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Sir Denis RICKETT

Speech given by Sir Denis Rickett before the Council of Europe - Strasbourg, France JANUARY 27, 1970

Mr. President, Ladies and Gentlemen:

I am most grateful to have the opportunity of taking part in this debate on development co-operation and I should like to express my appreciation, Mr. President, of your action in arranging for it to take place.

It seems to me that this is pre-eminently a subject in which the Council of Europe should be closely interested and that the present time is extremely opportune for such a debate.

We have come to the end of the First Development Decade and are about to move into the Second. There are certainly lessons to be learned and improvements to be made in the more effective use of aid. But the degree of success that has been achieved already is encouraging. [I agree with what Mr. de Seynes and other speakers have said on that point.]

An attempt has been made on the initiative of the World Bank to sum up the experience of the past decade and to draw the morals to which it points. This has been done by the Pearson Commission in their admirable report. That is another reason why we should be discussing these questions to-day.

There is a third reason which is of special interest to us who work in the World Bank Group. Negotiations have recently begun between donor governments for a Third Replenishment of the resources of the International Development Association. The result of these negotiations will be an important test of the will to co-operate in giving assistance for development.

You will remember that it is not many months since the Second Replenishment of the Association's resources entered into effect - in July of last year. But that happened only after a prolonged delay which for a time reduced the rate at which the Association could grant new credits to a very low level. And because of the delay we were obliged to recognize that we could not carry out our original intention which was to commit the whole of the Second Replenishment resources by the end of Fiscal Year 1970, that is by June 30th next. We could not have negotiated fresh arrangements by then and we have been obliged to spread the funds we have over a further year.

That means, however, that it will be all the more important that fresh resources should be available for commitment punctually when the Second Replenishment funds have been fully committed - that is to say by July 1st 1971.

That is why we have started in good time the discussions which we hope will lead to a new agreement. We hope to complete these discussions between governments by the end of the Summer and thus leave about a year for action by Parliaments in all the contributing countries.

It is of the highest importance that the new resources should be provided not only in good time but also on a substantial scale. The Pearson Commission, as you know, recommended that in the Third Replenishment resources should be provided for commitment over a five-year period and that the annual amount should reach a billion dollars by 1972 and one and a half billion by 1975. There is no doubt that I.D.A. and the developing countries could make good use of resources on this sort of scale if they could be provided.

Why do we lay such stress on the need for a further and substantial increase in the resources provided for the I.D.A.? It is because we believe that the urgent need to-day is for more aid on softer terms. Mr. Martin has already spoken of the work of the Development Assistance Committee in stimulating the donor countries not only to increase the quantity but also to improve the quality of their aid. The net total flow of funds to developing countries of $12.8 billion in 1968 continued the increasing trend of previous years, even though the rate of increase (of about 40% between the years 1961 and 1968) may seem a little disappointing when compared with the increase of 75% in the gross national product of the D.A.C. countries during the same period so that they moved away from rather than towards the target level of 1% of GNP falling from .96% to .77%. But what was much more disappointing was the change in the composition of that total flow. Official flows increased by only 13% and in consequence declined as a proportion of GNP from .64% in 1961 to .42% in 1968.

Official flows have not only declined as a proportion of total flows, their composition has changed also. The proportion of grants has declined from 75% in 1961 to 49% in 1968 while that of loans has risen.

In short, there has been in the last few years a steady movement away from concessionary terms in the provision of official aid, while at the same time there has been a fall in public aid in relation to private commercial flows. This has happened at a time when interest rates have reached levels never before equalled.

What does this mean for the developing countries? It can only have the consequence of increasing the difficulties which many of them already have in meeting their mounting debt service. The figures, as I am sure you know, are striking. In the decade 1957-1967 the accumulated debt of 92 developing countries increased fourfold. Debt service has been increasing at the rate of 17% per year. Their export earnings have not kept pace. They have risen at a rate of only 5% a year. The foreign exchange reserves of thirteen of the largest developing countries fell by 60% in the same period.

This does not mean that there was an inadequate return on the investment programs and projects in which the funds were invested. There is no lack of such investment opportunities in the developing countries. To give soft aid does not mean to invest in projects with a low yield. It means that either the countries are so poor, their income per head, at a $100 or less is so low, that they cannot expect to set aside either in the form of public or of private saving, much of the additional income to which the investments lead: or, even if the rate of saving is satisfactory as it is in many of the developing countries, they cannot at all quickly translate those savings into increased exports or into increased import substitution.

That is why it is that if we merely increase the volume of financial flows to these countries without giving them softer terms, we shall impose - indeed we are already imposing - a very considerable strain on the debt servicing capacity of many of them, and an impossible burden on others. The inevitable result is only too obvious. We shall have an increasing number of debt crises in many of these countries in which all debts, private as well as public, will have to be "rescheduled" to use a polite euphemism. That is the consequence of giving them aid on terms which do not really deserve the name, in which the grant element is too low, the affinity with commercial investment too close. Such a development can only be bad for the credit standing of these countries, and will interfere with the development of trade and with the proper functioning of private investment which is so important.

The interest of exporters and investors in the donor countries therefore will inevitably be damaged if governments fail to ensure that their development assistance is given on sufficiently concessionary terms.

So far I have been arguing for greater amounts of soft aid, of aid that is really aid. But, it might be asked, can that not equally well be given through bilateral aid programs? Why does it follow that there should be a large increase in multilateral aid and in I.D.A. in particular? I agree that that is to some extent a separate issue. But I think that there is a very strong case, which has been recognized both in the report of the Pearson Commission, and in statements of policy made on behalf of a number of donor governments, for believing that a larger share in the total of aid should be channelled through multilateral organizations. Such organizations are particularly well placed to keep a close watch on the performance of recipient countries, and to suggest ways in which this can be improved. This not only leads to the most effective use being made of the resources provided by the international agencies themselves: it often helps to improve the use made of bilateral aid as well. It certainly helps to avoid friction between those who are giving and those who are receiving aid, and to prevent the givers from becoming unnecessarily involved in the internal political controversies of the receivers of aid. But if the multilateral agencies are to play this role effectively, they must have at their disposal a significant proportion of the total flow of aid.

International organizations have a further advantage. They provide an agreed basis for sharing the costs of aid. Many governments find it easier to justify to their legislatures the giving of aid on concessionary terms if they do so through a multilateral institution to which other governments are contributing on the same terms, so that what each government contributes will be matched by others with multiplying effect.

That this is so has been publicly accepted by a number of Part I Governments. The Italian Minister of the Treasury, for example, Signor Colombo, said in addressing the Annual Meeting of the Bank and Fund last year that his country was "convinced that it was necessary to transfer a greater part of the aid to the emerging countries through international organizations". In the United States, President Nixon strongly endorsed an expansion in multilateral aid in a message which accompanied his foreign aid proposals to Congress in May 1969. Senator Fulbright and other members of the Senate Foreign Relations Committee have also made statements supporting a large increase in the multilateral component of aid. Each of the three White Papers on foreign aid published by the British Government in the last six years has emphasized the great importance which that Government attaches to the work of the international agencies and the preference which it has for channelling aid through them. The Swedish Government gives approximately half its foreign aid through multilateral agencies. The German Government, in commenting on the substantial rise which had taken place in multilateral contributions in 1968, stated that it "welcomes this rise in multilateral engagements since it appreciates the specific contribution to the development effort which is made by the multilateral organizations... In planning its own assistance measures it attributes increased importance to coordination and cooperation with multilateral organizations." The Netherlands and Canadian Governments have also emphasized the need for an expanded flow of multilateral aid. Finally you will remember that the Pearson Commission in their report recommended that multilateral aid should be expanded from its 1968 level of 10.3% of total official development assistance to at least 20% by 1975.

I think you will agree that this is an impressive body of testimony and shows a very wide consensus in favour of multilateral aid. I hope that what I have said this morning, and these statements which I have just quoted, will be enough to convince you, if indeed you needed to be convinced, that a very substantial increase in the funds placed at the disposal of the International Development Association would be a very sound investment.

I should like to add one further point. I.D.A. came into being originally as the result of an United States initiative. It has been supported in the United States by both parties. But it draws a very important part of its strength from the support which it receives in Europe. Here is a field, I suggest, in which the countries of Europe, working together can play a very important part, can indeed contribute an element of leadership, which will be of the utmost value, on an issue which is, I fully believe, as important as any in world affairs.

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CONSULTATIVE ASSEMBLY

of the

COUNCIL OF EUROPE

Twenty-first Ordinary Session
(Third Part)

TWENTY SECOND SITTING

Tuesday 27 January 1970
at 10 a.m.

- The Sitting opened at 10.05 a.m., with Mr. Reverdin, President, in the Chair.

Development Co-operation

- The Orders of the Day called for the discussion on development co-operation with statements by:
- Mr. Philippe de Seynes, Under-Secretary-General for Economic and Social Affairs of the United Nations Organisation;
- Mr. Perez Guerrero, Secretary General of the United Nations Conference on Trade and Development (UNCTAD - CNUCED);
- Jonkheer Emile van Lennep, Secretary General of the Organisation of Economic Co-operation and Development (OECD - OCDE)
- Mr. Edoardo Martino, member of the Commission of the European Communities.

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The statements by the above persons were to be followed by qestions and answers.

The PRESIDENT stated that the Assembly had decided about one year ago, by means of an order, to arrange today's debate. . Its intention had been to provide clear evidence of the importance attached by the countries represented in the Assembly, and their parliaments, to development problems at the start of the second development decade.

The debate would take the form of a round table rather than an ordinary parliamentary debate.

He welcomed the presence of an exceptional number of observers including the representatives of 15 international or regional organisations and of 13 countries not members of the Council of Europe.

For the first time, a Soviet citizen was attending a Council of Europe meeting - Mr. Kutakov (although he was present as a United Nations representative).

Before giving the floor to the first speaker, the President reiterated the Assembly's gratitude to the representatives of 9 international organisations who had consented to come to Strasbourg to deliver addresses before the Assembly.

Mr. Philippe de SEYNES, Under Secretary General for economic and social affairs of the United Nations Organisation, (full text in French and English available in the Press Room).

Mr. Perez GUERRERO, Secretary General of the United Nations Conference on Trade and Development (UNCTAD-CNUCED), said that the Council of Europe was indeed an instrument which made for unity, and thanks to it Europe was leading the movement towards international solidarity.

But all problems must be approached on a world-wide scale.

He admitted and regretted that UNCTAD still had shortcomings as well as valuable attributes.

It could not yet be said that all developing countries had reached the same standards, and it was the duty of UNCTAD to bear that in mind. The development of under-developed countries must not merely be a reflex or an automatic action on the part of developed countries.

Developed countries and international organisations must strive to reduce the gap between the haves and the have-nots. International organisations could certainly do more to encourage developed countries to make such efforts more willingly.

The agreement on sugar would indeed produce results, even if it was not perfect. An agreement on cocoa was being drawn up. In a few days' time there would be a meeting in London on oils and fats.

Agreements of this kind on commodities undeniably served a useful purpose. The settlement of financial matters was also of vital importance. Developing countries depended on the Western countries to take action of this kind - on which their future development hinged.

The Council of Europe member countries had an important task to fulfil in this respect. Today's debate was particularly encouraging in this connection.

He suggested in conclusion that consideration should be given to the possibility of establishing a link between the various solutions offered for the problem of international liquidity.

Jonkheer Emile van LENNEP, Secretary General of the Organisation of Economic Co-operation and Development (OECD - O.C.D.E.) - full text available in French and English in the press room.

Mr. Edoardo MARTINO, member of the Commission of the European Communities, said that Mr. Vedovato's report was a first-class introduction to the debate. Aid to development was not a field in which the European Economic Community was principally active as were other international organisations; it was merely a side activity, a part of its essential purpose which was still, of course, European integration. It was also an operational activity, reflected in a set of highly concrete measures; in selecting between these measures, practical considerations seemed to outweigh theoretical considerations.

From an overall point of view the Community's development aid programme was the result of a search for balance between the responsibilities which arose from the implementation of its economic policy with respect to the countries of the third world and the clearly defined obligations it had contracted in the form of association with certain developing countries.

He then considered these two aspects of Community policy.

First, there had been, in 1958, the association with what were then called overseas countries and territories. These consisted of 18 countries with almost 60 million inhabitants, and they later became the independent states of Africa and Madagascar. Shortly afterwards association agreements had been concluded with Greece and Turkey, whilst trade agreements had been signed with Israel, Iran and the Lebanon. Later, further association agreements were concluded: one with Nigeria which had never come into force, another with the East African countries which had been renewed in 1969, and two other agreements with Tunisia and Morocco which had been concluded during the previous year.

Today it could be said that the association with the African states and Madagascar had proved to be completely satisfactory and that it was in complete harmony with reality since it had survived the changes in Africa since 1958.

When organising trade, the principle adopted was to set up free trade areas between the Community and the associated states, and this meant the abolition of customs duties and the suppression of quotas, apart from a few exceptions.

Automatically, however, this led to a preferential situation between partners within the Association, as there was no change in customs tariffs vis-à-vis third countries.

The new Convention, signed in 1969, although continuing to promote trade between the Community and the AASM, made allowance for the determination of the Contracting Parties to encourage an expansion in inter-African trade and regional co-operation; the Associated States could thus establish customs' unions, free trade areas, or conclude economic co-operation agreements either among themselves or with one or more third countries.

These trade provisions were accompanied in the Yaoundé Agreements by financial and technical aid, the aim of which was to make it possible to finance social and economic investments, infrastructure or production.

The first Association period, 1958 to 1963, included an investment fund worth 581 million dollars. Financial aid under the Second Convention (1964 to 1969) totalled 800 million dollars. By the Association Convention signed in July 1969, the total was 1000 million dollars.

In all, the European Economic Community had set aside over 2.5 thousand million dollars for developing countries associated with it, since its foundation.

Mr. Martino then emphasised that the association policy was due to the EEC's duty to ensure that European integration did not harm the growth of certain developing countries which depended upon the European market for most of their exports.

The system of associations always aimed at the widest possible range of free trade between EEC and the associated states.

But the principle of free trade in such associations was always governed by considerations with respect to development needs.

However extensive its association policy had been in the past, and was in the present, the Economic Community was fully aware of its far greater responsibilities at world level due to the part it played in international trade.

Consequently, it had constantly sought solutions adapted to all developing countries and associated itself fully with the steps which had been taken at multilateral level to speed up the economic growth of the third world.

He then spoke of the increase in world commodity prices and the introduction of preferential treatment for semi-finished and finished products.

In view of the difficulties encountered when endeavours were made to control rigorously the expansion of supply, a boost to production resulting from an excessive increase in prices might lead to overproduction and therefore to a drop in prices which was the very thing that everybody wished to prevent.

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Arrangements for commodity markets were insufficient if they did not lead to a diversification of the developing countries' economies. It was for this reason that the Community had also, with the aim of encouraging the industrialisation of the third world, indicated its keen interest in preferential treatment for developing countries' semis and manufactures. In this way it was providing a greater boost to their economic expansion. In the long term, however, it could scarcely be claimed that all third world countries could sustain expansion over a long period, unless the industrial sector made a growing contribution.

The Community 'asumption was that the preferential system would be generally applied to all industrial manufactures and semis originating from developing countries. Preference would consist of the grant of exemption from customs duties.

All the EEC's preliminary proposals, however, had been put forward subject to possible modifications following consultations which the Community was bound to hold, pursuant to stipulations written into the Association Agreements.

He then said that since the creation of the Common Market, exports from developing countries to the Community had increased annually by more than 7%, an increase which was far in advance of that for their exports to other developed countries. Consequently, the Community had become the main customer of developing countries since 1961, and at present it accounted for over one-third of these countries' exports to developed countries.

During that same period, the Community's exports to developing countries had gone up, but the increase of about 3% was much lower than that for its imports from those countries.

This trade surplus had enabled developing countries to increase their imports from other areas. Thus, the Community had made an important contribution towards the development of world trade and the effort to equip all the countries of the third world. But that was still not enough, and nothing would have been achieved as long as so much remained to be done.

MR. VEDOVATO (Italian Christian Democrat), rapporteur of the Committee on Economic Affairs and Development, wished to have more details concerning the programme planned for the next decade.

There was talk about a set of international laws governing individuals, even at scientific level, but no details were available at legal level.

What would be the legal implications of undertakings which supplier countries or developed countries would be asked to enter into during the second development decade?

He then said that paradoxes were part of life and it was all too readily accepted that rich countries should grow richer and poor countries poorer.

Was it possible to speed up the stabilisation of commodity prices? Did not Mr. Martino think that preferential tarifs might cause serious difficulties in the system worked out by EEC?

Sir Geoffrey de FREITAS, spokesman of the Political Affairs Committee, asked Mr. de Seynes if he did not think that the main obstacles to a renewed international drive were political rather than economic.

Millions of pounds were being spent in Africa on bilateral aid. He would like to know what would be the political consequences of such aid being continued on a vast scale, as advocated in Great Britain for reasons of efficiency, not for political reasons - which called for no comment. Was it felt in the U.N. that this bilateral aid was more effective?

As the developed nations were some times accused of trying to divide up Africa, he asked if, when an agreement was concluded between three African countries, as had happened recently, the United Nations treated the three countries as a single entity or whether they concluded separate agreements with each.

He recalled, in conclusion, the comments made by U Thant, Secretary General of the United Nations, on the occasion of his visit to the Council of Europe a few years ago: there must be no return to European provincialism, to an easy way of life.

Mr. De GRAUW (Belgian, Liberal) said that the European delegation had experienced definite bitterness over the contents of the Yaoundé Convention, when it visited the Conference arranged by the Latin American countries. He wondered whether tariff reductions did not present a danger - even for countries which in principle were supposed to benefit. He would like certain information on the matter.

MR. CAPELLE (French UDR) wished to ask the Secretary General of OECD what connection there was exactly between education and development.

He also asked whether it was possible to organise valid relationships between OECD and certain international agencies in order to arrange examinations in developing countries to establish to what extent their education systems could be organised more efficiently to satisfy their specific needs.

MR. PITTERMANN (Austrian SPO) said that he had proposed the setting up of a sort of inter-European clearing agency comparable to the international monetary fund and having, among other things, drawing rights.

The growth in inter-European trade would increase the possibility of offering development aid.

He asked Mr. Guerrero if UNCTAD was prepared to deal with such a problem.

