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"Beyond Aid"

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I Introduction: A Critical Inflection Point

In a village in the mountains of Guizhou Province, China – a village like others in Africa, Central America, or India – people assemble to discuss the future. They don't want handouts, they don't want policy prescriptions, they certainly don't want lectures from visiting dignitaries. They want a chance. They are ready to leave the past behind. Are we?

Two eminent Harvard professors of government and history, Richard Neustadt and Ernest May, combined their experience in a book titled *Thinking in Time*. So-called "Lessons of History," they argued, were often misused – and led to bad decisions. History was better, they said, for helping people to think in "time streams" by considering present issues within a continuum of experience and future possibilities. History suggested questions rather than supplied answers.

So what questions, what future possibilities should we be considering in the uncertain Autumn of 2011? And how do today's challenges relate to what has gone before?

The World Bank Group's upcoming Annual Meetings are a distant descendant of a gathering in 1944, when representatives from 44 states met in Bretton Woods, New Hampshire.

In 1944, the world was still at war, a conflagration that extinguished some 60 million lives.

The task at hand was daunting: to ask why the diplomacy and the economies of 1919 failed so terribly in the 1920s and 1930s; to devise a new multilateral international economic system; to win the peace and rebuild for the future.

That historic conference laid the groundwork for three projects that formed the basis for what we still refer to today as the Bretton Woods system:

A project for the International Monetary Fund to finance short-term imbalances in international payments to manage adjustments in exchange rates, so as to avoid "beggar thy neighbor" currency competition and capital outflows that could break economies and societies;

A project for the International Bank for Reconstruction and Development, today's World Bank, to make long-term capital available to states needing investment and assistance, so countries could grow, buy from one another, and offer hope to war-weary societies;

And a project to reduce barriers to international trade, to foster open markets, to resist downward spirals of retaliatory protectionism and economic conflict.

The architects of Bretton Woods created a system designed for their world.

Let's take a moment to recall that world.

In that world, even amidst the post-war devastation, developed economies' share of global GDP was about 80 percent, with the United States alone accounting for over 40 percent.

In that world, developed economies accounted for over two thirds of trade.

In that world, most of today's developing countries were still colonies.

For almost seventy years now, the multilateral architecture of 1944 has persisted. It has creaked and groaned – with currency and oil shocks in the 1970s, developing countries' debt debacles in the 1980s, and expansions and crashes in the 1990s – but the system has remained broadly intact.

For all its weaknesses, critics, and patch-ups, the Bretton Woods system provided the enabling framework for the greatest era of growth and the largest, most successful, economic transformation over the shortest time in history. Some nations doubled their GDP per capita in a decade rather than the quarter century it had taken the now industrialized countries in the 19th Century.

But the Bretton Woods system itself is not inviolate, cast in stone for all time.

The key insight the Founders of Bretton Woods left us was the need for wisdom to recognize when something qualitatively new is going on, and for the wit and will to face and accommodate what's new – to act boldly, decisively, yet cooperatively.

Today, history's warning lights are flashing again: red, yellow, and yes, some green, too. Will we face the challenges of 2011 with nostalgia, with a longing for times past? Will we face them with denial, with our heads stuck in the sand? Will we face them with blame, with acrimony obscuring the potential?

Will we face them with timidity?

Or will we face the challenges squarely, constructively, creatively? Will we reason from experience, but think afresh for our own times? Will we recognize drastically changed circumstances and find a pathway to allow for all men – and women – from all countries to advance side by side?

II Tectonic Plates are Shifting.

As with every great historical shift, we need to ask questions about what is really going on.

Tectonic plates are shifting.

In the 1990s, developing countries accounted for about a fifth of global growth. Today, developing countries are the engine driving the global economy.

In the 1990s, developing countries accounted for a little more than 20 percent of global investment. Today they attract about 45 percent.

Over the past ten years, developing countries have grown nearly four times faster than developed, and that trajectory is expected to continue.

Some forecasts estimate that by 2025, six major emerging economies – Brazil, China, India, Indonesia, the Republic of Korea, and the Russian Federation – will collectively account for more than half of all global growth.

