



# World Chronicle

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World Bank

**JOURNALISTS:** Joe Lauria, The Boston Globe  
Betsy Pisik, The Washington Times

**MODERATOR:** Tony Jenkins

## **Socially Sustainable Development**

Today the world is investing less in social programmes than it did in decades past, and almost a quarter of the world is poorer than it was just ten years ago.

How can nations provide more people with better health, better education, and a better environment? Is economic growth enough? What will happen to the societies on this planet by mid-century when world income will likely be four times what it is today?

Those are some of the questions discussed in this edition of World Chronicle together with Steen Jorgensen, Director of the Social Development Department at the World Bank.

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**ANNOUNCER:** From the United Nations in New York, an unedited interview programme on global issues. This is **World Chronicle**. And here is the host of today's **World Chronicle**.

**JENKINS:** Hello, I'm Tony Jenkins.

Here's the consensus: economic growth is needed to improve people's lives. But is that enough? Does economic growth necessarily provide more people with better health, better education, and a better environment? And if not – what will happen to us, the people and societies on this planet, by mid-century – when world income will likely be four times what is today?

We'll be talking about that with today's guest – Steen Jorgensen, Director of the Social Development Department at the World Bank.

**JENKINS:** Steen, welcome. I don't want to sound like a ignoramus, but what is social development?

**JORGENSEN:** Social Development is development of societies. And that's a non answer, right? Because economic development is the development of economies, I think what you have to see is that if you are going to reach that tripling of the world economy by the middle of the century, you have to do it in a way that's socially acceptable, socially sustainable – meaning that you have to make sure that it's widely shared, that it's social in that sense - that people feel part of it, feel that they have a stake in it, that they have a voice in what's going on. So that's what social development is about. Making sure that you have that other side of the coin. So it's not all about economics and market, it's a necessary condition – like you said in the opening but its not sufficient unless people feel a part of it – feel they have a stake – they feel they have hope.. Social development is all about hope.

**JENKINS:** O.k., I think I get it, but to help me to dig into to it further, we've got, two other correspondence in the studio with us today.... We got Joe Lauria of the Boston Globe who hasn't been with us for a while – welcome back Joe...

**LAURIA:** Thank you...

**JENKINS:** ...and Betsy Pisik of the Washington Times. Betsy...

**PISIK:** ...I'm wondering because we're always talking about economic development, investment, direct assistance. But I'm wondering....because we're talking about something very different, it's more like the services or the conditions that would be provided. How should social development improvement be undertaken? Is it the responsibility primarily of the government, the role of the NGOs, perhaps foreign donors or other outside influences, where does the responsibility lie?

**STEEN:** I think the responsibility lay with society as a whole. Hopefully, we as outside agencies like the World Bank, the UN and so on can have an influence on that, which can help facilitate things. But it has to be something that is home grown. This is not

something you impose, there's not a standard model that fits from Chad to Malawi to Brazil, to developed countries. Yes, it is the responsibility of governments but if governments are going at it alone, without the support of people, without the support of civil society, it's not going to help.

**PISIK:** Don't the demands for these kinds of improvements usually come from the people up? Isn't it the people who say help us with healthcare, education and other basics?

**JORGENSEN:** It comes from many people. Sometimes it comes from private investors, they say, o.k., we want to go into this country, we really want to invest in this country but how can we make sure that our pipeline doesn't get smashed? That there's actually development in the area, so we leave something behind that's positive? So, it comes from a number of places and I think what we're looking for are those fundamental underlying societal conditions that enable private investment, private things to flow, but also governments to function better. So it's not necessarily from one place or another.

