see it in the IBRD culture. The IFC culture has a more transactional client focus. That is one reason why some of these efforts that we are trying to embed in the institution try to interconnect IFC and the development side, whether IDA or others, more effectively. So you will hear much more about that through our activities.

As it relates to governance, I generally find that the board and senior management are very interested in these possibilities and generally supportive but I will tell you where I think one of the challenges will lie. With some of the things that we are doing are relatively new. In some of these cases, if you take even what I was just talking about with equity funds, there are people starting equity funds. The question is whether we can use our position to broaden this. In some ways, the bank is becoming more of a venture fund for development. If you think about how venture funds work, a good venture fund if it has 10 projects, four of them may go bust, four of them maybe so so and two of them may be big hits. The culture of the institution and certainly the governing process of governments is one that would say, we like the two hits and you have got to improve the four that are struggling but you cannot ever have the four that did not make it.

Nancy Birdsall: It is not a risk taking culture.

Robert Zoellick: I do not think that is realistic if you are really trying to push the margin and so one of the unintended consequences of that is the bank could keep doing what it had been doing. There are various loans. You save people a little money, you are transferring something but you really would not have the developmental effect. So, this audience, if any knows these are tough problems. They are not easily solved. Part of my message today is we need to be agile in addressing what comes up in the market place, high food and energy prices at the same time, we are planting the seeds for building for the future. Some of that is going to work and some of it, we are going to have to learn lessons will not work as well. So part of the governance issue will be whether we get the freedom to do that.

Nancy Birdsall: Very good. Let me make a quick comment but you do not need to respond because I am sure people have questions. On your client focus point, which is excellent, I think the challenge is how do you generate a client for collective global action? There obviously, it would be helpful to have leadership from the larger essentially creditor, the US and Europeans whenever possible but it is that, that makes their buy-in to collective action which is good for developing countries. That, I think is part of the governance challenge you face.

Robert Zoellick: Could I briefly comment? I agree with that point. But I think what we are trying to petition the bank in climate change is to really come at this from the perspective of the developing countries and I am sure you would agree you are not going to deal with the climate change issue if your just developed countries or just developing countries. It is a question of how we get them to work effectively together so the governance is not only a question of getting the developed countries to take that collective action leadership role. It is how do we work with the developing countries to recognize the diversity of their interests which is everything from the adaptation agenda which is first and foremost in their mind?

Just to give you a sense of this, in a small way, one of the things we are trying to institute was that when I went to the Bali meeting, I was struck that with some of the preparations that I saw from the UN, they were designing a meeting that could have occurred in New York, Tokyo, Paris. It really did not have a developing country focus to it. Fortunately, President Yudhoyono is very committed to try to improve in climate change and he could see the effects for his country. And the finance minister Sri Mulyani wanted to try to integrate some of their economic thinking about this so she hosted a meeting where she brought in some finance ministers and we also added development ministers. I thought that this was a very important innovation to draw in the finance and development people along with the environment in a developing country focus.

So one of the things that we are doing at this year's spring meeting is we are working with the Indonesians and the troika that will host the climate change meetings to have a Bali breakfast and what I am partly hoping to do in this session is not just to have a tour of the table but dig into to one issue and we are going to start with adaptation. I would also like to get to carbon trading pretty soon so we can identify some of the topics that in a minimum to help people learn about but it goes to your point of I think if you are going to create collective action, you have to create a sense of collective interest

Nancy Birdsall: Thank you very much. As you know, we are very positive on whatever you can do on many of these issues including of course the advance working commitment idea, the climate change goal and this issue of the 1% solution for Africa is really very exciting prospect. People have comments and questions. John Sewell?

John Sewell: Bob, that was a marvelous speech. I am John Sewell from the Wilson Center. I am looking forward to reading it because it was too rich to absorb in one hearing.

Robert Zoellick: Longer in the written versions. I saved you guys a little bit.

[laughter]

John Sewell: There is an issue which I did not hear which I think is terribly important. There is an important problem of building a middle class which as we know historically is terribly important economically and terribly important politically. And there is a real need to think hard about credit for the missing middle that is those that do not qualify for microcredit, do not have any assets, cannot get commercial lending but who are employing people and so on and so forth and I would urge you to look at that if it is not already in the agenda because it is politically terribly important. It is particularly terribly important in the Islamic world where you should be able to tap in to money and the wealth in particularly the Arab world to help fund it.

