

World Bank Group President Jim Yong Kim Speech at the 2017 Annual Meetings Plenary

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As Prepared for Delivery

Chairman Fakhoury, Madame Lagarde, Governors, my dear friends Jim and Elaine Wolfensohn, Ministers, Friends,

It's an honor to address you, five years after I first stood before you in Tokyo. Each year, we gather for these Annual Meetings to address the most critical challenges that affect the lives of billions around the world. And each year, we chart the course of our collective efforts to make development work for everyone, to ensure a dignified life for all.

This is a critical time for the work of the World Bank Group. The good news is that global growth is robust – 2.7 percent this year. The second quarter of last year saw the highest quarterly growth rates since 2010.

Trade is picking up. But investment remains weak, and we're concerned that downside risks such as a rise in protectionism, policy uncertainty, or possible financial market turbulence could derail this fragile recovery. That's why now is the time for all countries to take action on the needed reforms to grow their economies and compete in what will surely be a more complex, demanding, and digitized future.

We're also meeting again at a time when multiple crises are in full swing, or looming:

- Conflict, pandemics, climate change, and famine are impacting people all over the world, and they are contributing to an historic number of people being forcibly displaced;
- Countries in nearly every region are turning inward;
- International and home-grown terrorism affects every corner of the world.

It often feels like our increasingly interconnected world is in fact falling apart and countries and peoples are pulling away from each other. Amidst this turbulence, organizations like the World Bank Group must step forward and help to build new foundations for human solidarity. We are part of the post-1945 world order that was predicated on the notion that what affects one city, one country, one region can have immediate and lasting impacts on us all. These new foundations for human solidarity must move us from the old construct of donors and recipients into a new development compact between stakeholders.

In 2013, we announced our goals to end extreme poverty by 2030, and boost shared prosperity among the poorest 40 percent around the world. And a year ago, I explained the three ways we will get there: by accelerating inclusive, sustainable economic growth; by building resilience to shocks and threats; and by investing more – and more effectively – in people.

For us, this is an especially important time for tackling global poverty, because we have more room to take bold action to grow the economy, protect countries from major overlapping crises, and invest in people.

Before giving you examples of our progress on all of these fronts, I want to thank the dedicated staff of the World Bank Group, who work tirelessly to reach our ambitious goals. And I'd like to applaud our clients and

shareholders, who have made tremendous efforts under adversity to achieve their highest aspirations.

The first pillar of our strategy to end poverty and boost shared prosperity is to accelerate inclusive, sustainable economic growth.

We know that official development assistance will not be enough to meet the 4 trillion dollars per year needed to achieve the sustainable development goals, and meet the world's rising aspirations.

Last April, ahead of the Spring Meetings, I called for a new approach where we maximize finance for development by systematically crowding in private sector investment and making it work for developing countries and poor people. We developed the Joint Principles for Crowding in Private Sector Finance, and the G20 endorsed those principles last summer. This is a great example of close collaboration between management and the Board, to launch a fundamental shift in our approach to development finance.

Maximizing Finance for Development isn't based on ideology, nor is it a panacea for all development challenges. It's an evidence-based approach where we ask a very straightforward question: How can we maximize the resources that developing countries have to do the things they need to do for their people, while minimizing the burden of public debt?

Maximizing Finance for Development means finding win-win solutions, where investors get a good return, and countries utilize these resources to meet their development goals. We're putting this approach to work with teams from across the World Bank Group, and we've already seen great results.

Three years ago in Egypt, subsidies for energy reached 6.6 percent of GDP – more than the government spent on health, education, and social protection combined. When Egypt wanted to reform its energy sector, the World Bank Group designed a comprehensive package:

- IBRD contributed technical assistance and analytical experts, and a 3 billion dollar loan over 3 years for policy reforms;

- IFC lent 645 million dollars to the private sector;
- And with 210 million dollars of risk insurance from MIGA, the joint efforts of IFC and MIGA mobilized 2 billion dollars in private investment in Egypt's Photovoltaic Solar Feed-in Tariff program.

