

***Pro-Growth Policy: A Foundation for Expanding Global Opportunity and Aid***  
**John Snow, U.S. Secretary of the Treasury**

Secretary Snow said this is a time of terrific growth and promise, with the global economy recording the fastest growth in 30 years. Because we are enjoying a period devoid of major financial crises, this is the ideal time to focus on “setting goals and striving toward milestones. The current condition of sustained economic growth and relative stability of the global financial system actually presents us with a unique opportunity to do so.”

When the U.S. economy hits rough spots, we respond by getting our financial house in order, implementing policies to right ourselves. We expect the same exercise of responsibility from other countries.

Increased interdependence of the global economy has made growth and prosperity a win-win for all of us. Increased symbiosis makes successful G-7 collaboration and consensus very important. The past year has seen several examples of this historic commitment through G-7’s Agenda for Growth, consensus on the necessity of flexible currencies, and the importance of small and medium sized businesses.

The IMF and World Bank have had remarkable success in fundraising for economic reconstruction in Afghanistan, Iraq, and Haiti, pledging up to \$9.25 billion for Iraqi reconstruction and the financing of 12 million textbooks to be delivered to Iraqi schools.

“One risk of this improved global economic environment, however, is complacency – something we absolutely must resist.” The Bretton Woods Institutions must continue their own reforms, specifically increasing the reinforcement of debt sustainability in poor countries. Grants and debt relief must be significantly increased, allowing the poorest countries a chance to reach their goals without increasing debt burdens.

Snow believes that a new, non-borrowing facility ought to be established at the IMF, aimed at promoting strong country ownership and leadership in economic program design. Through a Policy Monitoring Arrangement, the IMF would provide regular assessments of countries policies, “further strengthening the IMF as an institution of international economic cooperation where each country assumes its responsibility for growth and stability.”

***Moving Ahead on Trade Liberalization***

Clayton Yeutter, Of Counsel, Hogan & Hartson L.L.P., former USTR

What will be achieved in trade in the next two or three years will be crucial in the coming decades. Negotiators at the WTO have recently agreed on a framework that will drive the Doha negotiations. Although progress has been modest, it is preferable to move forward slowly than backwards, such as the failure in Cancun.

First, the renewal of trade promotion authority (TPA) is an important step towards increased liberalization. The original TPA, which applied to the Doha Round, passed Congress by a very narrow margin, so this will be no “slam dunk” going into early 2005. Renewal of TPA is going to be a political battle regardless of who sits in the White House.

Second, industrial tariffs should be removed. They cost more to administer than they generate in revenue, bolstering the case for zero tariffs in many countries, especially developing countries.

Negotiating should be based on a zero-for-zero process - if one country decreases a particular tariff, then other countries follow suit.

Third, negotiations on services, which are embryonic at this stage, must continue in the Doha Round. Prior to Uruguay, negotiations on services were largely absent, which is a mistake, since in many countries services constitute a larger segment of the economy than goods. The U.S. must commit to global services negotiations that are approximately comparable to those in goods.

Fourth, trade facilitation must be a significant priority. The process to move goods across borders is slow, inefficient, and costly and, in many countries, racked with corruption. Fixing this will result in the considerable costs that are handed down to consumers.

Fifth, negotiations in agriculture must continue, with the eventual phasing out of these tariffs. Major areas of negotiation on the table include export subsidies, domestic subsidies, and regional and bilateral free trade agreements.

Developing countries do not benefit when the system tolerates their protectionism because failure to expose their industries to competition will never allow them to become full participants in the system.

Regional and bilateral trade agreements clearly advance the cause of international trade in the world, and the U.S. will continue conduct such negotiations. However, they must be carefully scrutinized under WTO rules, and we must ensure that they make an effective contribution to trade in the large sense.

Consensus in international trade rules is a formidable task. With 150 countries, governing within the Bretton Woods structure is more of a challenge now than it was in the past. We need to improve the governance structure to ensure we manage the WTO in an effective way as the future unfolds.