Robert Zoellick: Just briefly, for some of you in the audience that may not know, one of the first nonprofit boards I joined when I left government in January '93 was John's so I had a good opportunity to learn from him and his colleagues. You are exactly right and it fits the whole logic that I just described with Nancy about trying to sort of identify less developed markets and particularly a credit intermediation function. Michael Klein who is a vice president who has a joint appointment with IFC and the World Bank, we are dealing with finance in the private sector is actually looking at this from a broader credit perspective. And just to give you another idea about as you sometimes have discussions with people at the bank, you learn that we are sitting on assets we are not using.

We are probably in a position to help with a lot of credit information so it is no only finance but it is the knowledge of data which you can transform into information that can help people be more informed about credit choices or in other markets how we can help create that availability. So we are actually looking all across the chain. In fact, before microfinance this is where the growing interest in the condition cash transfers and some of the things to start the ability to consider money flows targeted at people's special needs, various connections and we are also trying to look at it with a small business and small medium sized enterprises and just to highlight, John, one other aspect people often do not think about, I have identified these six strategic themes and one purpose that they serve is they compel you to think about an issue and ask does it have an applicability in other environments.

One of the things that we have learned in post conflict states and I saw it in Liberia when I was there earlier this year is that getting basic credit functions up and running, creating some small business sector is critically important so it is not just a growing middle class issue. It is fundamental to any of these societies if you are going to create stability.

Nancy Birdsall: David?

David Devlin-Foltz: Just to make the microphone pass more convenient, David Devlin-Foltz from the Aspen Institute. It is a very ambitious agenda. It is a wonderful agenda. How do you change the incentives within the bank to the extent the that is necessary for staff so that this feels right, this feels honored, this is motivating and motivated?

Nancy Birdsall: With that's, my question better articulated in part.

Robert Zoellick: The short answer is I push and prod. But the longer answer is that I find that many of you know the bank staff and have known them for years much longer than I have. There are a lot of people that come there because they are very committed to the mission. They want to make an important contribution.

Some of them have felt stifled by processes and procedures and some of them have their purpose but this sometimes can create a certain risk aversion. Now, the point that I stress to people and it is very important is that the solution to risk aversion is not ignoring the risks.

It is learning how to manage the risks. This is a question of whether you are dealing with governance and anti-corruption issues or whether you are dealing with financial issues. Part of that is to also change a culture in terms of if you do discover that something is wrong, it is just one of the reasons Goldman Sachs is very successful, is because it is okay to make a mistake. It is not okay to hide it. You have got to get it out and you have got to try to work with people to try to figure out what to do when you identify problems. So part of that is also changing some of the approach to this. But yesterday, I was walking through a series of presentations that we have for our eco region which covers central and Eastern Europe and central Asia. I was looking at the projects that people had and they had won various awards for various types of results and about half the people actually were local hires. You can see the energy, the initiative, the desire to improve the lot of life for others. There are enormous capabilities to tap here.

So one of my colleagues said, the bank is like a big ship. It is like Queen Mary and so now and then, it takes a little while to shift it but I think that a combination of pulling and hauling but also unleashing. And let us be fair to people, some of these things that I have been talking about in the financial area, these are things that people have been brewing. We have got some very talented, innovative staff and it is a question partly my job and that of others, how do you free it up and how do you move it forward. But on the risk management aspects, we have to be careful about constituencies. We have to be careful about the communications. We have to be careful about some of the legislative authorities but this is part of the benefit with being in the world of trade. This is not new. If you are going to try to advance an agenda in public policy, from my experience over some 20 years, that is part of what you do.

It may add some horizontal considerations but you have got to keep focusing and pushing. And again, I think that what we will see, as I have seen in other public institutions, some people will respond to this and then you will find you will get a generation of ideas and opportunities and others will be more stymied and will work with those who want to move ahead.

Nancy Birdsall: I like very much what you said about World Bank staff. I sometimes feel that at the Center for Global Development, we have benefitted from a small brain drain out of the World Bank to the center.

Robert Zoellick: Maybe we will take some back. Your friends at the Inter-American Development Bank are trying to pay more for our people too.

[laughter]

Nancy Birdsall: How do you reconcile the push from so many quarters for a results orientation with your good point that it is important to take risks?