MR. BEMPORAD (Italian Socialist), referring to para.11 of the draft Recommendation in the Political Affairs Committee's report on East-West relations, asked whether the United Nations did not feel that attempts should be made to co-ordinate the economic policies of the East and the West for the benefit of developing countries.

MR. OHLING (Swedish Liberal) asked Mr. Guerrero whether there was not a danger of permanent under-nourishment in some developing countries, due, not to a lack of food, but to an absence of storage facilities and shortcomings in social policy.

Mr. POHLER (German SPD) hoped that Mr. de Seynes would clarify his views for the Assembly on the problems of family planning in developing countries; he also stated that he would like to know the views of those countries towards those concerned with assisting them.

Mr. DEQUAE (Belgian Social Christian) felt that the trade balance of countries it was wished to help should be on the credit side.

It was necessary to establish a difference, in the tariff field, between products originating from developing countries and agricultural products from temperate zones; he was anxious to know the views of UNCTAD on the forecast that the proportion by which agricultural production would have to increase by 1985 was 75%.

Mr. BLENKINSOP (U.K., Labour), referring to the report of the Pearson Commission and the Jackson Report, wondered what views were held by Mr. de Seynes concerning the administrative re-organisation of multilateral aid, which was admitted to be necessary. It was a vital problem for the governments.

Mr. FLORNOY (French, UDR) asked Mr. de Seynes whether he did not think that a certain flexibility would be more effective than a percentage laid down for each country for multilateral aid, as suggested in the Pearson Report. There was nothing to prevent certain countries from experiencing difficulties internally, at certain periods.

He asked Mr. Guerrero whether he thought that aid to developing countries should be channelled through regional and subregional groups, or whether it was more appropriate for such aid to be made directly, in national terms.

Lastly, he asked Mr. Martino what had become of the plan for a joint committee which was to meet in Brussels in August within the framework of co-operation between the Latin-American and European parliaments.

MR. ROHNER (Swiss Radical Democrat) was concerned about the problems of overlapping and wished to see the question of preferential rates reviewed, since they might become an obstacle to real world economic expansion.

MR. PERIDIER (French Socialist) thought that all existing bodies should be merged into a single institution. Why had no country, apart from France, complied with the 1% quota in favour of developing countries fixed at the New Dehli Conference?

MR. LA LOGGIA (Italian Christian Democrat) asked what could be done to ensure that the system of aid for developing countries took into account all the needs in the world and also whether the sovereignty of the countries receiving aid and their independence were being respected by the donor countries.

MR. RUTSCHKE (German FDP) asked whether the figure of 1% frequently quoted during the debate also covered the needs for private investment. He thought the answer would be no.

MR. DE SEYNES, Under Secretary General for economic and social affairs of the United Nations Organisation, answering Mr. Vedovato's questions on the concept of an undertaking, said that it was both symbolic and practical. It was true that an undertaking did not have the same legal significance as a treaty, but it was more than the mere declaration of intent which had been normal hitherto.

It was the duty of each to define this concept for himself. The only thing that could be defined was the 1% principle, regarded by developing countries as symbolical of a new policy in their favour.

He was in entire agreement with the view expressed by Sir Geoffrey de Freitas; obstacles to aiding developing countries were indeed political.

He felt that it was necessary to be both realistic and imaginative when it came to choosing between bilateral and multilateral aid - the point raised by Mr. Florney. The members of international organisations, as technocrats, tended to prefer multilateral aid, but did admit that the reasons behind certain bilateral aid might not be dishonourable. The two formulae needed to be judiciously combined. When it came to pre-investment and technical co-operation, however, multilateral aid needed to be stepped up.

An extremely complex problem arose in connection with the co-ordination of aid and development policies.

It was necessary to give consideration to on-the-spot aid machinery; one question that arose was the ability of the administrative staff to prevent economic growth from being caught up in a bottleneck.

He did not wish to offend any government, but was sorry to have to say that certain countries had so far failed to show that they were really aware of the importance of the problem of fertility rates and birth control; this was a question that could not be dealt with merely by distributing contraceptives.

The United Nations' budget was not presented as a comprehensive whole, but he understood Mr. Jackson's concern.

Replying to Mr. La Loggia, Mr. de Seynes said that it was indeed important to see that aid was not misused for political motives.

MR. MARTINO, member of the Commission of the European Communities, answering Mr. Vedovato's questions, said that a system must be found which would make it possible to protect the interests of the countries which had signed the Yaoundé Convention, for they were among the poorest.

In reply to Mr. Rohner, he said that protocol No.4 to the Yaoundé Convention answered his question.

He told Mr. de Grauw that the problem of tarif reductions had already been studied: there must be a compromise solution.

Referring to the Arugha Agreement, Mr. Martino, replying to a question by Sir Geoffrey de Freitas, said that this Convention recognised that the three states formed a community. It was true that this community was not perfect, but it was expanding.

He told Mr. Pittermann that the creation of an inter-European clearing agency would indeed act as an excellent stimulant.

He said in connection with the joint Latin American/ Europe committee, referred to Mr. Flornoy, that there had already been contacts between the President of the Inter-American Development Bank and the Commission of the European Communities with the intention of finding an acceptable solution to the question of technical and financial assistance. The Council of Ministers and the Commission of the Communities were currently considering such contacts, and would try to reach a decision on whether they should be put on an institutional basis, as urged by the European Parliaments, or whether another working solution ought to be sought.

The debate was broken off.

The sitting was suspended at 12.55 p.m.

It will be resumed at 3.00 p.m.

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SPEECH BY SIR DENIS RICKETT

VICE PRESIDENT OF THE INTERNATIONAL BANK

FOR RECONSTRUCTION AND DEVELOPMENT (IBRD)

to the Consultative Assembly of the Council of Europe

Strasbourg, Tuesday 27 January 1970 (afternoon)

Mr. President, Ladies and Gentlemen:

I am most grateful to have the opportunity of taking part in this debate on development co-operation and I should like to express my appreciation, Mr. President, of your action in arranging for it to take place.

It seems to me that this is pre-eminently a subject in which the Council of Europe should be closely interested and that the present time is extremely opportune for such a debate.

We have come to the end of the First Development Decade and are about to move into the Second. There are certainly lessons to be learned and improvements to be made in the more effective use of aid. But the degree of success that has been achieved already is encouraging. (I agree with what Mr. de Seynes and other speakers have said on that point).

An attempt has been made on the initiative of the World Bank to sum up the experience of the past decade and to draw the morals to which it points. This has been done by the Pearson Commission in their admirable report. That is another reason why we should be discussing these questions to-day.

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There is a third reason which is of special interest to us who work in the World Bank Group. Negotiations have recently begun between donor governments for a Third Replenishment of the resources of the International Development Association. The result of these negotiations will be an important test of the will to co-operate in giving assistance for development.

You will remember that it is not many months since the Second Replenishment of the Association's resources entered into effect - in July of last year. But that happened only after a prolonged delay which for a time reduced the rate at which the Association could grant new credits to a very low level. And because of the delay we were obliged to recognize that we could not carry out our original intention which was to commit the whole of the Second Replenishment resources by the end of Fiscal Year 1970, that is by June 30th next. We could not have negotiated fresh arrangements by then and we have been obliged to spread the funds we have over a further year.

That means, however, that it will be all the more important that fresh resources should be available for commitment punctually when the Second Replenishment funds have been fully committed - that is to say by July 1st 1971.

That is why we have started in good time the discussions which we hope will lead to a new agreement. We hope to complete these discussions between governments by the end of the summer and thus leave about a year for action by Parliaments in all the contributi countries.

It is of the highest importance that the new resources should be provided not only in good time but also on a substantial scale. The Pearson Commission, as you know, recommended that in the Third Replenishment resources should be provided for commitment over a five-year period and that the annual amount should reach a billion dollars by 1972 and one and a half billion by 1975. There is no doubt that I.D.A. and the developing countries could make good use of resources on this sort of scale if they could be provided.

Why do we lay such stress on the need for a further and substantial increase in the resources provided for the I.D.A. It is because we believe that the urgent need to-day is for more aid on softer terms. Mr. Martin has already spoken of the work of the Development Assistance Committee in stimulating the donor countries not only to increase the quantity but also to improve the quality of their aid. The net total flow of funds to developing countries of $12.8 billion in 1968 continued the increasing trend of previous years, even though the rate of increase (of about 40% between the years 1961 and 1968) may seem a little disappointing when compared with the increase of 75% in the gross national product of the D.A.C. countries during the same period so that they moved away from rather than towards the target level of 1% of GNP falling from .96% to .77%. But what was much more disappointing was the change in the composition of that total flow. Official flows increased by only 13% and in consequence declined as a proportion of GNP from .64% in 1961 to .42% in 1968.

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In short, there has been in the last few years a steady movement away from concessionary terms in the provision of official aid, while at the same time there has been a fall in public aid in relation to private commercial flows. This has happened at a time when interest rates have reached levels never before equalled.

What does this mean for the developing countries? It can only have the consequence of increasing the difficulties which many of them already have in meeting their mounting debt service. The figures, as I am sure you know, are striking. In the decade 1957-1967 the accumulated debt of 92 developing countries increased fourfold. Debt service has been increasing at the rate of 17% per year. Their export earnings have not kept pace. They have risen at a rate of only 5% a year. The foreign exchange reserves of thirteen of the largest developing countries fell by 60% in the same period.

This does not mean that there was an inadequate return on the investment programs and projects in which the funds were invested. There is no lack of such investment opportunities in the developing countries. To give soft aid does not mean to invest in projects with a low yield. It means that either the countries are so poor, their income per head, at a $100 or less is so low, that they cannot expect to set aside either in the form of public or of private saving, much of the additional income to which the investments lead: or, even if the rate of saving is satisfactory as it is in many of the developing countries, they cannot at all quickly translate those savings into increased exports or into increased import substitution.

That is why it is that if we merely increase the volume of financial flows to these countries without giving them softer terms, we shall impose - indeed we are already imposing - a very considerable strain on the debt servicing capacity of many of them, and an impossible burden on others. The inevitable result is only too obvious. We shall have an increasing number of debt crises in many of these countries in which all debts, private as well as public, will have to be "rescheduled" to use a polite euphemism. That is the consequence of giving them aid on terms which do not really deserve the name, in which the grant element is too low, the affinity with commercial investment too close. Such a development can only be bad for the credit standing of these countries, and will interfere with the development of trade and with the proper functioning of private investment which is so important.

The interest of exporters and investors in the donor countries therefore will inevitably be damaged if governments fail to ensure that their development assistance is given on sufficiently concessionary terms. ./.

So far I have been arguing for greater amounts of soft aid, of aid that is really aid. But, it might be asked, can that not equally well be given through bilaterail aid programs? Why does it follow that there should be a large increase in multilateral aid and in I.D.A. in particular? I agree that that is to some extent a separate issue. But I think that there is a very strong case, which has been recognized both in the report of the Pearson Commission, and in statements of policy made on behalf of a number of donor governments, for believing that a larger share in the total of aid should be channelled through multilateral organizations. Such organizations are particularly well placed to keep a close watch on the performance of recipient countries, and to suggest ways in which this can be improved. This not only leads to the most effective use being made of the resources provided by the international agencies themselves: it often helps to improve the use made of bilateral aid as well. It certainly helps to avoid friction between those who are giving and those who are receiving aid, and to prevent the givers from becoming unnecessarily involved in the internal political controversies of the receivers of aid. But if the multilateral agencies are to play this role effectively, they must have at their disposal a significant proportion of the total flow of aid.

International organizations have a further advantage. They provide an agreed basis for sharing the costs of aid. Many governments find it easier to justify to their legislatures the giving of aid on concessionary terms if they do so through a multilateral institution to which other governments are contributing on the same terms, so that what each government contributes will be matched by others with multiplying effect.

That this is so has been publicly accepted by a number of Part I Governments. The Italian Minister of the Treasury, for example, Signor Colombo, said in addressing the Annual Meeting of the Bank and Fund last year that his country was "convinced that it was necessary to transfer a greater part of the aid to the emerging countries through international organisations". In the United States, President Nixon strongly endorsed an expansion in multilateral aid in a message which accompanied his foreign aid proposals to Congress in May 1969. Senator Fulbright and other members of the Senate Foreign Relations Committee have also made statements supporting a large increase in the multilateral component of aid. Each of the three White Papers on foreign aid published by the British Government in the last six years has emphasized the great importance which that Government attaches to the work of the international agencies and the preference which it has for channelling aid through them. The Swedish Government gives approximately half its foreign aid through multilateral agencies. The German Government, in commenting on the substantial rise which had taken place in multilateral contributions in 1968, stated that it "welcomes this rise in multilateral engagements since it appreciates the specific contribution to the development effort which is made by the multilateral organizations... In planning its own ./.

assistance measures it attributes increased importance to co-ordination and co-operation with multilateral organizations." The Netherlands and Canadian Governments have also emphasized the need for an expanded flow of multilateral aid. Finally you will remember that the Pearson Commission in their report recommended that multilateral aid should be expanded from its 1968 level of 10.3% of total official development assistance to at least 20% by 1975.

I think you will agree that this is an impressive body of testimony and shows a very wide consensus in favour of multilateral aid. I hope that what I have said this morning, and these statements which I have just quoted, will be enough to convince you, if indeed you needed to be convinced, that a very substantial increase in the funds placed at the disposal of the International Development Association would be a very sound investment.

I should like to add one further point. I.D.A. came into being originally as the result of an United States initiative. It has been supported in the United States by both parties. But it draws a very important part of its strength from the support which it receives in Europe. Here is a field, I suggest, in which the countries of Europe, working together, can play a very important part, can indeed contribute an element of leadership, which will be of the utmost value, on an issue which is,I fully believe, as important as any in world affairs.

SIR DENIS RICKETT: THE ROLE OF I.D.A.

LUNCHEON ADDRESS AT THE ROYAL INSTITUTE OF INTERNATIONAL AFFAIRS

CHATHAM HOUSE

TUESDAY, MARCH 17TH 1970

Mr. Chairman, Ladies and Gentlemen:

May I first say how much I welcome and appreciate this opportunity to talk to you today and to speak here to an audience which is as well informed and as well qualified to form a judgement on international economic questions as one can find anywhere.

I have chosen as the subject of this talk today "The Role of I.D.A.". I.D.A., as you know, is the International Development Association which extends long-term credits on concessional terms to the poorest countries which have an urgent need for capital but cannot afford to borrow and to service debt on conventional terms.

I have chosen this subject for two reasons. First of all, because, as you no doubt know, discussions have already begun between the countries who contribute to I.D.A. on what is known as the Third Replenishment, that is to say, provision of fresh funds when I.D.A.'s present resources have been fully committed as we expect them to be by the end of June 1971. Secondly, because I believe that an expansion of the role of I.D.A. and the provision of a greater volume of development finance on concessional terms, administered through an international organization, is a central requirement in planning the strategy of development assistance for the 70's.

We in the World Bank have been glad to see the renewed interest which is being felt in these questions, both in this and in other countries, greatly stimulated, no doubt, by the admirable report of the Pearson Commission, the Commission on International Development.

We owe the setting up of this Commission in the first place to the wisdom and foresight of Mr. George Woods, who foresaw the need for such a "grand assize" which would survey past experience in development and draw conclusions for the future. We owe it also to Mr. McNamara who took up this project with so much energy and enthusiasm when he became President of the World Bank in succession to Mr. Woods. Finally we owe the greatest debt to the Commissioners and to their Chairman, Mr. Pearson, for the report which they have given us which, as has been rightly said, is likely to rank as one of the great public documents of the century.

Such a revival of interest in problems of development was perhaps overdue. After the rapid expansion of aid programmes in the late 50's and early 60's, there followed a period of something like stagnation particularly in the provision of official development assistance. And this has come at the very time when the absorptive capacity of the developing countries, that is to say, their need for aid and their ability to make good use of it, were increasing. We have been glad that the rapid and radical improvement in the economic position of the United Kingdom has enabled this country to make a practical, and not merely a theoretical, contribution to this revival of interest in development assistance such as was foreshadowed in the White Paper on public expenditure published at the end of last year.

I am sure that you will all agree that this question of the progress of the less developed countries involving two-thirds of the population of the world is one of the great issues of our time, a moral as well as a political and economic issue. And it is an issue with a very long time horizon which will continue to play a very important part in our economic planning for several decades to come.

In the last few years there have been other issues in international economic cooperation which, for the time being, have attracted more attention. There was the debate on international liquidity creation leading finally to the decision to set up Special Drawing Rights. There was the continuing concern with the underlying imbalance of international payments and the need, in consequence, to improve what is called the adjustment process. There has been the need, as it has seemed, to find better methods to stabilize commodity prices. And there has been the continuing debate on trade policy and on the future shape of important regional groupings and above all, of course, the European grouping. And finally, there has been the domestic problem common to nearly every country of achieving greater price stability without too great a sacrifice of economic growth.

Debate on these issues has seemed, at times, to overshadow the discussion of the specific issue of the finance of development. I say "the specific issue" because there is not one of these other questions which is not of vital concern to the developing countries, so,perhaps this has sometimes not been fully recognized in the discussion of these questions. We have only, for example, to think what has been the effect on their terms of trade of continually rising prices in the advanced countries with unstable or falling prices for primary products which are so often their staple exports.

Again, the interest which the developing countries have in international liquidity creation is obvious and it is not confined merely to the share of such liquidity which goes to them. They are vitally interested also in its effect on the economic policies of the advanced countries and hence on the continued expansion of world trade. Or take again the adjustment process. It is easy to see what has been the effect on the capital importing countries of the dislocation of capital markets and the unprecedented rise in interest rates which has been partly the result of price inflation but partly also, perhaps, the result of too much reliance at times on monetary policy as an instrument for controlling the level of demand.

But to come closer to the specific problems of economic development. You would, I believe, agree that we stand today at a critical turning point. Immediately behind us lies the first development decade with its successes as well as failures, - and I believe that the successes greatly outweigh the failures. Developing countries, as a group, have, as you know, reached during that period an average rate of growth in Gross National Product of about 5% annually. They thus not only reached the target which was set for the decade, they also improved substantially on the rate of growth which the countries which are now industrialized achieved during a similar period of their own development.

Many individual developing countries did substantially better than this average. The report of the Pearson Commission notes no less than 19 developing countries which achieved a rate of growth in GNP of more than 6% annually during the period 1960-67. The most encouraging thing about this list is that it includes countries of very different sizes and with very different backgrounds both of race and of climate: Taiwan and Trinidad-Tobago, South Korea and Spain, the Ivory Coast and Iran, Peru and Panama, Mauritania and Mexico.