### **Representative William Jefferson (D-Louisiana), House Ways and Means Committee**

There is little global agreement on the benefits of trade liberalization, and this lack of consensus is the single biggest obstacle to trade liberalization. While much attention is paid to narrow intricacies of trade, very little is accorded pursuing a global consensus on the benefits of trade liberalization.

In the context of Doha, developing countries contend that they have not yet seen the benefits of the Uruguay round. Increased access to the U.S. market is a powerful incentive to many foreign countries, however developing countries that lack capacity and infrastructure for trade have nothing to gain from this access. To increase their interest and participation, we must ensure that our trading partners also experience the opportunities provided by our multilateral trading system.

For instance, the African Growth and Opportunity Act (AGOA) offers major opportunities for beneficiary countries in sub-Saharan Africa. AGOA has increased sub-Saharan exports to the US and investment flows from the US to Africa, however the benefits are limited primarily to textiles and energy. The devotion of significant resources to improving customs and infrastructure in those countries would make a significant difference. Assisting them with improving the regulatory frameworks in health and environment and with implementing training programs for workers would further increase their participation and value.

Capacity building is key to further liberalizing trade. Small- and medium-sized economies need assistance in capacity building, enforcement of the rule of law, and international trade, labor, and environmental standards to ensure they become more equal trading partners. This will also minimize domestic concerns about the incentives to invest abroad stemming from “cheap labor” and lower production costs.

The Bretton Woods institutions provide tremendous assistance in improving the financial frameworks necessary for international trade. They have improved the role of technical assistance in recent years, yet they can do more, and the U.S. should push for increased resources to address these important areas.

Trade capacity building can also lead to improved port security, possibly enabling us to prevent a WMD from entering the U.S., or to deter shipments of illegal weapons, counterfeit drugs, or illegal narcotics. To make progress on trade liberalization, we must support this concept as a mutually beneficial proposition, ensuring also that American workers and consumers reap benefits.

Capacity building will address much of what has been criticized in our current trade policy. Not only can we move closer to consensus in the U.S. about the benefits of trade liberalization, but we also help to convince other nations that they need not question the American commitment to multilateral trade rules.

### ***American Support for Development***

**Rep. Jim Leach (R-Iowa), House International Relations Committee**

From the Congressional perspective, Leach said, the foreign aid budget is shackled and skewed. It is shackled in the sense that all budgets are based on the previous years’ funding, making it difficult to increase commitment. It’s skewed in the sense that two countries get disproportionate resources. Therefore, the total US foreign aid budget appears to be a substantially smaller portion of GNP than in other countries’ budgets, and it is not directed in as egalitarian a fashion as it might be.

What the Bush administration has attempted to do with foreign aid is to rename, or recreate an existing program, resulting in the Millennium Challenge Account, (MCA). In some cases, “reform” is simply another word for “rename” - if a program cannot be reformed or renamed, it will likely be radically reduced, especially considering the very conservative party that is currently in power. Whether it is “renaming” or “reforming” our foreign aid efforts, Leach voiced his approval for one principal reason: doing neither means there will be a substantially less effort in a realm where it is sorely needed.

Another key dimension of the foreign aid budget is the “broken plate” dimension. Of the famous \$87 billion dollars of support authorized for our troops in Iraq and Afghanistan, \$20 billion of it was a foreign aid component. \$19 billion in foreign aid was to go to Iraq and \$1 or \$2 billion was earmarked for Afghanistan. An old joke is that the smartest thing a small country could do was to declare war on the US and then get aid. There’s a newer dimension to that: if the U.S. declares war on you, you’ll get even more aid.

Many members of Congress have thought that the biggest foreign policy issue policy is that of war and peace. At present, America has lost more than 1,000 troops in Iraq; the Iraqis have probably lost 40 times that. While these numbers are horrible, Leach submitted that there is an even more dire issue at hand.

Over the last 15 years, 20 million people have died of AIDS. 40 – 60 million people are currently infected with the virus. There are other diseases that also are urgent. Using foreign aid to address disease control may be the single biggest mandate of the U.S. government and of all civilized societies. Congress has responded with a commitment to \$15 billion over five years, however insiders in Washington know that an authorization is not the same as an appropriation.