Robert Zoellick: I think the two are critically interconnected and in fact, I spoke about this with this group, the eco region yesterday and because part of the focus was on results. Let me drive it home what I consider to be a more homey fashion. I think one of the challenges if you are in the field of development is that people care a lot about their work. Sometimes they are making huge sacrifices to try to move forward the agenda. And one of the biggest risks is what I described as I wanted it to work, it should have worked, it really would have been good if it worked so maybe it kind of worked as a project. What I have emphasized is we have to put honesty and integrity in results at the core of everything we do because if not, we are cheating the beneficiaries and we are cheating ourselves if this knowledge and learning is not the core of what we try to do.

I think getting better at measuring results, understanding results, we as a bank and I think actually you might have shared some articles with me about this Francois Bourguignon the former chief economist at this trying to look at some of the dime approaches about measuring effectiveness, where you fundamentally run controlled experiments. These are more expensive and they can be more challenging to how you integrate them but then as an institution you have to figure out where you will do this to try to test and pilot and learn more. If anything, if you are going to be in a world of risks, you better be even more attentive about making sure you measure your results.

Nancy Birdsall: Madam Ambassador.

Ambassador Inonge Mbikusita-Lewanika: Thank you very much. Since I am in front, I think I will sit so I do not block. I am the Ambassador of Zambia. Thank you very much for your presentation. We are very excited about your openness and freshness. Since you do not deal directly with young people and children as agents for change, how are you dealing with the usual people who want isolation, who want to protect themselves including people from your own country? Then second on climate change, I do not know if you are using some of the local knowledge and practices because originally many places, they were very sensitive to the environment. But it was actually the industrialization in Europe that came and that destroyed quite a big chunk of that climate. It is not foreign to most people. I do not know if you are capturing that local knowledge, although some generations have been lost. Thank you.

Robert Zoellick: In your first part, let me make sure I address the different elements of this. What I thought you were referring to in terms of protectionism or economic isolationism is not something I just see with young people. In fact, I see a lot of older people moving towards it and the way I try to address it is by things like this speech, where on the Doha agenda, I am putting it out very straight to say it is now or never. I know people are used to thinking these things go on forever. I know something about these trade negotiations. I know the people involved and I think this is a critical moment and there is an opportunity and a need. And I also tried to make the point broader in the case of the United States that what I see and it is across the political spectrum is people coming up with additional rationalizations for what is the defeatist economic policy so I have been rather strong on that and I spent a lot of years trying to do that in other contexts.

I think part of our challenge more broadly is twofold. One we still have a lot of advocacy work to do in explaining to some constituencies why this is important for development. You undoubtedly have seen the AGOA process. You have seen how that built different constituencies for trade related to Africa on the positive side. The other side is you have to help people adjust to change. This is a critical element. So if you are in a developed country, developing countries often see developed countries as rich. Frankly, with my colleagues, I pointed out I am a little uncomfortable with that word because there is a lot of nonrich people in developed countries. You have to help people that are going through stresses in their own societies, if you are not going to have political blockages. So I think that is one element and then to take that to the developing world, another core aspect of what the bank can do is to connect our aid to the trade opening agenda.

Since I have come to the bank, we have launched a bigger effort in the aid for trade with some particular connections. Just again to talk about market innovations, our colleagues at IFC I discovered when I came had started an interesting trade finance program and so you can open markets but if people cannot get the basic trade finance that you are used to you could get in a developed country, you cannot get the credit to be able to sell the product. What is intriguing about this is not just the individual money invested in these institutions. It is the training and it’s the network, it is the market development so that those institutions can be involved with trade finance whether we are involved or not and expand it. So that is another good example of this general concept.

In terms of climate change, more generally, I think I was touching on this a little bit with Nancy. I think many people in the environment community have not spent as much time dealing with the reality that for many developing countries, climate change is a crisis here and now. It is not a probabilistic issue in the future.

I was in Bangladesh recently with some of my colleagues. If you get 1.5 meters additional ocean increase, you could flood 40% of the country. They have got the melting Himalayas. They have got the rising seas. They have got the storm aspects. The reason why this is important to pay attention to is that number one I think that is going to be key if you are going to bring in developing countries in the overall mix. But also it requires a different analytical frame of reference. If you think about it, the mitigation which Urula talked about is really a global public good with collective action. It affects the whole global system. Adaptation is highly localized and the circumstances are very different. You need different types of analyses and interventions. With some of the work that I have been encouraging and others have been doing is particularly if we can find some win-win areas. So in general there are areas with forestation, avoiding deforestation that can offer multiple benefits in this. But then that goes to your core point which is drawing on Africans or others in engagement of these issues and I will just underscore this point. None of this works if the local people do not want to do it, if they do not have buy in. And again, well meaning people in development for decades have tried to do things but if you do not get national ownership, if you do not get local ownership of a problem, it just not going to work.

