Folder Title:	Polytechnic Society, Oslo, Norway. November 25, 1982
Folder ID:	1775999
Series:	Speeches
Dates:	11/01/1982 - 12/01/1982
Subfonds:	Records of President A. W. Clausen
Fonds:	Records of the Office of the President
ISAD Reference Code:	WB IBRD/IDA EXC-09-3962S
Digitized:	03/01/2023

Polytechnic Society - Oslo, Norway - November 25, 1982

DECLASSIFIED
WBG Archives

THE WORLD BANK: CHALLENGES FOR THE 1980s

Remarks

By

A.W. Clausen

President, The World Bank

before the

Polytechnic Society

Oslo, Norway

November 25, 1982

Thank you, Mr. Chairman. You have made me feel very much at home here this evening.

I am delighted to have this opportunity to discuss with you some of the challenges that face The World Bank -- and its 144 member countries -- over the decade of the Eighties.

What I would like to do this evening is this: review briefly the current international development scene; identify some of its major issues; examine how The World Bank can assist its membership in dealing with these problems; and outline the steps we are taking to carry out this mandate.

I would be very pleased then to have your questions and comments on these matters in which Norway -- and indeed nations everywhere today -- have so strong a stake.

Let me begin with a brief sweep of the periscope around the current economic horizon.

I don't think any of us here need reminding that the global economy today is passing through a very difficult -- and unexpectedly prolonged -- patch of heavy weather. The economic sea out there remains rough. The barometer is sluggish. The fog is thick. And the winds continue to be adverse.

Both the developed and developing countries alike are caught up in this economic turbulence. The recession is, of course, more severe in some places than others. But it is global in its reach, and stubborn in its persistence.

The industrialized nations have suffered a decline in their aggregate growth rate in each of the past five years.

On average, that growth is likely to be zero, or even turn negative, in 1982.

Though there has been welcome progress in getting inflation and interest rates down somewhat, in many countries both are still oppressively high. And the lengthening rolls of the unemployed in the developed nations alone now number some 30 million individuals.

In the developing world, virtually all countries lost momentum in 1981, with the slowdown cutting their aggregate growth rate nearly in half. 1982, in turn, has been a further setback for most, and a near disaster for some.

What we are witnessing is the fact that the growing economic interdependence of the developed and developing countries is as effective at transmitting problems as it is at promoting prosperity throughout the global economy.

Over the last three decades the expanding volume of international trade, capital flows, and migration spread record economic growth in many of the developed and developing regions of the world alike.

But that process can clearly work in reverse as well.

When the industrialized countries were confronted with growing fiscal deficits, rampant inflation, and historically high interest rates, not only did their own economic growth falter, but that of their developing-country trading partners as well.

As international trade wound down, the export earnings of the developing countries began to ebb away. That in turn reduced their reserves, crippled their capacity to import, aggravated their debt-service burdens, and left them little option but to curtail investment.

By the end of 1981 the growth in international trade -- on a global basis -- stood dead in the water.

That contrasts with an average 6 percent growth in the years 1970 through 1977, and over 5 percent in 1978 and '79. And preliminary trade figures for 1982 indicate no improvement. Only continuing stagnation, or further decline.

Non-fuel commodity prices -- in real terms -- are now at their lowest levels since World War II. Meanwhile depressed demand in the industrial nations continues to erode the developing countries' terms of trade, and volatile exchange rates further complicate their economic management tasks. Much of what they must import from the industrial countries grows more and more expensive. And what they have to export in order to pay for it becomes less and less remunerative.

It is the classic problem of having to run faster and faster even to stand still.

That, of course, has intensified their debt-service difficulties.

With export earnings down, and import prices up, and current account deficits growing, many developing countries have seen their debt-service ratios rise rapidly.

But though debt, and debt-rescheduling, have been headlined in the news media recently -- and particularly the rather special case of Mexico -- we ought not to lose our perspective.

