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Dates: 09/29/1981 - 09/29/1981

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ISAD Reference Code: WB IBRD/IDA EXC-09-5769S

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Clausen's Annual Meeting speech



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A. W. CLAUSEN OUTLINES WORLD BANK'S PRIORITIES FOR THE FUTURE

New President Stresses Food, Energy Production, Cooperation With the
Private Sector, and Calls for More Attention to Sub-Saharan Africa

A. W. Clausen, the World Bank's new President, told the Bank's Governors at their Annual Meeting in Washington, D.C. today that the major elements of the development endeavor -- multilateral, bilateral, the private sector, and the specialized groups -- should be linked in closer and more effective cooperation.

"Partnership, after all, is the key to the role of the World Bank", said Mr. Clausen, the former President of the Bank of America who succeeded Robert S. McNamara in July this year.

The need for cooperation was more acute because of the growing scarcity of investment resources world-wide. "Priorities will have to be carefully defined, investment decisions will have to be closely scrutinized, and available resources will have to be used as effectively as possible", said Mr. Clausen.

The World Bank itself would need to match such an assessment of priorities by "an intensified effort to assure that the available resources are used with maximum effectiveness."

Reviewing the Bank's broad experience in coordinating development assistance, Mr. Clausen said that "there is more that can and should be done to assist all the participants in this process, particularly those in the private sector."

The private sector, said the new World Bank President, represents "an immense potential source of investment capital," and there is much that the Bank can do to help it expand its lending to the developing countries.

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"We will therefore seek to increase substantially the level of private co-financing in the next several years," said Mr. Clausen. He pointed out that in the past two years, private lenders have participated with the World Bank in some 40 projects, and have committed more than \$3.5 billion.

Vigorous and Healthy

Giving his report to the World Bank's shareholders, Mr. Clausen said, "Judged by conservative banking standards, the World Bank is a vigorous and healthy financial intermediary between its borrowers and lenders...It is also a unique and immensely productive development institution."

The new president attributed the Bank's success to the "uncomprisingly high" standards in its project work, supervised by a skilled and seasoned staff drawn from over 100 nationalities, representing "a range of talent and depth of experience in the development field that is unmatched elsewhere." He noted that the Bank's economic advice and technical assistance was often as valuable as project funding. He also praised his predecessor, saying that historians of development will credit Mr. McNamara as having done "a truly monumental job."

Structural Adjustment

Most developing countries are going to be confronted in the early years of the decade with projected low rates of growth. What is needed in order to face the realities of today's global economy is for the developing countries to make structural adjustments in their economies. To make these changes, Mr. Clausen urged the developing countries to adopt appropriate policies and more effective price incentives, improve market signals, export more, and use better both material and human resources.

"The world economic situation today allows little tolerance for inefficiencies," warned the World Bank President, "whether these derive from mismanagement in public enterprises, an inadequate utilization of private talent, or misguided subsidies that benefit the rich in the guise of helping the poor."

The World Bank, Mr. Clausen said, will "direct its project and sector lending, and its wide range of technical assistance to help our developing member countries make these structural adjustments," and will work closely with the International Monetary Fund. The Bank's long-term capital assistance, he said, can pick up where the International Monetary Fund's stabilization programs leave off.

Agricultural and Rural Development

Speaking about the Bank's program, Mr. Clausen said that three priorities require special attention: agriculture and rural development, energy, and Sub-Saharan Africa.

Because agriculture is a key factor in development, the Bank will maintain its emphasis on agricultural production, said Mr. Clausen. He stressed the importance of food production in the developing countries. "Food requirements in the countries will increase rapidly both because of population growth and improvements in income."

"Unless domestic food production in these countries steadily increases, these requirements will place unbearable strains on the world's food production and distribution system -- threatening widespread malnutrition in the poorest countries, and adding to inflationary pressures in the industrial nations," he said.

Referring to the progress of South Asian countries in meeting their food needs, Mr. Clausen said that these countries' own resources and policies were the key factors, but that the financial and technical resources concentrated by the Bank on the problem had made a difference. He added, "The Bank and its affiliates have been able to assure their member countries that sound policies would be supported in very tangible ways, and thus have bolstered the confidence of governments and the private sector to go ahead."

In negotiating agricultural lending programs with borrowing countries, the Bank will put even greater stress on the importance of sound agricultural policies, Mr. Clausen said. This is because "no amount of Bank lending can substitute for sound agricultural policies."

The World Bank will continue to stress the role of agricultural research, Mr. Clausen said. Together with bilateral and other multilateral agencies, the Bank must find ways to strengthen further national agricultural research institutions that can adapt and apply the results of international research to local needs and conditions.

