THE BROOKINGS INSTITUTION

THE WORLD BANK GROUP’S MISSION
TO END EXTREME POVERTY:
A CONVERSATION WITH PRESIDENT JIM YONG KIM

Washington, D.C.
Monday, October 3, 2016

Introductory Remarks:
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P R O C E E D I N G S

MR. TALBOTT: It looks like we have a full crowd here, and even some people who are standing in the back. If any of you would like to sit during the program, we do have an overflow room right across the aisle there.

I’m Strobe Talbott, and it is my pleasure to welcome all of you, and particularly it is my pleasure and honor to welcome back to Brookings, President Kim of the World Bank Group.

We feel particularly honored, and I would even say doubly honored by his visit today. It was in July of 2012, what must seem to Jim to be a long four years ago, that he made his first appearance on think tank row here in this auditorium, and he sketched out his plans for the Bank as its new leader.

Now, he is making a return visit after his recent and unanimous appointment to a second term. Throughout his tenure, it has been clear that his previous background as a physician and educator would serve him and our world well, since caring for and educating humanity is very much part of the Bank’s mission.

Our program is going to proceed thus: President Kim will offer some opening remarks, perhaps touching on a new report on poverty and shared prosperity that the Bank released last evening, and that focuses on inequality and reduction in global poverty.

He will then have a conversation with our friend, our colleague, and alumnus of the World Bank, Kemal Dervis, who directs our Global Economy and Development Program here at Brookings. He is also a former administrator of the United Nations Development Program, and as I said, was at the World Bank for more than 20 years.

Jim, the lectern is yours, and so is our gratitude for your being with us
today. (Applause)

DR. KIM: Thanks, everybody, for being here. Strobe, thanks very much for having me back at The Brookings Institute.

I don’t know if everybody knows this, but Strobe and I share something very powerful. We are both from the Midwest. You know, to look at us, you can tell we’re from the Midwest. (Applause) We have that kind of Midwestern look about us. Strobe grew up in Dayton, Ohio, and I grew up in Muscatine, a small town in Iowa.

Many of the people I grew up with are still there. Only about 10 percent of my graduating class went to college, and of that group, 90 percent went to community college. Most left school right away and went on to work at the local steel mills or on their family farms, and in factories, believing that they had a secure job for life.

Now, as they soon after graduation bought their first homes and bought their first cars, which were usually trucks, they looked at the rest of us and accused us of wanting to become professional students.

We all know that in recent years the impact of globalization has swept through towns in the United States like my home town, and it has altered in a fundamental way the fabric of society, and the quality of life.

My friends don’t think their prospects are better than their parents, and they worry that their children’s prospects are worse than their own.

Mechanization and technology have disrupted traditional industrial production, up-ended manual jobs, and called time on the work that’s been done by generations of families. This trend is not isolated to the United States, of course. It is affecting people in countries everywhere.

When I was in China at the G20, many world leaders talked about the storm clouds of isolationism and protectionism that were gathering and becoming
increasingly worrisome to everybody.

These trends come at a time though when we need more cooperation, when we need greater economic integration, and stronger partnerships than ever before, if we want the world economy to return to higher rates of inclusive, sustainable growth.

Openness and partnership between countries have played a critical role in an unparalleled period of growth and poverty reduction. Since 1990, one billion people, more than one billion people have escaped extreme poverty. Great strides toward ending extreme poverty have been made by countries like China as a result of trade and openness of their domestic industries to global competition. Countries working together, and especially trading together, have delivered lasting progress.

So, in the end, we have made progress, but at the same time in most of the world, we’re facing very strong headwinds, a slowing global economy hit by falling commodity prices and stagnating global trade, that is really historic.

Global growth is now projected at 2.4 percent for 2016. Investments are soft, and export prospects are deteriorating with commodity exporters facing especially difficult conditions.

There is even more worrying news. We now have the highest number of developing countries in recession since 2009. Our latest growth forecast for Sub-Saharan Africa is only 1.6 percent, which is a downgrade for 2016, fall below the population growth, which is around 3 percent. Next year, we think the growth rate is going to be around 2.9 percent, again, another year where growth will be lower than population growth.

Labor productivity growth, the key enabler of real wage growth, is negative in the United States, near zero in the Euro Zone, and declining even in East Asia. We also know that by 2030, almost half of the world’s extreme poor will live in
countries affected by fragility and conflict.

These are no ordinary times. So, ordinary measures will not work. I would argue that this is precisely why the World Bank Group exists. All of us at the World Bank Group feel an enormous responsibility to bring forward precisely those innovative creative measures that are needed in our world, and at the scale required to meet the challenges we face.

Today, I want to address some of the great challenges of our time and our response to them.

Back in 2012 when I joined the Bank, I worked very closely with staff, Kaushik Basu, our chief economist, and our Board to set two clear goals. The first - to end extreme poverty by decreasing the percentage of people living on less than $1.90 a day to no more than 3 percent. The second - to promote shared prosperity by fostering the income growth of the bottom 40 percent for every developing country.

I believe, and I have believed this for a long time, that measurable time bound goals are critical for focusing the work of the World Bank Group and uniting us around a common purpose.

As I look back, we have accomplished a lot over the past four years. This is, of course, thanks to the very dedicated staff of the World Bank Group. There are many, many milestones to recognize - record lending, and record investments in the private sector. Financial innovation on behalf of the poorest, and for specific problems, like pandemics. A Middle East and North Africa financing facility that has so much potential that it is now being scaled up globally. We just announced that at the U.N.

Of course, we feel we have made great strides on the global public goods agenda, particularly on our work in climate change.

I am especially proud of three financial innovations that we believe will
be critical to tackling the most serious problems: The Pandemic Emergency Financing Facility; the Global Concessional Financing Facility, focused on refugees; and our decision to use equity from IDA, our fund for the poorest countries, to raise funds on capital markets for those countries. I will talk in more detail about each of these later.