The central fact is that the external capital requirements of the developing countries are going to continue to grow in the 1980s. These are societies, after all, that collectively contain over three billion individuals. All but a small fraction of their total investment in development progress does come -- always has come, and always will come -- from their own savings and domestic resources.

That is, of course, as it should be.

But their need for additional capital to help turn that domestic investment into high-yielding and self-sustaining development progress remains urgent. And that need exists in a contemporary economic environment in which all capital is growing scarce -- and concessional capital even more so.

Over the past 20 years the net flow of capital to the developing countries has more than tripled in real terms. In the early 1960s two-thirds of this came from official sources, and only a third from private sources. But by the late 1970s these trends had reversed, and over half the new financing was coming from the private sector. The major expansion was in commercial-bank lending.

What is important now is that the net flow of new capital to the developing countries -- from all sources, both official and private -- be at the very minimum fully maintained in real terms.

That does not preclude prudence, of course, on the part of the commercial lenders and their clients. But what it does rule out is an atmosphere of crisis and fear and retreat.

The current situation calls for calm, and realism, and greater cooperation on the part of us all.

What we must bear in mind is this.

Commitments in medium and long-term lending from the financial markets to public borrowers in the developing countries have grown by only 12 percent in the period between 1978 and 1981. That is less than 4 percent a year even in nominal terms.

In real terms, such commitments have actually gone down.

Nor did these commitments arise out of reckless borrowing behavior on the part of either the countries or the financial markets. The developing countries, after all, could not have foreseen in 1978 and 1979 the enormous increases in real interest rates that were to occur in 1980 and 1981.

And they could not have assumed that their own export growth would be so severely depressed even through 1982.

Further, they could not have reasonably expected the disappointing degree of reluctance in some donor countries to support critical bilateral and multilateral development programs.

What some developing countries did in fact foresee in 1979 is that the new surge in oil prices would trigger off another major adjustment in the global economy. And what they did in fact do is begin to take steps to adapt their own individual economies to that new situation.

In most of these countries their borrowing slowed, public investment fell, and growth was checked. In many, payments difficulties have arisen primarily because of the unexpected severity and persistence of the worldwide recession, coupled with record levels of real interest rates: something no one's planning projections -- or crystal ball -- could have revealed in detail.

The plain truth is that economic recovery has remained much more elusive -- and much longer delayed -- than any expert anywhere thought probable.

Now, as you know, the long-awaited GATT Ministerial Meeting opened in Geneva yesterday. I was there and addressed the meeting, and made three brief points. I would like to summarize them for you here because they are central to this whole discussion.

The first is that although free and expanding global trade has been very beneficial to the some 60 middle-income developing countries -- oil-exporters and oil-importers alike -- it has been much less so to the some 35 low-income developing societies.

These poorer countries, with half the world's population, have earned only about 10 percent of what the developing countries as a whole earned from international trade in the 1970s.

That is due in part because many of these low-income societies have had to depend primarily on non-fuel commodities for their export earnings -- commodities, which have rarely enjoyed buoyant prices since the mid-1970s, and which today -- as we have noted -- are at their lowest price level, in real terms, in over 30 years.

But that does not mean that the poorest countries do not have a stake in freer and more open international trade. Quite the contrary. For the buoyancy of most commodity prices are dependent on the overall vigor of the world economy. And expanded international trade is a prime mover of that economy.

Secondly, the current nervousness about additional private lending to the developing countries can in part be put to rest by freer and more open international trade -- for that will help get their export earnings up.

Between 1980 and 1982 the developing countries saw their export earnings fall by about $40 billion. In the same period their debt service increased by about $37 billion.

The horns of that particular dilemma are admittedly sharp and punishing. But they can be blunted and rendered harmless with a boost in export earnings. And a less constrained and barricaded international trading system will help make that possible.

And thirdly -- and finally -- now is the moment for developed and developing countries alike to stiffen their collective political will -- and their individual domestic policies -- for an all-out determined assault on protectionism in all its guises and gambits.

