

Building a Twenty-First Century Development Bank: New Challenges, New Priorities

U.S. Senator John Kerry
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Thank you Bob for a generous introduction, and for all your service to our country and the world.

This is a time to take stock of where we've been, and where we're headed. In the last twenty-six months, the world ran right up to the brink of economic collapse. With massive government intervention and international coordination, and a little luck, we managed to pull ourselves back. Those precipitous events reinforced the notion that a stable world depends on stable economies. That might have once seemed like an abstract idea, but in the last year it was rendered a gut-level reality.

As the crisis mounted and countries scrambled to keep up, we nevertheless learned the cost of failure when governments fell in places like Iceland and Latvia. The notion that America could address fundamental questions of security and politics divorced from global economic realities was exposed as a dangerous fiction. And in the days since, our politics has been forced to grapple with complex dynamics that too few in Washington appreciated, and frankly, even fewer understood.

We are fundamentally operating in a new global economic landscape. The transition from G8 to G20 underscores this. Twenty years ago, worldwide capital flows were less than twenty percent of what they are today. Ten years ago, most of Asia was still reeling from its own financial crisis. But in the last two years alone we've seen three Chinese banks climb into the world's top ten. Private equity, hedge funds, and sovereign wealth funds now rival the size of mutual funds and pensions.

To be sure, our international financial institutions have evolved in response. But still, their representation and funding priorities continue to reflect the imperatives of another, earlier time. We need to reform them to reflect the needs of now, and address new development priorities. These include mitigating and adapting to climate change, enhancing food security, and empowering women—all of which we increasingly view as fundamental to the bank's core mission of reducing poverty worldwide.

Today, the World Bank is doing vital work to roll back poverty, educate girls, promote good governance, spread economic opportunity, and lay the foundations for stable, well-

governed societies. And where it matters most to our interests, the Bank has been an important, if largely unsung, partner. There is much that the Bank has accomplished that people aren't aware of. In Afghanistan, the Bank has committed \$1.9 billion since 2002 for development and emergency reconstruction. Appropriately, the number in Pakistan is even larger: \$3.7 billion just since 2006. Your colleagues are putting their lives at risk in dangerous places. We appreciate that, and we respect it.

The Bank has also stepped up to help countries weather the financial crisis, maintain social services, and put their fiscal houses in order. In fact, since the crisis began, the Bank and the IMF together have dispensed \$165 billion to governments around the globe, not to mention countless hours of technical assistance as governments dealt with unprecedented events.

As we emerge from this crisis, we must now find ways to build our capacity to respond to whatever challenge comes next. The World Bank has now joined the other development banks in requesting a General Capital Increase. I want you to know: we are going through a careful process to size up the capital needs of each institution, determine whether additional resources are warranted, and, if new funding is appropriate, whether it should be temporary or permanent. My colleagues and I will work with Secretary Geithner to ensure that America lives up to the agreements we make.

I'll be blunt, though: this is not an area where America has always been a leader. We remain in arrears on several accounts, and I am committed to working with my Congressional colleagues and the Administration to address this issue head-on and meet our obligations.

At the same time, governments with limited public resources must ensure that any new funds for development banks are actually supporting 21st-century priorities. The world benefited enormously from the development banks of the twentieth century, but frankly now we need new thinking, and creative leadership to craft a vision for the development bank of the twenty-first century.

The fact is, this has been a season of rethinking and even some soul-searching for policymakers about the shape of our global financial architecture. We've been in close contact about these very issues with the Treasury Department, including a visit from Secretary Geithner yesterday to testify before the Senate Foreign Relations Committee. Parallel conversations have been taking place at the World Bank, the IMF, and in national capitals. Now we need to merge these conversations and agree on a common vision.

So what does the development bank of the twenty-first century look like?

To begin with, governance at these institutions must reflect the economic realities of today. China now represents over eleven percent of global GDP. But at the IMF and World Bank, Belgium and the Netherlands together have more voting shares than China does. In the interest of creating more effective institutions to address shared challenges, it is important that we address the question of shared power, and I will continue to push

Secretary Geithner and the Administration to rebalance representation and voting weights. We cannot expect to have legitimacy in these endeavors if an old paradigm is governing a new world.