These are significant achievements, but findings from our first annual Poverty and Shared Prosperity report, which tracks progress toward our twin goals, make it clear that achieving the goals will be extremely challenging.

The good news is that extreme poverty continues to fall rapidly worldwide, and many countries have made progress in boosting the incomes of the bottom 40 percent, but because of the multiple global shocks and crises we face, we will have to scale up our efforts dramatically. Progress is still far too slow.

Now, our report also lays out how income inequality between all people in the world has decreased. Inequality within nations has been falling in many countries, both rich and poor, but of course, in the United States and many other developed countries, even in China, inequality has been increasing. Still, inequality overall is far too high.

This level of inequality constrains growth, and it also breeds instability. This means not only do we have to focus on growth, we also have to continue to work to reduce inequality. We have to make growth much more equitable.

The report that we released last night identifies strategies to address inequality that even the poorest nations can adopt, whether through conditional cash transfers, or connecting farmers to markets, or through rural electrification. The lesson is inequality is not an unsolvable mystery. Pro-equality policies are not luxury goods, and can work literally in any country.

If we’re going to end extreme poverty by 2030, we have to focus our
efforts. We have to be more effective in fragile and conflict affected states. Economic growth has to be more robust and more inclusive, and human capital investments have to grow in both size and effectiveness.

How are we going to do that? Well, that’s the purpose of being here today. I want to outline that for you.

To begin, end extreme poverty, boosting shared prosperity, are the bottom line. We’re going to get there through three main pathways. The first is to accelerate inclusive and sustainable economic growth. This has always been the core of our activities. The second, by investing more in human capital, and the third, by fostering resilience to global shocks and threats, like climate change, forced displacement, et cetera.

Two goals, three ways to get there. On the first, we have to be much more creative about fostering the right kind of economic growth. I’m four years into this job, and I’m still waiting for my very first upward revision of growth expectations. Every single time we have had to revise our projections downward.

We know that stimulating growth in our client countries, this has always been the core goal, and we know that stimulating growth in our client countries has got to still be our very top priority.

We also know that in stimulating growth, the fundamentals don’t change. To support long term growth, we will continue to work with countries so they can collect sufficient revenue. We are working very hard on improving domestic resource mobilization. We know we have to help them spend their resources well. We know we have to help them adopt the policies that will enable private sector investments, and we know overall, improving governance is going to be very important.

One particular bottleneck that we always talk about is, of course,
infrastructure. In recent years, the demand for infrastructure investment has far
outstripped available resources. Still, some 1.2 billion people in the world don’t have
access to electricity, at least 660 million people lack access to safe drinking water, and
about one billion people in low income countries lack access to an all-weather road.

While we have advanced and 3 billion people now have access to the
Internet, 4 billion people do not, 60 percent of the world’s population, and most of those
are in developing countries.

We have estimated that emerging markets in low income countries are
facing about a $1.5 trillion annual gap in infrastructure finance. We also know that
traditional development aid alone will never meet this demand. This financing gap is why
we have welcomed new institutions like the Asian Infrastructure Investment Bank and the
new Development Bank. Even with the money they bring, investments by all the
multilateral development institutions together only make up about 5 to 10 percent of
overall annual spending in infrastructure. That is about 50 to $75 billion a year.

We have to face up to the fact that we are not reaching the scale
required to make the kind of impact on growth that is needed in developing countries.

You have heard it from us many times. We have been talking for a long
time about more public/private cooperation. Everyone has their own plan for how to
make that happen. It is time to get to a different level of seriousness. We have to now
aggressively take this agenda forward.

In fact, we have a tremendous opportunity in front of us. There are
trillions and trillions of dollars of funds that currently are earning very little, looking for
higher returns, and we think the opportunities for public/private partnerships in the
emerging markets could substantially boost global economic growth. We have to put the
deals together that will attract those funds to emerging markets and even to the poorest
countries.

We at the World Bank know that we are going to have to work much more closely together as a group if we’re going to mobilize the private sector capital that is needed. We have to do much more to look directly at what those risks are, the risks that are keeping investors out of the developing markets, and bring them down so they will engage.

One of the things I want you to know more than anything else, is that we will be much more aggressive in putting on the table capital and other specific instruments that can reduce risk, and in doing so, we feel that we can create new markets and new asset classes, and encourage investors to venture into countries and into projects that they never would have considered otherwise.

When our International Finance Corporation, IFC, invests in projects in the poorest countries, and even in fragile states, often IFC presence alone reduces the perceived risk of these projects, and more investors are willing to engage.

If we can make concessional financing available as risk capital, then we can reduce risk further. MIGA, our Multilateral Investment Guarantee Agency, can provide political risk insurance and credit enhancement tools to reduce risk even further. Also, we plan to use IDA equity to mitigate currency risk for countries where hedging solutions don’t exist.

We’re committed to bringing this entire suite of tools together in a more systematic and consistent way to bring much larger investments from the private sector to our clients to fill the infrastructure financing gap.

It’s not nearly at the scale that we would like, but we have had some really great experiences in bringing the private sector on board.

The airport -- I tell this story all the time -- the airport that was built in
Amman, Jordan is a really good example of how public/private finance can deliver infrastructure projects that have tremendous economic benefits for countries. This airport was a $1 billion project. The original plan in Jordan was to take a sovereign loan to pay for the airport and then have government employees run it. We all knew this would be extremely difficult and extremely expensive.

On the recommendation of a World Bank employee, a public sector World Bank employee, who was working with the Jordanians, the Jordanian leaders changed course, and asked the IFC first to structure the project, make the first investment of about $270 million, and then help to crowd in other investors.

Now, the other investors have gotten on board, and the folks who actually operate the airport pay an annual fee to Jordan to run the airport. Jordan receives 54 percent of the net revenue, and they are making money every year.

Over the last nine years, Jordan, without putting any money into the project, has received over $1 billion in revenue from this particular public/private partnership.