Energy Development

On the need to assist energy development, Mr. Clausen said, "The success developing countries achieve in reducing their dependence on imported energy will in large measure determine the degree of flexibility they will have in managing their economies throughout this decade and beyond."

The Bank plans to lend \$3 billion in the twelve months ending June 30 next year for all types of energy projects, said Mr. Clausen. This amount represents an increase of 25% over last year. Mr. Clausen also promised that the Bank will expand its lending program in energy.

Nearly two-thirds of the Bank's energy program is in electric power. In oil and gas, the World Bank provides an important catalytic function, said its new President. It helps to develop data, assists in financing infrastructure, advises on appropriate incentive structures, and together with the IFC, helps to arrange the necessary funding. The Bank, by participating in agreements between governments and private corporations, can give both parties an increased sense of security regarding the fairness and stability of the terms, and thus make exploration investment more attractive.

A larger Bank program in energy, Mr. Clausen believes, will contribute to "an orderly transition to a better use of energy resources in both developing and industrial countries." It will also be possible for developing countries to obtain exceptionally high economic rates of return from Bank loans for energy.

"It will be feasible," said Mr. Clausen, "to associate a substantially increased volume of private and other foreign capital with Bank energy projects."

Aid for Africa

Referring to a report on Sub-Saharan Africa, specially prepared by the World Bank at the request of African governments, Mr. Clausen said that the report, which had been done with great care, was candid, "as Bank reports always are."

Sub-Saharan Africa is one major region in which 18 countries actually suffered a decline of income per capita during the 1970s, he said. These countries have virtually no prospect for growth of income per capita in this decade.

The Africa report suggests that by much more efficient use of resources and more appropriate policies fashioned to respond to the world economy and to domestic conditions, the African countries can expect to perform much better, according to Mr. Clausen.

Policies must be redesigned, Mr. Clausen said, to stimulate agricultural production through a more effective structure of incentives, to reduce the disincentives to private efforts, to encourage exports, and to reduce the drain on government budgets from unwarranted subsidies and ineffective enterprises.

In seeking to help the African governments help themselves, the World Bank will assist any government that desires assistance with the analyses of problems and the formulation of programs, according to Mr. Clausen.

But such efforts at self help will require major support by the international community as a whole. Mr. Clausen called for a doubling of aid to Africa because of the magnitude of the investment programs and the scope of the changes required.

General Capital Increase and Borrowing

Speaking on the external capital requirements of developing countries, Mr. Clausen said that the requirements will be sizeable in the 1980s. All but a small fraction of the overall investment has come from domestic resources of developing countries. But their need for additional external capital remains urgent, he added, while at the same time donor countries' budgets are tight, and high interest rates are a barometer of growing pressure on available finance.

For the World Bank, Mr. Clausen expressed his satisfaction that arrangements are now complete for doubling its capital from \$37 billion to over \$75 billion. Subscriptions to the general capital increase from members will begin September 30 this year, he said.

The World Bank plans to borrow about \$8 billion this year, according to Mr. Clausen. This is no easy task because of the difficult conditions and high costs in most of the important financial markets, he said. Beyond the traditional markets, the Bank will also have to be alert to possibilities for raising resources in new ways. One possibility is to foster increased lending by others through co-financing of Bank-assisted projects, Mr. Clausen said.

Investment Insurance

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If there is widespread support for the idea, said Mr. Clausen, the World Bank is prepared to join in an effort to establish such a mechanism.

The Role of IFC

In the developing world, the private sector generates over half the gross domestic product and it is often the most effective agent for furthering economic development, Mr. Clausen said. Referring to the World Bank's 25-year old affiliate, the International Finance Corporation (IFC), he said that it helps to mobilize the resources needed to develop these investment opportunities.

What makes IFC successful, Mr. Clausen pointed out, is that it is neither doctrinaire nor inflexible. "It supports projects varying from purely private, to mixed public/private ventures, and even to wholly-owned government enterprises, some of which as channels for assistance to the private sector."

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IDA Credits Are Not Welfare Checks

Discussing the lack of support for IDA, Mr. Clausen put the blame on "honest but serious misunderstandings about what IDA really does."

The use of the term "soft," he said, in describing IDA credits has caused much misunderstanding. While IDA terms are concessional, the projects the institution finances are not "soft." IDA credits get exactly "the same tough, searching treatment from the staff and in the Board that World Bank loans themselves do." IDA projects must have an estimated rate of economic return of at least 10% in real terms.

"So the issue is not whether IDA is effective," said Mr. Clausen. "It is. Nor is the issue whether IDA is a philanthropic society. It is not. An IDA credit is not a welfare check. It is a productive investment."

Citing the examples of former IDA borrowers -- Republic of Korea, the Philippines, Thailand, and Ivory Coast -- Mr. Clausen pointed out that these countries have not only graduated from low-income to middle-income economies but today are vigorous and valuable trading partners with the developed nations.