A twenty-first century development bank will need to guarantee that it continues to attract and retain the most qualified people. This is not always an easy discussion for countries to engage in, given their vested interests in the Bank's current structure, but the reality is that the Bank deserves a fundamentally merit-based system from top to bottom—from Presidents and Vice Presidents to entry-level project managers.

And of course, the most significant question development banks face isn't their organizational chart or budget. The World Bank will be defined by *what it does* with the resources and talent it has. I'm pleased that President Zoellick has committed the Bank to being at the forefront of efforts to empower women, including the Gender Action Plan and gender investments in the IDA 16. Providing women greater access to capital has positive benefits for just about every development indicator, from health to security. This is a smart and financially sound bet.

The Bank's forward-looking gender policy can be a template for its approach to other issues as well— particularly for two interlocking challenges that will be central to our efforts going forward: climate change and energy poverty.

These two challenges are rightly understood as different sides of the same coin. On the one hand, billions of people worldwide are experiencing remarkable economic possibilities for the first time thanks in part to new access to electricity. And we should celebrate that, because no citizen of the developing world should be held back by a lack of access to energy.

On the other hand, we cannot ignore the reality that our planet is currently hurtling toward irreversible and catastrophic climate change. This problem did not begin in developing countries, but finding a solution will depend on addressing their growing contribution to it. The last years have taught us that there is no solution without participation from developing countries. As much as three-quarters of new emissions in the next 20 years will come from the developing world. If we sacrifice our climate to solve energy poverty, we will be making an inherently short-term bargain. Ultimately, taking that course will endanger the very development we strive to create and perpetuate poverty that countries are struggling to leave behind.

We simply cannot solve the challenge of energy poverty without also addressing climate change. Instead of working at cross-purposes, we need to find workable solutions that achieve both. With its funding and intellectual leadership, the Bank can play a profoundly important role in shifting the balance toward climate solutions.

While nobody expects the World Bank to do this alone, there are several steps the Bank must take:

First, we need to be more discerning about the financial status and technological capability of countries looking to build new energy projects. We can't ignore the fact that middle income countries have a raft of financing alternatives that are simply not available to the poorest countries.

Several months ago, the Inter-American Development Bank chose to fund two subcritical coal fired plants in Brazil, a country among the richest in Latin America, and a world leader in its use of renewable and clean energy. There is no excuse for this. We need to be far more involved, far earlier, to ensure that alternatives are found for projects like this, and to avoid allocating limited funds toward projects that risk undermining our long-term development goals.

Let me remind you: These decisions don't take place in a vacuum. All of you here—the World Bank—constitute the gold standard for all other development banks, and that's one more reason why you have an obligation to exercise leadership.

Second, we need to assess energy projects and the costs and benefits of various energy technologies more accurately. No matter how efficient the plant, no matter what it replaces, and no matter how important it may be to the energy future of a given country, a coal plant without technology to capture and sequester the carbon it emits is not a clean energy project— and it shouldn't be funded as one.

What's more, it is fundamentally short-sighted to look for the lowest price tag up front when we ought to be factoring in the full cost of each project. A recent National Research Council study found that America's energy use came with a hidden price tag of \$120 billion in 2005 alone—and that ignores entirely the cost of climate change, which doubles that figure! That's not a rounding error, it's a sign that we consistently underestimate the real cost of traditional coal plants. We need to rethink our model for calculating cost, and that begins by ensuring that every World Bank project include a carbon accounting, reviewed by the board.

Third, we need to engage more actively with borrowing countries on energy planning. We need more initiatives like the Energy Sector Management Assistance Program to help countries find their optimal energy mix. And the Bank must become more aggressive in presenting low-carbon alternatives that countries seldom consider on their own. That means helping middle-income countries to factor in the long-term costs of outdated technology, and convincing low-income countries that sometimes the easiest way to meet their energy needs isn't with a new plant—it's through energy savings from simple and cheap improvements in efficiency.

Finally, we must focus our funding on areas where the Bank has the greatest comparative advantage. That means building clean energy capacity in countries that need it, and investing in those where the private sector won't. Serious clean energy projects often seem like impossibilities to governments consumed with simply maintaining basic services. We need to challenge the Bank to prove that these projects are not only

possible, but desirable.