It is not just middle income countries that can benefit from public/private approaches. Our scaling solar program has been helping governments like Senegal and Zambia to develop clear policies and practices. This is very important, the policies and practices of the government have to be very clear and predictable. They have been doing it to attract investment and set new tariff benchmarks for solar energy in Africa. Scaling solar is a one stop shop solution in which both the IFC and the World Bank provide everything from just the appropriate forms to financing, to ensure we get the lowest possible bids.

Zambia’s recent auction was a milestone for Sub-Saharan Africa, with the lowest bid coming in at 4.7 cents per kilowatt hour, and an overall price of just over 6
cents per kilowatt hour, which is significantly less than we pay in Washington, D.C.

Demand for scaling solar has now exploded, and we are working in many more Africa countries.

As we continue to encourage more investment in infrastructure to promote growth, we also have to think about the kinds of infrastructure that countries will need in the economy of the future.

We all know that technology has and will continue to fundamentally reshape the world, but the traditional economic path from increasing productivity of agriculture to light manufacturing, and then to full scale industrialization, may not be possible for all developing countries.

In large parts of Africa, it is likely that technology could fundamentally disrupt this pattern. Research based on World Bank data has predicted that the proportion of jobs threatened in India by automation is 69 percent, in China, 77 percent, in Ethiopia, the percentage of jobs threatened by automation is 85 percent.

If this is true and if these countries are going to lose this many jobs, we then have to understand what paths to economic growth will be available for these countries, and then adapt our approach to infrastructure accordingly.

Moreover, with increasing reliance on private sector investments, we’re going to have to increase our vigilance to ensure that privatization does not equal exclusion of the poor and the marginalized.

Our top priority is to end poverty and boost shared prosperity. So, all of our engagements with the private sector have to be anchored in these two core values.

If technology does lead to fundamental transformations in the kinds of jobs available in developing countries, we have to increase our focus on the second major pillar in pursuit of the twin goals, and that is investing in people.
Over the last four years, I’ve learned that when faced with a choice of how to use the resources of the World Bank Group, a large proportion, maybe you could even say the vast majority, of leaders, of ministers of finance, will often prioritize investments in energy, information technology, roads and airports, what many people refer to as “hard infrastructure.” This is completely understandable. It’s precisely why we have to be successful in increasing resources for infrastructure through crowding and private capital.

The first pillar is critical if we’re going to make the transition to much larger and more effective investments in human beings. We’re not going to be able to convince them if we don’t bring that capital to the table. Without reaching appropriate scale, we’re very worried that developed countries will not be able to build the kind of workforce that will allow them to compete.

We have seen throughout East Asia that investments in people can make a huge difference to a country’s ability to grow their economy in an inclusive way. It’s not just increasing budget expenditures, for example, for education, that matters. Learning outcomes are critically important. What students learn in classrooms is a strong predictor, we know, of economic growth.

That one striking study shows that if student learning in Latin America had been as high as in East Asia over the past decades, that Latin America could have matched East Asia’s much higher rate of economic growth.

It’s hard to overstate the urgency of making more and more effective investment in people. I believe it will determine the very future of nation states. This is especially true when considering the importance of investing in the early years. Millions of young children do not reach their full potential because of inadequate nutrition, lack of early stimulation and learning opportunities, and exposure to stressful environments.
Making investments in the earliest part of people’s lives will make a huge different in countries’ ability to compete in the global economy. The cost of falling short in equipping children with foundational skills is extremely high, and the evidence supporting this conclusion grows every year.

Governments that don’t invest early in a skilled, healthy, productive workforce are undermining their current and their future economic growth.

The scale of this problem is just massive, one quarter of children under age five worldwide, almost 160 million children, are stunted, meaning they literally do not have the same number of neuronal connections as their non-stunted age mates. The proportion in sub-Saharan Africa and South Asia is higher than 36 percent.

Even in countries that have done relatively well in terms of economic growth, such as Indonesia, Ethiopia, and Guatemala, over one-third of children remain stunted, and in Guatemala and Ethiopia, it is closer to 50 percent. Nearly half of all 3 to 6-year old’s don’t have access to pre-primary education, which we also know is so important for the development of children’s minds.

The stark reality is that countries cannot walk into a more technologically complex and digitally demanding future with 40 percent of their workforce unable to compete. We need to help countries understand that investments in human capital are just as critical as investments in what we have called “hard infrastructure,” if they actually want to spur economic growth and compete effectively in the short, medium, and long term.

We have to find a way to encourage leaders to see that these investments will not only lead to inclusive economic growth, but will also establish the social foundations that can act as a bulwark against instability, violence, and conflict.

I strongly believe that we have to dramatically increase our aspirations
both for the quantity and quality of investments in health, education, and skills. If we don’t, and if we don’t do it quickly, not only is it a recipe for poor economic growth, but will leave a large population of people living in countries where the traditional low skilled jobs are not available and who often through no fault of their own simply can’t compete.

Now, to allow this to happen, I think, is to sow the seeds of a future crisis, crisis that we can ill-afford. Indeed, one of the things that came up repeatedly during the G20 leaders meeting is that we are living at a time of multiple overlapping crises. The number of refugees are at historic highs. The climate is in distress. We face the prospects of pandemics that could cost millions of lives and trillions of dollars.

I believe that the World Bank Group can play a much larger, more critical role in building resilience to these multiple shocks, both in developing countries, but also for the world as a whole.

Our third pillar is a much expanded role for the World Bank Group in fostering resilience in client countries against some of the most severe shocks that threaten to roll back decades of progress in poverty alleviation.

Currently -- many of you know the story -- 65 million people displaced from their homes, the largest number of displaced people since World War II, 22 million refugees, 90 percent of those refugees living in developing countries.

Left without support, the displaced face hardship and marginalization, and put development progress of the host countries at risk. Along with human suffering, immense pressures have been put placed on the resources of the host countries that were already facing economic challenges.

In Lebanon and Jordan, the refugee population right now today is around 20 percent and 10 percent, respectively, over their overall populations.