Of course we all know that these successes are only part of the picture. We know that in the first place we cannot altogether rely on figures of the rate of increase in Gross National Product as a measure of economic development and progress. It is altogether too simple a test. We are aware that development is a very complex process. It involves more than the provision of capital; more than the giving of technical assistance, or of the transfer of technology from rich countries to poor countries. We know that however crucial these economic magnitudes may be, such as national output and income per head, they will not by themselves prove to be a sufficient condition of real progress, that genuine attempts will be needed, for example, to achieve more equal distribution of income to provide greater educational opportunities and improved standards of health. As Mr. McNamara said in a speech at Columbia University not long ago, successful development efforts are a mixture of social as well as economic progress.

We know too that while there has been a high average growth in the total Gross National Product of the developing countries, the growth in GNP per head has been very much lower because of the rapidly increasing growth in population, now averaging 2.5% a year for the developing countries as a group. We know that in some of the larger of those countries growth in GNP per head is still so slow that it will take not years nor even decades but a much longer period than that before they reach the kind of standard of living that we enjoy in this country. For them the task is to achieve over, say, the next thirty years a really worthwhile improvement in their present standard.

Much has been written and said recently about the growth of population. You are familiar with the fact that in most parts of the world it shows little sign of slowing down and that, indeed, in some areas it is still accelerating. For developing countries as a group the rate of annual increase rose from 2.2% in the 50's to 2.5% in the 60's, much of this increase being due to what has happened in south Asia. Even optimistic projections put the population of Asia by the end of this century at approximately 3½ billion, equal, that is to say, to the present population of the world. But at least one can say that there is a growing and a more widespread awaremess of the seriousness of this problem and that, in itself, is encouraging.

Coupled with the problem of population is the even more urgent and critical problem of urban unemployment. Even the most successful plans to reduce the birthrate cannot make much impact on this problem of unemployment before the end of the century because most of those who will join the ranks of the unemployed before that time have already been born. Compare the situation that confronts us today in the developing countries with the deterioration in urban conditions and the rise in urban unemployment in 19th century Britain. At that time the natural growth of population was only about 1% annually, enormous opportunities for emigration existed and industry was much more labour intensive than it is now. Today we see the equivalent of some 20% of the entire male labour force of the developing world already unemployed. This is happening at a time when there is a major revolution in agricultural methods already underway. This revolution, provided that certain essential conditions are fulfilled, may well transform the outlook for the food supplies of the world and may reduce somewhat transfer of labour away from agriculture, but it will do little to alleviate the problem of population pressure and unemployment in the rural areas. Moreover, the rate of growth in the population today in the developing world is a good deal more than double what it was in nineteenth century Britain. Added to that there are only limited possibilities for migration except in Latin America and industry tends to be highly capital intensive. If we take all these factors into account, we begin to see the dimensions of the problem.

I have dwelt on these difficulties only to show the challenge which confronts the developing countries and those who set out to help them. What are the developed countries doing to help to improve this situation? I could easily spend all the time that remains to me in discussing one single factor, say, the trade policies of the developed countries and the extent to which they help or hinder the efforts of the under-developed countries to develop. But I want, instead, to focus attention primarily on the financial flows.

At first sight the performance is impressive. Total financial flows to the developing world from the developed countries which are members of the Development Assistance Committee of the O.E.C.D. have grown from \$8.1 billion in 1960 to \$12.9 billion in 1968, that is to say, a rise of almost 60% in eight years. But, when you look more closely at the figures you find first that this was a smaller increase than was achieved by the developed countries in their own GNP in that period. So that the resources which they provided to developing countries actually declined as a percentage of the developed countries GNP from 0.89% to 0.78%. More serious than this - a number of tendencies emerged in this period which, if continued, would have very serious implications for the future.

There has, for example, been a virtual stagnation in the total flow of official assistance since 1961. In that year official assistance reached $6.1 billion or about 67% of the total flow. Seven years later in 1968 it was still only $6.9 billion and had declined to 54% of the total flow. In fact, in 1968 the percentage was slightly lower than in the year before. What is most disquieting is that as a percentage of GNP official assistance was substantially greater in 1961 at .64% than in 1968 at .42%.

No one would question for a minute the benefits conferred on developing countries by private financial flows but a shift, such as we have seen in the relative importance of official and private flows, represents a very significant hardening in the terms on which foreign capital is made available to the developing countries.

Even the official flows themselves are becoming harder. The percentage of grants in the total fell between 1964 and 1968 from 60% to 51%. If we calculate what is termed the "grant element" in aid as a measure of the terms on which it is given, we find that in that same period it fell from 82% to 75%.

These figures have, of course, been much influenced by what has happened in the last few years in the foreign aid programme of the United States. of the sixteen members of the Development Assistance Committee, nine gave a larger share of their GNP in the form of official assistance to developing countries in 1968 than they did in 1960. But the other seven included not only the United States but also France, Germany, Italy and the United Kingdom. There has been, as you know, some improvement in the terms on which British official assistance has been provided in recent years but its volume had changed hardly at all in dollar terms since 1960 until the recent statement of the Minister of Overseas Development. This, therefore, represented an important new development in this country's aid policy which holds out a more encouraging prospect for the future.

The consequence of this trend towards harder terms in the total financial flow to developing countries is that unless something is done there is a serious danger that a major problem of indebtedness will emerge for the developing countries. Why should this be so? It is not merely that the more that is lent to the developing countries the larger their extermal debt burden. If, in the future, there is to be a substantial increase in the flow of capital to them, their external debt must rise unless the capital goes to them in the form of grants. What is relevant is the size of the debt <u>service</u> payments and the comparison of those service payments with the foreign exchange earnings of developing countries. First, as regards the debt service payments. These depend both on the rate of interest charged and on the maturity and grace period for the repayment of the loan. Let me give you a simple numerical example. If a country receives a loan each year of Ŀ1,000 bearing interest at 5% and repayable over 12 years with a grace period of 2 years in which no repayment is due, after only 9 years it will be paying out more in interest and amortization than it receives in new loans. To discharge its obligations it must reverse the flow of resources and begin to export back the capital it has received to the countries from which it came. And this process, as is evident, will be even more rapid at the very high rates of interest prevailing today.

Of course, the point at which the net transfer of capital to developing countries becomes negative can be deferred if the gross rate of lending to them increases sufficiently rapidly. In the example I gave you just now the gross flow was constant. The targets of the Development Assistance Committee for capital flows are, as you know, expressed on a net basis. That is to say, the donor countries are aiming at a transfer of 1% of their Gross National Product over and above the repayments of capital that they receive from the developing countries. But the targets are not net flows in the sense of being additional both to the repayment of capital and to the receipt of interest. If they were, the gross amounts involved would become very large indeed, in fact impossibly large. And even this would only put off the day of reckoning for a time. Gross flows of lending on this scale would mean that the indebtedness of the developing countries would be increasing still more rapidly. It would not be long, therefore, before the creditors would see that the developing countries were assuming obligations which they would not be able to discharge, failing some sudden and almost miraculous upward surge in their export earnings.

You may ask why we would not assume that their export earnings will grow pari passu with the loans which are made to them if the money lent is invested, as it should be, in sound projects with a high rate of return. The difficulty here is twofold. In the first place, many of these developing countries, particularly the larger of them, have so low a level of income per head that it is hardly reasonable to expect any appreciable proportion of additions to their income to be saved. The marginal savings ratio of some of these countries is indeed higher than one would expect but it is not high enough to provide the resources needed to meet an ever-increasing burden of debt service.

Secondly, even if their marginal rate of saving was high enough so that there was no "resources gap", it cannot be assumed that they will be able quickly to translate the additional resources derived from their investment into an increase in export earnings or in import substitution. And the process of development itself is bound to lead to an increase in the demand for imports, especially of capital goods. Almost inevitably, therefore, the rate of increase in their net export earnings will lag behind the rate of increase in their debt service payments.

We can see that in many countries this is what is happening. In 1968 the total debt service payments of developing countries on official and officially-guaratneed private debt amounted to \$4 billion. True this is not such a large amount when compared with the \$47.5 billion of external debt of which it is the service. But it is a flow which is growing significantly more quickly than are the export earnings of developing countries. In the 60's debt service was growing at a rate of 8.2% a year and export earnings at a rate of 6.1%. Already this threatens the balance of payments of a number of developing countries.

In at least six developing countries in 1968 the proportion of their export earnings represented by debt service on official or officially-guaranteed private debt exceeded 20%. In some of them there is a possibility that if they follow the right policies they will be able to reduce their dependence on external capital in the near future. This may be true, for example, of the Argentine and Mexico. Other countries are in a less fortunate position. Since 1961, for example, the debt service ratio in India has risen from 12.6% to 21.6%. In Pakistan the rise has been even more drastic from 5.5% to 18.8%. In both countries a further increase is likely.

Many of the smaller countries of Asia and many of those in Africa and Latin America also are now reaching the stage where they are able to use productively a significantly greater amount of external capital than before. The developed countries of the world have agreed amongst themselves to work towards certain targets for capital flows to the developing countries. What I have been trying to show this afternoon is that unless the terms on which this capital is provided are on average considerably softer than those which prevail at present, we shall be storing up trouble for ourselves in the future. We do not want to produce a situation in which widespread debt rescheduling becomes increasingly probable. If that happened it could only do harm to the credit standing of the developing countries and would interfere with the development of international trade and the orderly functioning of private investment. And this would have happened because we had not taken sufficient care to ensure that the terms on which governments make development assistance loans were the right terms.

I know that there are other elements in the indebtedness of the developing countries. Often they are burdened by a large mass of suppliers' credits extended to them on excessively short terms. It is their responsibility to avoid that, but it is the responsibility of the donor countries to see to it that their aid is extended in a form which really merits the title of aid and is realistic in what it implies about the possibility of repayment in the future.

Only if this is done, will there be a proper relationship between public aid and private investment. These are not alternative means of development, they are essentially complementary to one another. The developing countries cannot progress by means of private investment alone. In real terms they need the infrastructure of public utilities, housing and transport, which cannot, in present conditions, be financed by private investment. In financial terms they need an adequate flow of capital on sufficiently lenient terms to avoid driving them into a crisis in which they may have to default on their obligation to exporters and private investors.

The interest of exporters and investors in the donor countries will, therefore, inevitably be damaged if governments fail to ensure that their development assistance is given on sufficiently concessional terms.

I do not mean to imply that this is a situation which will continue in all the developing countries indefinitely. As I have already said, there are some remarkable examples already of countries which are in sight of self-sustaining growth. And by self-sustaining growth I do not mean that they will cease to be importers of capital. I mean that they will cease to need to import capital on concessional terms and will be able to pay the market rate and provide private investors with their normal return.

Where does I.D.A. fit into all this? I have deliberately spent much of my time in reminding you of the background because without that perspective it is difficult to bring the foreground into focus. The essence of my argument has been that, while successful development is clearly possible for the developing countries, any financial assistance provided by the industrialized countries must be on highly concessional terms.

I.D.A. is now one of the largest providers of concessional aid to developing countries. From a level of little more than $100 million in annual commitments at the beginning of the 60's, we expect commitments to rise to about $600 million this year. We are still by no means as large as the largest bilateral programs, but we are substantially the largest multilateral institution providing concessional assistance.

Most of you will know that negotiations among the developed members of I.D.A., the so-called Part I countries, have recently begun to determine the amount of resources available to I.D.A. in the period extending from mid-1971 to mid-1974.

Of course the need for concessional aid does not in itself constitute a reason for chanelling aid through multilateral institutions, least of all for channelling it through one particular agency in a whole complex of multilateral organizations.

But there is, I believe, a very strong case, which has been recognized both in the report of the Pearson Commission and in statements of policy made on behalf of a number of donor governments, for believing that a larger share in the total of aid should be channelled through multilateral organizations. Such organizations are particularly well placed to keep a close watch on the performance of recipient countries, and to suggest ways in which this can be improved. This not only leads to the most effective use being made of the resources provided by the international agencies themselves: it often helps to improve the use made of bilateral aid as well. It certainly helps to avoid friction between those who are giving and those who are receiving aid, and to prevent the givers from becoming unnecessarily involved in the internal political controversies of the receivers of aid. And if the multilateral agencies are to play this role effectively, they must have at their disposal a significant proportion of the total flow of aid.

International organizations have a further advantage. They provide an agreed basis for sharing the costs of aid. Many governments find it easier to justify to their legislature the giving of aid on concessional terms if they do so through a multilateral institution to which other governments are contributing on the same terms, so that what each government contributes will be matched by others with multiplying effect.

That this is so has been publicly accepted by a number of Part I Governments. The Italian Minister of the Treasury, for example, Signor Colombo, said in addressing the Annual Meeting of the Bank and Fund last year that his country was "convinced that it was necessary to transfer a greater part of the aid to the emerging countries through international organizations". In the United States, President Nixon strongly endorsed an expansion in multilateral aid in a message which accompanied his foreign aid proposals to Congress in May 1969, and the report of the Peterson Task Force, issued at the beginning of last week, has similarly supported a large increase in the multilateral component of aid. Each of the three White Papers on foreign aid published by the British Government in the last six years has emphasized the great importance which this Government attached to the work of the international agencies and the preference which it has for channelling aid through them. The Swedish Government gives approximately half its foreign aid through multilateral agencies. The German Government, in commenting on the substantial rise which had taken place in multilateral contributions in 1968, stated that it "welcomes this rise in multilateral engagements since it appreciates the specific contribution to the development effort which is made by the multilateral organizations..." The Dutch and Canadian Governments have also emphasized the need for an expanded flow of multilateral aid. Finally you will remember that the Pearson Commission in its report recommended that multilateral aid should be expanded from its 1968 level of 10.3% of total official development assistance to at least 20% by 1975.

I think you will agree that this is an impressive body of testimony.

But why I.D.A.? I.D.A. itself is a unique institution. Its staff, as most of you know, is identical to that of the World Bank, and includes professionals from well over 50 nations. Its experience in financing projects throughout the world, in virtually every sector of economic activity -- agriculture, education, industry, ports, power, railways, roads, telecommunications, water supply -- is probably unparalleled anywhere. It works, of course, in close cooperation with other international agencies.

It has the distinction of being critized by some for behaving too much like a conventional bank, and by others for behaving too much like a charity. The truth is that it is neither a conventional bank nor a charity. Rather it is, like the World Bank itself, a hard-headed institution whose paramount concern is the development of the world's poorer nations, and I think I can claim that the World Bank Group has shown a remarkable readiness and ability to expand and develop its policy and to broaden their social and economic scope.

As you know, the Pearson Commission recommended in their Report that additional resources should be provided for I.D.A. at the rate of $1,000 million a year by 1972, rising to $\$1\frac{1}{2}$ billion by 1975. The Peterson Commission in their Report specifically endorses that recommendation. It is too soon to say what the outcome of the negotiations for the Third Replenishment of I.D.A. will be. What I can say is that if it proves possible to get agreement on an increase in I.D.A.'s resources on a scale such as that recommended by these two authoritative bodies, there can be no doubt that the World Bank Group itself has the ability to handle such an increased volume of I.D.A. lending without any falling off in their present high standard of thoroughness and efficiency; and that equally the developing countries urgently need additional I.D.A. Credits on such a scale and could make good use of them.

As a citizen of the United Kingdom, I am proud that this country has been second only to the United States in the absolute size of its contribution to I.D.A. Britain has from the first played its full part in supporting I.D.A. and providing it with the resources it needs. I hope that what I have said today will convince you that such an attitude is amply justified.

TEXT OF SPEECH GIVEN BY SIR DENIS RICKETT, VICE PRESIDENT, INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT AT OXFAM, PLAW HATCH, EAST GRINSTEAD, ENGLAND, ON THURSDAY, JULY 16, 1970

Mr. Chairman, Ladies and Gentlemen:

I am very glad indeed to have been invited to come here this morning to talk to this summer school on problems of development, which has been organized by OXFAM. OXFAM itself should be congratulated on its initiative in arranging this course. We need more of them. The partnership in development which the Pearson Report talked about needs not merely money but understanding and ideas. OXFAM has done remarkable service in raising money for relief in small sums from many people. It will be doing equally valuable service if it can promote greater knowledge and understanding of what the problems of development really are.

I have been asked to talk this morning about the role of IDA. IDA, as you know, is a part of the World Bank Group, which consists, first of all, of the Bank itself which makes loans to developing countries on relatively hard terms, that is for repayment in 15 or 20 years and with an interest rate which is, at present, 7%. The second member of the Group is IDA which makes what are usually called soft loans. They are repaid over a period of as much as 50 years and the only interest paid on them is a service charge of three-quarters of 1%. The third member of the Group is the International Finance Corporation which exists to encourage private investment in developing countries.

IDA, therefore, is an affiliate of the World Bank which makes loans on concessionary terms to poor countries. The two sides of our lending activities are very closely related. IDA has the same President, the same Staff and the same Board of Directors as the World Bank. The kind of purpose for which it makes credits is the same. It finances development projects of high priority in virtually every sector of economic activity -- in agriculture, in education, industry, ports, power, railways, roads, telecommunications and water supply.

I want to underline the point that soft lending does not mean lending for soft projects -- projects which will not yield the full rate of return. The distinction between a Bank loan and an IDA credit lies in a difference in the creditworthiness and economic strength of the borrower, in the economic position and prospects of the country.

Why is there such a very wide difference in the terms on which Bank loans and IDA credits are made available? You might think that if we make an IDA credit to a country of $50 million to be invested in a project with a rate of return of, say, 15%, that the country getting the credit could well afford to pay the Bank's rate of interest and to repay the money within a reasonably short period of time.

The answer is that the projects which are financed with IDA money have to yield the full commercial rate only in the currency and within the economy of the country in which the project is carried out. It is the government of the country and hence the economy of the country as a whole and its balance of payments which get the benefit of the soft IDA terms. Every IDA credit is a two-stage process. IDA lends to the government of the country on very easy terms, the government relends the money at the full going rate of interest in the local market.

Soft terms of lending are needed to provide resources for countries which are so poor and whose balance of payments is so weak that they cannot afford to borrow money on hard terms. In technical parlance they have both a resources gap and a foreign exchange gap. In the poorest countries -- countries with an average income per head of, say, $100 a year -- the amount which we can expect their people to save out of any addition to the national income, is very small. Most of it must be expected to go into making some small addition to the very low level of consumption. Even in a country where the marginal rate of saving is quite high, they cannot quickly translate the additional resources derived from investment into an increase in export earnings or in import substitution. It is essentially for countries such as these that aid is needed.

