Challenges Facing the Bank in the 21st Century

Remarks at the National Press Club

by
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MR. CUSHMAN: Good afternoon, ladies and gentlemen. Welcome to the National Press Club. My name's Jack Cushman. I am the President of the National Press Club this year, and I'm an editor in the Washington Bureau of the New York Times.

I'd like to welcome our club members and their guests to the audience today, as well as those of you who are watching on C-SPAN or listening to this program on National Public Radio.

Before I introduce our head table, I'd like to remind our members of a few future speakers.

Tomorrow, Wednesday, March 15th, we'll hear from Secretary of Commerce William Daley on both the 2000 Census and trade relations with China.

On Friday, March 17th, Commissioner of Customs Raymond Kelly will be here to talk about terrorism, narcotics, and trade.

And on Thursday, March 23rd, entertainer Dolly Parton will be here to talk about literacy issues and the work of her Dollywood Foundation, and I expect she will tell us a bit about Nashville and country music.

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If any of you have questions for our speaker, as I'm sure you do, please write them on the cards provided at your table and pass them up to me. I will ask as many as time permits. We already have many questions up here. We'll be sorting them in order of handwriting.

I'd now like to introduce our head table guests and ask them to stand briefly when their names are called. Please hold your applause until all the head table guests are introduced.

From your right, Hiroshi Oshima, the Washington Bureau chief of Kyodo News Service; Deepa Narayan, Principal Social Development Specialist at

the World Bank and the guest of our speaker; Mats Karlsson, Vice President for External and UN Affairs at the World Bank, another guest of our speaker; Paulo Sotero, Washington correspondent and bureau chief, O Estado de Sao Paulo; Frank Kohler, Washington correspondent of the Canadian Broadcasting Corporation; Heidi Fleischer, producer of "Dateline NBC"; Caroline Anstey, Director of Media Relations for the World Bank, and a guest of our speaker; Ken Esky, the Chairman of the Press Club Speakers Committee.

Skipping the speaker for a moment, David Anderson of the U.S. Department of Housing and Urban Development, and a member of our Speakers Committee, who was responsible for organizing today's lunch. Thank you, Dave.

Janet Guttman, international economic correspondent for Reuters; and Eberhard Piltz, Washington Bureau chief for ZDF German television.

Our speaker today, James Wolfensohn, is, of course, President of the World Bank, which is the world's largest source of development assistance. Tapping the world's capital markets and with contributions from its wealthier member governments, the World Bank provides nearly \$30 billion in loans annually to its client countries.

The World Bank is supposed to use its financial resources, its staff, and their expertise to help developing countries onto a path of growth, which should be stable and sustainable.

Last September, Mr. Wolfensohn was unanimously reappointed by the Bank's Board of Directors to a second five-year term. He is only the third President in the World Bank's history to serve a second term.

Now, this confidence in his leadership contrasts a bit with the turmoil that we have seen at the top of the International Monetary Fund as it selects a new Managing Director. That does not necessarily mean that everything is entirely smooth sailing at the World Bank. And when you consider the Bank's challenge--to reduce the divide between developed and developing countries, to make sure that globalization doesn't add to the sufferings of a billion people on this planet who live in absolute poverty, to seek trade liberalization and debt reduction--it is a tall order. And, of course, there are always competing views on what the best path toward development actually is and how best to travel down it.

Its critics often complain that the World Bank provides lending but also contributes to corruption, instability, or to projects which are environmentally unsound or otherwise not what the developing world needs.

And now, just this month, a special U.S. congressional commission recommended overhauling both the World Bank and the IMF in radical ways, making both of them much smaller. The World Bank, the commission suggested, although not without dissent in its own ranks, should stop lending to countries, like China, which are already on their way to development, and should focus on smaller countries, poorer countries, mainly with grants rather than loans.

Mr. Wolfensohn has contested some of these points, and perhaps he'll discuss these ideas here today.

Meanwhile, the Bank is releasing a comprehensive study entitled "Voices of the Poor," which reports on how the world's poor view the assistance of the World Bank and the conditions that are attached to its aid.

Mr. Wolfensohn is a native of Australia. He is a naturalized U.S. citizen with an undergraduate and law degree from the University of Sydney and an MBA from Harvard's Graduate School of Business. He has been a practicing lawyer, a pilot in the Australian Air Force, a member of the 1956 Australian Olympics fencing team, and, of course, an accomplished international banker. He was an executive partner of Wall Street's Salomon Brothers, where he headed its Investment Banking Department.

