

# Remarks by World Bank Group President Jim Yong Kim: Development in a Time of Global Interdependence

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**As Prepared for Delivery**

Good afternoon. I'd like to thank our host today, Mr. Fratzscher, and the German Institute for Economic Research/DIW. We are grateful that we can have this event in such a remarkable setting. And I would also like to thank the German government and its representative to the World Bank, our good friend Ursula Mueller. I would like all Germans to know that you have an absolutely outstanding, brilliant, compassionate ambassador to the developing world in Ursula.

The world today faces challenges that are as complex and vexing as at any time in my memory. Think for a moment about how the world has changed in just two years. In April 2014, Europe had not yet experienced the massive flow of refugees from many countries. Two years ago, the world had not yet awoken to the horrible epidemic of Ebola as it spread through the West African nations of Guinea, Liberia, and Sierra Leone. And we didn't yet have the most recent alarming evidence of the impact of climate change, with global temperatures rising to record levels and the Arctic emerging from a winter that wasn't a winter at all.

Now think for a moment about other events in just the last five months, which brought violent extremism to the doorsteps of Europe and around the world -- the horrific attacks in Paris, the attacks in Brussels just two weeks ago, the acts of terror in Lahore recently that killed 29 children playing in a park, and the horrifying violence in so many other places -- Istanbul, Ankara, Bamako,

Tunis, Jakarta, Ouagadougou, San Bernardino, Mogadishu, and a remote resort in Cote d'Ivoire.

It has never been so painfully clear that the world is deeply interconnected. Major issues that evolve in a developing country now swiftly move to affect developed countries – and vice versa -- more than ever before: Climate change, pandemics, refugees, terrorism, and economic downturns all move seamlessly around the world. What happens in Aleppo affects Berlin, and what transpires in Beijing is felt in Buenos Aires. In the context of these enormous challenges, what is to be done? How does an institution like the World Bank Group, with our mission to end extreme poverty and boost shared prosperity in the developing world, react in this time of multiple crises, an increasing interconnectedness, and a slowing global economy?

From the perspective of an individual country, our strategy remains the same – support economic growth, invest in people and insure that people don't fall back into poverty. But in order to more effectively confront the global public threats I've mentioned, our vision has changed and will need to change even more going forward.

First, addressing the challenge of global threats that cross boundaries and regions will become ever more central to achieving our mission. The World Bank Group's major focus for many years has been to respond to individual countries' needs. That will remain the core of our approach, but that's not enough. Our country-focused work must be complemented with a much more robust commitment to move further upstream and tackle at their core, the issues that affect the entire planet.

Second, we must focus much more effectively on managing risk and uncertainty. The agenda is already changing in many of our development activities with greater emphasis on disaster risk management; targeted investments in the face of climatic uncertainty; and scaling up support for innovative social protection programs for those just above or close to the poverty line.

And third major change for us is that we must do much more to address the deep pockets of poverty and rising inequality in countries at every income level. This includes investing and supporting middle-income countries that face the challenge of fragility, especially when the spillover effects from fragility can threaten both its neighbors and countries on the other side of the

earth.. If we leave these problems unresolved, the risk of growing conflict and extremism in these contexts will become very real, as we have seen in the Middle East, North Africa, and Latin America.

Berlin is the right place to talk about this fundamental shift in the way we work. Germany has demonstrated that industry, even small and medium enterprises, can adapt to take advantage of globalization, while keeping the social costs of these adjustments low. Germans have shown that fiscal prudence is not incompatible with extraordinary generosity -- keeping national budgets balanced while welcoming more than a million people displaced by conflict in the Middle East. Germany has also been among the most generous donor countries throughout the economic crisis, and we are very grateful for Germany's stalwart support of IDA, which is the World Bank Group's fund for concessional loans and grants to the poorest countries.

Germany also is the most open among the major economies; trade is more than twice the share of GDP as compared with the United States, China, Japan, the United Kingdom, and France. Small and medium enterprises in Germany—the Mittelstand—have increased productivity, generated exports, and created jobs at impressive rates. Germany's unemployment rates have remained low through both prosperous times and economic crises. This country has shown how big economic, social, and environmental improvements can be made—and all at the same time.