Therefore, members of Congress who are committed to addressing disease control (which Leach called the number one foreign aid priority), must be willing to push for assistance.

### **Paul Applegarth, CEO, the Millennium Challenge Corporation**

The MCC, a Presidential initiative, is the American delivery of the pledge made at Monterrey to assist countries that take increased responsibility for their own development through policy changes, poverty reduction and growth. If the President's request for \$5 billion/year is met, it will constitute the largest increase in foreign assistance since the Marshall Plan.

The MCC's fundamental mission is poverty reduction in the world's poorest countries through attainment of long-term sustainable development. In determining candidates, the MCC begins by identifying countries that can be first of all good partners, and second those that through their leadership are creating an environment conducive to growth.

The countries are all among the poorest in the world; no country is too poor to compete. The past year has seen 75 countries apply, each judged by 16 different indicators.

Applicants are measured against three baskets. The first is good governance: fundamental political freedoms, rule of law, voice and accountability, civil liberties, and most importantly, corruption. All indicators are equal, except for corruption. Countries that do not pass the corruption test do not qualify at all.

Second, is the government investing in people? Are they investing what they have in education and health, or in armaments? The third basket is economic freedom: countries that foster an environment good for job creation, growth, and income.

Upon being deemed "MCA eligible", countries outline for the MCC what their priorities are for poverty reduction and growth - what do they see as not being addressed by other donors and what obstacles are present.

The MCC applies a private sector model to growth, asking countries to present a business plan detailing who is going to do it? How is it going to be done? How is the money going to get from you to the right place? How is performance measured and what are the short and medium-term indicators used?

Donor coordination is also a key part of MCC. Candidates must submit detailed information on how MCA assistance fits in with what other donors are doing. MCA monies are intended to be purely additional – that is where the incentive is. The concern is that other donor countries will see that the US is coming in with the MCA money and will pull back.

### ***Development, Democracy, and Security***

U.S. Secretary of State Colin Powell

Secretary Powell focused on the American development agenda and its interconnection with the promotion of democracy and global security.

American foreign policy entails much more than the military side and must continue to engender an inclusive approach: evil can only be defeated through the process of building a greater good. The Bretton Woods conference, without precedent, constitutes the only case of leaders meeting in order to reconstruct global economic relations following a major conflict rather than to divide the world up into power centers. We must continue to follow the path of the Bretton Woods pioneers by matching theory against experience, continually learning and adapting to a changing world in order to make a positive difference.

Development has many moving parts and much nuance; it doesn't work as a narrowly economic or technical exercise because the complexity of human nature lies at the center of all that is development. There is no "one size fits all" formula to development: political attitudes and cultural predispositions affect economic behavior, as do the security conditions under which development takes place.

The Administration sees development as a core national security issue, not as a soft policy issue. Development and security are inextricably linked; both development and democracy must be advanced, step-by-step and case-by-case. The war on terror cannot be won unless we get at the roots of poverty, which are social, political and economic in nature.

Poverty is dangerous because it breeds frustration and resentment. Ideological entrepreneurs manipulate this into support for terrorism in countries that lack political rights, basic freedoms and institutions necessary to guard the society from terrorists.

The Administration approaches development with an integrated policy approach composed of three essential pillars.

The first pillar is a program of economic growth emphasizing good governance and economic freedom. The Millennium Challenge Account (MCA), the touchstone of this pillar, supports those nations that have made the good policy choices, for example honesty in government, enforcing the rule of law, an end to corruption, and dignity for individuals.

There must be commitment to economic reform and to policies that encourage investment. Successful implementation of such policies will alleviate the need for aid as countries join the global trading and investment system.

Other aspects of the first policy pillar of economic growth includes debt reduction for the world's most heavily indebted nations, addressing the problem of restricted labor migration and remittances, and facilitating the return of remittances to countries and families who rely on them for survival.

The second policy pillar is a commitment to social development. Sound economic and political institutions cannot work unless people are healthy and educated enough to take advantage of them. This pillar includes battling hunger and malnutrition through the Food for Peace program, and encouraging countries to invest in their citizens, especially in their education. The second challenge is the battle against global disease, particularly HIV/AIDS. The magnitude of the HIV/AIDS scourge enables it to eliminate entire societies, destroy societies, families, democracy, and development.