**LAURIA:** World Bank has been around for sixty years, if you look at the website it clearly says it is dedicated to eradicating poverty, depends on who you ask - probably it is worse now than it was around the world sixty years ago. Some critics point to the World Bank's role in an overall system. I'm referring in particular to a new book that is out - you've probably have heard of it - it's called *CONFESSIONS OF AN ECONOMIC HITMAN* by John Perkins. For the benefit of the audience, I'll explain briefly what his theory is. That is...that a private consulting firm which he worked, would go to a developing country - make an overly optimistic assessment for economic development over a period twenty-five years - present this to the World Bank, convince you guys to give an enormous loan - way more than they actually need - that benefits only the elite and then that country would remain indebted for decades which gives political leverage to the U.S. and other western powers. Most of that money went back to U.S. engineering firms - ninety percent of it - Bechtel, etc., and Haliburton - to build this project. Was that true? Is that still true, if it is...how could that change?

**JORGENSEN:** I don't want to argue with a distinguished, experienced scholar like the author you mentioned. But I think it's a huge oversimplification of what's going on. I find it is very hard to believe that any country would actually undertake a huge loan just for the sake of a small elite class. Yes, there has been mistakes made, yes we've made loans that didn't meet their objectives - as in the past. I think there's a thing about the optimism that you mentioned, I mean...it is very hard to work in development if you're not an optimist. So possibly sometimes we did make too optimistic of an assumption about the impact of these projects. We have evidence from the past forty years when we had very good data; that when you take these

social aspects into consideration, you get a better outcome. So maybe that was the mistake, maybe we didn't take enough of those social considerations in. Maybe we didn't ask the people, maybe we didn't ask the private sector, and maybe we didn't ask NGOs is this actually going to work? I have been impressed with the enormous wisdom when you get out there in the villages, these people are not asking for handouts they're asking for...give me access to the roads so I can go and sell my goods in the market.

**LAURIA:** So now you're changing with the voices of the people..... Have you read this book by the way?

**JORGENSEN:** No I haven't but....

**LAURIA:** ...You know about it though?

**JORGENSEN:** Yeah, I've heard about it...

**LAURIA:** ...You know his theory?

**JORGENSEN:** Yep.

**LAURIA:** It's wrong you see. There are no such things as guys that run in there as hitmen and when that fails, he says the jackals came in with the CIA to overthrow the government that didn't want to play ball; and if that failed, then the U.S. army goes in – Iraq is one of his examples. Saddam wouldn't play this game. So they tried to assassinate him...they couldn't do that, and then there was only one alternative left – that's the one we're seeing right now.

**JORGENSEN:** The World Bank has not been engaged in Iraq for a long time...

**LAURIA:** Right.

**JORGENSEN:** So I think that Iraq is different. We are being asked to come in now...

**LAURIA:** ...Yeah, but he's saying Saddam wouldn't want you...

**JORGENSEN:** We are coming back in now. I think that for some of the people who went, there is a set of fundamental principles that probably hold across. It is that you need good governance, you need sets of responsibility and if you design programmes and are not also concerned about that...you obviously run a great risk that things are going to fail. I don't buy the theory, I haven't experienced it myself - I haven't been sent out by the CIA to tell people what to do or not to do. I think the World Bank is...

**LAURIA:** ...That's not what he's saying...

**JORGENSEN:** ...I know [all talk and laugh at the same time]

**JENKINS:** ...I let Joe run around with this for a bit... but there is an area I think, where there has been – if you like – more widespread controversy, which is that...there's been a feeling amongst countries which have been the recipients of World Bank aid in the past –

particularly in Latin America – that what they call the Washington Consensus – had failed. The Washington Consensus, as I understand it, was what they would call neo liberal economics. In other words, privatizing state-owned industries, reducing state deficits and taxes, freeing interest rates, freeing trade...that sort of thing; and they basically are saying that hasn't worked, thank you very much. World Bank you imposed this on us, it hasn't worked and now let's go for social development. What I don't understand is... why would those two things be in conflict? Am I right in saying that there are people out there who've been trying to suggest that these two things are in conflict, that they are two competing strategies as to how to reduce poverty?