But before describing in greater detail our evolving approach to achieving global public goods, I want to provide some context about the current state of the global economy, which makes tackling these global threats all the more urgent.

In the United States and the European Union, growth rates have been picking up during the last three years, and we expect this trend to continue this year. While we continue to be concerned about low growth in advanced markets, given our focus, we are especially concerned about the slowdown in emerging markets, where growth rates have fallen by almost 1 percentage point since 2013—from more than 5 percent to about 4 percent. China is one reason, but the economic contractions in Brazil and Russia are also major factors.

In our view, there are three major drivers of this slowdown – slower growth in trade, increasing difficulty in gaining access to capital, and lack of progress in job creation.

Trade has been a powerful engine of economic development for low-income countries, and the slowing in the growth of trade – roughly half the rate it was growing before the financial crisis – has had a large impact across the developing world. Imports of goods, for example, grew by more than 6 percent annually in the 1990s and 2000s but since the crisis, import growth has averaged 3 percent. As the voices of protectionism grow louder on both sides of the Atlantic, we know that protectionism hurts poorer countries the most. But it also disproportionately hurts the poor in richer countries. In the United States, for example, the purchasing power of the poor would be cut by more than half if the economy were closed to trade.

Stock market volatility, which reflects uncertainty and fear among investors, has been the highest since the crisis in the Eurozone in 2010. This has been bad news for developing countries as investors pulled \$40 billion dollars from emerging market bond and equity markets in the last quarter of 2015, the biggest outflow since the collapse of Lehman Brothers in 2008.

But most worrying for us is the slow recovery in employment in almost every part of the world. An additional 75 million people were still jobless five years after the end of the global financial crisis. The International Labor Organization has found that the share of young people who are neither studying nor working has been rising in three countries for every one where we've seen a decrease. The problem is most severe in the Middle East. Since 2007, unemployment among young people increased the most in Middle East and North Africa. We have to attack this problem on multiple fronts at the same time but one of the most important steps we must take is to make it easier for small and medium enterprises to do business in this region.

Just a week ago, I was traveling in the Middle East and North Africa on a joint trip with the UN Secretary-General Ban Ki-moon. Everywhere I went I heard from young people and many others that the biggest reason so many were attracted to the cause of extremism was the lack of jobs, and the overall lack of hope for their future. If we are going to pull out the roots of extremism, we need political solutions to end conflict – but we need much more than that. We need to create jobs first and foremost, and to do that we need to help the most

fragile and conflict-affected countries start building their economies and offering opportunities, especially for women and young people.

We should also insert a dose of realism here. In this year of constrained resources – especially in Europe as donor countries are finding that they will have to use some of their overseas development assistance to support refugees inside their borders – how do we increase our investments in developing countries, end extreme poverty, and address these crises?

One of the imperatives that we have been repeating over and over is that developing countries should enact structural reforms that can improve the business climate and create greater confidence in the private sector, which is where the overwhelming majority of job creation occurs. And let me be specific here – what we are talking about is moving from a system in which only certain elites get access to capital and corrupt bureaucracies engage in outrageous rent-seeking, to one in which capital, a license to do business and all other necessary inputs are distributed transparently and fairly to all citizens.

We are also convinced that developing countries can dramatically increase their self-funding by collecting more taxes more fairly from their citizens. IMF Managing Director Christine Lagarde and I are doing all we can to help countries build more equitable and effective tax systems and we estimate that developing countries could increase domestic resource mobilization anywhere from 2 to 4% of their GDP. If we reached just 2%, that would be equal to roughly \$450 billion or 3 times current ODA. And we're not talking about taxing the poor – most developing country tax systems are quite regressive and the rich do not pay their fair share of taxes.

But to accomplish any of our goals, we must expand the use of innovative financial tools. The World Bank Group, other multilateral development banks, and donor countries such as Germany are working to provide financing at much lower rates for projects that create jobs in the places most desperately in need of them.