His wide-ranging interests, which include having run the Kennedy Center here in Washington, have earned him the New York Museum of Modern Art's Rockefeller Prize for his work for culture and the arts. And he has spoken at the National Press Club several times before.

We're delighted to welcome back James Wolfensohn, President of the World Bank.

MR. WOLFENSOHN: Well, thank you very much, Mr. President, and thank all of you for the invitation to address you today on challenges facing the Bank in the 21st century. It is a very good opportunity for me to get my thoughts together about where we're going and try and convince you that the path that we are taking is one that is sensible and that may merit your support.

Let me start by setting the environment for you in which the Bank operates, because it is necessary that we get a basis established before we and you can judge what the challenges are and what we should do.

Today we have 6 billion people on the planet. Three billion of them live under \$2 a day, a billion two hundred million of them live under \$1 a day in what we call absolute poverty. Two billion of them do not have any power. A billion and a half do not have any water. One hundred and twenty-five million kids don't go to school. There are too many people dying due to lack of vaccines, and the world is showing an increasing inequity, not an equity, in terms of the disposition of the assets and income. In other words, the rich are getting richer and the poor are getting poorer.

We have waves of political problems around the world which are well reported in the press, but which have a significant impact on the poor. And we have also been through a recent financial crisis in Asia which has challenged our financial system and our economics.

We have seen a turnaround economically in Asia, but we have not yet seen a full turnaround in the impact of that Asian crisis on poor people and on poverty. And it is in this context that we come to the next millennium and the challenges that we face with one other very, very important

component, which is that we are entering a new age of global development--not the agricultural revolution and not the industrial revolution, but a digital and electronic revolution, which will have enormous implications on where we go both in the world in general and in the developing world in particular.

We are used at this time to talk about the developing world as being the 4.8 billion people, with 1.2 billion living in developed countries. And in that 4.8 billion people, we often forget that 2.2 billion of them live in two countries--India and China. And for the rest, they are broken up in 150 or so nation states.

And it is into that context that the Bank is now working and trying to deal with the questions of poverty and trying to deal with the questions of equity because that's our job.

We are very conscious of the fact that we are the World Bank, not a world government, and that our role is to support and to seek to help the developments that will lead to a better world and to less poverty.

But the other part of the suggested subject was not what we're doing now, it is what do we do in the 21st century. Well, I cannot go the full length of the 21st century, but let me just take the first 25 years to give you a sense of where we are at: 6 billion people now, another 25 years it will be 8 billion people. We will add 2 billion more people in that period of time. And 97 percent of them, nearly all of them, will go to the developing world. So our 4.8 billion will become 6.8 billion, and the so-called developed world will be a billion two.

The other thing which is happening as this goes on is a slow but increasing recognition that the divide between developed and developing world is becoming much more narrow. And the first challenge for our institution is to get our donor governments and the developed country governments and, through them and with them, the people of those countries to recognize that the challenge of the next 25 years is not a challenge of us sitting in developed countries seeing what we can dole out to developing countries. It is, in fact, an integrated challenge, because what happens in developing countries affects us in developed countries.

This is a slow recognition because you cannot see it immediately in front of you. But if you think about it for a minute and you think about the links of finance, the links of economics, the links of health, of migration, of trade, of crime, of drugs, of peace, pretty soon you are forced to the conclusion that what happens in the developing world is a significant issue for our children. In fact, I would say for my children that their peace and their future depends on the challenge of what happens with the 6.8 billion people just for the next 25 years.

So the first challenge for us is to orient all our shareholders to understand that we have a problem together and an opportunity together.

The second thing is what to do about it. And we look at the world in which we live, and there we come to the World Bank and look back on our

history and then look future. In our history, 50 years ago, we and the Fund were the big guys on the block. We had the money. We were helping to reform a world after World War II and gradually mutated into a development institution to assist in development.

But we are no longer alone, and happily so. We have been joined by bilateral agencies, by regional banks, by institutions such as government-sponsored development agencies. We've also come to a time when the democratic processes around the world are very different. The number of people living in a so-called democratic or market society has doubled in the last ten years. We've gone from 1 billion people to 5 billion people that live in market economy. So we have a very different environment in which we're operating than one that is controlled by dictatorial regimes.

