Speaker: US Treasury Secretary Paul O’Neill

It is great to be with you today. I had an opportunity to look at the distinguished group of people you heard from these past few days, and frankly rather than a give you a lecture I am much more interested in engaging you. I did some make remarks in New York a couple of weeks ago, in which I tried to explain, with what Alan Greenspan calls syllogistic language, some ideas about economic development and where we are and where we might better be if we would only do things in a different and more productive way than has been our lot for the last about 50 years or so. I don’t think I will take you through that again and if you haven’t seen it I am sure we can get you a copy of what I said there. For me, it was not was just another speech. I sat down and wrote the words myself to make sure I was expressing what I have in my head as clearly as I know how. And I must say to you, with humility (it’s not as though I think I am the only one who has ever thought about these issues), that I think for the object that I presume we all have in mind—which is to quickly and permanently raise the standard of living for people around the world, especially for those who have been left behind (not just for a while but forever)—we are more likely to make progress if we can engage each other directly and understand more concretely why it is we have a difference of opinion, and think, maybe, even for ourselves about what the real reasons are, which are maybe sometimes not the same ones we put forward, as to why it is we are opposed to change, or to thinking about things in a different way.

I know you have had lots of conversation over the last few days about some of the things that we at the Treasury and the Administration have talked about. I am really interested in engaging you on some of those ideas and getting your pushback. One that I would specifically like to engage you on is this how we should think about the form of assistance that we provide to developing and emerging nations. I think Minister Johnson is here and we had the opportunity to meet in New York and talked about these things. She, I think first, and others have suggested a way to solve this problem that I guess we are responsible for creating a development world, of suggesting that we should do more with grants and therefore less with loans. Minister Johnson came with an idea that said, “How about we look at the objects of investment, if you will, as a way to break the question of how much should go to for grants.”

There are certain things that one could agree—aid to post-conflict countries and assistance to deal with HIV/AIDS problems, and we said education, especially primary education, and maybe some other things that should be included as the way of deciding what the form of assistance should take. And seems to be a very good idea. But then at the G-7 meeting last week in Ottawa I found that yes, there was agreement on that, but only up to ten percent. When I heard this other idea, it has a lot of appeal to me because there’s a logic in it, there’s not an artificial number. I said, in reflecting on it, you know I don’t think we got to 50 percent in an artificial way. I have to say 50 percent is artificial; how do you defend the difference between 49 and 51, I do not know, and therefore I give up on that issue. The more important question is how we should be thinking about the flow of assistance to emerging, developing, and underdeveloped places, and if I can’t
think of a good reason to defend 50 against 49 or 51 percent, why do you think ten percent is some kind of magic number. Then I start getting answers like, “Well, don’t you understand the Bank is a bank, and banks don’t give grants.” At that point I get frustrated and say, “What does that have to do with anything? Are you really interested in helping people or defending institutions?” So that’s the engagement I’m anxious to have with you, to get it as right as its possible to do, to not accept any artificial constraints that we’ve developed or imposed or evolved into as we think about what I believe should be, our everyday concern that low income or no income people are beginning to have more than a glimmer of hope, that in their generation they will not have to live without any prospect of a descent life.

Speaker: Fred Bergsten, Director, IIE

Since you referenced your dialogue with Minister Johnson I’m going to ask her to pick it up and if you two can negotiate right here, I’m confident the rest of the world will sign on (laughter).

Speaker: Hilde Fratjord Johnson, Minister of International Development, Norway

Thank you Fred. Thank you Paul O’Neill for giving the floor over for discussion, that is very generous. I’m sure people will be eager to hear your views too on some of the very important issues in front of us. May I just comment a little bit on what we discussed previously. From Norway’s side we have been staunch supporters and suppliers of grants for development purposes. We have not been providing loans; as a consequence of that HIPC doesn’t really affect us that much because we have actually given grants so we are not a big creditor, but we’ve done our job there too.

Secondly, I think that its a very important issue for us to ensure that most countries do provide -- and I’m talking about the bilaterals -- grants and do not build up the debt, which Secretary O’Neill has referred too. On the issue of the replenishment negotiations that we are now in the midst of, which has, in a way, got us to some kind of stalemate on the grants issue, our view has been that we should avoid mission creep in terms of changing the Banks totally into development institutions and/or undermining the efforts of the UN. However, we see that there are some good areas where you could actually defend the use of grants. We presented a compromise report of this item for the IDA negotiations. It does entail that we look at the preconditions for development as a point of departure; the preconditions for development, implying that is not the development programs are not to be financed by grants but the preconditions for development – What do I mean? It is for instance, post conflict. It is for instance, natural catastrophes of great magnitude. It is for instance HIV/AIDS that do have devastating effects on the direct economy in many of the sub-Saharan African countries for instance. And thirdly, project preparatory work. When you distinguish between what is preconditioned for development in a crisis situation of countries from the ordinary development process, we might find a way to solve the issue, rather than working through this kind of sectoral
approach; looking at that and making that distinction and getting away from the percentage discussion. We have made calculations as to what this would imply in terms of percentages, it is a little bit like an accordion but we have made figures and numbers on that and would like to provide that to any interested parties. I think one of the major reasons for us to be concerned about IDA or ADF funding becoming a 50 percent grant, is what I also told Secretary O’Neill, it is not only the mission creep issue, but its basically what risk we run in terms of the long term effect of the lending capacity of the institutions. Both IDA and ADF and the others we might see, and there are figures on the table that show a major impact in the reduction of the lending capacity if you don’t provide the additional resources which George Soros referred and to which Mr. Meltzer referred. Providing the additional necessary resources is important, but we don’t have the guarantee. Secretary O’Neill is telling us that there is a commitment from the government side, which is highly appreciated, of the increasing throughout the next two or three years. However, we don’t know what the future administrations will do. And we know ten years from now the reflows are supposed to come, and we might have a major impact on the other poor countries and the lending capacity to assist them. The World Bank has made calculations of $100 billion over 40 years that actually is the loss. So this is our concern, and what we feel that way of approaching it might be a way of bridging the current stalemate between the Europeans and the U.S. proposal.