Already we live in a world where, if China's 32 provinces were countries – and the provinces are more populous than most states – they would be among the 33 fastest growing countries in the world over the last 30 years.

Today, China is consuming over half of the world's cement; almost half of the world's iron ore, steel, and pigs; a third of the world's eggs. Today, China is the world's biggest consumer of minerals such as copper, aluminum, and nickel. Today, net FDI inflows into China are around $180 billion, up from some $40 billion just ten years ago.

As China shifts from building a foundation of growth, some of this demand for materials and minerals will ease – but India will be next to gear up.

This is not the 1944 world.

But beware of assuming straight-line trends. As China's leaders know, the country's successful growth model is unsustainable. China is recognizing that it needs to face challenges of environmental degradation, inequality, resource use, demographics, productivity growth, and over-reliance on foreign markets.

If China reaches $16,000 of income per person by 2030 (up from today's $4,000) –a reasonable possibility – the effect on the world economy would be equivalent to adding 15 South Koreas. It is hard to see how that result would be sustainable within a model of export-and investment-led growth.

I am also skeptical of predictions of advanced economies' inevitable decline. With credible and definitely possible action – not just short-term fixes – on debt and deficits to restore confidence, and with a focus on structural and tax reforms to spur private sector growth, boost productivity, and create jobs, advanced economies can turn around and power ahead. Predictions of inevitable stagnation and decline -- from the Central European pessimism of Oswald Spengler to the stagnation hypothesis of the distinguished Harvard Keynesian Alvin Hansen -- have time and again proved to be wrong.

Nor is it a time to say developed economies can no longer afford to face up to challenges beyond their borders. In 1947, in the United States of Harry Truman, an average American produced less than a third of what each American produces today. If the generation of 1947, with less than one third our wealth per person, could face the world boldly – shouldn't we be able to do the same?

Americans, Europeans, Japanese, and other developed world countries play vital roles in innovation, investment, technology, security, and, yes, development. Their contributions still provide the underpinnings of the current international system. It is in the self-interest of the major developed states – and in the global interest – to be, with others, architects of the future.

Something fundamental is going on, but the lesson is that we must modernize, not abandon multilateralism.

Something fundamental is going on, but the lesson is that we must democratize development, not retreat behind borders or cloak ourselves in the false warmth of old verities.

The lesson is that we must change our old concepts and constricting labels, not our multilateral commitment.

Listen to those labels for a moment.

"First World" and "Third World," "North" and "South," "developed" and "underdeveloped," "advanced" and "emerging," "donor" and "recipient," "provider" and "supplicant," "rich" and "poor," "them" and "us."

The language of development has been the language of old hierarchy. Old World. Old Order. And not without a whiff of hypocrisy.

When countries that produce almost 50 percent of their electricity from coal tell poorer countries with no energy alternatives that they cannot use coal – what are they really saying? *"Do what I say, not what I do."*

When countries with large fiscal deficits preach fiscal discipline to poor countries – what are they really saying? *"Do what I say, not what I do."*

When countries pay homage to free trade but hold back developing countries with barriers, what are they really saying? *"Do what I say, not what I do."*

When countries advocate debt sustainability for the poorest, yet have debt levels at historic heights, what are they really saying? *"Do what I say, not what I do."*

A *"do what I say, not what I do"* world economy will fracture, to the detriment of all.

The old ways can and must change.

III The Old Models No Longer Fit

Already we are seeing the signs of change.

Around the world, it's no longer European, Japanese, or American models that developing countries are seeking to emulate.

The Mexican and Brazilian conditional cash transfer systems are being looked to for their innovation in keeping children in school, improving infant and maternal mortality, and overcoming poverty without breaking budgets.

Turkey's reform program of the past ten years is providing inspiration for reforms in North Africa and the Middle East.

Singapore's combination of open economy, services cluster, anti-corruption, and relentless adaptation to changing conditions is drawing admirers from as far afield as Africa, the Gulf States, and Russia.

India's model for information technology services is being copied by Ghana, Kenya, Madagascar, Mozambique, Nigeria, Senegal, Rwanda, and Tanzania.

Colombia's mass transit system has been recognized as an international best practice and replicated in cities across the region, from Mexico City to Santiago and Lima.