The third thing that you need to realize is that in the space of the last ten years, private sector has taken an increasingly important role in terms not only of our economic life but of development. Ten years ago, the flow of funds to developing countries was \$30 billion from the privatization. Nine years later, it was \$300 billion. Ten years ago, official development assistance was \$60 billion. Ten years later, it's \$45 billion. So from being half the size of development assistance ten years ago, private sector is now five, six, seven times the size, depending on the year.

I give you that by way of background because it is incredibly important that you understand that these are factors which are influencing how one can do things in development and how one can impact the poor with one very large additional development, which is the growth of civil society where you have freedom.

So you have no longer just the Bank and the Fund giving a lecture from the mountaintop. You have a series of international institutions. You have the private sector. You have civil society. And you have ever more responsible or hopefully responsible governments growing up around the world.

So that the challenge for us is no longer what the Bank can do. The challenge for us is how one can work with others in the process of development.

So much for the frame in which the Bank operates. Now let's look at the poor, who are the object of our exercise.

We have just completed and will have available for you outside a book that's been published literally today called "Voices of the Poor." It's been ten years in the making, and Deepa Narayan, who is here, was the chief editor. And we went around to 60,000 poor people in 60 countries to look at the issue of poverty. What is it we are dealing with? Is poverty something that you fix with a handout of cash? Is the issue financial? What is the nature of the problem that we're seeking to solve? Or if not solve, better put, make a contribution to the governments and to the people of countries to try and bring greater equity in their countries?

Let me briefly touch on a couple of things about the challenge. The first thing you need to know is that poverty is multi-dimensional. The people did not talk so much about money. They talked about a state of well-being. They want to be respected, like all of us. They want a sense of family. They want a future for their kids. They want security. They don't want charity; they want opportunity. They want voice. They want the chance to be able to take part in their future.

It is very important that we understand that poverty is not just an issue of money. It is multi-dimensional.

I am just back from a trip which took me to Thailand, Korea, Indonesia, East Timor, and Vietnam. And in each of these countries, I have been out in the middle of poverty areas, in rural areas and in city areas. The best people you meet on these trips are poor people. They have clarity. They have dignity. They have a sense of themselves and what is right for their future, and what they want is an opportunity to participate in the resolution of their problems.

If you have been in the job for five years, as I have, I have switched from thinking that poor people are a liability to thinking that poor people are the asset. And what we have to do in terms of all of our thinking is to not think of poor people and poverty as a great burden that we all have to bear. We have to engage the poor people in the resolution of their futures. And so it is that we are, in fact, seeking to direct our activities.

Let me quickly read you some of the conclusions of this study.

They said, first, while poverty is rarely about the lack of one thing, the bottom line is that poor constantly live with hunger.

Second, poverty has important psychological dimensions such as powerlessness, voicelessness, dependency, shame and humiliation.

Third, the poor lack access to basic infrastructure such as roads, transportation, clean water. People realize that education offers an escape from poverty, but only if the quality of education and the economic environment in the society at large improve--in other words, that they have somewhere to go.

Illness is feared because of the cost of health care. And when you are living on \$1 a day and you cannot go out and earn something, the issue is not just one of being inconvenienced. It is an issue of having nothing to eat.

At last, the poor rarely speak of income but instead focus on managing assets and the environment, social and human. We go on to say that they do not know who to trust. The police, they do not know whether the police are agents of oppression or agents of help. But they typically come down on the side that they're agents of oppression. They do not know, as some said, whether you trust the criminals or whether you trust the police.

A woman in Brazil said, "I do not know who to trust, the police or criminals. Our public safety is ourselves. We work and hide indoors."

And then there are problems indoors, as we discovered -- the problems of households that are crumbling as the men lose their sense of dignity, the huge impact of gender violence. As a woman said to us in Ethiopia, "Women are beaten at the house for any reason that may include failure to prepare lunch or dinner for the husband. They may also be beaten if the husband comes home drunk or if he simply feels like it."

I tell you these things because a dispassionate look in Washington about the structure of our institution cannot convey to you the realities of what my colleagues are dealing with every day. And it distresses me when we abstract ourselves from these front-line issues and discuss it in a dispassionate manner.

For us at the Bank, the challenge in the way ahead is a challenge of humanizing our approach to poverty alleviation. And we've learned from the "Voices of the Poor" that the way to approach it is not just with dollars. You have to have a comprehensive approach to your development. It doesn't start just with money. It starts with establishing a framework in which the structure works and in which equity can prevail.