Let us consider for a moment what is the meaning of the term "aid" and why there should be a need for aid at all. We all recognize that aid means assistance for development. It is not simply a process of the international redistribution of income, by which the "have" countries help the "have-nots" to raise their consumption. It is indeed intended to do this in the long-run but the immediate purpose is to make possible a higher rate of investment and hence of economic development.

The economic development of the poor countries cannot be financed simply by the normal process of private investment. Private investment has an extremely important part to play in that process. We have only to look back at the history of the industrial revolution and its spread throughout so much of the world in the nineteenth century to see that a very great deal can be achieved by it.

But it differs from aid in two ways. First of all it is intended to go to those countries where the yield is highest and those are not likely to be the poorest countries unless there is some new discovery of minerals or of oil which suddenly transforms their economic prospects.

Secondly, the period of time within which the developing country can be expected to repay the loan and the amount of interest it can pay on it must be different. Development assistance, therefore, must be either an outright grant or a loan into the terms of which there enters a high degree of grant element. In other words, the quality of aid is as important as the quantity.

I hope that this will help to make plain the reason why the need for aid for capital on soft terms is increasing as a proportion of the total flow and not declining. It is not only that the terms of new borrowing have become progressively harder. It is also because the cumulative burden of debt and of debt service is, in many countries, running further and further ahead of export earnings.

This problem had been foreseen for some time past. That is why, for example, in 1960 under the leadership of Mr. Black, the then President of the World Bank, the members of the Bank decided to set up the IDA. That is why also concessional lending is now regarded in all international discussion as the most essential element in the flow of funds from developed to developing countries.

Let us examine, therefore, what the developed countries are doing to meet the need for more and better aid. At first sight the record is impressive. Total net financial flows (that is to say gross disbursements minus amortization of principal) to the developing world from the countries that are members of the Development Assistance Committee of the OECD have grown from about \$6.1 billion in 1956 to over \$13.2 billion in 1969, which represents a compound rate of growth of about 6% per annum. But, when you look more closely at the figures you find first that this was a smaller increase than was achieved by the developed countries in their own GNP in that period, so that the resources which they are providing are actually declining as a percentage of their GNP. And there are other trends which are still more disquieting.

Preliminary estimates for 1969 indicate that for the first time since 1961 there was virtually no increase in total flows compared with the previous year. Within this total flow, there has been a virtual stagnation since 1961 in the flow of official assistance. In that year, official assistance reached \$6.1 billion or about 67% of the total flow. In 1968 it was still only \$6.9 billion and had declined to 54% of the total flow. What is most disquieting is that as a percentage of GNP official assistance was substantially greater in 1961 at .64% than in 1968 at .42%. The 1969 percentage is likely to be confirmed as even lower at .4%. This may seem a rather small decline in the ratio of these flows to DAC countries' GNP, until you translate the percentage into absolute amounts. Even if you go back no further than 1964, when the official assistance represented .49% of the GNP of the developed countries, you can see that if even that level had been maintained up to now, almost \$3.7 billion would have been added to net official flows between 1964 and 1970.

That is the price development has had to pay as the richer countries as a whole have failed to maintain any real momentum in their assistance.

No one would question for a minute the benefits conferred on developing countries by private financial flows but a shift, such as we have seen in the relative importance of official and private flows, represents a very significant hardening in the terms on which foreign capital is made available to the developing countries.

Even the official flows themselves are becoming harder. The percentage of grants in the total fell between 1964 and 1968 from 60% to 51%. If we calculate what is termed the "grant element" in aid as a measure of the terms on which it is given we find that in that same period it fell from 82% to 75%.

The single largest factor contributing to this decline has been the progressive reduction of loans repayable in local currencies extended by the United States, and these transactions are due to be entirely discontinued by the end of 1971.

These figures have, in fact, been much influenced by what has happened in the last few years in the foreign aid programme of the United States. Of the sixteen members of the Development Assistance Committee, nine gave a larger share of their GNP in the form of official assistance to developing countries in 1968 than they did in 1960. But the other seven included not only the United States but also France, Germany, Italy and the United Kingdom. There has been, as you know, some improvement in the terms on which British official assistance has been provided in recent years but until recently its volume had changed hardly at all in dollar terms since 1960.

The consequence of this trend towards harder terms in the total financial flow to developing countries is that unless something is done there is a serious danger that a major problem of indebtedness will emerge for the developing countries. Why should this be so? It is not merely that the more that is lent to the developing countries the larger their external debt burden. If, in the future, there is to be a substantial increase in the flow of capital to them, their external debt must rise unless the capital goes to them in the form of grants. What is relevant is the size of the debt service payments and the comparison of those service payments with the foreign exchange earnings of developing countries. First, as regards the debt service payments. These obviously depend both on the rate of interest charged and on the maturity and grace period for the repayment of the loan. Let me give you a simple numerical example. If a country receives a loan each year of £1,000 bearing interest at 5% and repayable over 12 years with a grace period of 2 years in which no repayment is due, after only 9 years it will be paying out more in interest and amortization than it receives in new loans. To discharge its obligations it must reverse the flow of resources and begin to export back the capital it has received to the countries from which it came. And this process, as is evident, will be even more rapid at the very high rates of interest prevailing today.

Of course, the point at which the net transfer of capital to developing countries becomes negative -- that is to say that the amount received in new lending is less than the amount paid back in amoritzation and interest -- this point can be deferred if the gross rate of lending to them increases sufficiently rapidly. In the example I gave you just now, the gross flow was constant. The targets of the Development Assistance Committee for capital flows are, as you know, expressed on a net basis. That is to say, the donor countries are aiming at a transfer of 1% of their Gross National Product over and above the repayments of capital that they receive from the developing countries. But the targets are not net flows in the sense of being additional both to the repayment of capital and to the receipt of interest. If they were, the gross amounts involved would become very large indeed, in fact impossibly large. And even this would only put off the day of reckoning for a time. Gross flows of lending on this scale would mean that the indebtedness of the developing countries would be increasing still more rapidly. It would not be long, therefore, before the creditors would see that the developing countries were assuming obligations which they would not be able to discharge, failing some sudden and almost miraculous upward surge in their export earnings. The only answer to this problem is that the terms of lending should be softer. Otherwise the rate of increase in the net export earnings of the developing countries will lag behind the rate of increase in their debt service payments.

We can see that in many countries, this is what is happening. The outstanding external public debt of the developing countries at the end of 1968 amounted to about \$53.4 billion. This was more than \$5.5 billion above the level reached at the end of the previous year, and once more confirms a constant upward trend. In fact, the total debt outstanding has been doubling every five years since 1955. Total debt service including both amortization of principal and payments of interest, has been growing almost as rapidly. The debt service figure of almost \$4.7 billion for 1968 was 12% over the 1967 figure. During the course of the '60's the growth rate of both outstanding debt and debt service has been about twice the rate of growth of export earnings of the debtor countries, and almost three times that of their combined gross domestic product.

In at least six developing countries in 1968 the proportion of their export earnings represented by debt service on official or officially-guaranteed private debt exceeded 20%. In some of them there is a possibility that if they follow the right policies they will be able to reduce their dependence on external capital in the near future. This may be true, for example, of the Argentine and Mexico. Other countries are in a less fortunate position. Since 1961, for example, the debt service ratio in India has risen from 12.6% to 21.6%. In Pakistan the rise has been even more dramatic from 5.5% to 18.8%. In both countries a further increase is likely.

Many of the smaller countries of Asia and many of those in Africa and Latin America also are now reaching the stage where they are able to use productively a significantly greater amount of external capital than before. The developed countries of the world have agreed amongst themselves to work towards certain targets for capital flows to the developing countries. What I have been trying to show this afternoon is that unless the terms on which this capital is provided are on average considerably softer than those which prevail at present, we shall be storing up trouble for ourselves in the future. We do not want to produce a situation in which widespread debt rescheduling becomes increasingly probable. If that happened, it could only do harm to the credit standing of the developing countries and would interfere with the development of international trade and the orderly functioning of private investment. And this would have happened because we had not taken sufficient care to ensure that the terms on which governments make development assistance loans were the right terms.

I know that there are other elements in the indebtedness of the developing countries. Often they are burdened by a large mass of suppliers' credits extended to them on excessively short terms. It is primarily their responsibility to avoid that, but it is the responsibility of the donor countries also. They must see to it that their aid is extended in a form which really merits the title of aid and is realistic in what it implies about the possibility of repayment in the future.

Only if this is done, will there be a proper relationship between public aid and private investment. These are not alternative means of development, they are essentially complementary to one another. The developing countries cannot progress by means of private investment alone. In real terms they need the infrastructure of public utilities, housing and transport, which cannot, in present conditions, be financed by private investment. In financial terms they need an adequate flow of capital on sufficiently lenient terms to avoid driving them into a crisis in which they may have to default on their obligation to exporters and private investors.

The interest of exporters and investors in the donor countries will, therefore, inevitably be damaged if governments fail to ensure that their development assistance is given on sufficiently concessional terms.

I do not mean to imply that this is a situation which will continue in all the developing countries indefinitely. As I have already said, there are some remarkable examples already of countries which are in sight of self-sustaining growth. And by self-sustaining growth I do not mean that they will cease to be importers of capital. I mean that they will cease to need to import capital on concessional terms and will be able to pay the market rate and provide private investors with their normal return.

Where does IDA fit into all this? I have deliberately spent much of my time in reminding you of the background because without that perspective it is difficult to bring the foreground into focus. The essence of my argument has been that, while successful development is clearly possible for the developing countries, any financial assistance provided by the industrialized countries must be on highly concessional terms.

IDA is now one of the largest providers of concessional aid to developing countries. From a level of little more than $100 million in annual commitments at the beginning of the '60's, we expect commitments to rise to about

$600 million in the fiscal year ending June 30th 1970. We are still by no means as large as the largest bilateral programmes, but we are substantially the largest multilateral institution providing concessional assistance.

Of course the need for concessional aid does not in itself constitute a reason for channelling aid through multilateral institutions, least of all for channelling it through one particular agency in a whole complex of multilateral organizations. Bilateral aid on soft terms is badly needed also.

But there is, I believe, a very strong case, which has been recognized both in the report of the Pearson Commission and in statements of policy made on behalf of a number of donor governments, for believing that a larger share in the total of aid should be channelled through multilateral organizations. Such organizations are particularly well placed to keep a close watch on the performance of recipient countries, and to suggest ways in which this can be improved. This not only leads to the most effective use being made of the resources provided by the international agencies themselves: it often helps to improve the use made of bilateral aid as well. It certainly helps to avoid friction between those who are giving and those who are receiving aid, and to prevent the givers from becoming unnecessarily involved in the internal political controversies of the receivers of aid. But if the multilateral agencies are to play this role effectively, they must have at their disposal a significant proportion of the total flow of aid.

International organizations have a further advantage. They provide an agreed basis for sharing the costs of aid. Many governments find it easier to justify to their legislature the giving of aid on concessional terms if they do so through a multilateral institution to which other governments are contributing on the same terms, so that what each government contributes will be matched by others with multiplying effect.

But why IDA? IDA itself is a unique institution. Its Staff, as I have already said, is identical to that of the World Bank, and includes professionals from well over 50 nations. Its experience in financing projects throughout the world, in virtually every sector of economic activity is probably unparalleled anywhere. It works, of course, in close cooperation with other international agencies.

It has the distinction of being criticized by some for behaving too much like a conventional bank, and by others for behaving too much like a charity. The truth is that it is neither a conventional bank nor a charity. Rather it is, like the World Bank itself, a highly-skilled institution whose paramount concern is the development of the world's poorer nations and I think I can claim that the World Bank Group has shown a remarkable readiness and ability to expand and develop its policies and to broaden their social and economic scope.

As you know, the Pearson Commission recommended in their report that additional resources should be provided for IDA at the rate of $1,000 million a year by 1972, rising to $1-1/2 billion by 1975. The Peterson Commission in their report specifically endorsed that recommendation. During the past six months we have been engaged in a series of discussions with the eighteen countries who provide most of the money for IDA, about a further "replenishment", a three-year plan to provide additional funds when our present funds are fully committed by the middle of next year.

I am glad to say that those negotiations have been very successful. We shall not have fully achieved the Pearson and the Peterson targets: but we have made very good progress toward them.

I am glad that this is so. IDA needs the money. The developing countries need the money, and they need it on the sort of terms on which IDA can give it them.

As a citizen of the United Kingdom, I am proud that this country has been second only to the United States in the size of its contribution to IDA. Britain has, from the first, played its full part in supporting IDA and providing it with the resources it needs. I hope that what I have said today will convince you that such an attitude is amply justified.

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Mr. Chairman, I should be taking a very narrow and parochial view if I were to imply that provided I.D.A. gets its replenishment of, say, $800 million a year, for three years, then everything will be all right in the developing world. I'm afraid that's far from true.

Aid for development is constantly being attacked, from all sides and for different reasons. I am sure that you will have heard a great deal about this in previous sessions of this conference - for example from Lady Jackson when she spoke to you about the Columbia Conference on the Pearson Report. We have on the one side the conservative critics of aid - particularly in the United States Congress - who think that aid puts an unreasonable burden on the U.S. taxpayer, that there are other more urgent problems to be dealt with at home, and that aid is largely wasted and does not produce any worthwhile results.

We have, on the other side, the radical critics of aid. Quite a few people in the developed world are attacking aid on the ground that it is making poor nations more and more dependent on rich nations - and that it is meant to do so.

This is a new trend but it seems to be growing. We heard this said by some of those attending the Columbia University Conference on the Pearson Report. It was said more recently and forcibly by students in Heidelberg when Development Ministers were meeting there. It was said at the World Food Congress at the Hague.

Of course, a lot of this criticism was not worked out in terms of economic argument: it was a political attitude, a mood, an expression of discontent with all that is wrong in the world today.

The sad thing is that these two kinds of criticism interact with one another. The opponents of aid in Congress will certainly seize on the criticisms of aid coming from the left and from the younger generation.

I do not profess to be able to give you the answers to these varying criticisms: and I will not try to deal with them now. I will only say that to me it seems vital if the whole process of development assistance is to have a chance to succeed, to go on succeeding, is that it should be carried out in the right way, and on the right terms. It is in that sense that what I have been saying this morning about the role of I.D.A. and the vital need for more aid and for more soft lending is relevant to these much wider general issues which you have been discussing here this week.

Sir Denis Rickett

COUNCIL ON FOREIGN RELATIONS
Detroit, Michigan - Oct. 20, 1970

Read 12/70

Sir D. Rickett

First of all I should like to express my thanks to you, Mr. Chairman, and to your Committee for inviting me to come here tonight. I am very pleased to be asked to address one of the meetings of this important and influential body and to take part in a discussion with you.

I have suggested as a subject "The Role of the World Bank Group". I have done so because that role is expanding rapidly at the present time, both in the amounts of its lending and in the range of the activities which it is supporting. But I am sure you will want to consider it against the wider background of progress in the economic development of the poorer countries. Are they making progress? Are they progressing fast enough? What more should we do to help them?

The two Bretton Woods Institutions, the Fund and the Bank, have just completed a quarter century of their existence. If we look back, I think that one of the remarkable things about the Second World War was the amount of time that was given, both in the United States and in Great Britain, to planning for the future which would follow once the war was over. We did that -- or, at any rate, we began doing that -- at a time when it was far from certain who would win. What was also remarkable was the quality of the work that was done. That has been proved not least in the history of these two institutions.

In the preparatory commission on the Bank, at a meeting in July 1944, the late Lord Keynes summed up the purposes of the Bank as follows: "It is likely, in my judgment, that the field of reconstruction from the consequences of war will mainly occupy the proposed Bank in its early days. But as soon as possible and with increasing emphasis as time goes on, there is a second primary duty laid upon it, namely to develop the resources and productive capacity of the world with special attention to the less developed countries, to raising the standard of life and the conditions of labour everywhere, to make the resources of the world more fully available to all mankind, and so to order its operations as to promote and maintain equilibrium in the international balance of payments of all member countries."

Lord Keynes drew attention to one of the leading features of the Bank, namely its capital structure which would enable all the members to make some contributions to the Bank's operations, even though they were not large enough and strong enough to play a major role.

As you know each member of the Bank, when it was set up, agreed to make a certain subscription to the Bank's capital. Two per cent of those subscriptions was payable in gold or dollars and could be used without restriction, 18 per cent was payable in the currency of the country and could be used for lending only with its agreement. The remaining 80 per cent was to remain uncalled. In 1959 the capital of the Bank was doubled but the whole of the addition to the capital was to remain uncalled. The uncalled capital, therefore, now represents 90 per cent of the total with 1 per cent payable in gold, and 9 per cent in the currency of the member. This large fund of uncalled capital has fulfilled an extremely important function. It constitutes a joint and several guarantee by all the members which can be called upon to enable the Bank to meet its obligations. When, therefore, the Bank requires to raise funds in the capital markets, it does so in effect on the full faith and credit of all the member governments and it is this, above all, which gives to World Bank bonds such an extremely high credit standing. The World Bank, in its turn, lends the money to borrowers in the developing countries -- either to the governments themselves or to borrowers guaranteed by them. Thus, the World Bank acts as a cooperative institution which enables developing countries to borrow money raised from the capital markets on terms which they could never hope to secure on their own individual credit.

This, as you can see, is very different from the ordinary type of investment banking business. To take an example, at the present time the Bank's lending rate is 7-1/4 per cent. The marginal cost of the funds which the Bank is itself raising in the market is appreciably higher, say of the order of 8 per cent or even more according to the source from which we borrow and the type of borrowing.

Clearly we would not be lending at 7-1/4 per cent if our object were merely to maximize our profits. We do, in fact, make substantial profits -- they are 25 per cent higher this year than in the year before -- but that is not the object for which the member governments agreed to set up the Bank. It was to provide long-term development capital to developing countries on terms which they could afford to meet.

At this point it would be relevant to say something about the second member of the World Bank Group, the International Development Association. This is an affiliate of the Bank which was set up on an American initiative in 1960. Its purpose is to meet the needs -- or some of the needs -- for development capital of those countries which are too poor, or whose balance of payments is too weak, to enable them to meet the debt service of loans even on the slightly concessional terms which the World Bank can offer -- 7-1/4 per cent (at present) repayable over 20 to 25 years with a grace period of, say, 4 or 5 years. By contrast, I.D.A. makes credits repayable over 50 years with a grace period of 10 years, with no interest other than a service charge of 3/4 of 1 per cent.