The Administration's Emergency AIDS Fund devotes \$15 billion over 5 to prevent new infections, to treat those who are infected, and to care for orphans. This is more than twice what the rest of the world is putting into the fight, but it is not enough. Failure of the test before us will have very serious global security implications.

The third pillar is the sound stewardship of natural resources. Development must be a process that invests as well as pays dividends and requires the responsible husbandry of the resource base so that future generations can prosper. This is not a question of geo-power politics; it comes down to saving people, families, and giving children a better life.

The 3-Pillar development agenda is linked to the broader US international economic policy, particularly the push for freer trade and a more liberalized investment climate. Aid can be a catalyst for development, however the real engines of growth are entrepreneurship, trade, and investment.

Our mission is to eradicate poverty through encouraging the births of political systems where access to opportunity is fair and where democracy and the rule of law enable people to use their talents and prosper.

***How Can the Bretton Woods Institutions ensure that globalization's benefits reach everyone?***  
**Trevor A. Manuel, MP, Minister of Finance, Republic of South Africa**

The international monetary and financial system, specifically the World Bank and IMF, is more relevant now to the world economy than ever before.

The Fund and Bank should help developing countries respond appropriately to the challenges of globalization by helping them identify, design, and implement institutions and policies that will assure them maximum benefit. Failing to assist countries to adjust will neither help achieve poverty reduction goals nor lead to a peaceful world.

More critical than development assistance is ensuring that it targets the right sorts of things. There is strong political will to sustain reform, and Africa has accomplished many reforms that should inspire us. Trade barriers have been lowered rapidly; macroeconomic stabilization policies have worked; the average inflation rate in Sub-Saharan Africa (excluding countries in conflict) is expected to be 10% in 200; fiscal deficits are on average very low.

While there has been strong financial assistance, little has been offered to help with serious reform to the systems of trade in goods and services that support developed economies.

The international monetary system offers few incentives for responsible policy making in developed countries and is unable to temper the behavior of the largest actors in the system. Given the extended ripple effect of bad macroeconomic policy choices in large economies, prudent macroeconomic policies in developing countries are not sufficient to achieve sustained increases in growth rates and living standards.

Despite progress, the sort of programs needed to facilitate a desirable combination of development do not currently exist.

It is important to have an international system that is able to adjust to the stresses and strains of economic development, however creditors must also be willing to make adjustments.

Protection of reserves and value of currencies can have as negative effects as industry protection. If we are truly concerned about extending the benefits of globalization, we should worry less about capital controls or tariffs in developing countries and more about them in the G7.

Finally, the system would benefit very much if developing countries had a greater shareholding and representation stake in the institutions. Representation is critical to support economic reforms in increasing political ownership of reform. More developing country participation in the decision-making processes of the Bank and Fund could have possibly prevented many policy failures and is a change that should be considered.

**Kenneth S. Rogoff, Professor of Economics, Harvard University**

Rogoff discussed the changing nature of poverty. In the 21<sup>st</sup> century, poverty will increasingly become a matter of inequality as opposed to absolute poverty.

If world growth continues at the rates we've seen, then in the coming 25 to 50 years, the typical American will be three times wealthier. Countries like India and China, even at much more modest growth rates, will have rates of consumption very similar to what Americans currently enjoy. The World Bank's poverty line will be something along the lines of \$5,000 to \$10,000 per person.

While we worry about people being left behind in this, evidence and trends demonstrate that inequality will increasingly be a relative issue. Progress toward achieving greater equality is going to be slow. There is tension between growth and equality: as the world gets richer and richer, it raises the bar.

Rogoff discussed the MCA and highlighted many of its positive points.

However, he sees some problems with the MCA that are worth bearing in mind as we look forward to reforming the IFIs. The first problem is its unilateralism. Issues such as the overlap of expertise with staff and initiatives offer very compelling cases for channeling aid multilaterally. The second drawback is the absence of a mechanism in place to make aid flows more stable.