The global community owes a huge debt of gratitude to these countries
for their willingness to open their borders and care for those in need. That is why at the World Bank Group, we pledged to support them, not only in responding to the current refugee crisis, but in building infrastructure that they will need to grow their economies in the future.

To do this, we had to rethink the way we use concessional finance. In addressing the crisis of forced displacement, we now have concluded that concessional finance should follow the refugees, and not be apportioned by some simplistic G&I per capita criterion.

At last year’s annual meeting in Lima, we launched a new Middle East and North Africa financing facility to provide Jordan and Lebanon with access to low cost loans and grants. Recently, at the U.N., we announced the Global Concessional Financing Facility for middle income countries which will raise about $1 billion U.S. dollars in grants over the next five years explicitly for Jordan and Lebanon, and an additional $5 million in grants to help address future refugee crises in other middle income countries.

We will blend these grant contributions from donors with our own loan instruments to provide 4.5 to $6 billion in concessional finance to middle income countries who face refugee crises.

The decision to put concessional financing on the table in response to the refugee crisis opens up new questions about the way we support middle income countries. Can we use concessional finance to confront other global crises in more creative ways? We certainly hope so, and the conversation is ongoing.

Now, I believe that with this global concessional financing facility, with some of the other instruments that we put on the table, the rules of the game are changing. When you look at some of the other crises, specifically climate change, we
realize that for climate change, we have to also change the rules, and we have to act differently.

Extraordinary collective effort has given us the Paris Agreement, the COP21 climate agreement. More than 170 countries signed it, and we are now very close to ratification, which will make it a legally binding commitment.

During the COP21 process, our collective ambition was very clear. We left the meeting with higher ambitions than the ambitions we walked in with. It is so rare that you see that, that you go in with ambitions and you come out with even higher ambitions.

We agree that instead of keeping global warming to below 2 degrees Celsius, we would try for 1.5 degrees Celsius. This level of ambition is great, but here’s more evidence that worries me. If we look just at the temperature during August of 2016, we were 1.3 degrees Celsius above historic norms, just in August, just one month. The pattern of global warming is such that the last 16 consecutive months were the 16 hottest months on record. The seas are rising faster than we had imagined. The trajectories of typhoons and cyclones have shifted.

As I said before, many of the poorest people in the world are now the most vulnerable to extreme weather events, and they had very little to do with putting the carbon in the air in the first place.

The reality is stark. We have a planet that is fundamentally at risk, but our response has just not been equal to the task.

During my medical training, I learned if you’re in an emergency room and have very, very sick people, you have to triage, take action where and when it’s needed most, and go from there.

We need to do some triage in discovering for ourselves and agreeing to
what the most urgent tasks are to avert disastrous climate outcomes. The political victory of COP21 has brought us so far, it’s one of the great, great achievements of the Secretary General, Ban Ki-moon.

I would argue that we have to now recover from the hangover of our COP21 celebrations and get to the task of financing and incentivizing the actions that will give us any chance of keeping global warming below 1.5 degrees Celsius.

On that path, I believe there are three things that we have to do now which could dramatically alter the trajectory of global warming. The first is to phase out hydrofluorocarbons, or HFCs, and by doing that, as well as improving energy efficiency, we could reduce global warming by a half degree Celsius by the end of the century. We need to finance the countries that will commit to phasing out HFCs and ramp up energy efficiency.

Secondly, we really, really have to move now on slowing down the growth of coal-fired power plants, especially across Asia. Scaling solar, which I mentioned earlier, is a great example of how rapid action can lead to dramatic changes in the energy mix even in the poorest countries, Zambia, Senegal. Third, if we’re going to mobilize private finance for climate, the financial system needs to be fit for purpose to assess climate risks and opportunities, so we need a much greener finance sector.

Delivering on Paris comes with a very high price tag, running into the trillions. We need to move immediately to help countries manage their energy transition towards renewables and unlock necessary finance. Again, it’s a doable task, but we’re not there yet. We’re not serious enough about it yet.

As I head into our annual meetings this week, I’ll be doing everything I can to push for immediate scale of action on climate. I’ll do so with a sense of impatience and urgency based on the new data that we have. Everything you read about climate
change tells you that it is happening faster and the impact is greater than we had thought.

Finally, among the global risks we have to face, we have to be better prepared for pandemics. The Ebola crisis and Zika taught us that we are still not ready for pandemics, we are not prepared. If a pandemic as fast moving as the Spanish Flu of 1918 were to hit, we could face the possibility of tens of millions of people dead, and as much as five percent of global GDP, that is, more than $3 trillion in losses.

Because pandemics tend to disproportionately impact the poor, managing pandemics is even more critical in our quest to end extreme poverty.

Ebola kick-started a chain of actions that is bringing us closer to where we need to be. In trying to understand why we waited so long to provide resources for Ebola, we realized there has to be an automatic mechanism for dispersing funds so that we can stop the pandemics as early as possible.

What we have created is an entirely new pandemic insurance instrument linked to an entirely new pandemic bond. We got the idea from work we did with disaster risk management, and we are now looking to see if we can use these instruments for mitigating other kinds of risks.

One of the greatest inequalities in the world I’ve come to learn is inequality access to insurance and other forms of leverage, things that wealthy people use every single day. It is our responsibility, we feel, to make these kinds of financial tools available to everyone, especially the poorest.

Now, to be clear, the World Bank Group is not going to be the world’s first responder on any of these issues. We’re not going to directly intervene in pandemics, we are not going to be directly involved in humanitarian response. Our role is to take the work upstream and bring innovative financial tools, again, tools that the wealthy use every day, that can reduce the magnitude of disasters or even prevent them
from happening in the first place. That is our job.

You cannot impact the magnitude of a volcano or an earthquake through early intervention, but you can impact the magnitude of pandemics.

I lead an extraordinary organization. It was created 70 years ago in another world to tackle the problems of another century. In my first term as president, we have worked to transform the World Bank Group into an organization fit to tackle this century’s problems with this century’s tools.