Otherwise the purposes for which the two institutions lend and their structure and organization are the same. They have the same President, the same staff and the same Board of Directors. They both finance projects of high priority in virtually every sector of economic activity -- agriculture, education, industry, ports, power, railways, roads, telecommunications and water supply.

It will, however, be obvious that a body such as I.D.A., which makes credits on such highly concessional terms, equivalent in effect to a grant of $80 in every $100 which it lends, cannot hope to finance itself by borrowing in the capital markets of the world. It needs subscriptions from governments which are themselves very close to grants.

I.D.A. was set up with initial subscriptions of $1 billion, $750 million of which came from the advanced countries, and $250 million from the poorer countries. But, in their case, 10 per cent only was payable in the form of convertible currency, the remaining 90 per cent being released as and when they become strong enough to do so. Since the initial subscriptions, there have been two further additions to I.D.A.'s resources which we called the First and Second Replenishments, amounting to $750 millions and $1,200 millions respectively, or $250 million a year and $400 million a year, each for three years. These came entirely from the richer countries.

This summer we completed negotiations between governments for a Third Replenishment, again for three years, but this time at twice the level, namely $800 million a year. This has still to be approved by Parliaments but we hope that it will become effective by July 1st of next year.

I have given you a very quick sketch of the capital structure and purpose of the two main organizations of the World Bank Group. There is also a third called the International Finance Corporation which exists to foster investment in the private sector in developing countries.

Let me now tell you briefly what the present scale of our operations is and how we see them developing over the next few years.

When Mr. McNamara became President of the World Bank Group in 1968, one of his first actions was to formulate a five-year program to cover the lending and fund raising operations of the Group over the next five years and the recruitment of the necessary staff. He went for a big expansion and planned for a doubling of the Group's lending activities in the fiscal years 1969-73, compared with the previous five years 1964-68. At the time it seemed a bold decision. Now, after the first two fiscal years of the five have been completed, it seems well within reach. At Copenhagen, a few weeks ago, he was able to report that total loans, credits, and investments of the Group in fiscal year 1970 amounted to $2.3 billions, compared to $1.8 billions in 1969, and $1 billion in 1968. At the same time our fund raising operations had kept pace with our lending activities, so that the Bank's cash and liquid securities stood at $2.1 billions, $250 million higher than at the end of fiscal year 1969 and $700 million higher than at the end of 1968. Net income at $213 million was at a record level.

If the five-year target for 1969-73 is achieved, the World Bank Group will have lent in that period a total of well over $12 billion, which together with local financing provided by the borrowers, will have made possible development projects, all of high priority, costing in the aggregate $30 billion. This compares with total Bank Group loans and credits of $13-1/2 billion approximately in the first 23 years of its existence.

We have also been taking steps to broaden the scope of our activities not simply to lend more and more but to make our contribution to development better and better. The loans must be sound but the purpose must keep pace with the needs of developing countries as they change. In the past few years there has been a great expansion first in our lending for agriculture, then in our lending for education. In 1969 and 1970, agricultural projects for those two years alone were equal to half the number in all the previous years of Bank lending taken together. Similarly, lending for education in those two years was greater in amount than in all the previous years of the Bank's history taken together.

This is a trend in the Bank's lending policies which, on every ground, should surely be welcomed. In the early post-war years development programs placed too much emphasis on large scale industrial projects, and not enough on what must, after all, provide the essential foundation for development -- an adequate domestic food supply and at least the bare minimum of training of the working population. Those two needs must surely come right at the top of the list of priorities which go to make up a creditworthy borrower.

The geographical scope of the Bank's lending has also been broadened. Many more small and very poor countries are getting assistance for their development than in the past. The Bank is determined also to widen the scope of its services to find new ways to help the poorer countries to do things which they cannot do for themselves, for example, to develop and apply adequate programs of population planning.

I have given you necessarily a rather broad summary of what the World Bank Group is trying to do. I should like now to turn to the larger questions which I mentioned at the outset. Are the developing countries making progress? Are they making progress fast enough? What more should we do to help them?

There has been a widespread feeling in the last year or so that we have come to a critical point in the business of aid. The First Development Decade is over. What are the prospects for the Second? Will there even be a Second in any real sense of the term? I believe there will. But what are the successes of the First and what are the failures?

The Pearson Report estimated that in the past ten years developing countries as a group had reached an average rate of growth in gross national product of about 5 per cent a year. When these things happen, we are apt to take them for granted. Surely that was a very remarkable achievement. I doubt whether anyone would have bet much money on its happening when the First Development Decade started. It is, after all, a rate of growth substantially higher than that which the countries that are now industrialized achieved during a similar period of their own development.

Since the figure of 5 per cent is an average, it follows that many countries did better. The report of the Pearson Commission noted 19 countries whose G.N.P. grew by more than 6 per cent a year in the period 1960-67 -- countries of very different sizes and with very different backgrounds both of race and climate.

The latest estimates are even more encouraging. The Chairman of the Development Assistance Committee of the O.E.C.D., in his Annual Report to be published shortly, states that according to the latest available data, the global growth rate of the developing countries in 1969 probably exceeded the figure of 6 per cent. In other words, the global average is now estimated to be 1 per cent higher than the figure given in the Pearson Report.

I am not suggesting that growth in G.N.P. is of itself a satisfactory test of development. There is much more to it than that. But it is a necessary condition, even if it is not a sufficient condition.

Much more is needed for real progress -- better standards of health, better opportunities for education, a better balance between the towns and the country, less inequality in the distribution of income, some advance towards a higher level of employment, above all a determined attack on the really frightening problem of over-population.

The growth in population at the present time, as you know, is nullifying a large part of the benefits of the growth in national output. The 6 per cent growth in G.N.P. overall, becomes only a 3.5 per cent growth in income per head. And it will get worse in the future.

What is particularly disturbing is that it will get worse even if we are as successful as we can expect to be in finding a solution. For example, if the developed countries by the year 2,000 can reduce the size of family to two children per couple and if the developing countries reach the same goal 50 years later in 2,050, then even so, the population will continue to increase for another 70 years before it stabilizes and, when it does so, 150 years from now, it will have reached a level of 15 billion people. There is a danger that when we are faced with problems of that scale, we may feel that they are altogether too vast, too long-term, too unpredictable to do anything about them, but if governments do not do anything about this problem of population, obviously the situation will be even worse than is suggested by the figures that I have just given you.

Coupled with the problem of population is the equally urgent, perhaps even more urgent and critical problem of unemployment in the cities. We see today the equivalent of some 20 per cent of the entire male labour force of the developing world already unemployed.

To deal with this problem of unemployment changes may be needed in the policies of the developing countries themselves (for example, towards the use of more labour-intensive methods of production). But to solve the problem will also require a really substantial increase in the rate of growth. Many economists believe that unless we can achieve more than the Pearson target of 6 per cent -- say, 7 per cent or even 8 per cent -- we shall not achieve a partial solution of the problem, we shall make no impact on it at all -- that, in other words, there is a critical rate of growth which marks a kind of watershed on one side of which lies some approach to a tolerable level of employment, on the other almost complete failure.

The growth of population and the terribly high level of unemployment in developing countries are, perhaps, the most serious problems which they face but they are by no means the only problems. There is widespread malnutrition. At least one third to one half of the world's population, according to the F.A.O., suffer from hunger or inadequate nutrition. Infant mortality is high, four times as high in the developing countries as in the developed countries. Life expectancy is low, little more than two-thirds of what it is in the west and in some of the African countries only one half. Illiteracy is widespread, 800 million in total. Furthermore, this is a growing problem since the figure is 100 million higher than it was 20 years ago.

The developing countries, faced with all these handicaps and difficulties, see, at the same time, the gap between their level of income and that of the rich nations growing rather than narrowing. Even today there is the contrast between the United States with an average income per head of $4,000 and the poorest countries with incomes of less than $100 per head. The estimates are that unless urgent steps are taken this gap is going to go on growing throughout the rest of this century and that by the year 2,000, income per head in the United States at constant prices may be approximately $10,000 while in Brazil it will only be $500 and in India $200.

Those, in bare outline, are some of the problems. What are the solutions?

The main responsibility for raising living standards in the poorer countries has always been that of the developing countries themselves (in the last decade, they have financed some 85 per cent of their total investment), and this will continue to be true in the future. But developed countries can do much more also.

Secondly, provided that the developing countries themselves create the proper conditions of confidence to attract foreign capital, we can expect an increasing flow of private investment and this will certainly do a great deal to help them to develop since it carried with it not only capital but resources of technology, management, and know-how which are extremely important.

Private investment alone, however, certainly cannot do the whole job. In the first place it naturally tends to go to those countries where the yield is highest and those are not likely to be the poorest countries unless there is some new discovery of minerals or of oil which suddenly transforms their economic prospects. Secondly, private investment provides finance on relatively hard terms and cannot, therefore, be used to finance the whole of a country's development. What is needed is a proper relationship between public aid and private investment.

They are essentially complementary to one another and the developing countries need both. In real terms they need the infrastructure of public utilities, housing and transport, which clearly cannot be financed by private investment. But they also need to be able to borrow substantial amounts of capital on sufficiently lenient terms to enable them to meet the resulting debt service. I shall have more to say about that in a moment.

If the developing countries are to achieve a satisfactory rate of growth and to solve some of these problems that confront them, there must be an increase in the level of aid. The Pearson Report set some targets which would be regarded by many as modest in terms of what is needed, and by others as optimistic in terms of what is likely to be forthcoming.

He suggested that in addition to the U.N. target already set of 1 per cent of G.N.P., which includes private capital, there should be a second target of 0.70 per cent of G.N.P., or 70 cents in every hundred dollars for official development assistance, which means aid on concessional terms, aid with a large grant element, or, as I should prefer to say, aid which really deserves to be called aid. And he suggested that the percentage of the total going through multilateral channels should be increased from 10 per cent to 20 per cent.

But the second condition, which is equally important, is that the terms of aid should be improved. Grace periods and maturities should be longer, rates of interest should be lower. Pearson suggested loans with maturities of 25 to 40 years with a grace period of from 7 to 10 years and a rate of interest of not more than 2 per cent.

The precise figures are not, perhaps, important. What matters is that we should stop shutting our eyes to the fact that we cannot provide the developing countries with capital on a scale even approaching what is needed unless the terms on which we lend are much softer than they are at present.

At the present time with rates of interest as high as they are and with much of the debt that is being contracted taking the form of relatively short-term suppliers credits, debt service is growing at least as fast as the total public debt outstanding and much faster than foreign exchange earnings. Debt service is, in fact, absorbing a growing proportion of new lending so that it will not be long before the developing countries reach a point where they are expected to pay more in debt service than they are borrowing. This is the situation which the economists call a negative net transfer of resources. I am not suggesting that it should never be reached. There comes a stage in the development of a country where its rate of growth, its level of savings, and the strength of its balance of payments is such that it can afford to meet without further borrowing not only its expenditure on imports but also both the interest and amortization of its debt. Few if any of the developing countries have already reached this stage. For the great number of them it is still a long way off. At the present time, therefore, we see a situation in which the total public debt outstanding and the debt service of the developing countries is doubling every 5 years. In the meantime, their foreign exchange earnings are growing at little more than one third of that rate. It is not difficult to see where this will lead us unless we do something about it.

There are bound to be repeated debt crises in one country after another which will make the rescheduling of debt inevitable.

Mr. Chairman, I am conscious that in this short talk I have been covering ground which is familiar to most of you, and have not said anything very new. What is the conclusion to which it leads?

I think that what impresses me most at the present time is the way in which, while the difficulties and problems are growing, the will to solve them seems to be weakening, at any rate for the time being. And that is not true just in one country. But it is certainly true here in the United States, still the largest giver of aid in absolute terms though not in proportion to its size and wealth.

I have taken part in a number of discussions recently on development problems and in all of them I have been told that it is simply not realistic to expect any increase in United States aid in the near future. Rather the contrary.

I have tried this evening to sketch out some of the problems, problems which I think it is no exaggeration to say are truly appalling, which will face us over the next ten, twenty, or thirty years and will require the most strenuous efforts to solve them. Is it unrealistic to believe that in the end the effort that is needed will be made? Politics is said to be the art of the possible. But is it not equally true that the task of political leadership is to transform the scale of what is possible.

As an Englishman, I think of Winston Churchill telling us in 1940 that the war could be won and that Germany could be defeated. No one who knew the facts at the time found it easy to believe that that was true. But in the end and with your help it came true. Can we not hope that what we achieved in war we can also achieve for the sake of peace? I believe that we should hope that in these coming years there will emerge the leadership and the political will in all our countries which will make possible what now seems impossible.

Sir Denis Rickett

February 24, 1971

Peter Riddleberger

Draft Outline for Speaking Engagements

In response to your request of February 12, 1971, I attach a draft outline for your March speaking engagements in California. Please let me know if I can be of further assistance.

Attachment

cc: Peter Bocock

PR:esp

2/24/71 - Draft outline by Peter Rittleberger for speaking engagement - Sir Denis Rickett (Calif. in March)

IS AID A FAILURE

1. Purpose:

Eugene Black has remarked that aid is one of those areas "where institutions develop a rationale for what they are doing only after having done it for awhile."

Origins: Special relationship of former colonial links; acts of charity to "win friends", and strategic considerations have given way to economic considerations. These in turn are currently being supplemented by a view of the world as a global community: i.e., "No man is an island...."

2. Development assistance attempts to redress the imbalances between capital exporting and capital importing nations. Purpose is to assist nations create the conditions for self-sustaining economic growth, and to improve the quality of life for the 2 billion people who live in poverty. Balanced economic interdependence can help ease the propensity for violence as a means of settling disputes. Rich nations recognized this in creating the OECD of which DAC is a natural extension.

Development assistance has become, by and large, a distinct area of public policy in more advanced countries. There is a growing concensus, exemplified in the Pearson report and the words of President Nixon that each capital-exporting nation should, as a matter of sound policy, put a certain percentage of its resources into foreign aid. This has been accompanied by the general acceptance by developing nations that economic planning is an integral part of domestic affairs.

3. Economic Gap: Persistent and growing wider.

(a) Gross National Product -- In developing nations, the rate of growth has been between 5% and 6%. In the DAC countries, gross national products grow by almost $70 billion annually, or two-thirds the entire income of Latin America. What the United States adds to its GNP yearly equals the entire GNP of India or Africa, approximately $40 billion.

(b) Per Capita Income -- Rich nations have an average income of $2,200 per person annually, ten times the per capita income in developing nations. The rate of increase during the 1960s was slightly over 10% in developing nations, 25% in DAC countries. Transformed into human deficiencies, these figures are staggering.

(1) nutrition: a third to a half of world's population is suffering from hunger and malnutrition; less developed countries are spending $4 billion yearly on food imports in late 60s;

(2) health: high infant mortality; 110 per 1,000 in developing world as a whole, compared with 27 per 1,000 in developed; endemic diseases common, while less developed countries average 27 doctors per 100,000 population, compared with 134 per 100,000 in developed world;

(3) education: 800 million illiterates in less developed countries; meanwhile about 40% of their total population is under 15 years of age;

(4) <u>employment</u>: about 20% of adult males are unemployed in less developed countries; problem especially bad in cities, whose rate of growth of urban population about twice that of urban jobs; the urban population of developing nations was 70 million in 1920. By 1960 it had increased almost fivefold to 310,000,000 and is expected to reach 1.4 billion by the end of the century.

<u>Population growth rate</u> of over 3% per annum in less developed nations threatens to erode any real increase in national income as it absorbs roughly half of their average annual rate of economic growth. If population continues to grow at present rate, it will result in a doubling of the world's population in 25 years. This problem is compounded by the lack of technical skills, now recognized to be an important factor in economic growth. The need for trained personnel is exacerbated by a disturbing emigration of skilled persons to more prosperous nations. 100,000 foreign engineers have settled in the United States alone, and more are now leaving the nations of Africa and Asia for Europe. One look at any large urban American hospital reflects the large number, perhaps 30%, of the medical doctors from the Philippines, Iran, Turkey, Pakistan and Central America who come to the United States. Similar figures are now true for Europe.

<u>External Debt</u>: Now approaching $55 billion, it continues to increase over $3 billion annually. Merely servicing these debts is a costly burden, requiring an outlay of $4 billion annually in hard currencies. Mexico alone

spends over $27 million for this purpose or about one-fifth of her exports of goods and non-factor services. To simply reschedule these debts would not be healthy, since further investment would be discouraged.

4. What Is Being Done:

Fifteen years ago, development assistance to less developed nations was of marginal importance; since that time it has made enormous strides. The flow of public loans and grants for development assistance increased about 12% yearly throughout the first half of the 1960s. It has remained relatively static for the past few years, now totaling approximately $7 billion annually. Of this amount, 30% is channeled through multilateral lending agencies, such as the World Bank, the Inter-American Development Bank. Bilateral aid donors work increasingly through consortia and consultative groups. Last year, the World Bank participated in 18 such joint efforts. In 1969,$13.3 billion flowed from DAC members to the less developed world. Six billion dollars of this amount was private.

Official development assistance is required to fill the gap where private investment capital is missing; this applies especially to infrastructure development.

Total official disbursements represented less than one-half per cent of the Group's gross national product; 59% of the official commitments were grants. Interest rates on public loans averaged 3.5%. But the terms of aid are hardening. The World Bank cannot raise sufficient money on the world capital markets without charging 7¼% interest, up from 5-3/4% six years ago. United States bilateral aid rates have gone from less than one per cent in 1961 to almost 5% today. Meanwhile the grant element as per cent of total commitments has decreased in all donor countries, dropping from over 80% in 1964 to about 70% today. This trend is taking place at a time when the need is greatest.

Clearly then, the real burden falls on these nations themselves. The best we can do is offer our knowledge, skills, capital and experience.

5. Development assistance from abroad, however, accounts for only 15% of these nations' total investments. To continue at this rate over $20 billion will be needed by 1975. Aid funds contribute about 20% of the capital formation in less developed nations whose GNP is growing at a rate of 5-6% yearly.