It is the issue of having good and clean government. It is an issue of having good officials at the federal, state, and local level. It is an issue not only having good laws, but ensuring that you have a justice system that is honest.

In my trip to Philippines, Indonesia, and Thailand, high on the agenda was getting honest justice systems -- high on the agenda. We regard justice as being equal for us. In so many of these countries, it is not. And imagine your powerlessness if you are poor and you know that any judge can be bought.

The same is true of the financial system. If the banks are crooked, small people do not get credits. So an important element before you get to poverty are these structural elements of governance, legal systems, justice systems, financial systems. And as comes out in the poor reports, corruption at the center is the corrosive force. And do not think that corruption is something just for the big people. The people who suffer most from corruption are poor people. If they want to get government assistance and they do not have the dollars that get it, they get nothing. And for them, the difference is not between a big car and a small car. The difference is life itself. So the issue of corruption for poor people is not a theoretical issue. It is an issue of survival.

And then you go on and you look at the elements in your process: education and knowledge. As was said in their remarks, it is a key if you have got somewhere to go. But you must get education. You must get knowledge. And you must have health care because if you do not have health care for young kids, they come to school already maimed. In Bangladesh, 25 percent of the kids are already physically affected because of lack of food. So the linkage between education and health becomes very clear.

And if you build schools and there are no roads and there is no water to the school and there is no power and you cannot get the kids there, and when they get there, there is nothing to teach them with because there are no teachers and no curriculum, the point that is made by the poor and the point that is recognized by us now is that it is no longer possible to think of what we do in any singular sense by a project here and a project there.

Countries must have a comprehensive view of development. We must have a comprehensive view of development. And you move on to environmental strategy and cultural strategy, the preservation of culture, a rural strategy, an urban strategy. In the next 25 years, 2 billion more people will move to cities. There will be 19 megacities in Asia in the next 15 years, 10 million people or more, presenting whole new challenges in terms of management. And then, of course, for countries there are special considerations relating to the countries themselves.

The challenge we at the Bank are taking is to try and work with governments, to try and work with poor people, to get community development because we believe passionately that the future of development and the future of poverty cannot be solved by projects here and projects there. They need to be in terms of strategies set by the people themselves, transparently, as to what they need with appropriate gradations of what you do today, what you do tomorrow, so that you can get an approach that goes forward.

Remember what the poor say. It is not just a question of food. It is a question of a multi-dimensional approach. And here I must pay tribute also to the press because the poor people do not trust governments. Interestingly, they only trust some NGOs, and the extent of NGOs is less than we expected.

We are working with the churches now around the world because churches are everywhere and we need to try and engage the people that are trusted in the communities. But the simple fact is that as we move forward into this process, we need to be reaching out and getting communal development on an integrated basis, and the press and the media have the capacity to throw light on what is being done in those communities and in those countries.

The best fight against corruption is a combination of changing the rules and regulations so people don't have so much opportunity for corruption. But it must be paralleled by light on the truth. And here we at the Bank are working extensively now with journalists around the world in terms of training, in terms of courses on trying to deal with the questions of getting the facts out on the table.

I say this because you are not spectators. You are participants. The point of the challenge for us at the moment is a challenge of participation and a challenge of an approach which is holistic, which engages the people themselves, and which is on more than one front at a time.

I should have said earlier and did not, but emphasize also the crucial importance of economic policy and growth. It is simply not possible to alleviate poverty without growth. So central to any consideration are the considerations of our friends across the street in the Fund and ourselves. To try and assist governments with policies and, dare I say, with openness in terms of trade and the ability to get the benefits of hard work, that this economic dimension is at the base of all that I've described to you. And with that, of course, is debt forgiveness and many of the other activities that you know we are deeply concerned with.

So, then, we come to my final point. The challenge for us in the 21st century is to, first of all, make all of you and all of us in the Bank and elsewhere recognize that the challenge of the 21st century is a challenge of equity, is a challenge of poverty. This is not an issue just for the poor countries. We may avoid it as having an impact on us. But our children will not. And you will not see it in neon lights because it happens slowly. We need you to help us put the light of reason on this slow burn of what is going to happen inevitably--inevitably--in the next 25 years.

Secondly, I would say that we have to work together with governments, with private sector, and civil society. We've had far too much name-calling. We've had far too much putting people in boxes saying the Bank is no good, the Fund is no good, NGOs are no good, private sector's no good, nobody's any good. It's a moment to try and work together and see what is good with all of us.