The challenge for a global public goods issue is how do you get national, local or regional ownership when you also have something of global dimensions? And we just had a short little discussion again about this about how you show your connections. And basically while we always hope people are motivated by good will, a lot of them are motivated by self interest and you got to understand the interest and approach them. And that is again the bigger story of how we are trying to use markets at the bank because markets are a reflection of how you can capture self interest, but try to achieve other goods.

Nancy Birdsall: I cannot resist asking you about this global food deal. Do you see a plan B for a global food deal if the Doha round is not…

Robert Zoellick: I just launched plan A you want me to go to plan B? Let me address it this way. The things that I am talking about in terms of a new deal for global food policy I think are very important regardless of what happens in Doha. Let us take the most critical thing. People are going to starve unless the World Food Program gets another $500 million. That does not depend on the trade deal. It is interesting and I talked about this WFP and the Doha people how you deal in the Doha negotiations with food aid and food assistance is important. You better make sure you are not taking contradictory actions. And indeed at least my sense from having talked with some of the officials doing the text that I was trying to raise some of this issues as kind of a trade wonk as well as a development person. I think they are going to try to avoid that. But then the other things that we are talking about are really how you could more turbo drive this if you get more open markets. The things that we are trying to do to increase African productivity in agriculture, I think the reality is, if people see less certainty about prospects in the international market they will lose confidence, they will be less willing to do it. But there is still great needs and opportunities here.

Nancy Birdsall: I saw that Andrew Natsios is here and I want to commend him and you for pushing this point that more food aid should come in cash in order to insure a balance between the aid in local incentives.

Robert Zoellick: When you dig into one point that I made in this speech is, while that is certainly true, and Andrew and I both tried this in terms of the US Government and the Congress and President Bush pushed it as well actually, is that now and then in some markets you are going to need commodities. If you look at what is going on, people are short of commodities, but even then the point will be can you get them locally. How can you help build in this case African or other developing country markets?

Nancy Birdsall: I saw Frank Vogl and I am going to go to him.

Frank Vogl: Good morning. I am Frank Vogl with Transparency International. Thank you for the very positive comments about EITI which we think is starting to be a major useful innovation. You talked about EITI plus, plus and I have really two questions with regard to how you see that very interesting idea evolving. First of all, a principle of EITI of course is openness and transparency of all partners. And Transparency International has has been doing some research that we'll publish probably in May looking into how companies are performing there and unfortunately the results are very poor. My first question is as you implement the plus, plus, how will you try to use your leverage as a bank and as a partner here to try to convince the major extractive industry companies to be more open and transparent about their operations and their relationships with the host countries? My second question is sort ofcourse a core part of the EITI as you mentioned is the involvement of civil society and what do you see as civil society's role in the plus, plus approach in Guinea and in the other countries that you obviously envisage? Thank you.

Robert Zoellick: Well first let me mention I spoke with Peter Eigen by phone either last week or this week and we talked about some of the work that EITI has done which as you know the World Bank Group is a part of. I just emphasize that we see this is a supplement and there are EITI because it has a certain set of approaches and standards moves at a certain pace. And in part given the stakeholder dimension you mentioned it is a decision making structure. It is focused very much on those core issues that I addressed in the speech about the companies publishing the revenues and the governments publishing the same. I think we are at a moment in markets where we are going to need to move quickly to broaden this. And that is why, we will learn as we go here, but part of our thought is if we can start to work with a few countries across the value chain and demonstrate the benefits it would be a little different than the way EITI has taken it. As for the particular components that you have mentioned you will probably see this in written—I did not put it in the speaking part where we will have an advisory committee to help us, guide us on this, as a combination of partners. Second, one of the people who is driving this in the African context is Vice President for Africa, Oby Ezekwesili who worked with EITI and I believe was a Transparency International member from Nigeria so she is well acquainted with the benefits and the need to reach out to different constituencies. As for the companies, a few weeks ago I met an industry group of a number of the extractive industry companies. It maybe my congenital optimism, but I honestly think that they recognize how this can be very much in their own self interest through different aspects. Companies are concerned about their corporate reputation and so they know that there has been a sad history of working in extractive industries in some developing countries and it comes back to haunt them. So ultimately they will be better off if there is not an environment of corruption, that environment the environmental issues are taken care off, that the country grows and benefits.