Speaker: Secretary O’Neill

We’re very interested in moving in this direction of specifying the kinds of things that should be subject to grants. We frankly want to include primary education because if you think about this from the point of view of a president of a country where the people live on $200 a year per person per capita, and someone says, “You need to do something about your education system and we’re prepared to make you a loan.” Forgive me for being a person who had to give shareholders back their money or they took it away from me -- I would submit to you the world in not unlike that. You may think government don’t have to perform. I’m one who believes, at the end of the day, that they really do have to perform or the consequences for the people that they rule are horrible. So if you are the president of a country and somebody says to you, “I’m going to give you money for education and you have to pay it back to me,” where is the flow of funds going to come from? We can all hope that yes, there is going to be economic development, and I think there will be economic development, but one is not directly related to the other. And so when we play this game with of saying to people who are trying to lead their country, “Here’s a loan,” well part of them, I suppose, say “Well I’m not going to live long enough for another 40 years to actually have to pay the principal back. It will be on someone else’s account; I’ll take the money. I don’t care what the terms are.” You may think it doesn’t have any consequences; it does have a consequence because the people who pay the interest on all the loans, not just the ones with big concessions -- no payments for ten years or .75 basis points for 30 years then the principal is due -- it all goes into the calculations of the marketplace. George will back me on this, and Professor Stiglitz, and others who know about economics. At the end of the day all your loans go
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into the capital base and you have to service all of your loans whether you like it or not. And the truth is, now this is an unforgotten truth, governments don’t pay interest charges. They are a pass through from people who make $200 a year. The government gets the money to pay the loans from the people who earn $200 a year. So it makes a difference if they have a 25 percent interest rate because they got too much debt. So at least for me when I look at primary education and I look at the stage of underdevelopment for billions of people, its hard for me to say, “Well, lets do post-conflict countries, and lets do a little HIV/AIDS - that will keep it under ten percent.” Why? Why do we keep it under ten percent? Because the Europeans say more than ten percent is too much. I say to hell with it; tell me a good reason. Tell me a good reason about people. Somebody tell me a good reason for ten percent.

**Speaker: George Soros**

I think there is a basic understanding between both sides. There is a need for more grants and I can give you an example. For instance, when I personally got involved in fighting tuberculosis in Russian prisons. I thought I gave a grant of $15 millions dollars and I thought that was a good way to make an impact. And it turned out the problem is much bigger than I thought because there is multi-drug resistance to tuberculosis and it takes $5,000 to $15,000 per patient to cure it. So, you can broaden the discussion you brought in; the World Bank, the World Health Organizations commissioned the preparation of a plan to fight tuberculosis. And it got everybody, donors, recipients, governments, engaged; 150 entities were involved. It’s a plan to stop TB, closely related to AIDS because the two are connected. It requires a $9.3 billion over 5 years of which 4.8 would come from the countries which are exposed to tuberculosis. There is still a financing gap of 4.5 billion, so the financing gap could be filled by using this mechanism that I proposed. There were some objections from the panel earlier about why we need a new mechanism. I think there is a need that is not filled by the existing organizations because all of the multilaterals have to act on a bi-lateral basis.

It isn’t right to have to borrow money to fight tuberculosis because it doesn’t provide the income with which you can repay the loan. And if you do it in Russia, what is going to happen in Kazakhstan, and Lithuania? You need a global effort. What we have now is not sufficient for that.

**Speaker: Secretary O’Neill**

George and I talked a little bit. I understand there was little conversation earlier about this special drawing rights idea. And someone whispered in my ear and there was also a conversation this morning about performance.

**Speaker: Fred Bergsten**
As we were walking in I mentioned it to the Secretary that the delivery system proposal you made and trying to set up some competition among both donors and recipients, kind of a market for assistance funds a la your foundations.

Speaker: Nancy Birdsall

George called it A Market Place of Projects.

Speaker: Secretary O’Neill

I think this is an interesting idea. I’ve said lots over the last year about the idea of performance. And I agree with you. I think that there is a charitable spirit in the United States that will be more forthcoming than the current level of assistance that’s provided through the federal government, but I don’t think it will be real until we can do a better job of demonstrating value for money spent. It’s not that I wake up every morning wanting to be critical, or wanting to find fault with everything in the world. But I really do think, as a general observation, when fair-minded people look at where the world is today; for billions of people with all of the things that have been done, that we have not made the progress that we deserve to make.