And the third thing I would say to you is that it is the moment to be supportive not only of governments, but of the people that we're trying to assist, the 3 billion people living under \$2 and the billion two hundred million living under \$1 and the 2 billion who are coming in the next 25 years.

Let's think of poverty as a challenge for all of us, and let our nation give the lead in terms of humanity, in terms of trust, and in terms of social justice.

Thank you.

MR. CUSHNER: Thank you very much. My first question goes to the point that you just ended on. Is the world's richest country doing its fair share in helping the poorest in the world? And what one change of policy would you like to see from the United States?

MR. WOLFENSOHN: Well, I think it's fair to say that the United States historically has done a great deal. We have made some real progress in terms of education and health and in terms of development in countries. And after all, it was our country that started the international institutions.

But there are some troubling elements in the debate--troubling elements in terms of the annual allocations of IDA funding, troubling elements in relation to our commitment to environment, troubling because they become politicized as though they are an external issue. What I would love to

see is a bipartisan approach to the issue of the world out there. It may be dreaming, but at some point, it'll have to come. We will become conscious of our roles of global citizens and as leaders.

And the one thing that I would hope is that our new President will put this highest on his agenda. We have to lead in this. We are the most respected, the most powerful nation on Earth. And my hope would be that, although it's scarcely mentioned in the election campaign, that after the election, our elected President will put a focus on America's leadership. This is not a problem just for the poor, it's an opportunity for us.

MR. CUSHNER: Yesterday, the Harvard University held a seminar here at the National Press Club on Putin. You visited Russia recently, is Putin a man that you can do business with?

MR. WOLFENSOHN: Well, I've had the privilege of meeting Mr. Putin on three occasions now, and I saw him just two days ago. I find him extraordinarily focused, very well informed and very involved in the issues, in the economic issues, and I need hardly tell you in other issues as well.

From the point of the Bank, his behavior with us has so far been impeccable. We're dealing with the questions of social issues in his country, we're dealing with the issues of governance, we're dealing with the issues of training, we're dealing with issues of science and technology and a greater openness in his society. I think it's too early to tell what exactly he's going to do. He's not yet President. So I can only comment on the lengthy meetings I've had thus far.

I'd say that I find, as an individual, his approach very strong, and as you know, he's not yet President, so we have to see who is President. But when as and if that happens, I would feel that he's someone that, from our point of view, in terms of the issues that we're addressing, we could deal with with confidence. He is an impressive man.

MR. CUSHNER: Well, what effect does Russia's military operation in Chechnya have on forthcoming payments to Russia? How much weight do you give this issue?

MR. WOLFENSOHN: Well, I think everybody gives weight to this issue. And as you know from reading your own journals, there are many sides to this issue. I think there is a full understanding of the physical toll of the Chechnya crisis. And as you know, we at the Bank are not a political organization, but we have political shareholders, and so I am subject to decisions by the Board in terms of the politics.

What I will be doing is putting up to the Board whether or not, and we only have one issue coming up shortly, which is the issue of payment on a highly successful series of coal loans which have brought about social changes in the coal industry. We have the issue will we have met the obligations or will the Russians have met the four obligations, at which moment, if they have, I will have to present it to the Board because they have met the obligations.

At that moment, the Board will have to take the political decision as to whether or not they wish to go ahead. But I have no tolerance in that. I look at what we are supposed to do, and then I'm obligated to bring it to the Board and maybe wiser counsels will prevail in terms of telling me what we should be doing or giving me signals. But my expectation is that on the technicalities we are likely to reach it, but the political decision will be taken by the Board.

MR. CUSHNER: There's a report that the World Bank will resume loans to Iran for the first time in seven years. What can you tell us about the possibility of easing sanctions against Iran and of World Bank loans.

MR. WOLFENSOHN: There have been, for nearly two years now, two projects that we've been looking at that are social projects; one is for sewerage and sanitation and the other is for healthcare. And we have continued to look at those programs, and they have been delayed, but we are now looking to see if they're likely to come forward and are in the process of having a team see if there is a proposal that, again, can go to our Board.

