Thank you very much, Bill (Frenzel), Jim (Orr) and Henry (Owen). And let me start on a personal note, which is that I am delighted that Bob McNamara is here with us today, and I heard on NPR this morning that it's his birthday. So, may I wish you happy birthday, Bob. It's great to see you in such good form.

I was given the topic today of More focus on the Social Sector. And I guess that this topic was suggested by my colleagues to try and give me the opportunity to differentiate somewhat the activities of the Bank from that of the Fund. You'll be hearing very shortly from Michel (Camdessus), with whom I had breakfast. We did not collude on what we would say, but I think that he is in agreement with what I will say in terms of the differentiation between the central focus of the Bank, as compared with the central focus of the Fund.

And let me not touch heavily on the Fund other than to say that we work very closely with them, that we are respectful of and we contribute to and are assisted by their efforts in surveillance, in crisis management, in their work on the establishment of fiscal and monetary policy - all of which have been so apparent in the last two years in the times of crisis from Korea, Thailand, Indonesia, Brazil, Russia and all the other countries which has been affected in some way or other by the financial crisis.

In fact, the last two years have been very difficult for both the Fund and the Bank, indeed for all international institutions because the impact of this crisis has been significant, whether or not you are a front-line state in terms of having your name in the headlines, or whether you are a middle-level state which has been affected by access to market or by increase in costs, or impact on trade. And when you add that together with the other crises we have had, natural disasters, or floods, or droughts, and wars, we have had a pretty busy time. Most of the time, these issues are translated in the headlines into a financial package. The financial press tends to cover them on the basis of a $17 billion package, or a $42 billion package, or a $58 billion package that has been put together. And, at that moment confidence is thought to return.

There is an attendant argument about fiscal and monetary policy. There are the observations by the informed on what the exchange rate policy should be. There is a significant debate carried out in the press on the questions, always, of the economics and the numbers. And it has made us a little humble at the Bank, because when we see all this money going out
and the debate focusing on that, some of us wonder what we do, if
everything can be cured by the money. And, that led us to some very
serious thought, not about what we have done since Bob was president of
the Bank, but in terms of trying to be able to present in a more coherent
fashion something that can balance the discussion of the financial and
macroeconomic considerations.

And so we started to think in terms of the focus, as the title says:
"More Focus on the Social Sector". But it is a focus on not just the
social sector, but on the structure with which we are charged to involve
ourselves. Since the realignment of the focus of the Bank after the
initial objectives of the Bretton Woods agreements for the reconstruction
after World War II were met, the more recent and continuing focus has
been on development and on the issues of poverty and the issues of
sustainable development.

And so, the way we have now tended to think about ourselves, which is
more a re-ordering and a greater focus than a significant change, is to
assert that the Bank's role, parallel to and engaged with the IMF's role,
has a number of visible and essential elements which need to be addressed
if you are going to have growth, development and peace in the countries
that we are dealing with.

Let me just indicate to you the focus that we are taking. We start by
saying that you have got to have good governance in a country. That means
you have got to have a decent administration, and you need to confront
the issue of corruption. These are issues which, historically, we have
been edging towards but which are now front and center in terms of the
Bank's agenda. It is very clear to all of you that if you give a billion
dollars to a country that is well-run, it is no surprise that it usually
does better than if you given it to a country that is poorly run and is
subject to corruption. So, the existence of that as a central focal issue
is now number one on our agenda.

Number two on the agenda is the issue of a legal and justice system. If
you are going to have equitable growth, if you are going to deal with the
question of poverty, if you are going to deal with the different power
that exists between rich and poor, or people of influence and people of
no influence, and if you are going to have stable development, you must
have a legal system which protects rights. It has to protect property
rights. It has to protect human rights. It must have available to it a
commercial code that can allow you to deal with issues of bankruptcy and
contract. That, of course, plays very much into the question of
investment. But in any event, few would deny the existence of a legal
system, and then may I say the existence of a honest justice system is
essential for stable growth.

Unfortunately, in many of the countries in which we operate, the legal
systems are not coherent, nor is the justice system very effective. Last
week I was in Azerbaijan, in Georgia and in Armenia, and working with the
president of Georgia, we addressed the question of the very richest
people that existed in Georgia - and they were the judges. They were
thought to be absolutely untouchable, until the president, assisted by
work which we did, brought in, over furious opposition, testing of the
The judges. Not only were they tested, but the examinations were shown on television. And the 200 judges who were tested, 131 of them were not reappointed, and 178 new judges were appointed. This would have been unthinkable some years ago, but of course makes an enormous difference in terms of the potential of equitable development of Georgia.

The third thing you have to have, as is evident in Korea, Thailand and Indonesia, and many other countries, is an effective supervisory mechanism for banks, for capital markets, for corporations, for accounts systems, of transparency. In all of these areas we are working integrally with the Fund.

And this issue of supervision and control of financial systems is a poverty issue. People who get hurt most in the case of a financial crisis are rarely the rich, and not always the middle class, although sometimes, but certainly the poor. So, for us, the very issue of development comes back again to the supervision, control and monitoring of financial systems.

And finally, there is the existence of a social safety net, which was put very much to the test in the three countries - in Korea, Thailand and Indonesia - as you got significant increases in poverty and in unemployment. And in transition economies, as we have moved to privatization and to market-based development, the absence of an adequate social safety net has resulted in coal miners lying on railway tracks; in riots by teachers. You have the support systems to replace those that were provided by the old inefficient companies. And unless you have a social safety net, you have a real problem.