Today, I have outlined what I think we exist to do. If we didn’t exist, we would have to invent ourselves. We do exist. I believe that we are ready and we are fit for purpose to tackle the world’s most complex challenges.

In closing, I just want to tell you a story. One of my great mentors, many of you in the room may know him, Dr. Bill Foege, the man who I feel was responsible for the eradication of smallpox. He once told me a story that always stayed with me.

He said that one of the greatest lessons he ever learned was from his wife, Paula, a kindergarten teacher. She told him that one day she walked into the class, the very first day of class with her five-year-olds, and she said now, if anyone needs to go to the bathroom, just raise your hand. One boy stood up immediately and said how does that help, I’ve got to go to the bathroom? (Laughter)

Bill told me that’s the question that you always have to ask yourself, how does that help. We have to raise our hand if we want to spur economic growth for the poorest countries and ask is what we’re doing actually helping.

If we want to make investments in human beings that we know are critical for countries to be competitive, are we actually making a difference. COP21 resulted in one of the world’s greatest and most ambitious agreements, but how does that actually help unless we actually start doing something about it at the scale required.
With all the global threats that we’re facing, are we really having an impact? We have to ask ourselves these questions over and over and over again. We have to raise our hand. We have to reach a new level of seriousness. When we do reach that new level of seriousness, finally, our aspirations for the poor will meet the aspirations of the poor.

Thank you very much. (Applause)

MR. DERVIS: President Kim, Jim if I may, this was an incredibly comprehensive speech. It really was a masterful kind of synthesis of what there is to do. As somebody who has worked in development for -- maybe I shouldn’t say -- over 45 years or so, it was quite a unique speech, congratulations.

DR. KIM: Like the old professor I am, I looked in the audience, and I think only a couple of people fell asleep. (Laughter) That’s good. That’s a good batting average.

MR. DERVIS: I think I’ll ask two or three questions, and then we want the audience to come in. The first question or fact that springs to mind is whether it is on investment or on the human side, education, or health side, you mentioned some numbers, you mentioned the needs, you mentioned the people still without electricity, you mentioned what is invested in infrastructure and what is really needed, there is a huge gap worldwide between the total amount of investment -- we can’t calculate it, obviously, to the last thousand dollars, but roughly, and what is forthcoming, given the objectives we have set ourselves and the world has set for itself, including on climate.

Yet, on the other side, we have this very strange situation which we haven’t really experienced in decades, that in the strong countries, which are economically, doing reasonably well and which are not in crisis, interest rates are at their record lows. Savers, small savers, particularly, are having a terrible time getting good
Larry Summers talks about secular stagnation. In other words, savings are structurally higher at those interest rates than investments.

You have gone to the heart of the matter and said we have to be catalytic, innovative, inventive, and somehow transform these potential investable savings into real high return investments.

I should add that the savings exist also very much in both the financial sector, which is being brought to the water but the horse doesn’t want to drink, and in the corporate sector, where overall, profits are huge.

The role the World Bank can play in kind of unleashing that, I think, was one of the underlying themes. You mentioned IFC equity. You mentioned the concessional facility. Maybe you want to say one or two more words on this global transformation of what seems to be cheap savings to a huge demand of investment but somehow where the savings don’t sufficiently come to.

DR. KIM: You know, Kemal, I talk to folks in the market all the time. When I describe some of the returns that Philippe and the people at IFC are getting with some of these infrastructure investments, you know, their eyes grow wide because they would take those investments any day, but there is this sense of risk.

Sometimes it is very real, sometimes they actually know what they are talking about, but what we found is in a lot of these financial institutions, they just don’t have the people who can effectively assess what the real risks and opportunities are.

It really does require that we work together across the World Bank Group. You know how difficult that has been, and before, it happened very little, and there were suspicions across parts of the institution.

I think we realize now this is a unique moment in time, as you said.
There are all these Funds that are looking for return, there are very real, very viable bankable projects. If we put a bunch of them together, we can reduce risk even further.

We have talked about creating an asset class, infrastructure as an asset class. We have talked about it all for a long time. What I am really saying is now we are going to get serious, right? Philippe was a long time World Bank employee and is now at IFC. The sort of cross pollination between institutions, Keiko Honda, the head of MIGA, has really been pushing for this as well, we are all committed to making sure that cross pollination becomes a regular part of how we do our work.

This is sort of inside stuff. We haven’t yet found a way to effectively incentivize that kind of activity. You know us well, Kemal. Everybody wants to get their loan done for the year. Everybody wants to get their deal done for the year. We have to find a way to put at the very top of our agenda the work that will be required to put these deals together.

I just gave you a couple of examples. These are my two favorite ones, the Jordan airport and scaling solar, but there are many others. It does require a kind of culture change.

People have to think that getting this public/private deal done really using our resources and the resources of the country, concessional financing for countries, as first loss capital, and then bringing all the other pieces of the institution so we can bring the overall risk down, that has to be like the big prize. That is the one thing that if you do that, that’s what is going to be celebrated the most. We are not there, but we have to figure it out. We have to figure it out because every single Fund manager wants to get in, but they only want to get in if all the pieces are in place so they have a real sense of what the risk is.

It’s a huge opportunity. What I tried to do today was to say to everybody,
both inside and outside the World Bank, hold us accountable. This is what we really want to do.

MR. DERVIS: I fully agree, and if you will allow me one or two minutes, this is the big challenge. If you can unleash that, development could rise by 1.5 to 2 percentage points a year over a decade.

DR. KIM: Absolutely.

MR. DERVIS: That would make a huge difference. There is one thing that I remember from my old days even, of course, I was never president but I was vice president. (Laughter)

DR. KIM: It’s different. I’ll tell you it’s different. (Laughter)

MR. DERVIS: I know.

DR. KIM: They usually don’t write articles about vice presidents.

(Laughter)

MR. DERVIS: The best job at the Bank is project leader or country director. After that -- anyway. (Laughter) When you are really concretely involved.