There is a split of opinion on the Board, as I think you are all aware. That split of opinion is that the new regime in Iran is one to whom we should reach out, and there are others who have a view that the new regime is someone to whom we should not reach out. I am getting pressures from both sides. So I am doing the only thing that an intelligent person who wants to keep his job should do, is to modestly move forward, see if there are proposals and then take them to the wise counsels of our Board. My guess is we will do that sometime soon, and then no doubt the Board will decide what it wants to do.

I do not have the privilege of making the political judgments. I have the responsibility of looking at the issues of poverty and of development, and this thing has been dragging on for nearly two years now, and the feeling is such that we should bring it to the Board. You can watch the news flashes sometime soon to see what the Board decides. But that, again, will be a Board decision.

MR. CUSHNER: Many people assume that the so-called digital divide will mean that Internet technologies increase the gap between rich and poor. But is it possible for less-developed countries to leapfrog over the old economy and arrive at a new economy or is that a flight of fancy? What does the World Bank do to encourage this?

MR. WOLFENSOHN: I think there is, as I touched on early in the speech, personally, I think there's nothing more important than this question for poverty, not just for techies, for poverty.

We have the capacity now, physically, to put a satellite dish and a computer anywhere. And within five years, we'll have low-flying satellites that will allow us to have broad-band communication with every part of the globe. And I am discussing with a number of the companies that are potential providers of this service giving free service to poor areas and to education.

In Egypt, and I know we have an Egyptian representative here, I was astonished recently to find that the whole school system is now wired up not just for Internet, but also for video conferencing. The Bank is putting a huge amount of effort now into establishing video conference facilities around the world.

You'll be interested to hear that in East Timor one week ago, where the country is, you all know, is ravaged by the disasters that befell that, I was talking at one point about getting water buffalo to a village that I visited. And in the afternoon, with Kushmal [ph.], talking about putting up a 21st Century video conference facility that would have space for 30 people with 30 computers adjacent to it because it's the only way that we can train or help train the East Timorese to develop their government officials. And I told him that what we should when we start to build the schools is wire them up immediately.

There is no doubt that this is not a luxury. This is a chance, in the case of East Timor, to do something that has never been able to be done before, which is to take a country that has no residue of government service, and without letting them leave the country, train them in situ. We're running dozens of courses now. Every Saturday morning we reach 300 towns and cities in Mexico through Monterrey Institute of Technology, where we conduct seminars on everything from running a fire department to running a budget. They're done synchronously, which means that all of the people do it at the same time or asynchronously. If you can't watch it, it will be downloaded into your television set, and you have a key and you can watch it the next day. But through the reach, the discussion takes place. We have linked 400 schools, 35,000 kids around the world from northern high schools with southern high schools. We've got courses in three languages. We train the teachers. This thing is amazing.

And just two days ago I heard of an interesting experiment in India, where a company put in the middle of a slum a terminal and keypads and just put it in and wired it up and left it there--no teachers, no training, no nothing--as an experiment. And they came back a month later, and the kids had done programming, were accessing, were teaching, were learning.

This is the single most powerful tool that there is. And in every country that I visited in the last five weeks, be it Vietnam or East Timor or Russia, with the Presidents and the heads of the countries, high on the agenda is technology. It's not a question of whether, it's a question of when. And the countries that don't do it soon will fall back; the countries that get onto it early, have a chance of catching up. I can't tell you how excited I am.

MR. CUSHNER: Please comment on the Meltzer Commission's recommendation that the World Bank close operations in Latin America and give total leadership there to the IDB.

MR. WOLFENSOHN: Well, I have great respect for the IDB. I think the single most knowledgeable person on Latin America is Enrique Iglesias. We work very, very closely together. And I think that it would be hazardous in the extreme against the problems that I just gave you, in terms of the

scale of the problem, to close down anything. I am very happy that the Bank should be judged by performance, should cooperate, should be available to change, should be judged. You can look at us any way you want. But to jump from the thought that poverty is bad, that people need to be accountable, that there is a need for rationalization to closing the Bank in terms of global public goods and in terms of participation in areas, such as Latin America, is I think just far too hazardous. I think there should be change, and I appreciate the comments on change. But the Bank is changing. This is not the Bank of five years ago. I don't need to be told about global public goods. I don't need to be told about corruption. I don't need to be told about AIDS being a scourge. I do not need to be told about vaccinations. We are leading these issues.