So, the first thing I would like to say to you is that, although this does not make headlines, this work - which is not quick work - is absolutely essential in terms of structural reform, and in terms of dealing with the questions of stability and growth. And if you think about it for a few minutes, it has to be obvious that that is the case. And so, the focus, as was given in my title, is first and foremost on structure.

And then there is the issue of what are the social aspects that you need to deal with, that over a period of time - not one year, not three years, not in a period of one project or two projects, but as a strategy for development in the countries - what are the social elements that you need to establish as the focus for the Bank's work, indeed for the national country's work.

And there we have come up with our own, not ordained but suggested list, because the list of priorities must be established by the countries themselves. This is not something that can be or should be imposed by Washington or by any other center. It is a suggested framework for the establishment of social focus. And there you think of education, and knowledge, health care, water. In another 50 years, nearly 50 percent of the people on our planet will not have access to adequate water. We already have 1.3 billion people that do not have it.
Sewerage, roads, rural roads, methods of communication, power, an environmental strategy, a cultural strategy. It is very important to ensure that the countries have some sense of their own cultural continuity. A strategy to attract business. An urban strategy, as we have more and more countries moving into urbanized areas, and considerable growth in developing countries of megacities. We will have 22 megacities of 10 million people or more within another 15 years in developing countries. And then, of course, a rural strategy, because the great weight of poverty still exists in rural areas.

So, these become the focuses of attention, which are not easily encapsulated in a $17 billion figure, or a $42 billion, or a $58 billion figure, but without which you cannot have serious and continuing and long-term development. May I suggest without which you will not have peace. As we add to our planet - to the existing three billion people that live under two dollars a day, and the 1.4 billion that live under one dollar a day - in the next 25 years, another two billion people. These numbers are extraordinary. And they at the same time overseas development assistance is diminishing, as we heard from our speakers this morning. Surely the U.S. Congress is not very ready to engage in increased funding, either for HIPC, or indeed, as we will have to find out, for Kosovo or other places of crisis.

As I get around the world just take the Caucasus, to which I have just returned, it is not in the headlines, but we still have in those areas close to a million refugees. I visited the camps. There, squalor and hardship is in advance of the squalor and hardship of the people of Kosovo because they've lived in these camps for ten years. And we have pockets of this 22 million refugees around the world that we have to deal with. And from where does the money come? Where does the money come for debt relief? Where does the money come for reconstruction? Where does the money come for refugees?

So, that we are forced back to the issue, first of all identifying the problems, and then bringing them out in terms of our focus on the structural and social issues, and on the need for funding, and for effort from all of us to try and make this work. And that is where we have changed also our focus in the Bank, because we have clearly determined that the Bank cannot do it alone. It is obvious that we cannot, notwithstanding the fact that we are at a level of $30 billion in lending a year, and have doubled the work of the advisory services in the Bank. We touch a fraction of the challenges.

And so the Bank is looking much more now at the way it works with, first, the governments of the countries, with the parliaments, the provincial governments, the states, the city parliaments - a whole new dynamic, by the way, in terms of democratic development around the world. And also at how we work with the Fund, of course, and with UN agencies, the bilaterals, the multilaterals. We are looking at this in a much more coordinated fashion than we have done previously, and we all need it.

We are looking at how we work with civil society, which has been burgeoning with freedom, with the establishment of market economies, with democratic states. And, most significantly, we are looking at how we work
with the private sector, where the private sector flows have changed dramatically in a period of ten years. In 1987 private sector flows were of the order of $25 billion to developing countries, and official development assistance was $40 billion. Ten years later, in 1987, private sector flows reached $300 billion, at a time when public flows were $40 billion. So, for being just over half the size, it is now seven times the size. It changed in 1998 with a reduction of about $70 billion in private sector flows, but it is still four or five times the size.

So, the way in which we focus on the social sector, the subject of these remarks, is not something that we can do alone, bilaterally with a government. We have to learn to deal with the whole range of other partners. This is quite a big challenge for our institution. A challenge in which we need and appreciate enormously the help of this group. We are very, very grateful to you for the work that you do on the Hill, the work that you do generally, in terms of understanding our needs and understanding the importance of our institution to the position of the United States internationally. It is very important that the United States has a strong influence in the Bretton Woods institutions. It is very important that we can rely on the United States for leadership. It is very important that our legislators be educated, and that they be ready to recognize that giving money for overseas development assistance is not charity. It is an integral part of the development of this country, and without that integral and safe development, we are not going to have a prosperous United States, and we are surely not going to have stable world.

These issues are very clear when you get out into the field. They are very clear to me after four years. And your committee, which has been going now since the mid-80s has played a very, very important role in terms of trying to bring this message across. What I would hope you would do would be to recognize the role that the Bank has played, that the expanded IFC is playing, about which you will hear at lunch from my colleague Peter Woicke. He has taken on the responsibility not just of IFC in terms of the corporate sector, but the whole responsibility for private sector activities within the Bank Group. This is a response to not only the international investing, but to the establishment of capital markets and domestic investing in the countries, which has doubled or trebled the size of international flows.

So, we are trying to gear up. We think the challenges are enormous. We feel the pressures for money. We feel the pressures of budget. And we feel the pressures of an ever-expanding series of challenges. It is not an easy moment for the Bank or for the Fund, but I do believe that this focus on structure and on the social activities is the correct focus for us. It is a parallel focus with the Fund and it needs to be viewed at the same time as you are looking at the financial and macro considerations. It certainly gives us enough to do, and I hope it gives you enough reason to continue to support us in the Congress and in other places.