The policy reforms, initial private investment, and risk insurance helped attract 15 banks and 20 different investors for a large Photovoltaic Solar Park Project, and many of these investors will contribute to future projects. The effort helped attract more than 15 billion dollars of private investment in Egypt's gas sector.

As a result of their efforts to reduce fossil fuel subsidies and other reforms, the Egyptian government has increased their fiscal space by around 14 billion dollars a year. This has allowed the government to roll out two new cash transfer programs that reach 1.7 million poor Egyptians; food subsidies for the poorest have increased by 300 percent; and the government expanded its school lunch program.

We've learned some valuable lessons from this effort in Egypt, most importantly, that we could be more proactive in creating markets – and not just simply wait for them to appear on their own. And we've shown that it can work to finance sectors other than infrastructure, such as helping transform the health sector in Turkey.

In 2002, the infant mortality rate in Turkey was far higher than other OECD countries, and the life expectancy was years lower. So the government started an ambitious overhaul of the entire health system, which included advice and loans from IBRD.

Turkey launched a public-private partnership in 2010; IBRD provided a 134 million dollar loan and technical support; IFC invested 241 million dollars, mobilizing an additional 540 million dollars in private investment; and MIGA provided political risk guarantees.

One of the flagship projects was the Elazig Integrated Health Campus – a 400 million euro, thousand-bed hospital that was financed by the first project bond issuance under the Turkish PPP program. MIGA and the EBRD worked with Rönesans Holding – a Turkish construction group, and Meridiam – a French infrastructure investor to develop an innovative credit-enhancement application that enabled the project to be financed in the bond market. They secured a Moody's investment grade rating two notches above Turkish sovereign bonds.

These investments were relatively small, but very important parts of a large program that transformed Turkey's health sector, considerably increasing access and improving public health. In 2002, less than two-thirds of Turkey's population had health insurance, and just over half had regular access to health care. The Health Transformation Program has led to nearly universal access – 98 percent of people in Turkey are covered by affordable health insurance.

The program has also led to dramatic improvements in health across Turkey. Infant mortality rates were cut in half, life expectancy increased from 71 to 74 years, and the mortality of children under 5 fell 55 percent.

These are just two examples of many that we are now scaling and spreading around the world. There's never been a better time to crowd in private sector investment. Right now, there's more than **10 trillion dollars** invested in negative interest rate bonds; **24 trillion dollars** in low-yield government securities; and **5 trillion dollars** sitting in cash, waiting for better investment with higher returns.

Last year at Davos, President Xi Jinping of China said that the global market system is the ocean we all swim in and cannot escape from. He said, "Any attempt to...channel the waters in the ocean back into isolated lakes and creeks is simply not possible." Maximizing Finance for Development is our best chance to make the global market system work for everyone.

We need to embrace the notion that our greatest moral responsibility is to create equality of opportunity. The Maximizing Finance for Development approach gives countries the resources to build bridges, solar parks, and hospitals. It frees up funds for schools, job training, and social safety nets, and creates win-win solutions that can grow economies and give everyone opportunity – for a good education, for a stable job, for a chance to achieve their highest aspirations.

The second pillar of our strategy is to build resilience to overlapping shocks and crises, and one of the most critical is climate change.

When it comes to climate change, we're running out of time – 2016 was once again the hottest year since record keeping began. The last three years each broke the previous record. Worldwide, more extreme natural disasters force 26 million people into poverty every year.

We have to reduce our carbon footprint and help countries adapt to natural disasters, like the recent hurricanes in the Caribbean and devastating floods in South Asia.

Last year, the World Bank Group loaned 12.8 billion dollars for climate investments, 22 percent of our portfolio. We're now the largest funder of climate-related investments in the developing world, and we're on track to meet our goal of having 28 percent of our portfolio deliver climate benefits by 2020.

We're also using our convening power to scale up climate action by bringing the public and private sectors together. There's 23 trillion dollars of potential investments just in the Paris commitments of 21 emerging economies – including green buildings, sustainable transport, renewable energy, and energy efficiency.