The World Bank Group has evolved to meet the needs of less developed nations. In recent years, the emphasis has shifted to agriculture and education. Agricultural projects now receive over $412 million in loans and credits, a sharp increase in the $124 million yearly average between 1964 and 1968. Educational lending has almost tripled from its 1964-1968 average, from $31 million to about $80 million in 1970. Lending for industry doubled from an average of $141 million yearly between 1964 and 1968 to $293 million in 1970. Expansion of agro-industries holds great promise. The consumption of commercial fertilizers in less developed nations reached 10 million tons last year, with a threefold increase expected by the end of the decade. Much of this is being produced domestically.

The World Bank's interest in population studies led to the first family planning loan of $2 million to Jamaica last year. Tunisia is now negotiating for similar assistance.

Recognizing the importance of balanced urban development, the Bank is now examining the problems of growth faced by Bombay, India, whose population may double in fifteen years.

6. Aid promotes economic development only if accompanied by adequate domestic policies which redress the imbalances in income distribution. In India, 12% of the population owns 50% of the land. In Brazil, 10%

of the population controls 75% of that nation's wealth. Tax reform and increased savings required if the majority of citizens are to prosper.

7. The average rate of investment in less developed nations has represented about 18% of GNP for the past decade. During this period the savings rate has remained constant at 16%.

8. Trade shows marked improvement. It has increased at a rate of 9% annually, somewhat below the 15% yearly increase registered by the rich nations. A number of barriers hinder further expansion. Tariffs, which could increase under the proposed U.S. trade bill, are imposed on light manufactured goods -- shoes, textiles. Quotas and artificial selling prices restrict export of chemicals and minerals.

While the U.S. faces a commercial challenge with Japan, that nation must now compete with the growing exports of Korea, China and Singapore.

Attitudes toward trade must change in the coming years. The recent negotiations in Tehran between the oil producing nations and the western petroleum companies clearly show that the organization of world trade will no longer remain exclusively in the hands of the rich nations. Patterns of trade and consumption may consequently have to be analyzed by exporter and importer alike, to determine which products are more valuable as export items and which ones should be produced for domestic consumption. This could avoid costly trade wars and "dumping" practices that could only harm everyone. Development assistance agencies can be of great help in this matter by sharing their data, knowledge and experience.

Private sector will continue to be the main source of funds for productive private enterprise. The International Finance Corporation, an arm of the World Bank Group, is playing an increasingly active role as a catalyst in drawing together the money and management which can usefully supplement the activities of the IBRD. To this end, the IFC last year succeeded in mobilizing $493 million for investment in private commercial ventures. Of this amount, $111.8 million was invested directly from the IFC portfolio, earning an average of 9.08 per cent per annum.

9. Development figures mean little if the quality of life is not improved. Increased food consumption must be accompanied by balanced nutrition. Education must be followed by employment opportunities, and industrial development must not pollute.

10. A crucial dimension of aid is providing technical assistance so that the momentum of development is maintained. This training occurs while a project is carried out. It provides the administrative, engineering, construction and legal experience which is indispensable if development is to succeed.

The results are not always immediate, nor should they be. Balanced economic growth requires time during which a number of stimulants and restraints can take effect. Development assistance should be provided to those projects for which concessional terms are in the best interest of all.

Included in this category are funds to provide adequate foreign exchange so that a nation's balance of payments deficit does not completely offset domestic economic improvements; funds, such as the estimated $650 million needed to import fertilizer, to supplement a specific sector of development which is progressing well; funds for roads and utilities which assist in bringing new products and services to the marketplace.

Capital is needed, but only if it is loaned on proper terms and invested in worthwhile ventures. Little if anything is accomplished by providing a high interest loan for a project that will produce obsolete goods.

Even a good project, like an electric power station, can be detrimental if the revenue earned from subscribers is exceeded by the amount required for debt service payments. Conversely, a low interest loan is worthless if it only aggravates a weak economic sector. Promoting a single crop or mineral, e.g. rubber, coffee, for export is of little value if a large surplus exists or if the price fluctuates excessively.

An appropriate loan, credit or investment acts as a catalyst in generating self-sustaining growth. Ideally, it promotes development in a number of related industries. A railroad from a seaport to a mine, which runs through timberland and alongside crops, provides an income for farmers, longshoremen, lumberjacks and miners which far exceeds the original investment.

11. Ecological factors will play a growing part in each project appraisal. Controversy over such celebrated projects as the Aswan Dam will erupt periodically, and calls for further evaluation of each recipient's peculiar needs are becoming an integral part of any development agency's affairs. Interest in preserving the environment is spreading from the rich to the poor nations.

12. Interest-free credits from the Bank's affiliate, the International Development Association, now supplement the development assistance program at a level of over $600 million annually. Since 1961 IDA has made nearly 250 credits to 56 countries around the world. The projects supported by IDA funds have ranged from flood protection in Asia to water supply systems in Latin America and road improvement in Africa. IDA has also assisted in the construction and expansion of over 700 secondary and teacher training schools and agricultural colleges, increasing enrollment by over 200,000.

IDA is in the process of replenishing its funds which come from contributions of its 18 richer member nations, and Switzerland. The United States has agreed, pending necessary legislative action, to provide $320 million annually for three years to help meet the total sum of $2.4 billion. For the first time, three relatively poor countries, Spain, Ireland and Yugoslavia, will be contributing to an IDA replenishment.

At the beginning of this new development decade, a number of countries are on the threshold of controlling their economic destinies. These graduates of development assistance programs, such as Korea, China, Yugoslavia and Japan, are now actively assisting others. California's neighbor to the south, Mexico, has by all standards of performance, made remarkable progress. She has achieved a 7% growth rate without excessive inflation for the past 15 years. Her per capita income has doubled in the past ten years, while inflation has averaged 3.2%.

In order to determine whether development assistance has succeeded or failed, one must ask what the economic state of the world would be if there had never been a public economic aid program.

ADDRESS BY SIR DENIS RICKETT IN TOKYO

June 4, 1971

Mr. Chairman, Gentlemen:

May I first of all thank Mr. Koyama, Mr. Segawa, and Mr. Soejima for their kind words of welcome and introduction. I should like to say how pleased I am to come here today to speak to this distinguished audience which is so fully representative of the business and financial community of Tokyo.

This is certainly a very suitable moment for me to talk to you when we are on the eve of the World Bank's first public issue in the Japanese bond market. This is a turning point in the relations between Japan and the World Bank. Let us hope that it will be followed by many such security issues in the future.

I know I do not need to remind any of you that for the first fourteen years after Japan joined the Bank in 1952 it borrowed substantial amounts from the Bank. Indeed, the total -- $863 million -- still makes Japan the fourth largest of all the Bank's borrowers. It gives us in the Bank considerable satisfaction to have contributed to the financing of such outstanding achievements as the high-speed Tokkaido Railway and the Tokyo-Osaka Expressway, as well as to have been associated through the Japan Development Bank with such internationally-known industrial giants as Yawata, Kawasaki, and Sumitomo.

In 1966, Japan's borrowing from the Bank ended, and now Japan is rapidly reducing its net debt to the Bank. Indeed late in 1969, Japan bought back $162 million of its debt to the Bank. Early in 1970, the Bank was able to place substantial five-year issues with the Bank of Japan, and today these issues total $400 million.

Thus Japan, formerly one of our largest borrowers, has become an important lender to the Bank. It was partly for this reason that we decided, late in 1970, to open an office in Tokyo. We were lucky to secure as its first

Director, Mr. Soejima, who is well known to you all.

Japan's growing influence in our affairs has been shown in another way. Early this year a substantial increase took place in Japan's relative voting power on the Bank Board. This came about as a result of a substantial upward revision, in line with the growth of the Japanese economy, of Japan's IMF quota and World Bank subscription. This enabled Japan, for the first time, to nominate its own Executive Director to the Bank Group's Board (joining only five other countries in that position).

This evolution reflects, of course, the phenomenal success of Japan's economic growth, begun little more than a century ago and accelerated so dramatically to a rate of more than 10% annually in the last decade. I am told that, if continued, this growth will carry living standards in Japan, already comparable with those in Western Europe, above those even in the United States in less than another 20 years.

One of the implications of this tremendous achievement, of course, is that Japanese living standards are increasing very much more rapidly than those of most of her neighbors. During most of the sixties, developing countries as a group attained an average rate of growth in gross national product of about 5% annually. They thus not only reached the target set for the decade, they also substantially surpassed the growth performance achieved by most of the industrialized countries during the period of their economic take-off. In 1969, the overall average growth rate of the developing countries exceeded 6%. For the decade as a whole, there were no less than 19 developing countries which achieved a rate of growth of GNP in excess of 6% annually.

But despite this creditable performance, no developing country (except those few small countries blessed with large mineral resources) attained Japan's growth rate, so that the gap between Japan and the developing world continued to widen at a rapid rate. This has implications for Japan to which I wish to return in a moment.

Before I do that, I want to remind you not of the relative position of developing countries but of their absolute condition. We have to consider the fact that there are today some 800 million totally illiterate people in less developed countries, and that approximately half their population is seriously malnourished. We have to remember that, despite the growth which has been achieved, many of the problems of the developing countries are actually getting worse, principally because of the high rate of population growth in most developing countries. Thus the number of illiterate people is probably 100 million more today, in 1971, than it was 20 years ago. Even optimistic projections place the population of Asia by the year 2000 at approximately 3-1/2 billion -- the present population of the whole world. And even on optimistic assumptions it may be as much as one hundred and fifty years before the size of the world's population can be stabilized and by then it may have reached as much as 15 billion, five times its present level. Can anyone doubt the enormous problems this will create unless urgent measures to accelerate development throughout the world and particularly in Asia are taken at once?

Hand in hand with this problem of the growth of population goes another, equally serious and pressing, the ever-rising level of unemployment in the cities. However hard we try to reduce the birth rate, and however successful we may be it will be many years before the results are seen in falling unemployment - not before the end of this century. This is because most of those who will enter the ranks of the unemployed before that time have already been born.

What does all this mean for Japan? There are various reasons why Japan should be prepared to play a leading part in assisting economic development. One surely is that Japan has a moral obligation to help that part of humanity which is still living in abject poverty. I mention this moral obligation first simply because I believe that Japan, probably more than any other industrial society, thinks in these terms. The memory of Japan's own poverty only 100 years ago, the memory of the suffering and misery of the Japanese people in the two decades from 1930 to 1950, and the still unfulfilled requirements of the Japanese people for a more adequate economic and social environment, all lead most Japanese to this view.

But in addition to this, there is surely no country in the world which has a more direct interest in the development of the now-underdeveloped parts of the world than does Japan. The countries of Asia in particular -- where most of the people in the developing world live, and where the scope for improvement in living standards is so enormous -- are already major markets for Japanese exports and can only become better customers as they develop further.

These same countries are also important suppliers of raw materials for Japanese industries -- oil, iron ore, rubber, and tin are only a few of many commodities which Japan imports in large quantities from developing countries. Japan, therefore, has a vital interest in the political stability of these countries. While development is certainly no guarantee of that stability, there is today little chance of ensuring stability <u>without</u> development.

As you know, some 10% of Japan's gross national product is earned by export sales, but I'm sure you would agree that your economy is much more heavily dependent on international trade than that figure would indicate, because of your need to import virtually all your requirements of most industrial raw materials. For this reason, Japan's relationships with other countries -- including the developing countries, which account for more than 40% of Japan's total trade -- are of critical importance to her future. Men being what they are, there can be little doubt that Japan's relations with developing countries, at least those in Asia, can only be harmed by a continued rapid deterioration in the relative economic position of these countries.

I know, of course, that Japan is already assisting the economic growth of developing countries in substantial ways. A little over a year ago, I attended a conference at Colombia University in New York, organized to discuss the conclusions of the Commission on International Development, on which Japan was represented by a distinguished economist, Dr. Okita. I was struck at that time by the preoccupation of East Asian delegates to that conference with the effect of Japanese policies on their growth. Other delegates were concerned about a wide range of issues, but for those from the countries of East Asia the most relevant questions concerned Japanese trade policy, Japanese foreign investment policy, and Japanese aid policy. To judge from the experience of the developing countries which have felt the impact of Japanese growth most directly -- Korea and Taiwan -- this interest was well placed. Over a century and a half ago, at the time of the wars with Napoleon, a famous English statesman said "England has saved herself by her exertions and will, I trust, save Europe by her example". Those words, with very little change, can, I suggest, be applied to Japan's place in the world today. By her own exertions she has rebuilt her economic life in a manner which truly deserves the sometimes over-worked term "miracle". By her example she will show to all the developing countries,and particularly to those of Asia, what can be achieved by intelligence, by sound planning and by hard work.

Among major developed countries, none has increased its financial contribution to the developing world more rapidly than Japan has done over the last five or ten years. As recently as 1964, net disbursements (official and private) by Japan to developing countries totalled only $290 million. By 1969, this had increased to $1,263 million and I understand that now the total flow is at an annual rate approaching $2000 million. From being only one among a number of medium-size contributors, Japan is now second only to the United States in the volume of capital it provides to developing countries. If Japan makes good its commitment to increase its total aid to 1% of GNP -- and I understand that you reached 0.93% in 1970 -- it may not be long before you are the largest provider of capital to developing countries.

At this stage a rather modest proportion of the total capital provided by Japan qualified as "official development assistance", that is to say concessional funds with a strong development orientation. Indeed preliminary figures suggest that between 1969 and 1970, when the total resources provided by Japan to developing countries increased by 44%, official development assistance increased by only 5%, and in 1970 amounted to only 0.23% of Japan's gross national product, well short of the 0.70% suggested by the Pearson Commission and the United Nations for the Second Development Decade. The balance consisted primarily of capital made available on commercial terms, especially direct investment, export credits, and bond issues at market rates. Because of this, and because even Japan's official development assistance has been on somewhat harder terms than those of most other OECD countries, the terms of the overall flow of capital from Japan to developing countries have been quite hard.

But I know that Japan has been taking steps to increase the concessional component in its total aid, and this is surely to be welcomed. Over the last few months, the World Bank staff has been at work preparing a detailed study of the external debt prospects of developing countries. This would not be the time or the place to try to set out the findings of that study. One thing, however, is very clear. If we are to avoid in the future a growing series of debt crises, we shall need to give the developing countries much larger amounts of capital on soft terms, containing, that is, a large element of grant.

Most Japanese aid, like that of most other countries, is provided bilaterally. I fully appreciate the reasons for this of course. But it will not surprise you when I say that I believe there are some very important advantages in channelling aid through multilateral organizations. It is to this theme that I want to address myself in the time that remains this morning.

As I see it, there are two principal advantages of channelling aid through multilateral lending institutions. The first is a political advantage. This may sound surprising. In the past people have often thought of bilateral aid as a means of gaining political advantage for the donor. There may still be some short-term political advantages to be gained by providing aid in that way. But I think there is everywhere a growing awareness that, if a donor uses aid to try "to win friends and influence people", he very often finds he has succeeded only in generating antagonism -- and the larger and more "visible" the donor, the greater is that risk. With multilateral aid the situation is very different. Multilateral organizations clearly have no political ax of their own to grind, and representatives of the recipient countries play their part in decisions on how the available aid will be spent. Hence the political risks of bilateral aid are avoided.

Multilateral organizations have another important advantage. Just because they are governed by the representatives of many nations, and staffed by people from every race and professional background, they are well placed to keep a close watch on the performance of recipient countries, and to suggest ways in which this can be improved. Advice on fiscal or monetary policy, on exchange rate policy, on industrial protection, on the pricing of power or water -- such advice is never unambiguously welcome from any outsider. But it tends to be much more welcome when the outsider is an international organization, clearly interested in the economic development of the country concerned, than when it comes from a foreign government, which may not be regarded as wholly disinterested. As a result, resources provided by international lending organizations tend to be used more efficiently than those from bilateral agencies.

The World Bank Group is not, of course, the only international lending agency. Over the last decade, several regional banks have also been set up including the newly-established Asian Development Bank, headed by Japan's Dr. Watanabe. The largest of these, the Inter-American Development Bank, made commitments totalling $644 million in 1970, while the next largest, the Asian Development Bank, made commitments of $245 million that year. These regional banks are already making a valuable contribution to the development of their regions, and the World Bank works closely with them whenever possible.

But, with commitments of about $2.4 billion this fiscal year, the World Bank is still the largest of the international lending agencies, and has a history of operations extending back to 1946. The Bank's subscribed capital of almost $24 billion is held by 115 member countries. It is paid-in to the extent of 10% only, and the uncalled 90% constitutes a joint and several guarantee by all the members which can be called upon to enable the Bank to meet its obligations. This enables the Bank to borrow resources in the capital markets of the world at highly competitive rates and relend these funds to developing countries at rates which they could not possibly hope to equal in the bond market on their own credit standing alone. In the last five years, the Bank has borrowed $4.8 billion gross [$2.6 billion net], $1.5 billion in dollar-denominated two-year issues taken up by Central Banks, $1.4 billion in the U.S., $1.2 billion in Germany [including Bundesbank issues], $400 million from the Bank of Japan, and smaller amounts in Austria, Canada, Kuwait, Libya, the Netherlands, Saudi Arabia, and Switzerland.

But the terms of Bank loans are too onerous for some developing countries. They must look to a second member of the World Bank Group, the International Development Association. This is an affiliate of the Bank which was set up in 1960.

Its purpose is to meet the needs -- or some of the needs - for development capital of those countries which are too poor, or whose balance of payments is too weak, to enable them to meet the debt service of loans even on the slightly concessional terms which the World Bank can offer -- 7-1/4 per cent (at present), repayable over 20 to 30 years with a grace period of, say, 4 or 5 years. By contrast, I.D.A. makes credits repayable over 50 years with a grace period of 10 years, with no interest other than a service charge of 3/4 of 1 per cent.

Other wise the purposes for which the two institutions lend and their structure and organization are the same. They have the same President, the same staff and the same Board of Directors. They both finance projects of high priority in virtually every sector of economic activity -- agriculture, education, family planning, industry, ports, power, railways, roads, telecommunications, tourism, and water supply.

It will, however, be obvious that a body such as I.D.A., which makes credits on such highly concessional terms, equivalent in effect to a grant of \$80 in every \$100 which it lends, cannot hope to finance itself by borrowing in the capital markets of the world. It needs subscriptions from governments which are themselves very close to grants.

I.D.A. was set up with initial subscriptions of \$1 billion, \$750 million of which came from the advanced countries and \$250 million from the poorer countries. But, in the case of the poorer countries, 10 per cent only was payable in the form of convertible currency, the remaining 90 per cent being released as and when they become strong enough to do so. Since the initial subscriptions, there have been two further additions to I.D.A.'s resources, which we called the First and Second Replenishments, amounting to \$750 millions and \$1,200 millions respectively, or \$250 million a year and \$400 million a year, each for three years. These came entirely from the richer countries.