IDA investments will one day earn substantial returns for contributing nations through expanded trade, said Mr. Clausen.

IDA alone cannot make the world peaceful, admitted Mr. Clausen. But it can help countries containing half of the world's four billion people, most of them very poor, to achieve greater economic stability, greater self-reliance, and greater social cohesion. Such an achievement is clearly in the national self-interest of the developed nations, concluded Mr. Clausen.

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Speaking on the external capital requirements of developing countries, Mr. Clausen said that the requirements will be sizeable in the 1980s. All but a small fraction of the overall investment has come from domestic resources of developing countries. But their need for additional external capital remains urgent, he added, while at the same time donor countries' budgets are tight, and high interest rates are a barometer of growing pressure on available finance.

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The World Bank plans to borrow about \$8 billion this year, according to Mr. Clausen. This is no easy task because of the difficult conditions and high costs in most of the important financial markets, he said. Beyond the traditional markets, the Bank will also have to be alert to possibilities for raising resources in new ways. One possibility is to foster increased lending by others through co-financing of Bank-assisted projects, Mr. Clausen said.

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The need for cooperation was more acute because of the growing scarcity of investment resources world-wide. "Priorities will have to be carefully defined, investment decisions will have to be closely scrutinized, and available resources will have to be used as effectively as possible", said Mr. Clausen.

The World Bank itself would need to match such an assessment of priorities by "an intensified effort to assure that the available resources are used with maximum effectiveness."

Reviewing the Bank's broad experience in coordinating development assistance, Mr. Clausen said that "there is more that can and should be done to assist all the participants in this process, particularly those in the private sector."

The private sector, said the new World Bank President, represents "an immense potential source of investment capital," and there is much that the Bank can do to help it expand its lending to the developing countries.

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"We will therefore seek to increase substantially the level of private co-financing in the next several years," said Mr. Clausen. He pointed out that in the past two years, private lenders have participated with the World Bank in some 40 projects, and have committed more than \$3.5 billion.

Vigorous and Healthy

Giving his report to the World Bank's shareholders, Mr. Clausen said, "Judged by conservative banking standards, the World Bank is a vigorous and healthy financial intermediary between its borrowers and lenders...It is also a unique and immensely productive development institution."

The new president attributed the Bank's success to the "uncomprisingly high" standards in its project work, supervised by a skilled and seasoned staff drawn from over 100 nationalities, representing "a range of talent and depth of experience in the development field that is unmatched elsewhere." He noted that the Bank's economic advice and technical assistance was often as valuable as project funding. He also praised his predecessor, saying that historians of development will credit Mr. McNamara as having done "a truly monumental job."

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Most developing countries are going to be confronted in the early years of the decade with projected low rates of growth. What is needed in order to face the realities of today's global economy is for the developing countries to make structural adjustments in their economies. To make these changes, Mr. Clausen urged the developing countries to adopt appropriate policies and more effective price incentives, improve market signals, export more, and use better both material and human resources.

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"Unless domestic food production in these countries steadily increases, these requirements will place unbearable strains on the world's food production and distribution system -- threatening widespread malnutrition in the poorest countries, and adding to inflationary pressures in the industrial nations," he said.

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On the need to assist energy development, Mr. Clausen said, "The success developing countries achieve in reducing their dependence on imported energy will in large measure determine the degree of flexibility they will have in managing their economies throughout this decade and beyond."

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The need for cooperation was more acute because of the growing scarcity of investment resources world-wide. "Priorities will have to be carefully defined, investment decisions will have to be closely scrutinized, and available resources will have to be used as effectively as possible", said Mr. Clausen.

The World Bank itself would need to match such an assessment of priorities by "an intensified effort to assure that the available resources are used with maximum effectiveness."

Reviewing the Bank's broad experience in coordinating development assistance, Mr. Clausen said that "there is more that can and should be done to assist all the participants in this process, particularly those in the private sector."

The private sector, said the new World Bank President, represents "an immense potential source of investment capital," and there is much that the Bank can do to help it expand its lending to the developing countries.

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"We will therefore seek to increase substantially the level of private co-financing in the next several years," said Mr. Clausen. He pointed out that in the past two years, private lenders have participated with the World Bank in some 40 projects, and have committed more than \$3.5 billion.

Vigorous and Healthy

Giving his report to the World Bank's shareholders, Mr. Clausen said, "Judged by conservative banking standards, the World Bank is a vigorous and healthy financial intermediary between its borrowers and lenders...It is also a unique and immensely productive development institution."

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"Unless domestic food production in these countries steadily increases, these requirements will place unbearable strains on the world's food production and distribution system -- threatening widespread malnutrition in the poorest countries, and adding to inflationary pressures in the industrial nations," he said.

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