We need climate investments in the trillions, not billions of dollars. Around 90 trillion dollars will be invested in infrastructure over the next 15 years, just to replace aging infrastructure in advanced economies and meet expected

growth in emerging economies. Right now, infrastructure investment tops out at around 3.4 trillion dollars annually, but the need is more like 6 trillion dollars a year. And all of this must be climate-smart, low-carbon, resilient infrastructure.

With the UN and France, we're co-hosting the Paris Climate Summit on December 12, to connect investors with climate-smart investment opportunities.

Along with climate change, we have to do more to help refugees – and to help the countries and people who are providing the world with a global public good by hosting them.

A year ago, in the midst of the refugee crisis, we established a special fund that has provided 200 million dollars in grants and unlocked more than 1 billion dollars in concessional financing for Jordan and Lebanon. Lebanon, which is hosting more than 1.5 million displaced Syrians, has the highest per-capita ratio of refugees in the world. And Jordan, as the Chairman said, hosts more refugees than any country in the world. In both countries, 81 percent of Syrian refugees are under age 35, and 70 percent are poor.

This instrument, now known as the Global Concessional Financing Facility, is making a significant impact. In Jordan, the GCFF has helped provide 50,000 formal working permits to Syrian refugees. In Lebanon, this fund is financing roads and employment programs, creating more than a million days' worth of labor in direct and indirect jobs. It is also getting kids out of the streets and into schools, to provide education and to prevent the tragedy of a lost generation.

This year, we also took a large step to break the cycle of panic and neglect around pandemics. Too often, we neglect infectious disease outbreaks until they become a global threat – and then we quickly forget about them after the threat subsides. With the Pandemic Emergency Financing Facility, for the first time, we have actual pandemic insurance – a 450 million dollar policy that will

automatically disburse funds to the poorest countries when an epidemic reaches a critical stage.

This is the first time that pandemic risk in low-income countries is being shared with the financial markets. Why can't we do the same thing for famine, or other humanitarian crises? I believe we can, and we're working on it right now.

The third pillar of our strategy is to invest more – and more effectively – in people.

For most of my adult life, I worked to provide care to people suffering from terrible diseases in some of the poorest parts of the world. And for most of my adult life, my colleagues and I have been advocating for more investments in people.

Usually we made a moral argument – that everyone deserves a chance to reach their highest aspirations. Providing health, education, and social protection is one of the most powerful ways of giving everyone a chance.

We always knew that investing in people is the right thing to do; now we're learning that, economically, it may very well be the smartest thing to do.

Over the past year, we've done several different analyses, and we're finding that investments in human beings – especially in their health, education, and social protection – are far more powerfully correlated with economic growth than we ever thought.

Some of our economists at the World Bank Group are working with Chris Murray and the Institute for Health Metrics and Evaluation, a group at the University of Washington that works closely with the Gates Foundation. We asked them to use their powerful analytic tools to look at the relationship between economic growth and improvements in human capital.

I'm using the term "human capital" because I want to make the point to the ministers of finance who are here today: when you invest in human beings, you're putting in place the capital you need to grow your economies.

Too often, we still hear from leaders, “First we’ll grow our economies, then we’ll invest in our people.” Investing in people **is** investing in economic growth. Briefly, here’s what we found:

If you look at the top quartile – the top 25 percent of countries that have improved human capital the most, and you compare them with the bottom 25 percent – countries that have improved human capital the least – the difference is enormous.

We looked at the 25 years between 1991 and 2016 – the difference in economic growth was 1.25 percent of GDP each year over 25 years. We need to do more work and more research, but this suggests that looking backwards, investments in human beings have had a huge impact on economic growth. And looking forward, surely investing in people will become more important in the increasingly digital economy of the future. Some studies estimate that as many as 65 percent of primary school children today will work in jobs or fields that don’t yet exist.

We know that countries have had to make tough choices on how to spend scarce public funds. But we believe, and the evidence suggests, that the more – and more effectively – you invest in health, education, and social protection, the better you’ll do as an economy.

This idea has been around for some time. But with better data, greater transparency in sharing that data, and new, more powerful analytic tools, we’re now understanding that the relationship between human capital and economic growth could be far more profound than we ever imagined.