For instance, our Board – in a groundbreaking decision just last month – offered Jordan, a middle-income country, rates that we had reserved for the poorest countries, because of their enormous generosity in hosting more than 1 million Syrian refugees. We have provided an initial \$100 million loan at concessional rates normally reserved for only the poorest countries and will

provide an additional \$200-400 million dollars in concessional financing to build a special economic enterprise zone, which will help create many thousands of jobs for both Syrian refugees and Jordanians over the next five years. This is a truly novel effort that must now be taken to scale and implemented in other countries as well.

Boosting economic growth and creating jobs in fragile settings is an urgent task. Our economists project that if economic growth merely mirrors the average growth rate of the last decade, we would reduce extreme poverty globally to only 6 percent in 2030. And that would mean that in the most fragile states, the poverty rate would remain extraordinarily high: 47 percent of the population. All of Europe and all of Germany are rightly focused on the refugee crisis on the continent today, but if fragile states still have 47 percent of their people living on less than 2 euros a day by 2030, while the developed world prospers, the flow of migrants and refugees will not stop.

As daunting as the refugee crisis appears at the moment, we must not forget that the world faces other major threats that undermine developing and developed countries alike – two of the most pressing ones are climate change and the threat of a future pandemic.

Credible sources have argued that successive droughts in Syria played a role in the current crisis, and there's no doubt that climate change is contributing to rising tension and the loss of livelihoods in many parts of the world due to water scarcity, rising tides, and the increasing number of extreme weather events.

The global temperatures for January and February both broke records. The data – compiled by NASA – found that the average global surface temperature in February was 1.35 degrees Celsius warmer than the average temperature for the month of February during an earlier 30-year period, a far bigger margin than ever seen before. Even the North Pole was warm – in late December the temperature approached 0 degrees Celsius, or more than 30 degrees Celsius above average.

In advance of the COP21 climate summit in Paris in December, the World Bank Group pledged to increase our climate financing by as much as a third by 2020 – up to \$29 billion dollars a year. Global leaders surprised even the optimists by agreeing at COP21 that the world should aspire to hold global temperatures well below 2 degrees Celsius above pre-industrial times.

Chancellor Merkel deserves great credit – along with UN Secretary-General Ban Ki-moon, French President Hollande, and President Obama, among others – for pushing and prodding so many governments and institutions, the World Bank Group included, to do their part.

Now that we have the agreement, we have to work with unprecedented urgency if we are to have any chance to reach the targets. I have learned on two recent trips – one to Pakistan and one to Vietnam – that we have to move even more quickly than I had thought.. Both Vietnam and Pakistan are moving forward with their plans to build coal-fired power plants – in Vietnam, they are planning to install 40GW of coal fired power, roughly the equivalent of half of all the energy currently available in sub-Saharan Africa. Why? Because the price for coal-fired power is currently cheaper than renewables – 9 to 10 cents a kilowatt hour for coal and 11-12 cents for solar and wind in both countries. In Mexico, Peru, the United Arab Emirates, and many others parts of the world, we have shown that with innovative financing that crowds in the private sector, we can help make the switch to cleaner energy by creating overwhelming financial incentives to do so. In Peru, we were able to sign a deal for 4.8 cents per kilowatt hour, and in Mexico, IFC, our private sector group, just closed a deal for solar that went for a cost of 3.2 cents per kilowatt hour. In Vietnam and Pakistan, we are trying to respond with great urgency, asking leaders of both countries to reconsider renewable sources of energy if we and others can help bring down the price of renewables. Moreover, solar and wind power can be provided much more quickly than coal fired power – months instead of years – meaning that increased access to electricity for voters can happen in “this” political cycle, not the next.

What’s holding us back? We still don’t have agreement on how the pledged financial resources for COP 21 will be used and we will need help from donors if we are to provide more concessional financing to countries like Pakistan and Vietnam. Conversations are happening but the window to move on these mitigation measures in time to reach our targets is closing very quickly.

On the threat of pandemics, a survey of 30,000 insurance industry experts around the world found that pandemics topped the list of extreme long-term risks that matter most for the insurance industry. The Ebola epidemic and now the Zika pandemic have reminded all of us that we are nowhere near prepared enough for a faster-moving pandemic. What would happen if a pandemic as swift and lethal as the Spanish Flu of 1918 struck today? Modelers have shown that it would be found in all of the world’s urban centers

within two months, and could lead to tens of millions of deaths and a loss of as much as 5 percent of global GDP – or roughly \$4 trillion dollars.