And as for grants, a point probably worth making in a very firm way is that my notion of grants is not “grants equals gifts.” I said it at the African Assistance Conference we had. My idea of a grant is that if through some process we decide we are going to spend money to get ten miles worth of road, and that’s a market-based price for ten miles of road, I don’t want eight miles. And even beyond that, when I say primary education, I don’t want to measure a consequence by how many kids are in school. I want to measure the outcome by how many ten year olds can read, write and compute at a level that if they never saw they inside of an educational institutional again, but if they had access to a library, they could develop their own mind. That’s a measure of effectiveness. You know how many more kids went to school, but in a lot of places that doesn’t tell you anything. In some places, the teacher pupil ratio is 150 to 1. What the hell is that all about! So, please make no mistake— when I say grants I’m talking about delivery. I’m talking about getting value for money that will help people to get on a perpetual motion machine of capital in-flows from the private sector, not just from public sector grants and loans. That’s the engine of real economic development.

More directly to the question of new instrumentality, I worry about one thing in the public life that too often we have new devices, which often times are very complicated, but I’m not sure why they are so complicated. At the end of the day, for special drawing rights or for concessional loans, and all the rest of these things, at the end of the day there’s a real economic value. Otherwise why do it?

Speaker: Fred Bergsten
Mr. Secretary, could I put your challenge to several people around the table. Let me call on Secretary Anderson from Sweden and then Ron Keller who runs the Dutch program, and David Beckman from Bread for the World. Let me just ask them to comment sequentially and see if they can respond to your challenge.

**Speaker: Gunn-Britt Anderson, State Secretary for Development, Sweden**

It’s interesting to have open IDA replenishment negotiations like this. (Laughter) I really hope what we do here and in other rooms will help us to conclude this because we should aim to have an agreement before Monterrey. We also want grant money for education, but I think we discussed this issue as though IDA was the only channel. It is one of the channels. The World Bank and the regional development banks are part of a system with many channels.

We were recently together in the Tokyo meeting on Afghanistan. And if you look at Afghanistan, it is UNICEF, a Swedish NGO, and a British NGO, that over the years of crisis have provided education on the ground there (the little education that is going on—three percent of the girls have been enrolled). But they are there now and ready to develop curricula, to print books, so that hopefully many more children will be able to start school. Those were the channels there for the support of education. Of course, in many countries—poor countries that are performing well now, HIPC countries with their poverty reduction strategy papers in place—we form sector-wide approaches. Sometimes IDA is part of it, but bilateral donors that already provide money to good governments in developing countries through their budgetary system also provide that. And then we also sort of have a direct ownership by the country, as we develop mechanisms for transparency.

The discussion becomes difficult when you confine it to IDA. I think we need to discuss much more how we look upon the total delivery system, where the World Bank is part of it (and a very important part of it) but where the UN agencies also have a tremendously important role. And bilaterals have slowly started to have less constraints on their aid, and put development at the center, and relax some of the appalling conditionality we place. We want the same thing, I think, but not a monopoly for IDA.

**Speaker: Ron Keller, Director General for International Cooperation, the Netherlands**

I agree 100 percent with my Swedish colleague on the issue of grants and IDA. This is a meeting on “Frameworks for Financing for Development.” And the title of today’s seminar is “New Proposal on Financing for Development,” and its true that Mr. Soros came up with a new proposal. But for the time being, I haven’t seen any new financing coming available, nothing in the run up to Monterrey, not in the final text for Monterrey. And if we don’t do anything, unfortunately, there will also be nothing in Monterrey.
Why is new financing needed? I think there is a convincing argument that it is needed to achieve the Millennium Goals. Our heads of state have to commit themselves, and our people have to commit themselves to eradicate poverty globally. Whether that is precisely measurable or not, it is a political intention—a commitment. And for our side (the OECD countries), we just don’t deliver. For 30 years we have promised to share a tiny bit of our wealth with the poor people in the world. For 30 years, we still don’t deliver. And at present, with all the pressures and all the focus on this conference, which goes way beyond IDA and the issue of grants—because of course we need far more grants, Dutch grants, Swedish grants, U.S. grants—we still don’t deliver. We need more grants—not shifting, but more grants.

We ask a lot from developing countries and rightly so; we have taxpayers too and of course it’s about effectiveness. It’s about reaching the poor people. But what do we get in return? If you read the text, fortunately Doha was a success, and hopefully we will deliver there a bit. But for the rest, what do we from the North, from the Western countries, in return for all the requirements and demands we put on developing countries? What do we put up? Hardly anything. And then, the most visible is the 0.7 percent GDP for ODA, which was relevant 30 years ago. Look at the calculations that the World Bank made and others. It’s still extremely relevant and absolutely necessary to get the 0.7 percent of our GDP for effective aid. What do we deliver?

**Speaker: Secretary O’Neill**

(first ~20 seconds inaudible)

In the question of coordination or non-coordination we’ve made them all into hostages to charity, if you will. Now that’s a bridge into my answer into Mr. Keller’s question and Mr. Beckman’s question.