DR. KIM: Above that, no concrete anything. (Laughter)

MR. DERVIS: One problem that was very tough to solve at that time, and in a way I think remains a key obstacle, and I wonder whether you want to say a few words on that. You have to be fair vis-à-vis the private sector. You have to -- not legally, but morally and also in the long run for this whole thing to work, to have a system where private/public partnership does not mean making a deal with a particular private actor at the expense of others.

We have a great donor to Brookings who always says I will make a deal, you know, and I called the World Bank, I called the USAID, I called other public institutions, and they refer me to this and that rule. I don’t think he understands that
public money cannot just make deals.

DR. KIM: Right.

MR. DERVIS: It has to be quick. Of course, there has to be a deal that the private sector wants, and there has to be private profit, but there has to be competition, and there has to be an equal chance for an Indian, South African, Brazilian, American, Korean firm or expert to be involved.

DR. KIM: Right.

MR. DERVIS: Is this still one of the most difficult things to tackle?

DR. KIM: We’re better at it now. I think we are much better at it than we were 10 or 15 years ago. You always will face the possibility of a critique saying, oh, you’re just subsidizing the private sector. I think the conclusion we have come to is look, if you set goals like ending extreme poverty, right, you are just not going to get there unless you bring some of this money off the sideline.

We have for 55 years, for IFC, 70 years for the World Bank, been working on ways to work across the public and private. Yes, there are complexities around keeping some sort of wall, whether a Chinese Wall or whatever, between the two parts so we don’t get in trouble by having conflicts of interest.

The point is these are all solvable problems, and we have solved them in any number of realms. We just have to keep pushing to figure out ways of solving the problem.

The incentives are so aligned. The Funds want to make a higher return. The countries desperately want this money. If you ask a minister of finance today, and of course, I’ve talked to all of them, and say what would you rather have, a $500 million loan from us at low interest rates to build 50 kilometers of road, or $500 million that we could then use as risk capital, for example, for a toll road.
Makhtar Diop, our vice president for Africa, took me to his home country of Senegal and showed me the toll road in Dakar that everyone critiqued, and this was an IFC project, everyone critiqued it, but it has turned out to have a dramatic impact on not only the economy of Senegal but on the commute times of everybody, including the poor people.

Would you rather have just the money for 50 kilometers of road or would you rather use that money creatively to crowd in the private sector and maybe get 1,000 kilometers of a toll road?

Now, it’s not possible in every country, but these are the kinds of questions if you ask the ministers of finance, every single one of them want you to help them bring in private investment from outside. Everybody wants that.

It’s not easy. It’s not straightforward. We have done it. We’re not going to be better at it unless we do it at a larger scale. If we can put, for example, a bunch of infrastructure projects together and really create an asset class, because we have multiple infrastructure projects, it reduces the risk overall, the demonstration impact, I think, would be huge.

That’s where the resources exist. I just don’t see ODA increasing. You know this well. There is only one country that has significantly increased ODA over the last decade and that is the U.K. Everyone else is decreasing because especially the most generous donors in Europe are using ODA to pay for their internal refugee problem, right? So, it’s a shrinking ODA. I think it means in a period of shrinking ODA, yes, we should go out and we should encourage donors to give more, but with the growth numbers we are looking at, with the complexities, with the uncertainties, Brexit, and everything else, I just don’t see that happening.

What we are saying is let’s just be more creative. Instead of giving a
grant for one country for 10 kilometers of road, you know, work with us or the other multilateral development banks, leverage that, and if you were to say again to a finance minister, would you rather have $100 million in grants or would you rather have $500 million in 20-year maturity money at zero percent interest, every single one, I would argue, would take the larger amount, because they would say for us right now, scale is an issue.

MR. DERVIS: Absolutely. I think there is no other solution, you are totally right. I would say a part of that solution is a code of conduct, an ethical framework, to which the private sector also subscribes, which allows people to make gains, but takes us far away from some of the practices that one has seen also, unfortunately, in the past.

DR. KIM: Again, this is what IFC has been doing for 55 years. IFC standards are followed by everybody, well, not everybody, but all of the major good players are following the IFC principles.

MR. DERVIS: One other question. You started with the more personal story, and economists generally think about this a lot. For the first time, it seems like in advanced countries, I don’t think it is the case in developing countries, although in some developing countries we see similar, like Brazil, for example, is somewhat similar in the reports, where the current generation feels that the next generation will not be as well off.

It’s kind of hard to believe that, objectively speaking, I mean on a large scale, if we look at the technology we are using, the kinds of cars, the kinds of planes, the kinds of communication devices, many other things.

With globalization, are they really saying that, do you think, or has relative well-being, given that we live in this fairly transparent world now, has that something to do with it, and in that sense, if that is the case, then income distribution is becoming an even more kind of politically hot potato because the fairness of it matters
even if a large number of people gain something. If the gains are disproportionate, then this feeling that we’re not as well off is both a relative and an absolute feeling.

DR. KIM: I quote a lot. I don’t know if Branko Milanovic is here. In his book, Inequality, he looks at income growth across all the different deciles of the global population between 1988 and 2008.

Of course, if you look at the income they started with in 1988, everybody does better except about at the 75th percentile, the curve just drops, right, the so-called “elephant curve.” That group of people are my classmates from Muscatine, Iowa, the lower middle class in high income countries. In many ways, I think those are the people who are most upset, who are most driving some of the protest movements in the world today. They are actually responding to something that’s real.

Now, after the financial crisis, these incomes got better, supposedly, and there is new data coming out, but as I talk, and now I’m connected on Facebook to all my old classmates, and as I watch what they’re saying, there is a darkness about what the future looks like, and that is real.

I would argue there is not a country in the world that doesn’t have to rethink fundamentally how it educates and trains its people. If you go to Silicon Valley, the one thing they will tell you is we don’t have anywhere near the number of skilled people we need to do our work. If you go to the Midwest, you will see that people have lost their jobs.