We have been asked by Chancellor Merkel, Prime Minister Abe of Japan, and other leaders to work on crafting a financing mechanism for a pandemic response. We knew we needed 1) sources of finance that can be mobilized quickly; 2) country health systems that are able to respond to outbreaks; and 3) a level of international coordination that we haven't had to date. Over the last year, we've brought together members of seven different World Bank Group teams – experts in the fields of health, agriculture, the private sector, treasury operations, development finance, insurance, and communications – to work closely with the World Health Organization and other UN agencies, infectious disease modelers, reinsurance companies, supply chain experts, governments and civil society groups. They have been designing what we are calling the Pandemic Emergency Financing Facility, which we are planning to launch later this spring.

This new facility will fill a lethal gap in the international financing system that was exposed by the Ebola crisis. To fight Ebola, it took many months after the initial recognition of the outbreak for the world to mobilize a large-scale disaster response. Now, we'll have a system that uses an innovative, insurance-based mechanism, with a pre-determined and transparent set of criteria that will activate a response.

When specific parametric triggers are set off, the Pandemic Emergency Financing Facility will release monies within days to developing countries and international agencies to help stop the outbreak. Essentially, we will be creating a response system that will cost millions of dollars per year that could save hundreds of thousands, if not millions, of lives – and save billions, if not trillions, of dollars.

I've talked about three huge global threats that affect all of us – forced displacement, climate change, and pandemics. But there's another threat that has escaped the world's serious attention, and frankly it is the issue which is the most damning for all of us working in development: the unconscionably high rates of childhood stunting in middle- and low-income countries. The 30 and 45 percent (with some estimates as high as 70 percent in some countries) of children in many African and Asian countries literally have fewer connections in their brains than their non-stunted classmates.



The effects of stunting have life-long consequences not only for the individual, but for countries as well. How will countries compete in what will certainly be a more digitalized global economy in the future when 30 to 45 percent of their children do not have as many neuronal connections in their brain as children in other countries that they must compete with?

Some may say that the problem is too difficult, or there are too many factors that we need to address before we can make any progress, but that's simply not true. It's clear that through early childhood interventions, such as proper nutrition and stimulation and providing a safe environment, it's possible to dramatically lower the rate of stunting in relatively short periods of time. In Peru, for instance, after decades of trying but making little progress, authorities cut stunting in half – from 28 percent to 14 percent -- in just eight years by persuading parents and leaders that the height of their children mattered. They created incentives for families to access nutrition services, encouraged mothers to interact with their babies, and improved the environments of some homes.

The payoff can be enormous. One study on increasing preschool enrollment in 73 countries found that every dollar invested in preschool resulted in up to \$17 dollars in benefits in terms of higher future wages.

Of all our investments in infrastructure, I believe that investments in grey matter infrastructure could be the most important of all. Neuronal infrastructure is quite possibly the most critical infrastructure that countries need in facing an uncertain future – where economic growth will depend much more on digital competency in an increasingly service-oriented economy and much less on low-skilled jobs in agriculture and manufacturing. It also calls into question our fundamental moral convictions. Many of us have been saying with great conviction that we believe in equal opportunity for all – but that's an empty slogan if a country has 45 percent of its children who are stunted. So today I call on all of us to start a movement to end childhood stunting so that we can build strong resilient societies that will grow and benefit everyone.

Let me conclude by saying that in this rapidly changing world, the number of threats are growing and they are increasingly global. We cannot ignore them. We must act. As the lawyer, novelist, poet, and policymaker Johann Wolfgang Von Goethe once said, "Knowing is not enough; we must apply. Willing is not enough; we must do." At the World Bank Group, we know what the threats

are, we have transformed our organization over the last few years, and now we are better equipped to tackle these global threats.

We will never forget that the World Bank Group is a cooperative of countries and our role is to work with our clients so that they can achieve their highest aspirations. But it is now exceedingly clear that we will never end extreme poverty and boost shared prosperity if we don't tackle global threats like pandemics, climate change and forced displacement in partnership with our member countries -- one region, one country and one person at a time.

Thank you very much.