Last summer we completed negotiations between governments for a Third Replenishment, again for three years, but this time at twice the level of the Second Replenishment, namely $800 million a year. This will become effective when it is ratified by the required number of national legislatures.

I have given you a very quick sketch of the capital structure and purpose of the two largest organizations in the World Bank Grpup. There is also a third called the International Finance Corporation, which exists to foster investment in the private sector in developing countries. I am sure that many of you will know quite a lot about IFC's operations through the work of Mr. Naokado Nishihara, IFC's Special Representative in the Far East.

Let me now tell you briefly what the present scale of Bank/IDA operations is and how we see them developing over the next few years.

When Mr. McNamara became President of the World Bank Group in 1968, one of his first actions was to formulate a five-year program to cover the lending and fund raising operations of the Group over the next five years and the recruitment of the necessary staff. He believed that the Bank Group could expand its activities greatly and accordingly planned a doubling of the Group's lending operations in the fiscal years 1969-73 compared with the previous five years 1964-68. At the time, it seemed a bold decision. Now, just over half way through the five-year period, it seems well within reach. If it is attained, the Bank Group will have lent in five years a total of well over $12 billion which, together with local financing provided by the borrowers, will have made possible high priority development projects costing in the aggregate $30 billion. This compares with total Bank Group loans and credits of approximately $13-1/2 billion in the first 23 years of its existence.

We have also been taking steps to broaden the <u>scope</u> of our activities, not simply to lend more and more but to make our contribution to development better and better. The loans must be sound but the purpose must keep pace with the needs of developing countries as they change. In the past few years there has been a great expansion first in our lending for agriculture, then in our lending for education. In 1969 and 1970, agricultural projects for those two years alone were equal to half the number in all the previous years of Bank lending taken together. Similarly, lending for education in those two years was greater in amount than in all the previous years of the Bank's history. This is a trend in the Bank's lending policies which, on every ground, should surely be welcomed.

I have already mentioned Japan's support for the operations of the Bank, symbolized in many ways by the Bank's first public bond issue in the Japanese market in the next few days. Japan's support for IDA has also been of the greatest value. In the negotiations which preceded agreement on the Third Replenishment, Japan offered to increase her share in that replenishment from her share in previous replenishments, from 5.54% to 6%. Her willingness to do this was of great help in enabling us to reach agreement on the replenishment. I am particularly pleased that Japan is also in the vanguard of countries ratifying its participation in the Third Replenishment.

You will agree, I think, that this close relationship between Japan and the Bank Group has been of benefit to Japan also. In part, the benefit has been direct and obvious. I have already mentioned the $863 million which the Bank lent to Japan during the fifties and early sixties. Japan has also derived benefit from export orders financed by Bank and IDA loans to other countries: through the end of 1970, such export orders totalled over $690 million, and that total is now increasing at a rate of $80-100 million annually. Even more important, of course, are the indirect benefits from living in a region which is growing more rapidly than it otherwise would, with all that that means for Japan's prosperity and security.

I firmly believe that we can look forward to a future in which Japan's support for the World Bank Group and her influence in it will constantly grow. I am convinced that this will be as much in your interest as it will be in ours.

Address by Sir Denis Rickett, Vice-President of the World Bank, to the Schweizerisches Institut für Auslandsforschung in the Aula of the University of Zurich, Monday, May 10, 1971

Mr. Chairman, Gentlemen:

May I say, first of all, how much I appreciate your invitation to come here this afternoon and speak to you. I know very well how deservedly high is the reputation of your organization, the Swiss Institute for Research in Foreign Affairs, and I feel it to be a very great privilege to be asked to address you here in this historic hall of the University of Zurich.

The subject about which I want to talk is the great growth which is taking place in the indebtedness of the developing nations. It is not a new topic by any means. Many observers in recent years have expressed their concern at the rate at which the debts of the developing countries are growing. The Pearson Commission called it "explosive" and said that "the debts already contracted by many developing countries cast a pall over the short- and long-term management of their economies". The Peterson Task Force, set up by President Nixon to advise him on the shape of the U.S. Aid Program in the seventies, described the present debt burden of many developing countries as "an urgent problem which endangers continuing imports, investment and development".

The World Bank Group has been vitally concerned with the external debt of developing countries for many years. In part, this concern is due to a natural desire to protect the Bank's own loan portfolio. From the beginning of its lending operations, therefore, prospective borrowers have been required to provide the Bank with information about their outstanding indebtedness. But of at least equal importance has been the Group's concern for the success of the whole development process, and this has led Bank staff to pay particular attention to the debt prospects of member countries as a regular part of their economic work.

Twelve months ago the Inter-American Committee on the Alliance for Progress asked the World Bank to assist in a special study of the debt of Latin American countries. Last September, in response to what he felt to be a growing sense of concern, Mr. McNamara, at the Annual Meeting of Bank Governors in Copenhagen, committed the Bank to a thorough study of this question covering all developing countries.

He said then that he hoped that by the time the Governors met again in September of this year, the study might have thrown considerable light on the complex issues involved and on possible approaches to their solution.

That study is now well advanced, but you will not, I am sure, expect me this afternoon to try to anticipate its findings. I can, however, give you some idea of the issues as we see them emerging.

Let me say, first of all, that the mere fact that the indebtedness of developing countries is growing, or even that it is growing rapidly, need not in itself give rise to alarm. One of the aims of development policy, as I feel sure you would agree, is to enlarge the flow of capital to developing countries. The rise in their debt, which has certainly been very considerable, is a measure of the success with which that object is being achieved. The debts which developing countries have incurred correspond to a stock of capital which has been made available to them on varying terms and at different times in the past. Whether or not there has been a net benefit to the debtor depends on two things -- on the way the funds have been employed and on the cost of borrowing them. If, for one reason or another, they have been dissipated without yielding much contribution to productive capacity or welfare, fixed obligations to service past debt may be a heavy burden, leaving a country worse off than if it had never sought or accepted foreign loans in the first place. If, on the other hand, the resources made available have been invested well in physical or in human capital leading to a rapid growth in production and income, then the debtor may have no difficulty in meeting the interest cost of the loan, and even to repay it may, in the end, present no serious problem.

But there are two important qualifications which must be borne in mind when we are talking of developing nations. In the first place, we have to remember the limitations which necessarily exist on the returns to capital in countries which are still at an early stage of development. In many of them, of course, there are plenty of projects which yield a return on capital at least equal to that which is earned on projects in developed countries and equal also, which is perhaps the more important consideration, to the cost of raising capital in international markets. But there are many countries in which at their present stage of development the number of such projects is limited. In time, and given an adequate supply of skilled manpower and of the necessary infrastructure, the supply of such projects will increase. But to provide manpower and infrastructure requires substantial investments in schools, in medical facilities, in roads, and in ports. These investments, however vital to the development of the country, tend to yield a financial return only after many years and hence are rarely suitable for financing on the terms on which capital is available in the market.

It follows that in the early stages of development the cost of borrowing must be kept in line with the return on capital not by limiting the amount borrowed but by softening the terms on which it is made available. Capital in adequate amounts is needed on softer than market terms to provide the essential infrastructure or what has been called "the social overhead capital" without which profitable investment in a developing country is not possible.

Secondly, we have to remember that in talking about this question of the indebtedness of the developing countries we are speaking not merely of the return on borrowed capital but on capital borrowed from abroad. The return on the investment must, therefore, yield not merely an increase in output equal to the cost of borrowing, but one which will lead without too great a lapse of time to an increase in the foreign exchange available for debt service.

How easy it will be to convert part of the increased output generated from investment into foreign exchange which can be used to service foreign debt will depend in part on the number of projects which will yield an immediate financial return in the borrowing country. But apart from the question of the productivity of investment, there is a separate question of the transformation of its results into either increased exports or increased saving of imports. The mechanism of adjustment of the balance of payments rarely works as smoothly in developing countries as it does in the developed - and even in developed countries, as we all know, it sometimes leaves something to be desired. This greater difficulty of adjustment arises because factors of production tend to be less mobile in the developing countriesthan they are in the developed and to change the deployment of men and machines so that they meet the needs, not so much of the domestic market as of international markets, is, as a result, often the task of years. In part also the adjustment mechanism works less smoothly because even if redeployment can be successfully accomplished developing countries often find that what they are most suited to produce for international markets are precisely those products which are faced with a low elasticity of demand or, worse still, with high tariffs or quantitative import restrictions. There have been many examples of the danger of making sweeping predictions concerning the terms of trade of developing countries particularly if you lump them all together as a single group. Nevertheless, it seems clear from past experience that the price of commodities, such as textile fibres, rubber, sugar and tea, all of them important to the developing countries, are likely to deteriorate sharply if their supply in the world market is substantially increased. If only for this reason, therefore, it would be difficult to overestimate the importance of the moves which are taking place in both Europe and Japan, and we hope also in other countries, to provide a measure of preferential access for the labor-intensive exports in which many developing countries so clearly have a comparative advantage.

To sum up then this part of my argument. Debt difficulties will arise if the returns on investment, not only in domestic production but in foreign exchange do not match the terms on which foreign capital has been borrowed. In some countries which are still not fully developed both the productivity of capital and the capacity to transform local currency into foreign exchange are high. These countries can afford to borrow large amounts of foreign capital at commercial rates of interest with repayment over a comparatively short span of years. There are many other countries, however, perhaps the majority in the developing world, where these conditions are not fulfilled. For those countries debt servicing difficulties will be avoided only if foreign capital is made available on concessional terms.

Let us look then next at the terms on which capital has been made available to developing countries. On the whole, despite some recent hardening, they have been highly concessional. If we measure what is called the grant element - the proportion of the total, that is, which is equivalent to a free gift - in the official loans extended by OECD members to developing countries, we shall find that it has averaged around 80% in recent years (assuming a 10% discount rate). In fact, the great majority of developing countries have received official aid loans on highly concessional terms. There are a few exceptions but these have been countries where income per head was relatively high or where exports could be expected to grow rapidly.

What is disquieting, however, is the gradual hardening which has been taking place in the terms on which capital is being made available to developing countries. This is not so much a question of the terms on which the main categories of capital flowing to the developing countries have been provided. For example, if we look at the maturities and grace periods of official bilateral loans extended by OECD countries we shall find that, thanks in no small part to the efforts of the Development Assistance Committee of the OECD, there has been some lengthening in both the periods for which the loans have been made and the grace periods in which no repayments of capital were required. You will find also that in the case of private suppliers credits their average maturity has almost doubled since the late fifties. What is even more surprising is that despite the great rise which has taken place in the rate of interest in international markets, there has been little increase in the interest rates payable on either official loans or private suppliers credits.

Why, then, do I say there has been a hardening in the terms on which capital has been made available to developing coun-ries? It is because of a change in the composition of the total flow. The relative weight of different elements in the total is changing. Thus the proportion of grants and grant-like flows in the official aid of OECD countries has declined quite considerably falling from 72% in 1964 to 60% in 1969. Again, official aid itself is declining as a proportion of the total financial flows. Figures collected by the Development Assistance Committee of OECD show that the proportion of official aid in the total has fallen from 65% in 1964 to 54% in 1969. What this means, of course, is that the proportion of private capital flows in the total has increased. Private investment has many advantages for the developing countries but one result inevitably is that the overall terms on which capital has been received by them have hardened in recent years. It is only to be expected that the grant element in export credits, in bonds issued by developing countries, and in commercial bank credits, should be very much lower than the grant element in official assistance. It is easy to see that, as a result, the grant element in the total flow of capital has been low for many of "the middle income" developing countries which have used these sources of funds most heavily. I am thinking of countries such as Argentina, Taiwan, Greece, Iran, Mexico, and Venezuela.

In many situations the use of export credit is entirely appropriate and need cause no difficulties, that is to say, where export credit is extended to countries whose own export prospects are excellent and whose per capita income is relatively high. Even when they are used by poorer countries, export credits may finance the acquisition of assets such as commercial aircraft or ships which add to the export revenue of the borrowing country. What is dangerous is if too great a reliance is placed on this source of finance with the result that the whole structure of the external debt of the country becomes unbalanced and they are required to meet not only the interest but the repayment of a large proportion of the capital of their debt within a relatively short space of time. Such a situation will be particularly dangerous if the country relying in this way on export credit is dependent for its foreign exchange earnings on one or two primary products, the price of which may be subject to rapid fluctuations. What we are talking about here is not a long-range problem of indebtedness but a short-range problem of liquidity. Much will depend in such cases on the credit facilities available to the borrowing country which will determine whether debt can be easily rolled over and whether temporary support in meeting its difficulties can be counted upon. These are problems which concern primarily the International Monetary Fund, though naturally the Bank is interested also.

I have spent some time in trying to sketch out in broad outline some of the main elements of the debt problem. Let us now look more closely at the main facts and figures of the situation.

I should say, at the outset, that the figures that we have are neither complete nor entirely reliable, although much effort has been devoted in recent years to the setting up of an international reporting system which is intended to improve them. It is unfortunately true, however, that some of the largest debtor countries have themselves no accurate idea of the total extent of their debt. There is a particularly serious gap in our knowledge concerning debt which is not guaranteed by the authorities in the borrowing country. The figures I am about to give you must of necessity exclude entirely debt in that category.

What we know, however, is that at the end of 1969 the publicly guaranteed debt of 80 developing countries (including amounts not yet disbursed) totalled almost $60 billion, and that this debt has been growing rapidly at an average rate of 14% each year since the mid-fifties. This means that it comes close to doubling in size every five years.

This figure is, moreover, an average for all the developing countries. In some areas the debt has been growing even faster. In South Asia, for example, at 22% a year; in East Asia at 19% a year. In Latin America, on the other hand, where a substantial debt had already been built up in the mid-fifties, it has grown since then more slowly at 11% annually.

These variations between regions and between countries are important. Today the whole external debt of the developing world is concentrated in quite a small number of countries. Half of it is owed by only eight countries - by India, Brazil, Pakistan, Mexico, Indonesia, Argentina, Turkey, and Iran. Almost half the remainder is owed by only eight more. Three-quarters, therefore, of the total is owed by sixteen countries.

Debt service also has been growing at about the same average rate of 14% annually since the mid-fifties, though there has been a marked slowing down in recent years. After increasing at a very high rate in the late fifties, it has been rising at some 9% in the sixties. Here again, regional variations have been important with debt service payments by countries in South Asia rising by 19% annually compared with a growth of only 6% in Latin America.

It will, I hope, be clear from what I have said earlier that it is not the size of debt service that matters or even the rate at which it is growing, but the proportion it absorbs of the foreign exchange available to the country.

The total debt service of all developing countries of $5 billion in 1969 was equivalent to about 10% of their total export earnings. This proportion - the so-called debt service ratio - is, to be sure, a rather imprecise measure of a country's debt problem. As long as new foreign capital is available which enables debt to be rolled over the debt service ratio will not tell us what proportion of export earnings is available to pay for the import of goods and services. Where, however, the debt service ratio is high, this is at least a warning that the country will be vulnerable to a sudden decline in export earnings or in new capital inflow. If the ratio increases rapidly, this is usually a danger signal unless there are grounds for expecting gross capital flows to rise very rapidly or the prospect for export earnings to be particularly good.

Here, also, the picture varies from country to country. In many Latin American countries debt service payments have grown no more rapidly than foreign exchange earnings so that the ratio has remained virtually unchanged in those countries over the last decade. In many other countries, however, debt service has risen appreciably faster than export earnings so that as a result the debt service ratio has risen rapidly. In Ceylon, for example, the increase has been from less than 1% of foreign exchange earnings in 1960 to over 10% in 1970, while in both India and Pakistan the ratio has risen from 5% to over 20% in the same period.

Already in the past fifteen years situations have arisen which have made it necessary for the schedule of debt service to be renegotiated. Eight countries -- Argentina, Brazil, Chile, Ghana, India, Indonesia, Peru and Turkey -- have entered into multilateral negotiations sometimes long and complex (and some of them on several occasions) while at least a dozen other countries have renegotiated their debt bilaterally.

It is difficult to point to any single cause underlying these difficulties. I have already emphasized the need to ensure that the terms on which capital is made available should be reasonably in line with the productivity of investment and the ability of the countries concerned to transform its fruits into an increase in the foreign exchange available. This will certainly be a factor of great importance in the future, but it does not seem to have been at the root of the difficulties experienced hitherto. In all probability the origins of those difficulties should be sought not so much in the use to which foreign capital has been put or even in the terms on which it has been made available, but rather in the borrowing country's management of its economy as a whole. It is, of course, true that the existence of a large fixed charge for debt service in the balance of payments exaggerated the difficulties that were experienced and it was natural to seek relief from the debt burden even though it was not itself the direct cause of the crisis. The fact remains that with better economic management, the burden of debt could probably have been carried.

In some cases, the dominant characteristic has been the accumulation of short-term debt in an increasingly desperate attempt to forestall the consequences of balance of payments disequilibrium, without measures to correct the fundamental problem such as excessive levels of protection, or over-valued currency. Argentina, Brazil, Chile and Turkey are examples of this situation.

In other cases, such as Peru, Ghana, and Indonesia, it seems more appropriate to speak of a development crisis. Over-ambitious long-range investment programs were launched on a grandiose scale, financed by short-term credits taken up without central control, and executed with inefficiency and sometimes corruption. Export credit guarantees and insurance facilities open to suppliers in industrialized countries made it possible for them to act without the prudence which the evident mismanagement should otherwise have prompted. In the end, a major political crisis put an end to the adventure, leaving the country saddled with a huge and unproductive debt.

The difficulty which India had in servicing its debts in the late sixties does not quite fit into either of these categories. While India's balance of payments policies left a good deal to be desired in the fifties and sixties, the immediate cause of difficulty was the sudden decline in the availability of new aid.

What is abundantly clear from our study is that the primary responsibility for avoiding debt crises must be that of the developing countries themselves. In a broad sense, good debt management means good economic policies, for no plausible level of concessional aid from abroad will be successful in averting future debt crises if recipients mobilize their own resources ineffectively, invest them inefficiently, or maintain an exchange rate which discourages export production. In a narrow sense, good debt management implies that external debt should be assumed only when there is a reasonable presumption that the borrowed capital will generate production which can directly or indirectly be transformed into additional foreign exchange resources over a period appropriate to the service of the debt.