And so when you have statements made that we should be doing this which are drawn from what I've been doing for five years with my colleagues and suggesting that we get out of Latin America, Asia and as soon as the African Development Bank is right, Africa, and that we close IFC, which is building corporate development, and MIGA, which is ensuring investments, I have to say that it's a little extreme. I am not one who will suffer because I can retire anyway. But I think about what I've just seen on my trip, and I have to tell you that I am with the minority opinion, which is that we shouldn't do it.

MR. CUSHNER: I notice that after our luncheon today there is a group having a press conference here to castigate the Bank on its environmental standards. Is the environment something else that you don't need to be told about?

MR. WOLFENSOHN: Look, I have learned in five years that whether I need to be told or not, I am told about these things all of the time.

MR. WOLFENSOHN: I am not asking for a utopian world. I should tell you about debt. I haven't lectured on debt for the last I don't know how long. When it was the Bank that invented HIPC, debt relief, and I said to my friends in the NGO movement at the time who gave me my one and only cocktail party to thank me, I thanked them, but said that tomorrow they'd be attacking because we hadn't done enough. And sure enough, since then, I've had the daily attacks.

The same is true on environment. I have no doubt that we're screwed up on some things. But I have no doubt that we've done a lot on others. We have the Global Environment Facility. I was just at a meeting in New York with the GEF and Mark Malloch Brown and Klaus Topfer from Kenya who runs the UN Environment Agency. I have a deep commitment to environment.

Some of you will remember that 30 years ago there was the original conference in Stockholm run by Morris Strong. I'm embarrassed to say I was there because I was interested then. So I have a pretty good record on environment. I'm prepared to discuss anything from damns to timber to mining, and we are doing it. But I think demonstrating is useful--it will never stop it--but I'd prefer to sort it out inside in discussion.

We are prepared to move, but I would put our record up against the record of many others. You might expect me to say that as a defender of the Bank, but I have to tell you I believe it.

MR. CUSHNER: How can the Bank, and the Monetary Fund and others encourage the investment of local funds in their respective countries as opposed to capital flight to very prosperous markets in the United States?

MR. WOLFENSOHN: I think that's a terrific question. And when I was making my speech, I didn't have notes, so I forgot some things. But one of the things that I would have said or should have said was that the issue of private sector is not an issue of foreign private sector coming in. It is an issue of domestic private sector much more, which means small and medium size industry, and it means domestic savings and investment in the country.

The same factors that affect foreign investment affect domestic investment. If you don't have a legal system, if you can have your investment taken away from you, if the banking system doesn't function, if pirates can come in and kneecap you unless you give them the business, and all of the things that can go on, you won't have domestic investment, and you won't have international investment.

In all of my discussions with leadership, in terms of structuring, it is to get a framework for investment; international investment and domestic investment. And the considerations are the same, with one exception: that you need to have a more developed market locally to provide funding for small and medium size enterprises, all of the way down to micro credit for rural and urban communities.

So the conditions that I look for are the main structural conditions. But I then look for a development of the market that can hit the small and medium size enterprises. Sixty to seventy percent of the jobs typically in countries come from small and medium size enterprise, not large companies. And that's what you want to get going.

But you will not solve the issues of capital flight unless you make it attractive to invest at home. If it's attractive to invest at home, people will invest at home; if it's not attractive, there's no way you can hold them in, rather than having capital controls. So I would say it's the same thing that I talked about earlier, a mix of restructuring, fighting corruption. If you do that, you've got a chance of getting things moving--all built on a macroeconomic policy that's geared to growth.

MR. CUSHNER: Is Horst Kohler the right person to run the IMF?

MR. WOLFENSOHN: I think Horst Kohler's nomination makes him a very, very good person to potentially run the IMF. I know him well. He is an admirable leader of the EBRD. I have taken pains not to call him for the last few days or to be anywhere near the selection for fear that someone might say that--I don't know what they might say--that I was after the job or something. But I have to say that I am very glad that this thing

could finally be over. I believe he'd do an excellent job, and I look forward to working with him if his nomination is successful.

I should also say that I believe that Caio Koch-Weser who, in some quarters, was demonized, is a man of great repute and great quality, but I'm very happy that Horst Kohler has been nominated as the likely candidate to run the IMF.

MR. CUSHNER: I'll go ahead and risk a question that I don't understand.

One of the solutions to the Latin American debt crisis was swapping Bank debt for local currency at a market discount to create local currency equity investors. Has the World Bank considered debt-for-equity swaps as an alternative to debt forgiveness in poor African countries?