The World Bank already has success stories to build on: In Bangladesh, you are helping to install solar home systems that generate electricity and provide hot water to places that have never had it before. This is literally a life-altering project. The Bank has already helped to install 350,000 solar home systems. By 2012, that number will triple to over a million in Bangladesh alone.

Bangladeshi entrepreneurs are already building on the growing solar market to start up local photovoltaic panel assembly plants. From large industries to the small rural shops that now stay open into the night, people across Bangladesh are benefitting from solar energy that many would have mocked as impractical for such a poor country.

This is the kind of energy project where the Bank should excel. I'm all for burning the coal we have, provided we can put in place clean technologies to capture and sequester carbon. And I'm committed to massive new investments to make real clean coal commercially viable. When even my Senate colleagues from coal-producing states talk about implementing clean coal technologies, the Bank shouldn't be in the business of funding yesterday's coal technology.

I understand, as you do, that some places are experiencing a very different level of need. Africa today has the same amount of installed electricity as Spain—with twenty-three times more people. I recognize that there will be some exceptions for the poorest countries whose small fraction of global emissions will not make the crucial difference. But increasingly, these must be the exceptions, and not the rule.

There are those who say we can't afford to act. But waiting is what's truly unaffordable. According to the International Energy Agency, for every year we wait after 2010, the cost of keeping climate change below catastrophic levels increases by \$500 billion. Clearly we will need to ensure that there are sufficient funds for adaptation as our planet continues to warm, and that includes factoring in the likely impact of future climate change on today's project sites. But we need to get serious about mitigation right now.

We know what the Bank can accomplish, and what it needs to do. We have our own responsibilities. America was, for decades, the world's largest emitter of the greenhouses that cause climate change. And the world is now looking to us for leadership that, frankly, has been absent for a decade. While I remain alarmed by the passivity of some in government, many of us are working hard to reach a point where America can signal to the world—before climate talks in Copenhagen—that we are serious, and we will act.

America must be committed to three things:

First, we need to rejoin the international effort to fight climate change. The truth is we've already begun, but it remains urgent that we pass domestic legislation that gives us a roadmap to lower emissions over time. If other countries believe we won't deliver, they

won't take us seriously when we ask them to do the same.

Second, we need to provide the right incentives to encourage private markets to invest in clean energy projects around the world. This funding will be an important component of our international obligation to combat climate change.

Finally, many clean technologies will require additional support because the technologies aren't yet fully commercialized. We already have a number of Climate Investment Funds designed to help with this transition at the Bank. Still, America needs to do more to expand initiatives like these and persuade countries to adopt technologies that may be more expensive today, but will help save us all from catastrophic costs down the road.

Reducing energy poverty and combating climate change cannot be mutually exclusive challenges. We won't solve climate change unless we also seriously tackle energy poverty, and we haven't really solved energy poverty if we ravage our planet in the process. If America and the World Bank act together, we have an opportunity for this institution to define a path toward clean energy and energy access for all.

Protecting our planet, enhancing food security, empowering half of humanity to realize their dreams and claim their rights—these are not small goals. Each represents lifetimes of work. But they must guide the twenty-first century development bank. If we use our resources correctly—not just the money of the Bank but its exceptionally talented people—and if America and the World Bank keep faith with these goals, then we can accomplish a remarkable amount together in a very short time.

At its best, the World Bank is the leading source of new ideas in global development, finding innovative ways to create exciting new possibilities for people and families in every corner of the globe: A Bangladeshi villager who can build and sell solar panels with the Bank's help. A small business owner in Indonesia who no longer has to pay a bribe to open a new store because of the Bank's fight against corruption. A woman in Malawi who doesn't have to walk for miles because the Bank helped provide water closer to home—and whose daughter is getting an education that she never even imagined for herself.

All of these human stories can be part of the Bank's legacy. And all are made more likely when we work together, ask and answer the tough questions, and empower the Bank to live up to its full potential. This moment is a meaningful chance to deliver lasting change and visionary leadership. I hope that together we will roll up our sleeves, and make the most of this opportunity. Thank you.