Let us look at a Botswana case is an example of diamond development that has worked well for all parties and now Botswana is now trying to go to the next stage in terms of some value added production. I think they recognize that aspect. In addition, corruption can also be harmful to them and so they are better off in a more transparent, open environment. I have actually known people in and out of this field for a considerable period of time. They are human beings too and one of the things they see when they develop one small sector and the rest of the country in a sense has the great divisions and separations of a dual economy. They know that that is unstable. It is not good for their own investment because the prospects of a long term investment become shaken by this. As I reference this briefly, commodity markets can be very volatile. What happens is sometimes companies will come in and they are doing very well one moment and then prices will come down and then it is very bad. There are ways you can help off set that. There are different means and then frankly if the country sets up a fund where perhaps it saves for the rainy when times are good that also helps.

I personally think that it is not a hard case to make why this is in the interest of the businesses in this. And I think they recognize that self interest as well is the larger governance and public interest, but you would know better I guess from the EITI. But I think from what we have seen with the EITI, is a lot of companies are interested in doing this. Let me tell you what our next challenge is just as we go through this. Frankly, you have got some of the developed country companies, although I do not want to let all them off the hook because some of them had been mixed in their performance, but you are going to have developing companies coming into this business. And that is one of the reasons why I have alluded a little bit today, but one of the other themes of what we are doing is try to strengthen the south-south relationship. When I was in Mozambique I visited a subsidiary of the Indian railways developing a railway in Mozambique. It is going to be going to a number of locations including to a coal mine area that is done by a Brazilian firm.

We in the bank, but more broadly in the development community, have to do a much better job of reaching out to these new participants and explain again how things are in their self interest. One of the points when I was in China in December was I not only talked with China about its own development, but I talked about how we could work with them on a series of issues. I met yesterday with Prime Minister Kevin Rudd, a very close friend of mine from Australia. Obviously, Australia has an interest in many of the Pacific Islands and in some of the neighboring region. And so we are trying to talk with China, Australia, and the World Bank about some development projects in some of those areas as well. I think as we think about the extractive industries, we are not only going to need to be more agile in some of the things I talked about today, but we are also going to need to broaden the scope.

Nancy Birdsall: I understand that your staff are saying you have to go, I have signaled to two people that I would give them a question so let me go to them and then you will decide whether you have time to answer one or both. And it is not Nora Lustig and David Wheeler and then we will go straight to David's.

Nora Lustig: Nora Lustig from George Washington University and also a proud member of the board of the Center for Global Development and thank you very much for your remarks. I want to go back to the issue of high food prices. And from your speech, I understand that the World Bank wants to support any type of initiatives that will be targeted to the poor buyers of food in particular in developing countries more than addressing or supporting other kind of interventions that could have distorting effects like extra taxes and those kind of things that are floating around. Do we know whether countries are ready both institutionally in terms of having the programs and financially to be able to put in place those targeted programs? Because this is the issue of safety nets which is a recurrent problem because we always want to have safety nets when we need them but they are not necessarily there nor the moneys are there.

I think it would be good to have a diagnostic now at the bank to how many countries have them, are the resources there and if they are not, how are you going to create the fiscal space in the countries to be able to finance them.

Nancy Birdsall: Just so you know, Nora was the leader of the 2000 World Development Report which put this security and safety net issue firmly on your agenda.

Robert Zoellick: I used to work with Nora 15 years ago. Let us start with the easy one. If you have got high food prices, it is probably not the best thing to do to block food coming into your country. So one thing that does not take a lot of complications is cutting tariffs and removing quotas as you see in the financial times, some are figuring it out. That is one step. But for the second part of your question, I think we do have a lot of that data. There is a part in my speech where I use some alliteration and some countries of similar letters but what I saved you was the long list of countries that have those programs and some of these are of different types. Some are the basic food intervention. Some are the ones that are food for work or public projects and then there is the rising conditional cash transfer programs which Mexico played such a key role of.