It is easy enough, after all, to be against protectionism in a period of general prosperity. What really counts is to be against it in a period of general recession. For that is when the temptations become the most seductive, and the pressures grow the most insistent.

Many countries have sought to export their way out of recession, while at the same time erecting barriers to imports. Now that is obviously not a universally acceptable strategy that can be applied simultaneously. It is a negative sum game in which every country ultimately loses.

The inescapable fact is that international trade can grow and prosper only if developed and developing nations alike adopt a more realistic strategy: a plus sum game in which every country can ultimately win, and none need lose.

In an economically interdependent world -- which ours now irreversibly is -- protectionism is simply the primrose path to self-defeating economic delusion.

We just must not start moving further down that road. Once we do, it's all downhill, and the emergency brakes are almost certain to fail. The 1930s taught us that truth. Surely we don't need to learn that disastrously expensive lesson all over again.

We in The World Bank are striving to assist our member countries to get through this difficult time with a minimum of disruption to their essential long-term development priorities.

That means we must have carefully selected priorities ourself. For the Bank cannot do everything. Nor should it attempt to.

Let me say a word about our priorities.

Though we are involved in a broad spectrum of development sectors, we are giving our priority efforts to two: to the energy sector; and to the agricultural and rural development sector.

And as for regional priority, while we are active in roughly a hundred countries all over the developing world, we are giving our special attention to Sub-Saharan Africa. As you in Norway know well -- since you are doing important work there in your own bilateral development programs -- the region contains some of the poorest and most disadvantaged societies on earth.

The basic reason for our priority effort in energy is obvious: developing countries simply cannot develop at all without adequate energy supplies; and as their development advances, they will require more and more energy. It is clear that a primary objective in oil-importing developing countries must be to increase their own domestic production of energy.

Our lending for energy projects now represents about 25 percent of our total operations. Electric power still remains the leading category. But loan commitments for oil and gas development projects are rising the fastest. We have now identified them in more than 50 countries, and have approved loans for about 30 projects -- two-thirds of them in Africa.

We are lending as well, of course, for coal exploration and development; for fuelwood projects; for refinery conversions; and for energy conservation. And we are pursuing renewable energy development by incorporating biomass technologies, solar energy, and small hydro-power components into projects -- sometimes on a demonstration or pilot basis -- in order that our member countries can acquire operating experience with the most economically promising techniques and applications in this field.

But the fact is that the Bank is now at a practical limit in the allocation of its own resources for energy development. We remain committed to the objective of finding a mechanism to enlarge significantly the extent of the financing of oil, gas, coal, and other energy projects, but this of course depends on reaching a consensus on an approach to energy financing by our capital-exporting member countries. We are continuing to explore that possibility.

Our other sector priority is agriculture and rural development. It remains immensely important because some 60 percent of the population in developing countries continue to depend on agriculture and related pursuits for their livelihood.

Thus in most developing societies -- even those that are rapidly industrializing -- agricultural production is critical both to enhancing food self-sufficiency, and to assisting the poor to enter more fully into the development process.

As I have pointed out often, a key and central aim of The World Bank is the alleviation of poverty. Our objective in <u>any</u> developing country -- and <u>every</u> developing country -- anywhere in the world is precisely the same: to assist the country both to accelerate its economic growth, and to reduce its level of domestic poverty by enhancing the productivity of its poor -- and thus to make possible a better standard of living for all its people.

Our experience in the Bank demonstrates that these twin development objectives of pursuing efficient economic growth and alleviating poverty are not only not contradictory, but do in fact reinforce and complement one another.

Countries in general that have placed special emphasis on reducing poverty have not sacrificed growth. And reducing poverty helps avoid political and social tensions that tend to disrupt growth.

History, moreover, confirms that development strategies that bypass a huge segment of a society's population are not the most effective means of raising a nation's standard of living.

