

WORLD BANK SYMPOSIUM, OSLO 30 MARCH 1987

"ECONOMIC DEVELOPMENT AND ADJUSTMENT IN THE THIRD WORLD"

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OPENING SPEECH BY PRIME MINISTER GRO HARLEM BRUNDTLAND

"NORWAY AND THE WORLD BANK"

Mr. Chairman,  
Mr. Vice President,  
Ladies and Gentlement

This symposium will focus on one of the most important and complex issues on the international agenda: economic development in the third world, and how the World Bank shall exercise its crucial role in this area.

The importance of the issue is clearly shown in facts all of you are painfully aware of. In spite of the impressive progress we witness in many parts of the world, there are more poor and hungry people today than ever before, and the number is increasing.

So is the number of people who cannot read or write, who lack safe water or safe and sound homes, and the number of people who are short of woodfuel with which to cook and warm themselves. The gap between rich and poor nations is widening - not shrinking.

At the same time the world population increases with nearly 100 million every year. UN projections tell us that to day's world population of 5 billion may stabilize between 8 and 14 billion sometime next century. Thus we are probably faced with a doubling of the world population in the foreseeable future. More than 90 percent of the increase will occur in the poorest countries, and almost entirely in the major urban centres of these countries.

The complexity of the problem lies partly in the present structure of international economic relations, which in so many ways works against the interests and possibilities of the developing countries. It lies partly in the complex web of national policies, both in the rich and the poor countries. And it lies, not least, in some real dilemmas we are faced with when trying to attack the problems.

The general diagnosis of the present crisis is well known in this audience.

The recent trends in the international economic environment have not been conducive to the promotion of growth and development in Third World countries.

Growth is being stifled by heavy debt burdens, depressed commodity prices, protectionism in many industrialized countries, and stagnating or declining flows of development finance. Certain short term positive developments have been offset not least by a considerable worsening in the terms of trade. Real commodity prices have never been lower since the international economic crisis of the 1930s. Especially those countries in Africa that are almost entirely dependent on one or two commodities for their export earnings, are drawing heavily on non-renewable resources in order to obtain a trade

surplus to service debts. But increased exports volumes bring little increase in revenues, while their basis for long term growth risks depletion without any economic surplus to invest in development.

As is well known, there is now a net transfer of resources from the poor to the rich countries. And a majority of developing countries have lower per capita incomes than when the decade began.

This situation is unacceptable, and has to be reversed. A number of measures are needed to improve the situation; Increased growth in the industrial countries is crucial to a positive change in the developing countries. This requires a better economic coordination and balance between major industrialised countries. A substantial improvements in the terms of trade of the developing countries is urgently

necessary. Reduced protectionism, international measures to stabilize commodity prices, increased processing of natural resources before export, and diversification of production are important in this connection. And it is essential that additional financial resources are provided in order to bring the economies on the road to growth.

The World Bank has responded quickly to the international call for increased lending for economic growth in the heavily indebted countries. However, it is regrettable that the World Bank has not had the catalytic effect by its lending to those countries, as was expected, and in general, net resource flows to developing countries have fallen in real terms. The total international capital flows to developing countries expected for the rest of the 1980s are inadequate to restore desired level of growth.

A consequence is that "new" financing to a large degree is used to service "old" debt. With a much more manageable debt servicing burden, a number of countries would have been able to channel a larger share of their new financing into growth oriented investments.

Mr. Chairman,

Due to domestic policies and an unfavourable international environment many developing countries need to reorient their economies through adjustment programs. The need for adjustment is widely recognised by developing countries themselves, as was clearly stated at last year's UN special session on the problems of Africa. But if we do not avoid serious negative effects, adjustment will not provide the intended long term solutions.

The main objective of adjustment is to promote changes that will create a new base for long term economic growth and development. However, adjustment programmes often imply painful reductions in imports, public expenditure and employment, and are likely to increase the hardship of the poorest groups of the population. Many developing countries have repeatedly stressed the danger of political and social destabilization inherent in a too harsh economic adjustment programme. So we are faced with a dilemma.