What is encouraging, and this is another area where the World Food Program has been in a sense adapting its model to try to encourage these types of projects and we are in close touch with them, is that there is a much wider range of these than one might think. But where your question is exactly I think on point is at a time like this, you have got a range of possible interventions and some of them targeted food or other support needs are easier than others. The conditional cash transfer model does take more work. And we were actually, before this run up of prices, we were working with the Egyptians because for all the reforms, they have recognized even before the run up of food prices that the benefits were not flowing enough to some of the people at the lower end of the income scale. And so what was interesting, this is another role about the functionality of the bank, is that we have done some analyses and some studies of about 10 different conditional cash transfer programs, Mexico, Brazil, others.

We were sharing these with the Egyptian team. The Egyptian team in this case was led by Youssef Boutros Ghali who is a very skilled and competent person. But what he really needed was the experience of people who had done these, not just the analyses. So we put him in touch with some of the Mexicans who did it and this has a wonderful effect because, in my mind, it is how the bank is trying to share knowledge at a certain level in terms of experience we are interconnecting the south-south aspect. And we are focusing on the implementation and execution and results not just the theory. So I do think that the conditional cash transfer programs from what I have seen take more effort but as you noted in the speeches, I tried to set out a series of different methods that you can use and that is opposed to some of the other methods that are out there that are much more expensive and no where near as effective.

So what I have also tried to at least refer to is methods that you can use that are more fiscally responsible instead of a broad based subsidy program. I do also think in terms of fiscal aspects, this is something we will talk about with the fund too. I think when you are in some of these exigent circumstances, you have to look a little bit at the fiscal space.

Nancy Birdsall: David. Go ahead David and you had better hurry up.

David Wheeler: David Wheeler from the Center. Bob, I have a question about two parts of the agenda that you have mentioned that are coming together that is the energy agenda and the climate agenda. And they are merging for your staff and the question is to what to do about the clean technology fund which may be very important to the future of the bank? I am intrigued by your idea of treating bank activities in a more venture fund type way. I wondered if you had a few quick thoughts about how the clean technology fund might be viewed as a venture fund and how you see that contributing to these two agendas together?

Robert Zoellick: I am going to do this one real brief because I have been called home, but I think we are at a stage with the funds where we are trying to proceed with some care here because to cover a lot of ground briefly, we are trying to move the bank much more actively in a supportive role for climate change. We are doing it starting with working with developing countries some with technology, some with financial assistance, some with carbon trade and a whole series of different steps. But at the same time, we recognize that we want to be sensitive to the role of the UN process in the negotiating. And this goes to the allusion Nancy made earlier about how the bank can be an effective player in networks. And so what we are trying to do in the funding process is work with countries that want to try to build some of these capabilities by making almost a fund of funds if you will. We are trying to avoid one fund per country but I understand the politics the people want credit for various things.

Technology is an area that has a particular interest as a possibility. What we are trying to do and maybe this will be in a subsequent session, we are trying to look at some of the experience of other public technology development, human genome projects, some of what we did with CGAR with agricultural research, other models, and try to understand what are the critical elements at what stages from R&D to R&D development to bringing to market and then try to understand who else is there and where might we add particular support. So I think part of the challenge for the bank going back to your venture fund notion is number one organizing the financial resources to help developing countries in this in a way that helps us build support overall for the project, but then trying to figure out where our intervention is most successful.

And the last thought I will leave with you in this broader area of climate change is I have tried to describe the bank as more the blue collar worker in this. And what I mean by this is people will, there is going to be a lot of debating about the structure of post Kyoto arrangements. But if we can show how to make a deforestation fund, avoiding deforestation fund work, if we can show the benefits in technology, if we can make carbon markets work, we make the real things show how they can happen, I hope those will be useful for the countries and the officials as they try to figure out what will be the ultimate regime, not just in legal terms but in practical terms to address this. That is one reason I was working in adaptation because I think that this audience, you may have already covered this but in some climate change audiences, people have not been as attentive to the need for this.

Nancy Birdsall: Bob, let me congratulate you. I think building on the speech you gave in the fall, the six themes, this moment, this speech may well mark the moment when you are truly ushering the World Bank finally into the 21st century. And many of us applaud these ideas. We will be continuing our efforts to help you make a reality out of the many good ideas and the 21st agenda you are setting.

Robert Zoellick: Let me thank you and thank the Center because you have already helped. You do not even know many times I read your papers and get different ideas or thoughts about how we need to modify things so for your audience, you should know you are already playing a key role. Thank you.

[applause]