For me, when I look at how we can approach the idea of eliminating poverty, I don’t think we can even get close with charity. There’s not enough charity in the world to get close to fixing the problems that reside out there. And therefore, part of my reason for wanting countries to be investment grade with their own securities is because it’s a signal that it is a safe place for private capital to go. If you look at private capital flows—do you know how much foreign direct investment went to China last year? It was $45 billion. That is equal to the total amount of aid flows around the world from all instruments. And it went in one year to one country. Why did it go? Because private capital thought that they would be able to get their money back with interest. It’s not easy to get into that kind of condition but it’s the direction in which I think we should be trying to go.

I know that there’s a very common formula, especially in Washington and in government capitals, that we measure how much we care by how the government spends. I would
suggest to you that it’s the wrong measure if really care about solving this problem. This is not to say that it’s an independent question and this is not to say that the US shouldn’t do more. I’m all for doing more, but in order to get the American people to agree to do more we have to show them that we know what we’re doing. If we can frankly and freely admit there are a bunch of things that we did that didn’t work, that would be a way of saying to intelligent citizens that we know the difference between what’s good and what’s bad. And we are not going to do the bad stuff again. That would be progress. To be able to say very clearly, “We tried these things and here is why they didn’t work. It’s not because we are giving up on the objective, it’s not because we say we’re not going to help people raise themselves up, but we know why it didn’t work.” So for me, this question is one that needs to be broken down into parts. The first part is what would I call the ‘human knowing value’ that we should be putting into countries; we know the most fundamental things—like if you have clean water your life expectancy is going to go up by 20 years. And if you want to know what’s the biggest explanatory variable for improvement in life expectancy in the United States since 1940—its sanitation and water. I said this in a discussion we had with Bono, Bill Gates, President Zedillo in Mexico. And you know why water isn’t on the top of everybody’s list? Because it’s hard to get people’s compassion flowing for water, even though analytically we know it’s the right thing to do, and it ought to be the subject of grants.

Speaker: Fred Bergsten

Michel Camdessus, who is here, is actually leading an international effort on water and maybe we can talk about that in a minute. I want to follow up, Mr. Secretary, on what you were just saying. You are very well known as a bottom line man, and a very successful one, and so I would like to ask you—what is your bottom line for this conference in Monterrey next month?

What is the bottom line that you would like to see come out of that when President Bush goes, and I know that Secretary Powell is going, and I presume you are going. What is the result that you would like to see from Monterrey that all of the folks here could help to promote?

Speaker: Secretary O’Neill

There are so many people involved in this and I am going to be more humble than just giving you a flat answer, but if I were designing this thing from scratch from the longer perspective of what I hope we in the leadership positions in the world would be seeking, my goal would be that we resolve to be party to creating multiples of current income realizations in countries all over the world. We should measure our progress every five years, and not take no for an answer, and not take excuses for an answer anymore. We should insist on seeing a change in the living conditions and accomplishments of people all over the world. That’s the worthy thing to do. And if we do that, it will require us to
change our behavior, to change our expectations and I think it’s a worthy goal. The goal of spending more money, maybe it’s a proxy for everybody else, but it doesn’t work for me because if it doesn’t change the living conditions, what have we accomplished? It just doesn’t seem right to me.

I want to say one more word about Africa. I’ve been to Africa many times, and to different parts of Africa. I was part of a very big operation in Guinea, which produced 85 percent of all the income for the federal government. 85 percent of its income came from royalties and taxes from this one operation where we employed 2,500 or 3,000 people. Outside of our plant 45,000 people lived in shanty towns. They were supported by the people who worked inside the plant.

When you flew over the country—for those of you who know Guinea—when you fly the up country, it’s really very interesting, and in some ways it’s a beautiful lush country, but there are lines in the ground. You can see where the brush has been cut. The first time I went I said to the people who were with me “What’s the reason for these lines, they are laid out too geometrically to be just an accident.” They said, “Well that’s where the telephone lines used to be.” They aren’t there anymore. Even the telephones poles aren’t there any more. Because when the colonialists left (they were really kind of driven out), they took everything with them. I said that it was interesting to me that there doesn’t seem to be much agriculture. The person who was with me said, “Well it’s true. In the 1950s the country was completely self-sufficient for feeding itself. And now half of the food is imported. We’re not self-sufficient for food anymore.” Lessons like that have stayed with me for a long time. This is economic development?

This is not economic development. This is people with a fishery that could feed the population with the right kind of economic development. So I go and I look at these kinds of conditions and I say that the mind of man is capable of better than this. We’re capable of better than this. There’s something wrong with what we’re doing. There are places where not only has the living standard not gone up, but in our century the living standard has gone down! How could this be? There’s something wrong.

**Speaker:** Nancy Birdsall, President, Center for Global Development

Well Secretary O’Neill I want to really commend the effort you’ve made to put performance and effectiveness of foreign aid on the table. I think it has enriched the discussion in this run up to Monterrey and it should continue to enrich the discussion of foreign aid in the next couple of years—in the next decade and beyond. But I also want to tell a story about something the Minister of Finance from Uganda said last night. He’s here at the table and I hope he will forgive me for referring to him.

Let me start by saying that as you know Uganda has been the shining star in the HIPC initiative—the poster child in a sense. It’s a country which after it received the HIPC benefits doubled its primary school enrollment rates in something like a couple of years.
We don’t know yet if the children actually can read but I suspect that at least some of them will be able to read more than they might have. It’s also a country according to the Minister which in the last 6 or 8 months has seen the price of its major export—coffee—plummet from about $1,800 a ton to about $300 a ton. And at the same time it is a country that has entered into the NEPAD (the New Partnership for African Development) which Michel Camdessus spoke about last night.