In short, the Bank's continuing analysis indicates that a balanced strategy of pursuing faster economic growth -- combined with pragmatic and effective measures to reduce absolute poverty by enhancing the productivity of the poor -- is by far the most effective framework for ongoing development in the straitened circumstances of the 1980s.

But to help its member countries pursue that balanced strategy the Bank must, of course, have resources. And it must be able to amplify and leverage its own limited funds by mobilizing additional resources from other official and private sources of capital.

Let me turn to that issue now.

As most of you know, The World Bank really comprises three distinct institutions: the original International Bank for Reconstruction and Development, or IBRD; the International Finance Corporation, or IFC; and the International Development Association, or IDA.

The IBRD lends at roughly market rates, and generally at 15 to 20-year maturities. Its loans are made either directly to the government of a developing country or to an entity whose obligation is guaranteed by the government.

These loans are financed and backed by capital supplied by our member countries; by substantial earnings and reserves; and by an outstanding record of never having lost a penny through default, as well as maintaining a firm policy against rescheduling.

The IBRD is also, of course, a major borrower of funds in the world's financial markets, and I am particularly grateful that we were permitted to borrow NK100 million here in Norway last year.

The IFC was established in 1956, and acts as a financial catalyst in helping to fund private-enterprise ventures -- both by lending and by making equity investments -- in our developing member countries: ventures that generally do not involve the government or government guarantees, but with a high development component. In essence, IFC is a merchant bank -- a deal-maker, a syndicator -- working in the private sector of developing countries.

And finally IDA -- which today is the world's largest and most important single source of concessional development finance to the very poorest developing countries -- was established in 1960.

IDA was created to assist the Bank's lowest-income developing countries that could simply not afford to borrow at IBRD rates of interest and maturity. Thus, it currently lends for 50 years, including a 10-year period of grace, at no interest, and with only annual service charges of three-quarters of one percent on the disbursed portion of the credit, and one-half of one percent on the undisbursed balance.

Over the past five years the IBRD has committed over $40 billion of loans, and the lending program for the current fiscal year is more than $11 billion. Our present operating assumptions, however, will not allow for any real growth in lending over the next few years, since our Articles of Agreement provide that the Bank's outstanding and disbursed loans cannot exceed its subscribed capital and reserves.

We are reviewing the longer-term outlook for increasing IBRD capital, and exploring ways to ensure that its lending continues to increase in real terms. This is absolutely necessary if we are to continue to be in a position to provide credible and effective policy advice to our developing member countries regarding their own management of scarce resources.

As for the IFC, it is making vigorous headway, and it, too, is expanding its operations -- particularly in our smaller and poorer member countries -- attracting private sector investment in these societies, and assisting in the development of their capital markets.

In our opinion, the private sector has a great potential in the developing world. And so we are pursuing other avenues, as well, to strengthen the IBRD's and IFC's traditional roles as catalysts for private investment.

Fiscal 1982 was a record year in our private cofinancing program, but we hope to put new cofinancing techniques into practice soon that will help channel even greater resources from the private financial markets into high-priority development projects in our developing member countries. We have made progress, too, in searching out the possibility for a new multilateral investment insurance mechanism -- one that would draw on past experience, but be flexible enough to be tailored to the present international circumstances.

We all know that development capital is costly and scarce today. But concessional capital is the scarcest of all. That is why IDA is so critically important to the poorest countries of the world.

They simply cannot afford to borrow what they need at market rates. They are just not creditworthy enough yet. They will be one day. Countries like Korea, Colombia, the Philippines, Thailand -- and more than 20 other former IDA recipients that have now graduated -- prove that. Indeed, Korea and Colombia have now become IDA donors joining 31 other donor countries in providing grant money to IDA, which in turn can be on lent to the poorest of the poor developing countries.

But the 51 countries that today depend on IDA -- 28 of them in Sub-Saharan Africa -- are among those societies that have been hit the hardest by the current global recession. Very clearly, they did not cause it. It is also rather obvious that they can do little to influence it. But in the meantime they are its most penalized victims.