**JORGENSEN:** I don't think that they are two competing strategies at all. I think if...

**JENKINS:** I'm not saying they are. I am saying that if people perceive that...

**LAURIA:** I think that there is a perception of that. I think what was wrong with the Russian Consensus is exactly that it... was a Washington Consensus. It wasn't the Lima Consensus or the Santiago Consensus. It was very much developed and imposed from outside. Having said that...

**JENKINS:** ...By the World Bank?

**JORGENSEN:** Well, we were part of the ones giving that advice. But I think there is something fundamentally sound in a lot of that advice. It's very hard to imagine how poor people are going to benefit from growth if you're going to have high inflation rates. I mean high inflation rates are a horrible tax on poor people. Who it does benefit are people who have access to real assets, who stay in value. I still remember talking to a shoe shine boy in Bolivia, coming out of hyper inflation. He was talking about how he felt cheated. How the government had cheated him because his mother had been saving money under the mattress and all of a sudden, she went to the market to buy a pig and she couldn't buy a pig any more because the money had become worthless in the meantime. There's nothing inherently wrong in saying low inflation is good for poverty reduction. But I think the mistake we made in the past was to say that there's one way of cutting inflation. There's one way of making sure you get markets to upgrade. But it is quite clear - and I think the world is coming to a consensus that markets work in a lot of areas and we need to find ways to make them work. What I'm seeing is that when you ask poor people what are they looking for? They're looking for stability, they're looking for having a sense of what the market price is going to be, they're looking for access to markets, they're not looking for protection. Even when I talk to indigenous people from around the world, they are saying we want development, don't put us in a park and protect us. We want development but development with dignity that's based on our terms of going forward. So I don't see them as contradictory. I think what was wrong with that – with the ole' Washington

Consensus – was that it was a Washington one, and therefore, was seen as an imposition. But I think when most countries today - through the poverty reduction strategy process – see themselves coming up with a strategy, they end up with strategies that are very similar in the ultimate outcomes. We do need stability. The other thing is...is that we were overly optimistic – maybe this is related to your other question earlier – with what macro-economic policies can do. Bad micro-economic policies are very bad. You can tell the results. But good macro-economic policies are neutral. Unless you reform your agricultural system, unless you reform your health and education system – those deep structural reforms - you're not going to get the growth, you're not going to get the poverty reduction. And...

**JENKINS:** ...In other words even though you get it right and you manage to bring down interest rates, the poor people in the countryside aren't going to be able to borrow the money to take out the loan, which they could otherwise afford with these low interest rates to improve their lives; if nobody has given them the education or given them the sense that they could invest in something that could improve their lives. Is that what you're saying?

**JORGENSEN:** You're giving them the confidence that they could be players in this market. If you walk into a bank and people look at your clothing, or look at your ethnic background and say, I won't even speak to you no matter how good your economic idea is, you've created a distortion in the market that's very dangerous and you don't remove it by policy changes. The only way to remove that is to help poor people come together and organize themselves to create their own structure that will take them forward. In this process, only then can they get the access. There is nothing wrong with their economic ideas that these people have developed, what's wrong however, is the fact that they get excluded. It's a question of exclusion that we really need to tackle. Those were good reforms but they are only the first phase that you need to go deeper and really get health and education. Also look at those deep societal structures of discrimination for instance, they need to be addressed.

**PISIK:** I want to change the focus, if not the subject just a little bit. Environment is certainly a part of sustainable and social development. What has happened with so many of these programmes that we heard about so long ago about investing in a country in exchange for commitments to save the rain forests or natural resources? And I'm thinking about portions of Africa, Liberia, and the rainforest in Brazil. Have these born fruit – so to speak? Were these good programmes?

**JORGENSEN:** I think these were good programmes when they involved the local people. The evidence is quite clear when you involve people who live around protected areas for instance, they develop a stake in protecting and preserving it. Yes, they have worked. Where

it hasn't worked is where you set up an artificial conflict for instance – between the indigenous peoples living in the forest and the protection of forestry. I think this is where there have been some problems. I know some of my indigenous leader's friends are very upset about some of these programmes.