Rogoff turned to financial structure of the Bretton Woods institutions. He asked, "Are they out of step with the realities of the 21<sup>st</sup> century?" and indicated the need to alter their financial structure to increasingly emphasize grants and the provision of knowledge and technical assistance rather than filling in missing markets with loans.

Voting structure at the institutions is also out of step with the world today. While their organizational structure made sense after WWII, it no longer does.

One suggested change is a major financial restructuring. A sister idea was proposed by the IMF, under Anne Krueger's leadership, and consisted of a major change to the world bankruptcy system. Considering the size of the private markets, the IMF shouldn't step in. We need a better way of conducting orderly debt restructuring. It is important to move ahead on this before we have the next debt crisis and these ideas get pulled off the shelf.

While a financial restructuring of the Bretton Woods institutions won't directly solve poverty, we must continue to make very modest progress as we go along.

## *The Fund's Evolution and Challenges Ahead*

### **Rodrigo de Rato, Managing Director of the International Monetary Fund**

Mr. de Rato welcomed the anniversary of the IMF as a time to reflect on its evolution and to discuss how the Fund must adapt to meet future challenges.

Several major changes in the global economy since 1944 have prompted development and adaptation of the IMF's main instruments, including surveillance, lending, and technical assistance. The changes with the most impact include the rise of multiple centers of economic power, the growth and globalization of private financial markets, and the expansion of IMF membership to make it a universal institution.

The Fund adapted its instruments to meet each of these new challenges. First, The IMF's surveillance mandate was amended to keep up with changes in the international monetary system. Second, the Fund developed new crisis management and lending tools to help emerging market countries deal with capital account shocks. Third, the Fund developed concessional lending to promote growth and reduce poverty in low-income countries.

Challenges will continue to arise and must be met.

The Fund must improve the effectiveness of surveillance in influencing policies, and can do so by maintaining the focus on increased transparency and by paying greater attention to the interconnectedness of country policies and the system as a whole.

The Fund must highlight economic challenges that require a cooperative global approach, including the major advanced countries, in its assessments. IMF reports that present surveillance findings include the Global Financial Stability Report and the Financial Sector Assessment Program.

Despite improved efforts at surveillance, financial crises will occur, and the Fund must therefore focus on better crisis resolution through offering policy advice and financial support. While large loans from the IMF can help resolve situations, it is important that the Fund be able to say "no." If countries recognize that the Fund may decline to provide financial support, they may be more likely to step up efforts to implement sound policies, alleviating further need for Fund financial support.

Crisis resolution must also include participation from private lenders.

The Fund is also working with low-income countries to win the global war on poverty by assisting in the establishment of macroeconomic stability, which is crucial to foster durable growth and poverty reduction.

Developed countries can help by coming through with the promised trade and aid to countries committed to reform. Inclusion in the system will encourage countries to maintain reforms and for others to start down the path.

Developing countries also need more and better aid. The IMF welcomes and encourages discussions of innovative ways of financing an increase in aid flows, such as through deeper debt relief and increased grant financing.

Donors must further harmonize their aid agendas, increase aid predictability, and decrease the transaction costs of aid disbursements, while the Fund will continue to help strengthen the environment that attracts and utilizes aid effectively.

De Rato concluded by underscoring the Fund's track record of adaptation to change over the past 60 years; with continued help, it will surmount future challenges.

**Jacques de Larosière, Advisor, BNP Paribas**

Mr. de Larosière argued that improvement of international surveillance should be the Fund's essential role, rather than that of a lending agency concentrating large loans to countries in a world where private capital flows are doing the bulk of the job. The Fund should be seen primarily as being responsible for facilitating the adjustment process.

Over the past 10 years, too much emphasis has been placed on financing and not enough on adjustment; all market participants should better analyze emerging economies. A preventive approach is the best course of action, however this is easier said than done because governments are often politically unwilling to act before a crisis, especially if external finance is readily available.

Surveillance is a multilateral process that embraces large industrial economies, major imbalances and exchange rates. Multilateral surveillance of the G-3 is clearly lacking. De Larosiere continued, "What Mr. de Rato said that the US should restrain their fiscal policy, it is something I like to hear from a Managing Director of the Fund – it takes some courage and independence of mind."