MR. WOLFENSOHN: Well, we're not entitled, as a Bank, to do debt-for-equity swaps, but we certainly understand it, and we try to encourage people to do debt-for-equity swaps. I actually had my training in it many years ago. I did the Chrysler reorganization. I spent two years of my life on it, and we dreamed up a debt-for-equity swap for the U.S. government and convinced them to take some shares in Chrysler, which they probably sold prematurely.

But I must tell you that the result of that was that the man I was dealing with, Paul Volcker, became my partner for ten years in my business. So it had some great benefit. But the Bank is not legally entitled to own equity. The IFC can do that, and IFC does do that. We are prepared to take commercial debt and turn it into equity. And to the extent that we can encourage it, we do so. But legally, the Bank is not entitled to own equity, so we can't do it.

MR. CUSHNER: Last week The Washington Post reported that the World Bank has two brothers serving as vice presidents, which it contended was a violation of a Bank staff rule against this. Even if both are eminently qualified, isn't this a bad precedent?

MR. WOLFENSOHN: Well, we're looking at that at the moment, and there are some who think that it is. I'll tell you exactly what happened, and we're in the middle of talking about it right now.

I asked Amartya Sen, who is a Nobel Prize winner, and Joe Stiglitz, who is your favorite, and a colleague of mine, Jeff Goldstein, who is an eminent economist, to go out and find me the best economist in the world for my job. I said I don't want to have anything to do with it. Go out and find it and come back and tell me who it is, but you must be unanimous. And I said if you do that, then I'll know who to hire.

So I gave that task. Last Thursday, when I was coming back from somewhere, I met Amartya at the airport and we had a coffee in the half-hour between planes, and he told me that it was Nick Stern. I then came back and had a similar conversation with Joe and with Jeff. And I then asked the lawyers in my place, "Can I make this decision?"

And they said, "Under Article 4(1), you're not supposed to have brothers and sisters, although for some extraordinary reason, you can have husbands and wives." An interesting issue, by the way.

[Laughter.]

MR. WOLFENSOHN: "And so you can't have brothers and sisters, but you are entitled, under Article 5, to run the business as you want, and if you want to vary the rule, you can."

So I thought, well, anytime that someone is appointed by a Nobel Prize winner, by Joe Stiglitz and by Jeff Goldstein, in an independent review process, that I could probably not be accused of nepotism or of any other flagrant misuse of power and that I would just take their judgment. It appears that, at the moment, people don't agree with me--or some people don't agree with me. And I am right at this moment in the middle of discussing it.

But I still think that I should have the best person, and if it's legal for me to use my discretion, I can't think of a better way to use it. And anytime anyone else has the same genesis of their appointment, I would probably use my discretion again. So we're having a little internal squabble, and hopefully I'll sort it out. If not, I may become a journalist. Who knows?

[Laughter.]

MR. CUSHNER: Now, before I ask our last question, I would like to just take a moment and give you yet another certificate of appreciation from the National Press Club to hang on your crowded wall.

MR. WOLFENSOHN: Thank you very much.

MR. CUSHNER: And yet another of our famous coffee mugs.

MR. WOLFENSOHN: Thank you very much.

MR. CUSHNER: If this makes an odd number, we'll invite you back one more time to even out the set.

[Laughter.]

MR. WOLFENSOHN: Thank you very much. Thank you so much.

MR. CUSHNER: And our last question, we're told you that you are planning to go back to Australia with the fencing team and to revisit the Olympics. Could you just tell us what is Australian for "on guard," and do you find yourself saying it very much?

[Laughter.]

MR. WOLFENSOHN: Being such a good linguist, I say, "en guard," but I don't say it very much. Although I must say that at the Bank what I learned about fencing has proved to be helpful. You have to try and

deflect the opposition, and you have to try and strike before they know you're doing it.

[Laughter.]

MR. WOLFENSOHN: So maybe when I'm out in Australia I will recover some of my old skills and enjoy the Olympics and get myself ready for the next round of the presidency.

Thank you very much.

[Applause.]

MR. CUSHNER: Thank you.

And I'd like to thank you all for coming today and to thank the National Press Club staff members, Emily Reed, Pat Nelson, Joanne Booze, Melanie Abdo-Dermott and Howard Rothman, for organizing the lunch and thanks to the NPC library for their research.

We are adjourned. Thank you.

[Whereupon, at 1:58 p.m., the proceedings were adjourned.]