So in a sense we have a contract with the Ugandans. They have done the better part, by improving their performance. Now the question becomes how do we ensure that the people of Uganda are insured for the next several years against this kind of risk that is associated with being a primary commodity exporter of coffee? How can we be sure in the run up to Monterrey that we are addressing the other half of the partnership. If the Ugandans are fulfilling their part in terms of good policy and good performance, how do we make sure that the partners and the donor community have the financing and the insurance ready to fulfill the donor side?

**Speaker: Secretary O’Neill**

You know this is an excellent question. What comes to mind very quickly is that part of the reason for this problem in Uganda’s coffee— it also affects Brazil— is that the Vietnamese have decided to go into the coffee business and it turns out that they are very good at it. Their soil is very fertile and they grow coffee with great speed. I don’t say that to make light of the problem that this causes in Uganda but to say that it is a familiar problem in lots of issues in world commerce and I think the answer is not to prop up coffee prices but to find new mechanisms to deal with the reality of a world where we really are ever more integrated and interrelated. I guess I would say that until fairly recently changes occurred slowly enough that the adjustment process could work without savaging people. (Although I have to say when I go back and look at some of the primary industries the ones that I know really well who lived on the commodity cycle some of these problems have been present— but they have been isolated).

This cries out for new mechanisms and ways of thinking about adjustment assistance on a different scale. For forty years the world has had 35 to 40% too much steel capacity and a fair part of it is here in the US and we’re now in the middle of what’s probably going to be a pretty good conversation about strategic industries. The truth of the matter is that the world needs a new way to deal with these things that are not cartels. It’s not about cartelization, but rather about facilitating economic development that’s good for the world but not good for some individual people so that we can use our brain to solve these problems instead of saying the system is no good and capitalism should be destroyed. We need to figure out how to deal with the consequences while concentrating on individuals in a place like with Uganda.

By the way, you know when Bono came to see me the first time, I didn’t know that he knew anything. I thought he just wanted to do public relations. But I was very taken with him because he was able to talk to me from what he had seen with his own eyes. I
respected that very much. He said to me “Minister you must go with me to Uganda because I will prove to you good things are happening and HIPC is not a bad idea.” So I said to him I would welcome that which I do. I told Charlie Rose— we both were doing a Charlie Rose show— and I said “Charlie you should come along and do a TV documentary to show that people of all kinds care about these issues and are looking at the problems with their own eyes and learning. It’s not just about a theory and a studio in downtown New York or something.” But, I’m very interested to hear from you.

Nancy Birdsall: Mr. Secretary can I quote you as calling for a new kind of global social contract?

Secretary O’Neill: Well I don’t know about that (laughter). “A new kind of global mechanism”— you know, unfortunately, in the world we live in, language has a life of its own and there are a lot of people who would blanche at the idea of a “social contract.” I don’t recoil from it. But how about “a new global mechanism to make the world a better place”? I’m for that.

Fred Bergsten: On that specific point— and we turn to the Minister— we actually have a new study just about to come out that deals with this kind of problem and proposals creating a new contingency finance mechanism that would help countries who are hit by these external shocks to deal with their problems. I know Hilda had just a quick word on that but Mr. Minister why don’t you pick up this dialogue with the Secretary?

Gerald Ssendualala, Minister of Finance of Uganda: First of all, thank you very much for inviting me to get involved in this discussion. I had deliberately decided to keep away because I could easily have caused damage to the debate, the way it was moving. For example, looking at the effects of IDA, and how effective IDA is, and also the grant side. Having heard from one of your colleagues yesterday—John Taylor— when he talked about review every year. And, for me having been in this position as Minister of Finance of a poor country for the last year six years are so, I could not see how that would be achieved, but I left it at that and felt that maybe we would get an opportunity to discuss these matters further.

We are very grateful for the support we certainly get as Uganda and Africa in general and as the poor. However, I think that there is need that, as we go to this conference in Monterrey, we should have a focus. Because the issue that has been described to you about the failed prices of the commodities is extremely important. And of course yesterday when I asked the question of Mr. Camdessus, he told me “Don’t only concentrate on coffee, expand it to cotton and several others.”

You have just mentioned, that $45 billion that went to China. Well, we would like to be attractive [to investors too], but there are many things that need to be done to make us attractive, so that we can also say “well, we are willing to go into the market and to get money.” But even when you look at the basic infrastructure— it is certainly not in place effectively. Any investor would need the infrastructure to be in place, any investor would
need to be sure that when we talk about what you basically require for you to invest in a country, it is already available.

As it is, Uganda—like every other poor developing country—cannot access money on the capital markets. We can’t! We’re not there yet. And yet on our part, when you consider the IDA arrangements, using the Bretton Woods Institutions, World Bank, IMF, we’ve done all that we can say is humanly possible. We have been involved in the structural adjustment programs, we have liberalized, we have opened our economy, the Uganda shilling is freely convertible, and so on. All these flowery words that one would need to put forward to get investors. And when it comes to actual performance you can say we have tried everything. I have said this before to the IMF, “Look if you are a doctor, I have attended to the prescription that you gave me, and I have behaved as well as expected, but still I am not seeing light at the end of the tunnel.” And I think this is what was we are trying bring across; this is what we thought would be addressed when we go to Monterrey. What programs are likely to come out?