If you look at what they’re pointing at the reason they lost their jobs -- you know, Roberto Azevedo, who heads the World Trade Organization, tells us all the time that at most in high income countries, only 20 percent of job loss is due to trade, and the rest is due to innovation and efficiency, but it’s hard to be against innovation and efficiency, so people are against trade. (Laughter)
He says all the time that in fact, for the countries that have low growth, increasing trade is their only shot, getting to higher levels of trade. I think that's correct. I think one of the things we are going to do at the annual meetings this week is we have a panel, Christine Lagarde, Roberto and myself, and we are going to try to make the statement that let's just look at the data, let's be realistic about what are the paths out of this low growth state.

People in high income countries, what my friends in Iowa would say is we are promised that with these trade deals, we would get these new skills training programs, but they never happen, always cut at the last minute in the budget discussion process.

There is a real skills crisis. There is a real educational crisis. I think it really is every country in the world can get better at preparing its people for the workforce of the future.

MR. DERVIS: All right. Thank you very much, Jim. I think we will turn to the audience now and take a few questions, maybe in groups of three to save some time. Yes?

MR. WORTHINGTON: Sam Worthington, InterAction.
DR. KIM: Hi, Sam. Nice to see you again.

MR. WORTHINGTON: Thank you for a very comprehensive overview on the role of the state, private sector, in both inclusive economies and eradication of extreme poverty.

What is the role specifically of non-state actors, civic sector, within this mix, and to what extent does that mean different types of partnerships with the state as well as with the private sector?

MR. DERVIS: Thank you.
QUESTIONER: I am a member of an UNESCO Taskforce. We have been trying to develop for the last 14 years at least what we call best practices for local development. My question is the following: would you start with rebuilding local communities where they are in crisis or have land degradation, that represents about 30 percent of the land in the world, to rebuild communities from a culture perspective as well as nature perspective, to have experiment or pilot project and then those who qualify, to disseminate them worldwide or in Africa? Those experiments could, based on some experience we have, also raise the interest of the private sector.

MR. Dervis: The gentleman behind you.

QUESTIONER: Hi, I'm with China Daily. Thank you for the wonderful talk. I want to ask specifically, I think another side is starvation, hunger. I think it's a shame for the World Bank and for every human being to see people starve to death today, many of them, depending on the sources. There is plenty of food to go around, obviously. Why there is not enough progress in this regard.

Secondly, talking about climate change, to stimulate economic growth, you hear the need to stimulate consumption, but do you think that is sort of a contradiction because you are encouraging the consumer unnecessarily to buy two cars, three cars, when you can just have one? Thank you.

MR. Dervis: I would like to have some balance.

DR. Kim: As in gender balance. (Laughter)

QUESTIONER: Hi, my name is Aliyana, I am from Climate Institute. We have been working on a project to allow the United States to replace fossil fuel energy to renewables, almost 80 percent. We face a lot of obstacles, because here in the United States you are a federation and, you have to convince other states, because the states are responsible for the energy.
I would like to know what is the role of the World Bank in this process to make this transition for renewables in the United States? Thank you.

MR. DERVIS: Okay, I think we will leave it at that.

DR. KIM: Sam, great question. For us, the role of non-state actors, the role in beneficiary communities, has gone up. We are getting beneficiary feedback now on just about every project.

I think the non-state actors will have an even more important role because we have to answer the question is the infrastructure investment that is being done with private sector players really having a development impact.

I know it’s a question that Phillippe is asking him team all the time. Is it having a development impact, and is it helping the poorest. So, we are asking a different set of questions than just profitability or just return. I think what will be very important is that we are going to continue, and as you know, Sam, going back to Jim Wolfensohn and Bob Zoellick, they all have worked on opening the Bank.

We think that non-state actors have a critical role in making sure the benefits actually are accrued to the poorest, and also lots of non-state actors are getting involved in the projects that we are doing. We are working in some of the countries directly with NGOs and others. As you know, we now fund directly non-governmental organizations. I think it is critical.

Let me take the climate change -- let me take the starvation and hunger question first. In China, very interestingly, going from a point where it had very large levels of stunting and malnutrition, now it is less than 10 percent. We tried to figure out how did China advance so quickly. I’m not sure what the answer is.

The one child policy could have been part of it, but the point is if you look at educational outcomes and things like childhood stunting, India is at 38.7 percent
childhood stunting. They are literally walking into the future with 40 percent of the workforce probably being unable to compete in the global digital economy, whereas China over the years has brought it down very, very low.

Why does that happen? It’s complicated. In India, it’s probably partly because of sanitation, children are often just in a constant diarrheal stage because of open defecation. There are a lot of different pieces of it.

I have been saying to the leaders of these countries that have these high stunting rates, this is like an emergency for you, you have to tackle it. The really good news is that in Peru, almost on an experimental basis, we were able to support the Peruvian government, after literally decades of making no progress on childhood stunting, in a seven year period, they cut childhood stunting in half. That was the most rapid progress we had ever seen.

It was at least partly and probably mostly because of a conditional cash transfer program. Finally, we gave cash directly to mothers who were at risk of having stunted children or who had stunted children, and in this way, by “stimulating” the demand side, the stunting rates plummeted.

We now have an approach, a model, to reduce it, and we’re pushing very hard for all the countries to actually adopt it.

Peru was for years and years and years really focused on supply side intervention, programs, campaigns, feeding programs, and it just didn’t have an impact. Now that we have mechanisms that we think can be much more effective, we’re going to push very hard for all countries to do it.

That is the starvation issue. You are right, there is enough food in the world, but things like because there are not good roads in Africa, something like 50 percent of all the produce rots before it gets to market.
We have to work on fixing those problems, but then we also have to get leaders to understand, I think, that if you have 30 to 40 percent rates of stunting, not only is your future economic development at risk, but foreign direct investment, investors who are coming in and looking at what are the prospects, what is the growth potential of this country in 10/15/20 years, if you have high rates of stunting and you’re not dealing with it, then I fear that these investors will go somewhere else.