Unfortunately, the international monetary system is slipping into a semi-fixed "a la carte" state. For example, some large countries choose their exchange rate to benefit from their export capacities. What should the IMF do about this situation? Is the membership ready to engage in true cooperative policies, reducing major global imbalances and fostering increased stability?

De Larosière then addressed the IMF and debt crisis. In today's integrated financial markets, emerging markets are very dependent on private capital flows, which is how it should be.

The IMF must maintain a close and cooperative relationship with the private sector, which leads to several points. First, the IMF should develop a clear and predictable policy on access limits. Second, the IMF and the private sector should continue to improve their relationship based on mutual trust on an ongoing basis such that the private sector can be called on to participate voluntarily in preventive actions to limit the possibility of crisis.

Third, the IMF should share with creditors the underpinnings of its programs so it can better assess debt sustainability constraints. The Fund's ability to convince markets and creditors that an adjustment program is strong enough to underpin negotiations is crucial for its credibility, and is all the more important when the Fund itself is a major creditor.

De Larosiere concluded by quoting Jacques Polack: "Large members should be willing to consider the IMF in a long-term perspective which means a willingness to be overruled on certain issues."

**Jacob Frenkel, Vice Chairman, American International Group**

Dr. Frenkel began by asserting how important it is that the Institutions undergo regular self-evaluation in order to cope with changing world circumstances.

Much has been learned over the years in program design. Initially, the focus was on short-term, counter-cyclical measures and fine-tuning. However, markets have memories and capital markets move rapidly forward, necessitating at least a medium-term strategy and preferably a multi-year strategy.

Following the capital crises in the 1990's, it was said that, "There are only two types of investors: those with short memories and those with no memories." After the loss of significant capital, Mexico and Asia radically altered their policies, making the "new Mexico" and the "new Asia" attractive to capital again and prompting an immediate return. Capital markets reward the right policies in a very immediate way.

The most significant change since the creation of capital markets is the development of international capital markets. They move at a breakneck pace, and there is a ruthless, daily referendum about economic policies. We can either break the mirror that tells us truthfully where we stand, or we can mend our ways and be more beautiful in the mirror.

Just before the Asian crisis, the IMF was ready to move ahead with an amendment to the Articles of Agreement extending Article 8, convertibility, to the capital account. Following the Asian crisis, this was placed on the back burner. We should reconsider the opening of capital accounts as one of the important missions of the Fund.

Further, risks must be priced properly, requiring transparency, data availability, and a robust financial system. Success should not be defined as the lack of any bankruptcy or any negatives. All of the "too-big-to-fail" syndromes have started from a "too-small-to-bother" syndrome.

Is it preferable to have a system in which the rules prevent five of the next three crises, or a system which the rules prevent three of the next five crises? Frenkel contended a system in which you prevent 3 out of 5 crises is preferable - over prevention stifles and over-regulates the system. Prevent 3 out of 5 requires dealing with 2 and applying crisis prevention and resolution.

It is key to remember that the Fund is the creature of its shareholders, run by its management, and also run by itself. When things do not go well, the location and cause must be identified. However, we have seen much hypocrisy of national governments within the Fund - voting for a program in the morning and by the afternoon criticizing it, attempting to avoid budget deficit problems through use of public money, or even trying to conduct foreign policy without a checkbook. These are all the issues that are worth reflection.

### ***The World Bank – Scaling Up the Fight Against Poverty***

James D. Wolfensohn, President, World Bank Group

Wolfensohn thanked the three veterans of the Bretton Woods negotiations for attending the meeting. He then turned to the debate about loans versus grants. The level of accomplishment that the Bank has achieved would have been impossible had all they had done was to make grants - total capital put into the bank is \$11.4 billion, yet it has done \$400 billion worth of business since its inception in 1944. There are different cultures within the IBRD: a grant culture, a credit culture, an intermediary culture, and a halfway culture of the revolving fund of IDA. Before discarding IDA, it must be noted that grants have their place; they are much easier to sell and much easier on recipient countries.