Relationships among developing countries are changing the development world as we knew it.

In the 1990s, developing countries imported 15 percent of their merchandise from other developing countries. Today, it's three times that amount.

In 2008, South-South FDI accounted for one third of the total FDI going to developing countries – and that share is growing: today, it's likely nearer to 40 percent.

In the infrastructure sector alone, the UN has estimated that between 1996 and 2006, developing economies provided over 39 percent of foreign investment in Africa, almost 43 percent in Asia, and almost 16 percent in Latin America.

And developing countries are no longer just recipients of aid – they are also providers. In 2008, new emerging donors contributed between $12 and $15 billion in development aid – that's equivalent to 10 to 15 percent of the amount provided by traditional, developed country donors – and that is likely a conservative estimate.

Of course, developing countries are beset with problems, too. Some 75 percent of the poor living on $2 a day or less are in "middle income" countries. Developing countries are understandably sensitive about assuming the new responsibilities thrust upon them.

What does this mean for the future?

IV The New Normal is No Normal

The new "normal" will be "no normal."

The New Normal will be dynamic, not fixed – with more countries rising and shaping the multilateral system. Some states may falter, too. The rising economies will be joining new networks – of countries, international institutions, civil society and the private sector – in diverse combinations and changing patterns. These new networks are displacing the old hierarchies.

The New Normal will be about countries continually earning their place in world economic affairs, not presuming it because of past standing or official prerogatives.

The New Normal will be fluid and at times volatile – with more shocks and crises, but also more opportunities for countries to benefit from the global economy.

The New Normal will be about lifting growth, not just shifting growth – creating new jobs as old ones slip in value; capturing the potential of sustainable and green growth; stimulating the private sector to innovate, create new technologies, and meet changing needs.

The New Normal will be about considering jobs as more than a derivative of growth, about recognizing how jobs can contribute to a combination of higher living standards, rising productivity, healthy social change, and stronger social cohesion.

The New Normal will be about Smart Economic Power: the successful will be alert to learn from the ideas and experiences of all countries, regardless of the old labels.

The New Normal will be about voice – of women in their communities, of citizens in their countries, of states in the international system. As we have seen in the Middle East and North Africa, it will be about social accountability, government transparency, civil society. It will be about citizens who are changing our world even as we race to catch up. We must support them.

V Responsible Stakeholders

Adapting to this new world is not about modest shifts in voting power at the IMF or World Bank Group boards.

It is not about developing countries being instructed by developed countries.

It is not about North-South, zero-sum politics of complaining and blaming.

Adapting to this new world is about recognizing that we must all be responsible stakeholders now.

In an interdependent global economy, yes, we need China to be a responsible stakeholder.

We need China to be a responsible trading partner; to move toward a responsible exchange rate system; to offer intellectual property responsible protection; to make responsible investments; and to pursue responsible environmental policies.

But this is not just about China.

Europe, Japan, and the United States must be responsible stakeholders, too. They have procrastinated for too long on taking the difficult decisions, narrowing what choices are now left to a painful few.

The global economy has entered a new danger zone with little running room as European countries resist difficult truths about the common responsibilities of a common currency.

Japan has resisted structural economic and social reforms that could retool its sputtering economic model.

The United States is facing record peacetime deficits, with no agreed approach in sight for cutting the drivers of debt.

The lesson of 2008 and earlier crises is that the later you act, the more you have to do, and the more painful it becomes.

It is not responsible for the Eurozone to pledge fealty to a monetary union without facing up to either a fiscal union that would make monetary union workable or accepting the consequences for uncompetitive, debt-burdened members. It is not responsible for the United States to falter in facing fundamental issues such as unsustainable growth in entitlement spending, the need for a pro-growth tax system, and a stalled trade policy.

Unless Europe, Japan, and the United States can also face up to responsibilities they will drag down not only themselves but the global economy.

The story then won't be about tectonic shifts that have made emerging markets the new engines of the global economy. It will be about tectonic shifts that have left developed countries slamming on the brakes.

Emerging markets will not sit on the sidelines; they will not go back to that voiceless, powerless, hierarchical 1944 world of leaders and followers, and spheres of influence.