As I said, the point I’m making with this speech, you can’t say this is our priority, this is what we are going to focus on. You have to do things in order. You’re not going to get countries to invest more in people unless they trust that you’re going to bring the resources for infrastructure. They are always going to say no, we need that first.

The consumption question is a really interesting one. It goes right to this question of 80 percent renewables. Look, anyone will tell you that you need a price on carbon, that if you actually put a price on the actual impact that putting carbon in the air has, you will have a high price on carbon, and that will shift incentives.

Now, we’re not quite there yet, but the World Bank has been working on the Carbon Pricing Coalition, and we have some of the great leaders in the world to be part of it, and what we are trying to do is be ready, to have some very concrete proposals of how we can have a global price on carbon or a carbon tax, or connect up systems.

We are thinking through all the different ways to get this price on carbon, and then the world will turn to us when the next great climate disaster happens, and then we will have about a month when a huge climate disaster happens, we will have about a month to put on the table concrete proposals of how we can put in place a price on carbon that will then get incentives moving. In other words, you can still have high consumption but the demand will be for low carbon automobiles, low carbon energy.

China is about to institute a national carbon trading program. I want to
tell you that the ideas that they are using in the carbon trading program came from, at
least partly, from a grant that we gave China a few years ago. We gave China a grant a
few years ago to experiment with carbon trading.

The reason I like this is because I don't think when you think about
climate change, that you can go back to saying well, we will only give concessional
financing or grants to countries that have low income. I think you have to follow the
carbon. In this case, we feel that the small grant that we gave to China to look at carbon
trading mechanisms that then led to a national carbon trading program was one of the
best investments we have ever made. This is the kind of new thinking that we need.

In terms of rebuilding, I don’t know if I completely understood the
question. I can tell you that as we think about the work that we are doing now in
countries that are hosting refugees, this is very much on our minds. What is it that we
can build that, for example, will allow refugees to actually have some hope in their lives in
refugee camps in Jordan and Lebanon.

One of the things that we have done, with inspiration from your friend,
Paul Collier, and Prime Minister Cameron, we are trying to build special economic zones
in Jordan and Lebanon. In Jordan, in order to do this, we had to have multiple
compromises, and everyone who was involved in this project had to work outside of their
comfort zone.

The U.K. gave us a grant, which we then blended with our own loans,
and gave to Jordan a very concessional loan. I don’t know what the exact terms will end
up being. It is 15 to 20-year maturity at around zero percent interest. We will provide
that to Jordan specifically for building special economic zones.

The compromise is that they will let Syrians work in these special
economic zones. The U.K. and Europe would open up their markets and give
preferential access to products that came out of these special economic zones, and in the long run, we would build capacity for Jordan to grow their economy in the future.

This was completely different from anything we had ever done before, and that’s the kind of, if you will, sort of capacity and community building that we have to do.

If you look at Syria, and we are watching carefully, oh, my goodness, we’ll be very involved, we think, in the rebuilding of Syria. These questions about reclaiming degraded lands, building local communities, they will be very much at the top of our agenda.

MR. DERVIS: One last question.

MR. HALL: Thank you. Jeff Hall from the Bank Information Center. I want to follow up briefly on Sam’s question. I think you have spoken many times in the past from your experience working in HIV and AIDS about the catalytic role that civil society can play in helping to end extreme poverty, yet in many places we see space for civil society shrinking.

What role for the Bank here in opening that space or supporting that space for civil society to contribute? Really, I guess, we see contradictory signs. We see great signs like the Bank’s work to convene civil society and open space in Tajikistan and Moldova, to monitor government services in otherwise oppressive and closed places, or we see places like Zimbabwe where the Bank said well, maybe if human rights abuses would just level off, then we could resume lending, or Uzbekistan, where we have seen the cotton industry supported by child labor, and the Bank ignored civil society warnings.

Which Bank are we going to see in your second term?

(Laughter)

DR. KIM: Let me see. You obviously pointed to some of the very difficult
situations that we work in. But let me tell you the Bank that you did see during my first term and that you will continue to see.

We work in tough places. We work in very, very tough places. We have not begun lending to Zimbabwe. We have not done it yet. The way I have approached all of the different problems that come up in the lending that we do is when we see a problem, we will admit it right away, and then do everything we can to resolve the issue.

You know, we work in many, many different countries. No matter how you may object to the leadership of a particular country, there are still many poor people living in that country. Our role as a cooperative of 189 member countries is to do everything we can to work with every member of the cooperative.

It’s never straightforward, and there are places that are extremely complicated to work in, but for example, on the Uzbekistan issue, we are now working with the International Labor Organization to make sure that we can monitor more effectively conditions for working people.

The intention overall is without question to be much more open about the things that have happened that are bad. You know, I think there have been times in the history of the Bank where it felt safer just to duck our heads and hope that the bad publicity passes.

I’ve made very clear from the very beginning of my tenure here that when we find something that is a problem, we’ll address it, we’ll identify it, and we will do everything we can to fix it in the countries that we work with.

We’re going to continue to work in countries that you may object to. We’re going to continue to work in countries where you may object to the leadership. The point is we are a cooperative, and I think there is something very powerful about the fact that we are a cooperative, and that people in the cooperative can come to us and say
look, we want help ending extreme poverty and boosting shared prosperity.

When there is a problem, let us know, and then we will do everything we can to fix it. If we can fix it, we will fix it, and if not, we will do what we have done in several countries in Africa, we will stop the lending. You know we have done that. We have done that in Uganda recently.

The minute we did that, we began working intensively with the Ugandan government so we could get some of these projects back on line because these are important projects and people are living in poverty, and they need them.

It will always be the complexity of being the World Bank Group, right? On the one hand, we have to be as straightforward as we can about bad things that might happen. On the other hand, we are a cooperative, and cooperatives like ours, I think, are critical for the future.

MR. Dervis: Jim, thank you very much for your generosity. (Applause)
DR. Kim: Thank you.
MR. Dervis: Please be seated so that the president of the World Bank can exit, that is our rule here. (Laughter)

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