The social effects are often referred to as a "short term" problem - the reasoning being that in order to get the national economy on a sound footing, a period of belt-tightening is necessary. The measures are seen as a necessary transition in the short term, towards a sound economic development and social progress in the longer term.



Many industrialized countries are familiar with, and are themselves carrying out, this kind of policies. Thus the basic philosophy is well known. But in many developing countries the problem is that large groups of the population are already extremely poor. The result of a strict policy may be even more widespread poverty, increased malnutrition and infant mortality rates, less children in school and rapidly increasing urban slums. This may have long term negative effects on society, because the human resources, the basis for the future development are weakened or destroyed. Health problems are created that may burden the economy for many years. The future potential of children and young people will not be fully used. The urban sprawl may get out of hand and be extremely difficult to control at a later stage. And it becomes even more difficult to carry out a population policy which is so dependent on economic and social progress. So, these and other effects of a tough adjustment policy may have long lasting, negative effects on developing countries' ability to solve their future problems - if they are not implemented in a manner which will cushion the possible negative effects on the poorer strata of the population.

The environmental problem, on the other hand, is usually referred to as a "long term" problem - the natural resources being seen as the basis for long term development. It is very true - and a matter of great concern - that the damage we do to nature today - may create the most serious problems for future generations. But it is, indeed, a short term problem as well. In many areas it is in the most dramatic way a problem of today, and in many other areas the problems became in fact acute several decades ago.

Each year another 6 million hectares of productive dryland turns into worthless desert. Over three decades, this would amount to an area roughly as large as Saudi Arabia. More than 11 million hectares of forests are destroyed yearly, and this, over three decades, would equal an area about the size of India

- just to mention two of the most serious environmental problems in developing countries. Millions of people are daily faced with the harsh realities of these trends. They sink deeper into poverty and squalor or are forced to flee their land.

The environmental problems in the Third World are acute social problems, and they affect in particular the poorest and most vulnerable groups. For many, the issue is that of survival.

We have in the past been concerned with the impacts of economic growth upon the environment. We are now forced to concern ourselves with the impacts of ecological stress - degradation of soils, water regimes, atmosphere, and forests - upon our social and economic prospects. We have become used to the close economic interdependence among nations. We are now forced to accustom ourselves to an accelerating ecological interdependence among nations.

The development crisis, the environmental crisis, the energy crisis must no longer be treated separately. They are all interlocked, and can only be solved together.

Many development trends leave increasing numbers of people poor and vulnerable, while at the same time degrading the environment. How can such development serve next century's world of twice as many people relying on the same environment? How shall we improve living standard, achieve food security, meet the energy needs, solve the enormous urban problems, for 10 billion people, without depleting the worlds natural resources and destroying the biosphere which is the basis for human development and survival?

It is evident that the present trends and development pattern cannot continue. We need new objectives and new values. A new development path is required, one that sustains human progress not just in a few places

for a few years, but for the planet as a whole into the next century. Sustainable development means that we meet the needs of today without compromising the ability of future generations to meet their needs.

This should guide our present discussions and policies. Because the decisions we make today will determine the future of our planet and the prosperity and well-being of the people who will inhabit it.

I am convinced that humanity has the ability to make development sustainable. I believe that widespread poverty is no longer inevitable. But meeting essential needs requires not only a new era of economic growth for nations in which the majority is poor, but an assurance that those poor get their fair share of the resources. It is, indeed, also a question of social justice and equity.

Sustainable development requires a strengthening of international cooperation and multilateral organisations. Today, many trends in the international community go contrary to multilateralism. People and nations seem to turn their back on international bodies. But there is no alternative to close international cooperation if we want to solve the economic and environmental problems.

Mr. Chairman,

A close cooperation and understanding between governments and the main multilateral institutions, is more crucial today than ever before.

I think there is a good basis for such cooperation between Norway and the World Bank. And we look forward to a close dialogue with the Bank on policy issues related to sustainable development.

This will be another step forward in the good cooperation between Norway and the Bank, which, in fact, started with Norway as a borrowing member.