The insight from 1944 is the need for leadership, for reasoning our way to a changed multilateral system.

The time for muddling through is over.

If we do not get ahead of events; if we do not adapt to change; if we do not rise above short-term political tactics or recognize that with power comes responsibility, then we will drift in dangerous currents. That is the lesson of history for all of us, developed and emerging economies alike.

But if we get it right, the potential is enormous.

VI What Might this New World Mean for Development?

Over the last 25 years, the share of poor people living in developing countries has been cut by half.

In just 4 years, child mortality rates have fallen by 25 percent in 18 African countries.

Over the 10 years before the financial crisis, economies in sub-Saharan Africa were growing by 5 to 6% on average, and most Africans have already recovered and moved beyond pre-crisis levels. If those growth rates could be maintained, African GDP would double in about 12 years, and increase by about 50 percent in per capita terms, generating public revenues for investment in their people, in productivity, in infrastructure unheard of in previous years – and, of course, reducing poverty.

That potential also draws from the private sector.

We have seen the power of the private sector in the $77 billion that has been invested in telecom networks in sub-Saharan Africa over the last decade, boosting the number of mobile subscribers from under 10 million to nearly 400 million.

We have seen the potential of private sector-led growth in the explosion of investments by developing countries in manufacturing and infrastructure.

We have seen it in the rapid rise in equity funds and other investors looking to put private capital to work in developing countries.

My point is a basic one: Today we are seeing economic, trade, and financial interdependence incomprehensible in 1944;

Today we are seeing innovation, scientific breakthroughs, and communications, incomprehensible in 1944;

We are seeing supply chains and logistics systems that range across continents and oceans.

We are seeing multiple poles of growth with new economic powers and a South-South development pattern.

None of these developments were envisioned in 1944.

Can we now combine those changes with a modernized multilateralism to herald a new world economy? Beyond dependence? Beyond a simplistic division between donors and recipients?

A World Beyond Aid?

VII A New Mindset: Beyond Aid

Prior to the Bretton Woods system, foreign aid primarily assisted with humanitarian crises: famines; floods; earthquakes; or people fleeing conflicts.

With the devastation of World War II, and then decolonization, aid seemed useful to jumpstart private investments that might be limited by insufficient domestic saving, capital controls, or weak conditions. Aid also became a currency to gain support in a bipolar Cold War competition.

That 1944 world has changed – dramatically. It is time to think about aid anew.

The changes do not mean there is no longer a place for aid – nor that developed countries should not honor their aid commitments, nor that we should disregard what aid has achieved.

Over the last decade, the World Bank Group has worked with the 79 poorest countries through our Fund for the Poorest, the International Development Association, to provide access to basic health, nutrition, or population services to more than 47 million people; to improve the nutrition of 98 million children; to give over 113 million people access to improved water sources; and immunization to 310 million children.

For millions of people around the world, that aid remains a life or death matter. It remains a valuable boost enabling countries to climb the ladder of growth.

We see this in the Horn of Africa, where aid is urgently needed to help the more than 12 million victims of not only the most devastating drought in sixty years, but of brutal men battling without care for consequence.

We see this in Afghanistan, where well-targeted aid programs have made real contributions to providing access to education and basic health care, improving rural livelihoods, supporting private sector growth, and building community empowerment and involvement in development.

Much remains to be done to achieve the Millennium Development Goals.
Much remains to be done to reach the "bottom billion" – the almost 1.5 billion people today – who live in countries affected by fragility, conflict, and violence. None of these countries has yet achieved a single Millennium Development Goal.

But aid is not for life.

Nor should aid be what developed countries give with one hand while, with the other, they exclude developing countries from agricultural or other trade markets, or restrict their access to sustainable energy.

In a world Beyond Aid, assistance would be integrated with – and connected to – global growth strategies, fundamentally driven by private investment and entrepreneurship. The goal would not be charity, but a mutual interest in building more poles of growth.

In a world Beyond Aid, sound G7 economic policies would be as important as aid as a percentage of GDP.