Because this time around we are talking about “new proposals on financing for development.” And really, bear with us. As we stand today the way we are getting support from America is through sort of a project arrangement. It’s not even budget support. Because budget support was also rejected. And if we are not involved in budget support, how effectively are you going to be seeing the children and the teacher-pupil ratio carried all the way through? Because you are in one area, then the rest of the money is in another pocket, then how are we going to be effective?

I’m delighted that Professor Sachs and Bono came to Uganda. They did indicate that you are going to Africa, I would like to extend our invitation to you to come to Uganda and see exactly what we have done, and maybe you will change your mind and say “Let’s move in this direction, to ensure that we prepare the country for development.” And we have been promised—we have been promised 0.7% of GDP, we have been told that poverty will be gone by the year 2017, etc. etc. I am glad you have allowed me to come into this discussion. Thank you.

**Secretary O’Neill:** Thank you. Just one thing, this is from real life experience. If you want to know one of the essential things in order for substantial capital investments to go—recognizing that this is on a spectrum scale. As a general proposition money goes where there is the rule of law, and where there are enforceable contracts, and after you’ve done well you don’t have somebody stick you up and say “now that you’ve made money you have to give it to me” (which means, where there is no corruption). If you’ve got those three things, money will go, money will go. Without those three things then the rate of return has to be much higher than otherwise. As a general proposition I would say to you all if you don’t know already— “capital is a coward.” It wants to go someplace where it will be treated well, and where the only risk is the business judgment risk, not external risk.
That’s how money goes and if you go around the world and look where money is flowing more money is flowing where those conditions exist and where the other things have to be included and in the risk assessment.

Fred Bergsten: Alright let me come to Joe, George and then Michel Camdessus and ask you to be…

Secretary O’Neill: May I just say one more thing about education because to me it’s a really important point. You know I don’t think measuring education progress frankly on a yearly basis is often enough and this comes from spending the better part of forty years of sometimes spare time sometimes more than spare time working on education. This is true all over the world. Human beings learn one at a time. They don’t learn in a classrooms of 150 or 20 or 10 or some other number. Everyone of you learned what you’ve got in your head by yourself one at a time. And the frequency of testing to see whether or not a human brain has picked up something new is a lot more frequently than once a year. As a matter of fact I would say its probably every other day or once a week. And if the teacher or the instructor isn’t refashioning the approach to make sure the fundamentals are in place then when children get to be 10 years old they can’t read and write and compute. I’ll tell you something — 20% of the ten year olds in the US can’t read and write and compute, so this is not an easy challenge.

But I couldn’t miss the opportunity to say that this is not easy to do but it’s one kid at a time. It’s not a country at a time or a grant at a time, it’s one kid at a time everyday. And one more thing, in my experience working all over the world there are no children, no children (except those who maybe have a physical deficiency) who can’t do it.

Joe Stiglitz: The Ugandan Minister said much of what I wanted to say but much more eloquently. I visited Uganda, and I visited a very large number of countries when I was at the World Bank and I’ve seen most of the money was very successful in a lot of very successful projects. And at the World Bank they also did statistical studies that identified the circumstances in which money is well spent. So in responding to the comment that you made that it is important to identify our failures and our successes—well, a lot of that has gone on over the last 20 years. There’s an evaluation unit at the IMF that Montek [Ahuwalia] is heading. There has been enormous success on this effort.

So right now I think among those who are involved in development there is a belief that there can be more selectivity and money therefore can be more effectively spent. If you just focus on a couple of the areas you talked about— specifically, grants on health and education. If you just look at the needs in those areas, it is far more than the world is spending today. So the “issue” about volume and quality is a non-issue, really. We could double the amount of money that we’re spending today and know that we’re spending it well. And really there isn’t any argument on that, it seems to me.
And then finally relating this to the issue with the private sector I think there are three observations. One, echoing what the Minister has said—unless you have roads, health, education, a labor force that works, you’re not going to be able to attract private investment. And so these are really basic ingredients— the precursors— that you are going to need. Secondly, what I’ve seen in a lot of Africa is that they’ve gone a long way (though obviously they still have a long way to go) and they’ve paid attention to the three things that you have said and yet private sector still is not responding. It will take awhile and it will eventually happen. But we’ve encouraged democracies, and as we know in democracies there is an impatience. Other forms of money can help. And thirdly, related to the role of IDA and the World Bank—the private sector can fill an awful lot of the needs—say, in infrastructure. But one of the things we saw very clearly in the 1997-98 crisis is that even in the middle income countries which can attract private capital, it’s very unstable. If you have a crisis and infrastructure projects get canceled there is still a role for the World Bank to provide loans and there is a need for IDA to provide help in these other areas which are really important precursors to the successful entry of the private sector.

George Soros: I think we all agree that there are certain preconditions which are necessary to encourage private capital. We have a need for further investments. But you are an entrepreneur. Being an entrepreneur involves not just taking some risk and not just asking what has gone wrong, but also trying to do it right. We have to move forward and do something constructive.