Norway got its first loan from the Bank in 1954. "The Norwegian people" the Bank report then stated in defense of the loan, "as is well known is stable in character, hardworking and skillful". Several of our most important hydro-electric projects were financed by the Bank. The last loan was extended as late as 1963 and in total Norway borrowed 145 million dollars from the World Bank.

During the last decades, however, our cooperative efforts have been guided by our common objective of improving the standard of living for the millions of people in the developing world.

Throughout the years there has not been unanimous acceptance in the Norwegian society of the World Bank policies towards the developing countries. In spite of the general support of the institution, parts of the informed opinion have from time to time voiced scepticism towards lending policies of the Bank. My government therefore appreciates the World Bank's initiative to arrange this symposium and inviting us all to an open and frank dialogue with the Bank.

A basis for this dialogue from our side is the white paper my government presented to Parliament a month ago, on the general guidelines and priorities in Norwegian development assistance, and North-South relations. The white paper underlines that development assistance alone is not sufficient to solve today's problems. Improved commodity prices, developing countries' improved access to export markets and, not least, durable solutions to the debt crisis, will be of paramount importance for future development prospects in the Third World.



The main objective of Norwegian development assistance will be to improve the quality of life of the poor people in the least developed countries, with a special focus on Sub-Sahara Africa. Much emphasis is put on helping people to meet basic needs. However, it is proposed that more attention be paid to economic growth and efforts to establish viable production. The white paper furthermore makes management of the environment and natural resources a major objective, and confirms our priority for women in development, and the improvement of human rights.

Norway has always held the opinion that multilateral institutions are crucial for north-south cooperation, and it is my Government's intention to maintain the principle of an even distribution between bilateral and multilateral allocations in our total development assistance. In fact, we propose a gradual increase in the multilateral share, so that the actual distribution gradually will be brought to comply better with the principle than is the case to day. IDA and UNDP will continue to be our highest priority organizations.

The white paper confirms the Governments's view that it is essential to provide international organisations with the resources required for fullfilling their objectives. As concerns the multilateral development banks, we attach particular importance to providing the development funds with sufficient resources. Our contribution of 1,2 billion kroner to IDA over the next three years, is a demonstration of this committment. We do, in particular, attach great importance to maintaining the concessionality of the funds' lending and their allocation of resources to the poorest countries. I was therefore pleased to note the agreement last year on a substantial replenishment of IDA, with an increased share of IDA-resources for Sub-Sahara Africa.

Mr. Chairman,

In our current cooperation with the World Bank, we are faced with many important and difficult development issues.

An immediate concern for us is the Bank's ability to maintain its lending at a satisfactory level. We feel that a General Capital Increase should be undertaken as soon as possible in order not to impair the Bank's ability to increase its lending for economic development.

We shall continue to work for an improvement in the Bank's lending - as we have done in the past. As in our development assistance in general, we think it is important that the Bank focuses even more on poverty alleviation, environmental aspects of development, and the integration of women in the development process. We are convinced of the World Bank's

professional competence to improve its performance in such areas, and we have been pleased to note the Bank's willingness to pursue these objectives as was expressed so eloquently by the President of the Bank at the annual meeting last year.

We noted that Mr. Conable stressed that the alleviation of poverty must be the target of all development efforts, and stated that "the central challenge confronting the Bank is to mobilize the will and resources of the affluent and afflicted alike in the global battle against poverty". This is also why we, together with the other Nordic countries, proposed that the question of the impact of adjustment programs on the poor be discussed in the Development Committee. We regard the discussion at the Committee's meeting next week as a preliminary one, and would urge for a more comprehensive discussion at the Committee's next meeting.

My government is deeply concerned by the social effects of the economic adjustment policies of many of the poorest countries. We agree with those who advocate an "adjustment with a human face", which assures that basic needs are met.

The Bank Group's lending in support of adjustment has increased rapidly. It is very important that the Bank pays more attention to these issues, and we look forward to a continuous monitoring of adjustment programmes. In the present situation this will be a main area of concern to us, and the Bank's performance will greatly influence our assessment of the World Bank as a development institution.