In a world Beyond Aid, G-20 agreements on imbalances, on structural reforms, or on fossil fuel subsidies and food security, would be as important as aid as a percentage of GDP.

In a world Beyond Aid, the advanced emerging markets would assist those behind with experience, open markets, investments, and new types of assistance.

In a world Beyond Aid, new investment vehicles such as IFC's Asset Management Corporation would create new channels for intermediating capital through private investment.

In a world Beyond Aid, new financial instruments would insure smallholder farmers against drought, or countries against hurricanes, would create local currency bond markets and leverage new equity investments, and develop new local commodity exchanges, or hedging instruments for developing countries.

In a world Beyond Aid, support for innovation and scientific breakthroughs would develop drought-resistant, more nutritious, and better yielding crops; create efficient non-carbon energy sources; and find new life-saving vaccines.

Developed countries need to recognize their self-interest in helping developing countries get on a pathway to sustainable growth. They need to honor their commitments. But we also need to recognize that the climate for aid will grow colder as donor countries struggle with debt.

Taxpayers have a right to know that the World Bank and other development institutions are responsible stakeholders, too.

We need to do a better job at demonstrating the effectiveness of aid, showing value for money, and pointing to results. We need to leverage aid more effectively through new instruments, and we need to expand the contributors by involving more stakeholders through more innovative approaches.

VIII What Might a Beyond Aid World Mean in Practical Terms?

What might a Beyond Aid world mean in practical terms?

At the country level, moving Beyond Aid means mobilizing and leveraging domestic savings and revenues transparently; financial inclusion with credit services and saving systems for all, especially women; and financing through local capital markets in local currencies.

It means good governance, openness, and transparency, facilitating strong citizen involvement and voice.

It means investing in one's people, including access to efficient safety nets, basic services and quality education linked to training and jobs – requiring public institutions and officials to deliver, not just represent interests.

It means encouraging entrepreneurs, small business, private investment, and innovation.

It means investing in infrastructure to build the basis for future productivity – including through innovative Public Private Partnerships.

It means investing in connectivity while gathering data and sharing information. In this new world economy, good data and information will be at least as important as financial assistance. The World Bank's "Open Data; Open Knowledge; Open Solutions" initiative is already revealing the power of information. From gender equity to trade policy, the World Bank can offer a public good by generating data, sharing it, and sponsoring others who will help us democratize development.

At the regional level, moving Beyond Aid means integration to help expand markets, facilitate logistics to boost trade, streamline customs systems, provide energy, and invest in regional infrastructure.

At the international level, it means multilateral innovation to forge progress on open trade and investment, access to energy, food security, competition in services, and climate change – not always waiting for all to join, but moving ahead where coalitions of progress are possible.

It means using the multilateral system – including the G-20 – to look at new policy and financing possibilities – with roles for all.

For the World Bank Group, moving Beyond Aid means continuing to transform ourselves to become an open knowledge partner – drawing from, researching, customizing, and sharing information, experience, and solutions from around the world. The Bank Group would be an investor and an intermediary for investment in building markets, institutions, and capacity, whether of governments at various levels, businesses, or civil society. It would be a catalyst for action in a democratized development model. It would be an agent that advances multilateral solutions to economic, development, poverty, and risk problems. And the Bank Group would be a champion of inclusive and sustainable growth.

Three years ago, I proposed one such innovation: A One Percent Solution whereby Sovereign Wealth Funds, a new source of global savings, would invest one percent of their assets in Africa's growth. Today, IFC's Asset Management Company is implementing this idea with funds to invest in underserved markets – Africa, as well as Latin America and the Caribbean. Today, total commitments to AMC funds are over $4 billion – almost $3 billion of which comes from outside investors such as sovereign wealth funds and pension funds that have had little exposure to emerging markets.

IX The Fifty Percent Solution

Today, I want to propose another idea that could bring us closer to that world Beyond Aid: A Fifty Percent Solution.

Women make up 50 percent of the global population and 40 percent of the global workforce. In Africa, women are the backbone of their communities: They represent the majority of farmers and produce 80 percent of the continent's food.

Yet women only own 1 percent of the world's wealth.

Women and girls in developing countries are less likely than men to survive infancy, to survive early childhood, or to survive their reproductive years.