We have for instance this Global Plan for Stop TB. It’s a business plan—I asked them specifically to prepare a business plan. So why not provide the capital for education? There is an excellent proposal that was tried out in Brasilia and in Mexico with good results. It could be scaled up with international assistance. It does get actually support in Brazil and Mexico, but they don’t have the resources to scale it up. So I am appealing to you in public the way I appealed to you in private—why not go ahead and actually bring something concrete to Monterrey so that the world can see that we really care?

Fred Bergsten: I’m conscious of the Secretary’s time so that I’m going to ask Michel Camdessus to put the last question or comment.

Michel Camdessus: Thank you very much. I wanted only to tell the Secretary how delighted I was that he mentioned water as one of the things where we should make a difference. And I say that in passing not because in the last half of my life I was interested so much in international liquidity. (laughter)

But here, I am talking about water which is life, water which at this time is killing more children in the world than wars and HIV/AIDS. It happens that among the Millennium Development Goals to which we all pledged in September 2000 in New York was the pledge of reducing by half the number of people with no access to clean water before the
year 2015. I have been asked together with Jim Herman to chair a group of international financiers to see how this objective, this millennium goal could be achieved.

And here we have an extremely interesting thing. Because in general we associate Millennium Development Goals with public money— with ODA to be put in. Well, in this case it’s not that at all. With regard to water, we discover that it is chiefly a problem of private investment. People— including the poorest people in the world— at this time pay much more for water than they would if they had clean water brought to them through private investors. Of course, the amount of investment to be achieved by the private sector here is huge. It’s $100 billion additional every year during this period. But it is feasible provided we convince countries to put in place the proper enabling environment for private sector investment to be realized. And we are working hard on that and indeed I want only to call your attention to that.

We must deliver on Millennium Development Goals, but we must remember that the big bulk of investment needed will have to come from the private sector. We must work hard. Monterrey offers us hope for creating the enabling environment. Thank you.

Secretary O’Neill: Fred I’m going to go, I apologize to all of you who didn’t get to be a part of this. I’m sorry about that. As you can see, we were pretty engaged up here. I really do appreciate the opportunity to engage with so many thoughtful people about these subjects and I have a lot of respect for what all of you are bringing to these issues. George, I do agree with you that what comes out of Monterrey needs to be uplifting and forward looking and it needs to be ultimately about how we’re going to achieve an improvement in living standards for people all over the world in a reasonable period of time— not some generation down the road. Because I we all agree that this is problem that should not go on for generation after generation. As I’ve said in New York and I’ve said briefly here again every place I’ve been in the world, the human beings there— with the right education and training and capital availability— are capable of living at what we would all call a high reasonable standard of living. There’s no less desire to achieve more with individual lives any place I’ve been in the world. It’s a matter of organization and deployment of resources I think. And one thing I think is important (for me at least) is to include the totality of our institutions as we think about this.

For me this is not about government— you’re the proof of that George. I asked George about what he does. He’s out there, spending his own money. This is somebody spending $750 million a year or more for all I know, doing real things out there. Somehow we need to integrate— not to dampen but to integrate— what you’re doing and what NGOs are doing so that we get mass out of the totality that leads to the private flow of investment capital and begins to create a perpetual motion machine of economic development and achievement for the world.
If we can get agreement out of Monterrey that this is what we’re about, and that we will measure our success by improvement the people’s living standards— that would be a great accomplishment.

Fred Bergsten: Mr. Secretary I think I can speak confidently for everybody here about how much we appreciate your openness, your willingness to discuss this with us, to consider new ideas, I think its fair to say we share objectives and this kind of discussion as to how to achieve those objectives is extremely constructive we thank you for sharing the time with us. I ask everybody else to stay on for the concluding part of the conference. I’m going to walk the Secretary out. Thank you very much Mr. Secretary.

(applause)

Nancy Birdsall: As Secretary O’Neill leaves, let me add my thanks. I think those of us who have been concerned with development issues and the reduction of poverty for a long time must take heart in the fact that we have this incredibly distinguished group in that kind of conversation and exchange that just took place on these development issues.

For our closing remarks I’m very pleased to turn to two who really are among the world’s heroes of development. First, Enrique Iglesias— well known to all of you— is the President of the Inter-American Development Bank and then Michel Camdessus to wrap everything up for us. For the members of the press who aren’t following Secretary O’Neill out of the room, there will be a press conference immediately following upstairs on the 4th floor.

Enrique Iglesias: Thank you Nancy for your kind words, particularly because I have my director there, who I hope will take note (laughter). Well I want to thank very much Fred and Nancy for this wonderful roundtable today. Really it went far, far beyond my personal expectations and this was really a very good encounter, very inspiring, creative and very candid yesterday and today.

I think we are very honored in the Bank to have been a co-sponsor of this meeting and we thank you for your wonderful organization of the meeting. And I don’t want to forget once again to thank our recent friend Hilda and her government. And as I said yesterday, thanks to Norway for the opportunity that the regional banks had to meet in this environment of very distinguished people to look to our role in this conference—this movement— in Monterrey. I hope that we are going to make some input into the conference so thank you very much. It was a great opportunity for us.