Though structural adjustment programmes are very important at present, we still think that the World Bank's main focus should be on project lending. Already one fifth of the Bank Group's lending is presently structural or sectoral adjustment lending,

and we would be reluctant to see a continued expansion of this at the expense of project lending. Not least in order to support the lasting effects of adjustment programmes, it is important to provide sufficient resources for the maintenance and rehabilitation of prior investments, as well as investment in new capacity for growth. It is particularly important to maintain and strengthen sectors with long term development gains, such as health and education. We strongly believe that the improvement of human resources is crucial for future progress in the Third World.

I am, as you may have understood, particularly concerned with the role of the World Bank in promoting sustainable development - an area where the policy of multilateral institutions is crucial. Sustainable development must become a fundamental commitment of the Bank.

Lending from the bank for agriculture, forestry, fisheries, and energy has so far usually been made mainly according to narrow economic criteria that take little account of environmental effects. The World Bank should continue to improve its assessment of environmental effects of investments in these areas. A much larger portion of the Bank's lending should go to projects that enhance the environment and the productivity of natural resources. Such efforts should include reforestation and fuelwood development, watershed protection, soil conservation, agroforestry, rehabilitation of irrigation projects, small-scale agriculture, and low-cost sanitation measures. Experience has shown that the most effective efforts of this type very often are small projects with people's active participation.

Mr. Chairman,

I have touched upon some of the dilemmas we are faced with in our development efforts in the poor countries.

The basic dilemma however, is really that of scarce economic resources. While recognising the importance of structural adjustment in order to create favourable conditions for economic growth, do we have the economic resources necessary to induce that growth? Can we achieve the desired results of adjustment under present circumstances? How do we use our limited resources in the best way for the long term development?

It is a challenge to all of us to conceive policies which can go as far as possible to improve the living conditions of the people in developing countries - within the limits of the scarce resources available.



There is not one answer. Nobody has the answer. But these must be some of the key questions to discuss at this symposium.

Whatever the resources, we must find solutions to the serious debt problem. My Government will actively pursue and support comprehensive international measures which can ease the debt burden - in particular in the poorest countries. It seems to me that quite substantial measures are needed in order to bring about a change in the present situation, where new money is endless chasing old debt.

With present short term measures, we keep pushing a huge and growing debt mountain in front of us. If the poorest countries are to attain financial strength, more lasting remedies are required. This is not least a challenge to the multilateral institutions. It is a good principle that every creditor makes a contribution to solve the problems.

I think there is a growing recognition that exceptional measures have to be considered for the poorest countries in Sub-Saharan Africa with the heaviest debt burdens; - sometimes called the "debt distress" countries. Countries which all have a dramatic combination of low per capita income and high debt service ratios. These countries are in need of financial emergency assistance in order to recover. I understand the World Bank is looking at different measures which can ease the debt burden of the "debt distress" countries, which have mainly bilateral and multilateral official creditors. But their critical situation requires that we as members of the multilateral institutions, are willing to approach the problem with a flexible attitude and consider innovative methods. For our part, we shall have an open mind towards possible modifications of established principles in order to solve the problems of this special and limited group of countries. But I am aware that this will require difficult political decisions on the part of all members of the multilateral institutions concerned.

Mr. Chairman,

The World Bank is exerting a major influence on economic development throughout the world, as the largest single source of development lending, and a policy leader in relation to both donor and recipient countries. The World Bank has also made a significant forward thrust among the finance institutions in reorienting its lending programmes towards a higher sensitivity to all issues I have raised. I urge the Bank to further strengthen its efforts in these areas; to remove poverty and achieve sustainable development.

It is a great pleasure for me to open this symposium which is the first of its kind to take place in Norway. I believe it will contribute to further strengthening the long standing cooperation between the World Bank Group and my country. The subject before us is certainly as important as it is complex, - and indeed a challenge to us all.

I wish you good luck in your deliberations.

Thank you.