**JENKINS:** Can you give us an example?

**JORGENSEN:** Well I think there has been a lot of controversy in a number of countries only protecting the forests and are forgetting that people live around these forests and have a livelihood, and you can develop sustainable livelihoods. The successful programmes are the ones that for instance, make sure you work with the pharmaceutical company and then through these property rights - these people, who have the knowledge of these medicinal plants, can then develop an economic livelihood that also protects the forest and the two become intertwined. That's when I think they work. But if you say when it comes to people versus trees, then I think many of us will start to have a little concern.

**LAURIA:** I believe that you were recorded in one of these articles as saying that development between nineteen fifty and nineteen eighty was a lot better than the ninety's – one of the arguments against the Washington Consensus. It seems to me that between nineteen fifty and nineteen eighty there has been a lot of nationalization: in India, and Nasser in Egypt, etc. and in Africa as well. Was that perhaps a better model to eradicate poverty now that we look back on it, now that era is over? Is privatization not doing that well for poverty? And since time is running out, how much money are you giving to China and why? Since they are growing at such a phenomenal rate why do they still need World Bank help?

**JORGENSEN:** China can borrow at the capital markets if they choose to borrow from us; it's the government's choice, right? They only borrow the hard money, the money we raise on the capital markets. So in a sense – if they borrow from us it's probably because they think that we have something to offer; and that we have something to offer in terms of global knowledge.

**LAURIA:** Expertise...

**JORGENSEN:** ...Expertise, some experience - that comes with the money - which they continue to borrow from us. But no one forces China to borrow.

**LAURIA:** But they get the same commercial rates from you as would from anyone else?

**JORGENSEN:** They get the commercial rate; we have two windows: the commercial window and a concession one.

**LAURIA:** Could you say a quick word about nationalization?

**JORGENSEN:** Nationalization! I don't know where that core comes from, I would never promote nationalization.

**LAURIA:** I didn't say that. What I said was, from nineteen fifty to nineteen eighty it was better, growth was better...why?

**JENKINS:** Before we go any further, we're in the middle of the show and I think we have a short video clip here that will illustrate some of what we've been talking about.

## **VIDEO BEGINS**

**NARRATION:** "A decade ago, in 1995, amidst a growing sense of human insecurity in a globalized world, 117 Heads of State gathered in Copenhagen, Demark, for the first World Summit for Social Development. It's goal, to find solutions to the worlds major social problems and to champion the global drive towards social progress and development. Ten years later, we ask ourselves what more work needs to be done? Today, we spend more than ninety hundred billion dollars on global defense spending. Nearly twenty times more spent on development. Percentage wise, the world is spending less on social investment than in decades past. And almost a quarter of the world is poorer today, than it was just a decade ago. Efforts to close the gap continue".

## **VIDEO ENDS**

**JENKINS:** Alright, I'm going to let you finish up on that little issue of nationalization but then I would like to bring it back to what we are suppose to be talking about, which is social development. Do you have any more to say on a.....

**LAURIA:** ...I think it's related frankly, but...

**JORGENSEN:** ...To me, I would never promote nationalization. Like I said before, there are things that the market can do and we should let the market do that. The market is good at establishing relative prices; production is better done by the private sector. We do need to worry about how far we take privatization in an area like water supply; and the World Bank has been very clear that there are better things done by government. I think the world for a while - in the eighties and nineties...we swung, right? In the seventies the government could do everything, and then we thought the market could do everything. I think now, we are reaching a pretty sensible consensus, which is...that there are some things the government can do, some things the market can do, and some things the people themselves can do. I come from a country which hosted the Social Summit ten years ago and in my home village, the village group still runs the water supply. It doesn't mean the water supply has to be run by the



government, it can be run by community groups as long as the government ensures it is of good quality and regulates access and everything. So even in a fairly developed country like Denmark, there are still roles for community groups. I think we have to be very careful about those blanket statements saying this is good or this is bad. It's all about context and that's a key point. The key difference in this millennium, this decade, is to make sure governments and people in those countries are in control of their own development plans. Not imposed by us in New York or in Washington, or wherever we happen to be.