I have worked many of these conferences in the past, when I was working for the UN. But I think as the Secretary just said now, this UN conference is a major contribution. It will steer the collective conscience of the world around the issues. This is probably the major contribution. The UN is a body for placing at the center of the concern of the world that which is relevant for the whole community. And I think that after the
Millennium Conference which was so rich in terms of making proposals and commitments, the idea of looking to financing makes to me a lot sense.

I would say that the idea—and the global scope—of the conference has three basic contributions. First, it was very clear in our deliberations that financing for development is a very important instrument of economic and social development. There is no way to have a sustained level of growth if we don’t have a good level of financing. And if there is no way to achieve the overarching objectives of social development, reducing poverty and inequality, building an inclusive system, and so on if we don’t have a very solid system of financing. That seems very simple to us but it is very important. At the time that we move in this direction of achieving social and economic objectives, financing of development plays an important role.

Second, I think it is very important—and this stems from the discussions yesterday and today—that there is no way to meet the demands of financing of development without internal efforts, and without local savings. There is no substitute from outside for good institutions, for good macroeconomic policies, for good governance, for development of local and regional capital markets. This is the basis for our efforts for sound financing for development.

Third, international cooperation was very much at the center of this conference. We have discussed a lot of the areas where international cooperation is importance—the financial architecture, the reform of multilateral financial institutions, and trade. I think that it was very important that trade was put in the center of the discussion. Yesterday, Minister [Ssenduala] presented very brilliantly trade issues as a crucial component of developing countries’ problems. And I think again it is very interesting and very important to see the contribution of trade in this global perspective.

Finally, regarding this question of overseas development assistance, I think that IDA is in the center of the discussion. We discussed the level of financing, the modalities, and the performance. These three things are the centerpiece. If all this deliberation would lead the world to have more development aid and more efficient aid, then fantastic—the conference would be a real success.

So I think all these elements on the table are the essence of the contributions for this conference, which is very enriching. I think perhaps people will say that it is important that the conference takes place. This is perhaps the most important contribution in the short run. The fact that we are going to sit together—50 or 60 presidents, dozens of ministers—and the fact that we are going to talk about this global view on financing and the role it plays and the complexities of its components is very important. Finally, I think paraphrasing yesterday Michel’s words, in a sense it’s a question of partnership. It’s an enlightened partnership within our countries with the stakeholders in this process, and an enlightened partnership among the major stakeholders in the international community, in
order that perhaps working together we’ll be able to help to build a much better world for
the future.

Michel Camdessus: Thank you, Nancy. I understand that you have asked me to speak
for one minute on behalf of the International Union of Quintessential Civil Servants,
which is growing at a hyperinflationary rate! (laughter) I don’t want to repeat what the
Quintessential President of the IDB has just said here. He has covered all the issues. But
I want to join him in particular in thanking the Center for Global Development and the
Institute for International Economics for having organized this meeting. Of course we
always learn a lot each time we come here, but today we have seen you at your best—
namely in your capacity to help unlock international debates. Intervention can be critical
when public actors are too much confronted with issues which tend to become
ideological when they are only— let’s say— practical debates. Listening to the debate on
grants versus loans and the wonderful debates between Hilde and the Secretary, I thought
“well, a solution is at hand.” This debate probably won’t turn out to be the kind of debate
we had in the 70’s and the 80’s about the SDRs. So congratulations for that and I really
hope that what has been taking place this morning— this debate on loans versus grants—
will be solved. Yes, we need more grants and I believe the United States will certainly
find a way of reassuring their European friends about the fact that they care just as much
about the survival of The World Bank and what The World Bank does best.

I touched on the SDRs and indeed it was fascinating to hear George. I want to say here
two very simple things. First, that the 27 billion SDR allocation has been adopted and
only remains to be ratified. I believe that the Americans should do that. Second, the
SDR is something which is in the international organizations and treaties to help
countries face their reserve needs. Of course, one can discuss ad nauseam about the so-
called “long-term global need for liquidity.” (There is a bizarre contradiction in the
vocabulary there: “long-term need for liquidity” but let’s forget that for now). Let’s
consider the situation of the developing countries which are behaving in an extremely
conservative way, but which suffer tremendously from the present instabilities of the
markets and must accumulate reserves — which introduces a recessionary bias in the
economic management. We must deal with that and I believe to utilize this instrument to
help these countries to continue developing very reasonable policies would be in the real
spirit of what the SDR has been created for. So I would hope that this debate which must
take place in the IMF will take place with due consideration of all the tremendous
difficulties which well behaving countries are suffering. And then of course, we have the
imaginative suggestions of George— there is a kind of alchemy there, in transforming
reserves assets and resources for economic development. There are many things I like in
these ideas from George, and I must not in passing (even if here I am going out of my
task, which was to conclude the debate) this idea of a jury to judge projects. I believe
that we shouldn’t reject this idea because it’s a new idea. This idea should be judged for
its own merits, and with the view to the needs for financing global public goods. This is
something which has regrettably disappeared from the paper on the Monterrey consensus.
That was a commercial for George, so now I shall make a commercial for my own ideas. I do believe that in Monterrey, partnership is the name of the game. We must take as sacrosanct at least the fulfillment of the Millennium Development Goals in those countries who deliver on their own pledge for goods policies. If something must be done right away— even perhaps before countries deliver as they should on the right policies— it is to help in institutional capacity building. We should organize better for that.

Thank you very much.