Soon, we’ll publish a document called *The Changing Wealth of Nations*, and for the first time, we’re looking at human capital as part of the overall wealth of nations. It turns out that more than 65 percent of the wealth of all nations in the world is in human capital.

In rich countries, human capital is a much larger proportion of overall wealth; in low-income countries, it's a much smaller proportion. So developing countries have a long way to go.

We desperately need these investments now, because we're facing several human capital crises:

- Globally, 155 million children are stunted;
- 400 million people around the world lack access to essential health services;
- 100 million each year fall into poverty because of catastrophic health expenditures;
- Only one-third of the world's poor are covered by social safety nets.

Unless we act decisively, by 2030, 167 million children will still be living in extreme poverty.

We have to fundamentally change the way world invests in building human capital. Last week, I announced the Human Capital Project – an accelerated effort to help countries invest more – and more effectively – in their people.

The Human Capital Project will involve three efforts:

- We will accelerate innovative and results-based financing for human capital investments.
- We will continue to dig into the data linking investments in people to economic growth: we're looking for new patterns and new answers.
- And we're forming a broad coalition that includes all stakeholders – other MDBs, international financial institutions, governments, civil society organizations, and the private sector.

Eventually, the Project will include rankings: one focusing on the stock of human capital, and another where we measure the flow – the investments countries are making today to build human capital.

We're trying to create conditions where heads of state and finance ministers cannot resist investing in their people. We're trying to create an environment

where investing in people is not only the moral thing to do, but in fact it's something they absolutely must do – with great urgency to drive economic growth.

This will be controversial. But I feel that we have a moral responsibility to reveal to our shareholders the powerful relationship between investing in people and economic growth. And more importantly, we're ready to help every single country rapidly accelerate the quality and quantity of their investments in people.

To accomplish all of these things – to deliver what countries need at the scale you expect of us – **we need more resources**.

Over the years, we have proven our exceptional value for money – **19 billion dollars** of total paid-in capital for IBRD and IFC, since the beginning of this institution, has yielded:

- o More than **900 billion dollars** of financing;
- o **50 billion dollars** of reserves;
- o And **28 billion dollars** in transfers to IDA and other programs.

With enormous development needs and rising aspirations, demand is overwhelming. Since the 2008 financial crisis, IBRD has almost doubled its lending portfolio. IFC grew its loan portfolio threefold, and its equity portfolio fivefold, over the last 10 years.

If we don't enhance our financial capacity, IBRD would have to dramatically shrink its annual lending commitments by one-third. IFC would have to cut back its investments in IDA countries and fragile and conflict-affected states, as well as its equity investments, making the ability to create markets in the world's most difficult settings unattainable.

We have done a lot of good work with all of you. Many countries have evolved, progressed, and grown their way to new levels of development. We need to recognize that. And we need to open a dialogue with all of you, so

that the resources of the World Bank Group keep getting channeled to where they make the most difference in achieving our twin goals.

And with a capital increase, we can fulfill our commitment to having a financially strong World Bank Group that possesses the ability to provide finance at a level that will meet the aspirations of our client countries.

I feel a tremendous sense of urgency, not just because there are enormous needs in the world.

Aspirations are rising. And aspirations, linked to opportunity, can breed dynamism and inclusive, sustainable economic growth. But if there's no opportunity to achieve one's aspirations, rising frustration may very well lead countries down the path of fragility, conflict, violence, extremism, and eventually migration.

We can play a critical role in finding win-win solutions, where we maximize financing for development, and create opportunities for the owners of capital to make higher returns.

We can play a critical role, using our full range of financial tools to protect countries from overlapping crises.

And we can play a critical role, by helping countries make more – and more effective – investments in their people.

In five years as president of the World Bank Group, despite all of the troubles in the world, I've never been more optimistic that we can help people lift themselves out of poverty; that we can build new foundations of human solidarity.

But we must act, as the great Martin Luther King said, "with the fierce urgency of now," knowing that, as he said, "there is such a thing as being too late."

If we commit to these pillars,

If we invest the right resources,

If we act with the fierce urgency that these times require –

I believe that we can be the first generation in history to end poverty on the face of the earth.