**JENKINS:** In a way I think maybe Joe's two previous questions are also related. When you talked about China involving people and about this idea of massive projects and how things are being done from the outside. You just mentioned water. When the Chinese government decided to build dams across the Three Gorges, there was a ground swell of opposition in China, unusual in a country that's still a very authoritarian country. As far as what I can make out, the opposition was not listened to. Which goes against your goals of social development of inclusion, of including people in these things; was that something that the World Bank or the IMF were involved in? How do you respond to the fact that there were these concerns at the base that weren't being listened to? And if the Chinese government or any other government were to come to you in the future with a major project like that – and say we will have to disregard these people who have environmental concerns. How do you deal with a situation like that?

**JORGENSEN:** As an intergovernmental body, we have a set of policies and procedures that we have to follow when we go in to invest in anything. So, in the situation with the Three Gorges, we were not engaged in that very much because the governments of the world which own the bank decided that was not a project the bank should be involved in. Recently the environmental agency of China themselves are saying, listen, there are some things that you need to consider about going forward. I think we have to be very careful about these blanket statements because there are so many people in China and around the world who don't have access to power, who don't have access to irrigation, and I think we have to find ways of making sure that as many people as possible benefit from these things. There is a need for big infrastructure I would not pretend that we should stop doing that...

**JENKINS:** ...Are you saying that a poor country can't get rich without roads and dams and what...

**JORGENSEN:** ...They need that as well. I think they have an opportunity to learn from the mistakes we've made in the developed world earlier on, so maybe they won't destroy the environment. Maybe they won't do it in a way that creates social cleavages that are

insurmountable. But to give a blanket statement saying thou shall not do big infrastructure, thou shall do big infrastructure doesn't work. You have to work with the people in the area. We have come to the areas where you need broad community support, which is the principle we go by. You need a broad community support. This is not something that we invented this is in fact what private sector is saying. Private firms are saying we will only invest if it is there, they know again, if the pipeline is going to be broken because people are upset, it's not a worthwhile investment.

**PISIK:** What I am picking up from the conversation here is that there have been trials and errors and sometimes things work and sometimes they don't. Anyone who has travelled in the developing world has heard no end of trash talking about the World Bank. I'm wondering if there is anything you can point to that the World Bank has learned from all of these adventures in social development. Are policies abandoned? Have new guidelines been adopted? Is there some way in which the Bank itself has grown more reflective or responsive?

**JORGENSEN:** We certainly hope so. I think over the last ten years we have seen some fundamental changes in the way that the World Bank does business. The whole philosophy of poverty reduction strategies, which the countries themselves in consultation with civil society and community groups – come up with a strategy that the World Bank and other owners come in and finance. That's a fundamentally different role than when I started out in this business where we had something called policy framework papers, which – the little dirty secret was, they were written in the IMF and the World Bank got to put a little thing at the bottom and then the Finance Minister signed. That's not the way we do business today. That's a very fundamental change. The other thing that we learned is that you need to understand and work with the governments to understand the social impact of what you do. Not only to mitigate the negatives ones, but really enhance the positive ones. When you build a big dam, why don't you make sure that the people who are living around have access to irrigation. Again the benefit sharing is going to be very important.

**PISIK:** Right. Has there been a more concentrated effort to listen to voices outside of the governments of the programme countries? More emphasis on the NGOs, on...

**JORGENSEN:** ...Yes, there's much more voice, but I think it's very important to realize that we still work with governments, we are an inter-governmental body...we lend to governments. What we have seen and what many governments say is that we need more eyes and ears here, we can't do it alone. There are some fascinating examples from Africa; for instance, where you can see how money which is allocated to health and education actually reaches the schools. When you tell people exactly how much money is going into...

**JENKINS:** ...Good, you have opened the way to actually talk about accountability. How do you hold governments accountable? How do they hold you accountable? What is the process for this? This is obviously important.