Now most of you are probably familiar with the difficulties that the Sixth Replenishment of IDA has confronted. The 33 donor countries originally agreed upon a level of $12 billion for commitment during the three-year period July 1, 1980 to June 30, 1983.

But due to a serious shortfall in funding, the agreed-upon IDA program had to be slashed by 35% in fiscal year 1982, and -- until recently -- there were disturbing doubts as to how much funding would be available in fiscal years 1983 and '84.

Happily, those doubts were in part resolved in Toronto at our Annual Meeting this September, with an agreement for payment in full of IDA-6 commitments on schedule by most of the donors; an additional $2 billion by donors other than the United States for commitment in fiscal year 1984; and assurance by the U.S. administration that it would complete in fiscal year 1984 its remaining IDA-6 obligations -- urging Congress to appropriate about $950 million in FY1983 and $1.1 billion in FY1984.

Now the "Toronto Agreement" is very welcome news indeed for the poorest nations of the world, and on their behalf -- and on IDA's behalf -- I want to congratulate

Norway, and the other Nordic donor countries, for all that they did to help bring this important agreement about.

The truth is that Norway's attitude and performance have been immensely supportive of IDA throughout all the thorny difficulties of the Sixth Replenishment, and all of you here have every right to feel gratified and proud of that. Further, we deeply appreciate your decision to undertake a concessional cofinancing program which enables your bilateral assistance, and our multilateral efforts, to be more closely coordinated.

But Norway has an even more complicated task ahead of it -- and that is to help bring about a successful negotiation and agreement on IDA-7.

The first meeting of the IDA deputies on the Seventh Replenishment was held just this week...on Monday and Tuesday. It is, of course, much too early to predict the final outcome, but the negotiations are certain to involve many complications and difficulties.

IDA looks to Norway, and the other Nordic donors, to make a very positive input into those negotiations, and we are confident that is precisely what you are going to do. We are looking forward to it. And we are counting on it.

* * * * * *

Ladies and gentlemen, let me end these remarks with one last reflection.

By sheer coincidence, today -- the fourth Thursday in November -- is a very special day in my own country. It is Thanksgiving Day. It is the day that virtually every family in the country gathers all the immediate relatives together, sits down to a big family dinner, and reflects on all the blessings they enjoy -- even granted that the times in general may be pretty tough.

Well, the times today are tough. On a global basis -- perhaps tougher than at any time during the past three decades.

But they were a lot tougher when the Thanksgiving Day custom started in 1621 -- when America was just a handful of colonists clinging precariously to the eastern seaboard of a gigantic and unexplored wilderness.

One of the groups of what was then surely among the weakest and smallest of newly developing societies -- the Massachusetts Colony, which had been founded only the year before -- decided to set aside a day in thanksgiving for the first harvest.

They had made it through the year. They had survived. They had enough to eat. And the local Indians were friendly.

Well, things are a lot better in America today. And they are better here in Norway as well.

But there are a great many places left in the world where that is not the case. Places where the harvest is not always good. Where there is not enough to eat. Where survival is always in question. And where the economic and social tensions are such that not everybody is very friendly.

The international development community can do something constructive and positive about that -- and it is. Its fundamental goal, after all, is to work together with others in an interdependent world in order to make things better for everyone.

That clearly is what The World Bank's mandate is all about.

On this Thanksgiving Day, I feel particularly grateful to be associated with all of you here in Norway in this critical development task.

You are a small country. But you have a very big determination to see that task succeed. And you are a model to us all in your dedication and generosity.

If I may be permitted a personal note, there is something else for me to feel very grateful for -- on this special day, and in this special place.

And that is that my own paternal ancestry springs from this rugged and beautiful land, as the Chairman has mentioned. I am very proud of that. Like countless millions of others born in the United States, I am in the end a product of the great American melting pot. But a strong dose of the ingredients, in my case, were Norwegian.

And for that I say, _tusen takk_!

And now, I would be delighted to have your questions and comments.

END