Wolfensohn addressed the importance of the continuity of IDA and the credit culture. Different things are needed at different times - IDA has played a useful role as a concessional lending agency and it would be unwise to give it up, however that is for shareholders to decide.

The overall assessment of the Bank is that it has made a huge contribution. The past ten years has seen the pulling together of economic and social issues and the placement of environmental issues in the forefront. The Bank works to ensure that it deals with civil society and with business, which has taken on huge additional importance.

The need for continued development is clear: 2.8 billion people live on under \$2.00/day. 5/6 of the world lives in developing and transition economies, possessing approximately 20% of the wealth. The countries from which participants come have 80% of the global wealth. The next 25 years will see a net growth of another 2 billion people; only 50 million will go to the developed world, and the rest will be in the developing, or transition world.

Poverty is a moral issue that has been discussed by leadership at the beginning of the millennium, giving us the Millennium Development Goals, however it is not being confronted with the importance that it deserves.

If you don't deal with poverty, you can't have stability and peace. The solution is not just building a bigger army – spending \$900 billion on defense and \$60 billion on development. If poverty is truly a national security issue, it must be reflected in the spending of our government.

The Bank evaluates itself to see if it can function in a more effective and efficient manner and does not rest on its laurels. More than 60% of the Bank's country representatives are decision-makers in the field and constitute real partners.

Scaling up is another key issue. How can the Bank go from methodology and judging ourselves on how we spent our money to determining how successful it really is? Bank projects are not just one thing that we can manage in one place - they are replicable, make people to be a part of the solution. The Bank facilitates discussions and meetings through the global network for videoconferencing at the Bank, doing 1600 videoconferences per month with those on the ground.

Finally, education and the issue of youth have taken a central role with the Bank. This is not to the detriment of infrastructure or other concerns, but education and early child development are central. If kids are not reached before age 6, then it becomes a bigger task after they are 6.

Wolfensohn closed by emphasizing that the question of youth, offering hope and opportunity to them and to their societies, are dominant for the Bank.

### **Ngozi Okonjo-Iweala, Minister of Finance, Nigeria**

Minister Okonjo-Iweala designated several factors of crucial importance if developing countries are to succeed at scaling up in the war against poverty.

First, values matter – and corruption matters. Corrupt leaders are among the most significant problem with development. In addition to diverting resources, corrupt leaders limit their focus to short-term objectives. Their only long-term focus is themselves and prolonging their terms in

order to maintain a comfortable life for their families. These types of leaders address poverty reduction through handouts, which is very ineffective in the long term.

The amount of money that ends up in the hands of corrupt people is not inconsequential; it could make a real difference to programs where it is sorely needed. Corruption must be addressed if we are to scale up.

Second, scaling up requires countries to continually implement reforms to reflect changing situations. One good example of how Africa is meeting this challenge is The New Partnership for Africa's Development (NEPAD) in which countries have come together of their own accord to outline the reforms that they believe are needed and to work partnership with donor countries to accomplish them. Participants are open to reviews and results will be transparent.

A third way we can better scale up is by focusing efforts on large countries. India and China have made great progress in poverty reduction. One in four Sub-Saharan Africans is a Nigerian, and Nigeria makes up 55% of the GDP for West Africa. Making a positive impact in such a large area will lead to improvements in the surrounding countries.

Fourth, infrastructure matters – surveys indicate that the single most important thing in Africa for allowing business and jobs to flourish is infrastructure – lack of power, water, and weak services are a huge impediment. Unless and until we focus on investing in infrastructure in countries and regionally, scaling up for poverty reduction in Africa will be a problem.

A fifth important factor for scaling up is finance. With the reforms countries have done, there are now a sufficient number of countries where enough reform has taken place to absorb more finance. This makes it more important for developed countries to adhere to the Monterrey agreement, making money available. If developed countries are unable to transfer the resources, they should at least forgive the remaining debt to low-income countries. Re-channeling the debt service towards the MDGs is a good thing.

Finally, improved donor coordination matters – this would increase predictability and quality of aid, but also it lessens the burden on the capacity of those trying to do the programs in the countries. While the Bank is strong in this area, there is still a lot to do. It is important for donors to allow countries ownership of their programs if they are to effectively scale up.