**JORGENSEN:** In terms of the World Bank, we are accountable since we own them; our shareholders are the governments of the world.

**JENKINS:** I'm not talking about the shareholders, I am sure they hold you accountable; I am talking about the people that you are trying to benefit.

**JORGENSEN** That's where we are trying very hard to make sure we listen to people. It started with an exercise called the Voices of the Poor where instead of traditionally going out and asking for household services, we actually asked thousands of poor people from around the world, what is your dream? What is your development dream? What are the things that are keeping you from that dream? The response was put into a major World Bank research report -- called the World Development Report 2000 -- on poverty and how we go forward. It was from listening to those people that we can now say it is about economics but it is also about dignity, it's about empowerment; it's about what some peoples call fluffy stuff. We would argue that it is just as bankable and hard nosed as traditional economics. But it's something that we didn't traditionally pay as much attention to.

**LAURIA:** Is this a serious effort? By doing it in the last few years after fifty years, it's almost an admission that you didn't give a damn about what the people had to say, you only dealt with the government. Now you are finally asking the poor people what they want. Is that an admission that the World Bank had it wrong? And is this more than just a PR effort? Are there voices that are really being taken into account here?

**JORGENSEN:** We see a lot of policies that are changing because of what poor people are saying today. It's not just a PR exercise. If it was a PR exercise it would have been revealed -- you can't fool some of the people some of the time [sic]. You are an American... you know some of this...

**LAURIA:** ...Ask the President, he knows that one [all laugh]

**JORGENSEN:** But basically, what is important here is to say that if we're not serious about it....once you start asking poor people....they will keep answering, even if you stop asking them. So, if we weren't serious, we would know and get the feedback very quickly. I think the current president of the World Bank has built new ground. He didn't just travel to the capitals; on one his very first trip, he went out and talked to villagers and said what is it that the World Bank needs to do for you? And people were laughing and saying this is just a PR stunt.

Well, now it's ten years later and now it's an integral part of the way we assess the policies we support, the programmes we support.

**JENKINS:** Tell me something...how do you make that work in a country that's an authoritarian regime? After all, an awful lot of poor countries still are authoritarian places. I presume they may open the door and let you in, they will let you talk to their people but at the end of the day maybe they will just tell you to ignore what you have heard. How does that work?

**JORGENSEN:** We have to do due diligence to our basic mandate, which is, if we feel a project or a policy that we have been asked to support is not going to help poor people, we won't support it. We are increasingly using the tool of not lending to countries. It used to be...

**JENKINS:** ...Is there a correlation between a democracy and the borrowing and lending practices now?

**JORGENSEN:** Formal democracy in a sense of total democracy, I think you need to be very careful. We fund things that are economically worth while doing. And we do them through loans, so we better make sure that they are worth while doing. What I think is important is participation inclusion. Now you can call that democracy, you can define democracy as a ballot box. I think what we are seeing is that as governments open up more and more, which is happening across the world, they may not open up in terms of ballot boxes but they are increasing aware that to really get the kind of economic growth and poverty reduction they want, they need to include as many people as possible. You can't exclude half of your population because they happen to be women, or fifty percent of the population because they are somehow untouchable or of a wrong ethnic background. That just doesn't make economic sense and that is where the World Bank comes in and tries to turn this fluffy stuff into hard nose economic facts. I like to say that the World Bank does is take soft stuff and make it hard.

**JENKINS:** It sounds to me is what your saying is that your policies at the World Bank now are actually in some way or another helping to foster democracy which I think is probable a fairly optimistic note on which to end.

Well that is all the time we have today. Thank you so much for being our guest. Our guest has been the Director of Social Development Department at the World Bank, Steen Jorgensen. He was interviewed by Joe Lauria of the Boston Globe and Betsey Pisik, of the Washington Times. I'm Tony Jenkins. Thank you for joining us. We invite you to be with us for the next edition of **World Chronicle**.

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