Women are less likely to be paid for their labor, to farm profitable crops, or to own assets such as land.

Women are less likely to sway family decisions, or control the resources within their households.

And yet the evidence of women's human, social, and economic potential is overwhelming.

We know that gender equality is smart economics.

That countries with greater gender equality tend to have lower poverty rates; that a child's chance of survival is much greater if income goes into the hands of the mother; that simply by giving women more control over agricultural inputs, agricultural productivity can be as much as 20 percent higher in some countries.

But this is not just about economic potential. I believe gender equality is a right, not just a resource.

Nor is gender equality just about developing countries. Around the world, one in 10 women will be sexually or physically abused by a partner or someone she knows over the course of her lifetime.

We can talk about consigning old labels like "North and South," "developed and underdeveloped," "First World and Third World" to history, but it is still a "Them and Us" world.

Some may ask: How does this relate to a world Beyond Aid?

Simply put, it's about changing policies, and empowering every person, man or woman, not just providing aid packages.

We can give aid to better support women and girls; to build health clinics and schools; to boost immunization and offer access to reproductive health services. And we should. But aid alone is not enough.

We will not release the full potential of half of the world's population until globally we address the issue of equality; until countries, communities, and households around the world acknowledge women's rights and change the rules of inequality.

Giving women the right to own land; giving women the right to own, run and operate a business; giving women the right to inherit; giving women greater earning power; giving women greater control over resources within their households – could boost children's health, could increase girls' education, could leverage entrepreneurship and economic productivity, and could take us closer to that world Beyond Aid.

This would truly be democratizing development.

Next week the World Bank will publish our World Development Report on Gender Equality and Development. Drawing on that research, we will:

Build on the $65 billion we have provided over the last 5 years to support girls' education, women's health, and women's access to credit, land, agricultural services, jobs, and infrastructure. This has been important work, but it has not been enough or central enough to what we do.

We will mainstream gender analysis and diagnostics into all our country strategies; develop better indicators to disaggregate the impact of investments on women; and work with countries to develop more and better gender data, for example on asset ownership, and access to credit and justice systems.

Where countries do not want to work with us to reduce gender gaps, we will look for other ways to move the agenda forward, through dialogue, partnerships, and by drawing on the examples of other developing countries.

And we will continue to make gender parity among World Bank Group managers our own goal. Among our Vice Presidents and above, we are at 51 percent.

X Conclusion

Since I became President of the World Bank Group four years ago, I have talked of the importance of modernizing multilateralism to better recognize and reflect the economic shifts that are taking place in the world today.

I have talked about the need to democratize development so that all – North, South, East, West, rich and poor, men and women – can play a part in designing, executing, and continually improving development solutions.

I have talked about the need to make openness, transparency, and accountability a key feature – not only of the World Bank Group – but of government policy across the world.

And I have talked about the need to forge a new social contract – to recognize that investments in citizen voice, in civil society, and in social accountability are as important to development as investments in infrastructure, firms, factories, or farms.

Today I have tried to outline how a multilateral system better reflecting the economic realities of today, more rooted in a notion of stakeholder responsibility, more connected to private sector and civil society networks, more committed to practical problem-solving and innovation, could unleash a world Beyond Aid, a world that highlights prosperity not palliatives; potential not patronage; dignity not dependency.

There are some who may argue that this approach is too radical. That it will somehow let developed countries and their aid commitments off the hook. It need not.

There are some who may argue that this approach is too risky, that it will give a role to new financial instruments and markets that could get developing countries in trouble. It need not.

There are some who may argue that this approach is too premature, that developing countries are not ready to be responsible stakeholders.

Are they any less ready than developed countries appear to be?

Already, today, private sector financial flows dwarf official development assistance. Already some philanthropic contributions dwarf bilateral government aid. And new players and new donors are already transforming the aid world as we know it.

We need to be "Thinking in Time": drawing insights from those intrepid multilateralists at Bretton Woods; asking questions to distinguish the circumstances of our time; and acting with the aim of preparing for times to come. It is time to catch up; time to assume our responsibilities; time to create for the future, not pine for the past.

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