When these policies are followed, there is nothing inevitable about debt crises. The example of Colombia is particularly instructive in this regard. In recent years, Colombia has allowed its exchange rate to depreciate in line with increases in domestic prices, has provided generous export incentives, has pursued an active policy of increasing tax revenues and directing public sector expenditures toward productive purposes, and has pursued an effective monetary policy. It has also avoided the temptation to place excessive reliance on short- and medium-term suppliers' credits. The result has been that, despite an increase in Colombia's external public debt from 6% of GNP in 1956 to 18% of GNP in 1969, the burden of debt service has been moderate. The ratio of public debt service to exports of goods and nonfactor services rose from about 5% in 1957 to 12% in 1963, but then gradually declined to 8% in 1969. The ratio of debt service to gross domestic savings showed an even smaller increase over the period.

But the example of Colombia also highlights the role which creditors can play. While no amount of creditor support could have avoided debt crises in Colombia if Colombia's own policies had been inappropriate, good Colombian policies would have been politically difficult -- indeed, perhaps impossible -- to sustain had that country not had available to it a generous supply of long-term foreign capital, principally from the U.S. AID, the IBRD and the IDB. At the end of 1955, 54% of Colombia's external public debt was repayable within five years; by the end of 1969, that ratio had fallen to 25%. The availability of long-term capital from official lending agencies cannot alone take credit for this dramatic improvement in debt structure, as the absence of comparable improvement in the debt structures of countries similarly favoured by the availability of long-term external capital bears out, but without such long-term capital the improvement would have been extremely difficult to achieve.

One question I am frequently asked is: How frequent are debt crises likely to be in the seventies as compared with those of the sixties? It is impossible to answer that kind of question with any certainty of course, but it is a legitimate question.

One thing is clear -- a continuation of past trends in debt service payments and export earnings would result in serious problems for a number of countries. But on the other hand there is no reason why past trends should continue, and it is the task of good economic management in this case to see that they do not.

Speaking very broadly, one may say that developing countries seem to fall into one of three categories:

The first includes the relatively poor developing countries which do not, as of now, have significant external debt. By and large, these countries are already receiving foreign capital on highly concessional terms. Future debt crises can be avoided if, on the one hand, their creditors continue the present blend of concessional terms until the countries concerned reach a higher level of development. For the borrowing countries, on the other hand, what is essential is good economic management. This class of countries is a numerous one, and includes most of the developing countries of Africa, as well as some from other regions.

The second category includes the very poor developing countries which already have substantial external debt. Fortunately, the number of countries in this category is small, but included are such major countries as India and Pakistan. With low per capita income and uncertain export prospects, with already-large debt service obligations and a need for substantial resources from abroad for a considerable period of time if minimally acceptable growth rates are to be attained, these countries will probably not be able to avoid future debt crises without most strenuous efforts on their own behalf and additional amounts of highly concessional assistance from donor countries.

For the third category, developing countries with high or rapidly growing GNP _per capita_ and good export prospects -- countries in other words where both the productivity of capital and the capacity for "transformation" are high (as in many of the larger countries of Latin America and in countries such as Korea and Taiwan) -- the long-term prospect is for a high rate of economic growth without debt problems or dependence on concessional assistance, provided only that the economic policy performance of the developing countries themselves is satisfactory. The short-term prospect for some of these countries is more clouded, however: because some of them already have very substantial debt service obligations, their capacity to continue paying debt service in full is vulnerable to sudden shocks, such as a temporary fall in export prices or a loss of international confidence in the country's government. Such shocks could well lead a number of such countries to seek temporary debt relief in the years ahead but, because of their basically sound underlying prospects, and the relatively high proportion of their external debt due for repayment in the immediate future, such relief can appropriately be aimed primarily at stretching the "bulge" of debt service payments into the future. In other respects, debt relief need not be on concessional terms. Only if efforts are made by developing countries, bilateral aid agencies, and international lending institutions to reduce dependence on short- and medium-term credits in favour of loans with longer maturities, will this vulnerability to temporary adversity be reduced.

The World Bank Group is, I believe, making an important contribution to the avoidance of future debt crises. It is doing so first and foremost through its own lending operations.

The Group takes special care to gear the terms of its lending to the balance of payments prospects of its borrowers. For example, countries in the second of the categories I mentioned a moment ago -- countries which are both very poor and already heavily indebted -- receive almost exclusively credits from IDA, the "soft" window of the Group. These credits carry no interest (only a service charge of 3/4%) and require repayment over 50 years.

Countries in the third category -- which have relatively good prospects for income and exports but which need to reduce their vulnerability to unforeseen circumstances by replacing some of their short-term debt with debt of longer maturity -- these countries are able to borrow from the Bank itself, at an interest rate which currently stands at 7-1/4% to be sure, but at maturities which are three and four times longer than the average for suppliers' credits.

The Group also plays an active role in helping developing countries to improve their debt management, both in the general sense of following appropriate economic policies and in the narrow sense of adopting suitable measures to keep a check on the assumption of foreign liabilities. It is perhaps surprising how necessary such help is. Some of the largest developing countries have entered debt crises without any accurate idea of the actual extent of their officially-guaranteed external debt -- Indonesia and Ghana are good examples. Indian authorities still have no precise information on the extent of official obligations to foreign suppliers, and the Brazilian government still does not distinguish in its debt statistics between credits which bear its guarantee and those which do not. The Bank is already stepping up its technical assistance role in this field.

The Pearson Commission recommended that the Bank also institute a so-called "early warning system", to give notice of countries which are likely to face debt servicing difficulties while there is still time to take preventive measures. It would clearly be inappropriate for the Bank Group to issue such warnings publicly, both because of the difficulty of assessing debt servicing prospects with any precision and because warnings of this kind would, by provoking a sudden cessation of new lending, tend to be self-fulfilling prophecies. But multilateral lending agencies like the Bank are certainly well placed to issue confidential "early warnings", and indeed such warnings are already given.

If debt crises occur in the seventies despite all the efforts to avoid them, the Bank Group will not be prepared to reschedule service payments on its own outstanding loans. To do so would be to risk undermining the confidence which international capital markets have in the strength of the Bank's bonds, thus affecting adversely both the volume and cost of capital the Bank could raise.

But I believe that we would, as in the past, give all possible technical assistance to the parties involved in a debt renegotiation and in addition we would be prepared to offer our services for monitoring any performance conditions agreed to by the debtor in the context of the debt settlement.

I would not want to conclude my remarks, Mr. Chairman, without expressing the Bank's particular appreciation of Switzerland's support for our activities. As you know, Switzerland is not a member of the Bank Group, but we have long had a very special relationship with your country. Over the years, the Bank has raised the equivalent of $266 million in bonds in Switzerland, with an issue of SwF75 million only last November. Switzerland became the first nonmember to contribute to IDA's resources when the Confederation extended an interest-free loan of SwF52 million ($12.1 million) to the Association in 1968, and a further loan of $30 million is planned in connection with the Third Replenishment of IDA's resources, due to become effective this year.

I am sure you will agree that this unique relationship has been of mutual benefit. Swiss bondholders have had a secure investment for their capital. In addition, because the Swiss capital market is open to the Bank, member countries have used the proceeds of Bank loans to buy Swiss-made goods: through the end of March 1971 $274 million had been spent on the purchase of Swiss exports in this way. This figure includes $245.4 million of procurement under Bank loans and $28.3 million under IDA credits.

For our part, we look forward to a continuing and close association with Switzerland in the years ahead. Without support of the kind you have given us, the Bank's role in promoting international development would be impossible and we should not be able to play our full part in helping the developing countries to avoid the kind of difficulties which I have described today.

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TEXT OF SPEECH GIVEN BY SIR DENIS RICKETT, VICE PRESIDENT, INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT, AT A MEETING OF BERGENS HANDELSFORENING, IN BERGEN, NORWAY, ON MONDAY, SEPTEMBER 28, 1970, AT 7:30 P.M.

Mr. Chairman and Gentlemen:

I am pleased and honoured to have been invited to come and take part with you in this meeting today. I understand that it would interest you to hear something about the meeting of the Bank and Fund which has just taken place in Copenhagen.

Let me first, however, offer my congratulations and good wishes to the City of Bergen which is celebrating its nine hundredth anniversary this year. The Bank and the Fund, by contrast, are really in their first infancy. They have just completed the first quarter century of their existence. Your city is celebrating its ninth century. It is interesting to speculate on what the Bank and Fund will be like in another eight hundred and seventy five years when they are as old as this City of Bergen is today. Today also has seen the inauguration of your new "Port 70" and I should like to congratulate you on such an auspicious occasion.

Your city and, indeed, your country have always been the home of a seafaring people playing a big role in shipping and in international trade and that is one reason why I thought you might like to hear something about our discussions in Copenhagen. They covered the whole range of problems in international finance and development. Almost every country was represented by its Finance Minister and its Central Bank Governor. The Norwegian Minister of Shipping and Commerce, Mr. Tidemand, and the Governor of the Norges Bank, Dr. Brofoss, were present for Norway.

The meeting was a joint meeting of the Boards of Governors of both the International Monetary Fund and of the World Bank so that we had speeches from Mr. Schweitzer, Managing Director of the Fund, and from Mr. McNamara, President of the World Bank. We also had speeches from a large number of the Governors from individual countries, of whom there are more than a hundred. Quite a formidable program! Imagine what it would be like, gentlemen, if at the annual shareholders meeting of your companies you had not only a speech from the Chairman but from every individual shareholder as well.

Obviously I can only give you a very brief and general summary of the questions covered in these speeches.

The proceedings were opened by speeches from the Prime Minister of Denmark, Mr. Baunsgaard, and from the Governor for Tunisia, as Chairman of the Meeting, in the presence of His Majesty, the King of Denmark. Mr. Baunsgaard gave us a quotation from a contemporary Danish poet which, in a sense, is a good summary of the whole meeting:-

> "We shall have to evolve problem-solvers galore since each problem
> they solve creates ten problems more."

There was certainly no lack of problems both for the Fund and for the World Bank Group.

In the Fund discussions there were four main topics:

1. The rate of inflation in the world today.
2. The international balance of payments.
3. The successful introduction of a new form of reserve asset in the shape of Special Drawing Rights.
4. The role of exchange rates in the adjustment of international payments.

Let me touch briefly on each of these.

Mr. Schweitzer and many of the Governors in their speeches expressed concern about the rate of price inflation in the world today, a problem which is all the harder to deal with when it springs not from excess demand in the economy but from a wage-cost spiral which feeds on itself and very easily gathers speed if it is not checked.

Mr. Schweitzer pointed out that while inflation has become widespread throughout the industrial world, it had been present in the United States and Canada since late 1965. In their efforts to deal with it, the United States and Canadian authorities had taken steps to get rid of all excess demand and indeed had been prepared to tolerate relatively high unemployment. In most European countries and in Japan, where the problem was of more recent origin, the pressure on resources remained strong.

The U.S. Governor, Mr. David Kennedy, believed that the actions of his Government had shown how much importance they attached to dealing with inflation. And he claimed that the measures which they had taken of firm budgetary control and strong monetary restraint were having their effect even though the inflationary process was not yet under full control. For example, industrial wholesale prices had risen at a seasonally adjusted annual rate of barely more than 2-1/2 per cent over the summer, substantially less than the 4 per cent rate of 1969. Productivity had begun to grow again and the rise in consumer prices had begun to slow down. He felt that they had had notable success in guiding the economy towards reasonable price stability without lapsing into serious recession.

I think you will agree that with that phrase he put the problem in a nutshell. We shall all watch with sympathy the further progress which will be achieved and not in the United States only but in other countries as well.

Mr. Schweitzer had some interesting references to the usefulness of income policy though he was careful to stress that it must be an adjunct to effective fiscal and monetary policies and not a substitute for them and that its main role is to help to deal with the continuing cost-push forces when excess demand has been stamped out and the economy is operating below capacity.

On the second topic, the balance of international payments, most of the speakers felt that definite progress had been made since a year ago. Mr. Schweitzer certainly believed that the shift of the United Kingdom's payments balance into substantial surplus, the rapid improvement of the external position in France, and the movements towards a more realistic structure of German payments were all symptoms, visible by early 1970, of a better alignment of European currencies. And on this most of the Governors, I think, agreed with him.

He also found cause for satisfaction with the experience up to now in the operation of the Special Drawing Rights facility. There was general agreement that this had been highly successful. This is, indeed, as I am sure you will agree, a landmark in modern financial history. For the first time the growth of international reserves, which can be so important to World trade, will depend not on the amount of gold produced and on the amount hoarded by private holders, nor on fluctuations up or down in official holdings of the reserve currencies, but on a conscious decision of the Fund authorities. It is not too much to say that with this innovation the Fund has moved a step nearer towards assuming the functions of a World Central Bank.

But there was one word of caution which Mr. Schweitzer felt obliged to add. The United States has another unsolved problem, closely linked with that of domestic inflation, and that is the marked fluctuations which there have been in recent years in their balance of payments. The United States balance of payments problem springs from a current account surplus which is too small to cover the outflows of private long-term capital and government expenditure abroad. There have, however, been ups and downs in the position, and Mr. Schweitzer thought that, as the economy cooled off and if rapid economic expansion continued abroad, there was a good chance that the current account surplus which has already shown some recovery would continue to improve.

But, in the meantime and while the deficit lasted, he thought that it was important that it should be financed by the use of reserve assets - namely, gold and SDRs - and not by further increases in official dollar holdings. Of course, one can see his point there. The whole aim of the SDR Scheme, as I said just now, is to bring the amount of world reserves under conscious control. But that will not be possible if large changes take place in the amount of international liquidity represented by holdings of reserve currencies, whether of sterling or of dollars. And that will be true whether the change is upwards or downwards. We want world reserves to grow at a reasonable and steady rate and we want to avoid large additions to them or, equally, subtractions from them due to changes in holdings of reserve currencies.

Finally there was the fourth main topic in the Fund discussions, the role of exchange rates. Here the Governors had before them a report from the Executive Directors of the Fund representing the results of many hours of patient discussion. It was, as one would expect, a careful and balanced statement and the more extreme views of advocates of change in this field were conspicuously absent. Most of the Governors in their speeches agreed with Mr. Schweitzer's view that on the whole the Bretton Woods system of par values, not immutably fixed but not to be altered without good cause, had served the purposes of promoting world trade reasonably well. There might be room for relatively minor changes in the system, for some widening in the margins round parity, for some encouragement to countries to diagnose a fundamental disequilibrium sooner and hence to meet it by a smaller change in the parity, but there was little support at the meeting for a move to much more flexible rates or to what has been called the crawling peg, that is to frequent small changes in the rate.

The Governor for Norway, Dr. Erik Brofoss, was quite categorical in rejecting a system of fluctuating rates. He asked how shipowners could carry on their business if the ships were paid for in one currency while the charters for their use were expressed in another without any firm and predictable relation between the two currencies.

I think I have said enough to give you an idea of the discussions on the Fund topics, those concerned with international monetary questions.

Let me say something now about international development. Mr. McNamara led off with a speech which once more showed all the fire and passion which he brings to these questions, as well as a strong grasp of technical detail. He did not confine himself to the achievements of the past year, though these were encouraging. He tried to look towards the more distant future and to measure the problems of the next decade, and of the remainder of this century. Problems of wealth and poverty, of unemployment, of population growth, which, if we do not master them will certainly overwhelm us. I think it was noticeable how much more ready his audience was to be convinced than they were, say, two years ago.

In the record of the Bank's operations since he took office there is plenty to convince even the most sceptical. Bank loans, IDA credits and IFC investments have risen from $1 billion in 1968 to $1.8 billion in 1969, and to $2.3 billion in fiscal year 1970. The Bank's borrowing has risen also, and cash and liquid security balances at June 30 last totalled $2.1 billion, up $250 million from June 30, 1969 and $700 million from June 30, 1968. Profits in fiscal 1970 amounted to $213 ~~billion~~ million, the largest in the Bank's history, and the Bank was able once more to make a substantial transfer of $100 million as a grant to its soft-lending affiliate, the International Development Association.

The objective which Mr. McNamara set the Bank Group a year ago, to double its operations over the five years, 1969-1973, as compared with the previous five years is well on the way to success. If it is achieved, the Bank Group will have approved loans, credits, and investments during those five years amounting to $12 billion for development projects of high priority, the total cost of which will amount to approximately $30 billion.

The program is not merely one of more and more, it must be one of better and better. The loans must be sound, the purposes must keep pace with the needs of developing countries as they change. More lending for agriculture, more for education - and surely an adequate food supply and a reasonably trained working population must come right at the top of the list of priorities which will go to make up a creditworthy borrower. The geographical scope of the Bank's lending has been broadened. Many more small and very poor countries are getting assistance for their development than in the past. The Bank is determined also to widen the scope of its services, to find new ways to help the poorer countries to do things which many cannot do for themselves, for example, to develop and apply adequate programs of population planning.

Mr. McNamara returned to this theme once more in his speech this year and gave some graphic illustrations of the size of the problem.

It is not merely a question of what will happen if it is ignored. Even if we have reasonable success in dealing with it, even if by the year 2050 the average size of a family is reduced to two per couple, the population will continue to grow for a further 65 to 70 years and would reach 15 billion people before it ultimately stabilizes.

You must agree that this is a formidable prospect - not to be shrugged off because of its very size, or because it stretches so far into the future.

Mr. McNamara dealt at some length also with the recommendations of the Pearson Commission and with the progress which is being made towards the recommended targets of total net flows of funds to the developing world of 1 per cent of the gross national product of the developed countries, .70 of which (or 70 cents in every hundred dollars) should take the form of official development assistance.

He was also able to report that agreement had been reached this summer on a plan to add to the resources of I.D.A., at the rate of $800 million a year for the three fiscal years 1972, 1973 and 1974. The agreement must now, of course, be submitted to Parliaments but we have good hopes that it will be ratified and brought into force by July 1st 1971, the date by which the present resources of I.D.A. will have been fully committed.

It is, indeed, not possible to over-rate the need of the developing nations for the kind of finance which I.D.A. can provide -- credits repayable over 50 years with a ten year grace period and carrying an interest rate of only 3/4 per cent.

These are the kind of credits which will be increasingly needed if the development of the poorer countries is to proceed at a sufficient rate without piling up for them a burden of debt which will prove too heavy for them to carry.

Mr. McNamara drew attention to this problem of indebtedness in his concluding remarks and said that the Bank was setting up a special staff to study it. In the last ten years the aggregate public debt of the developing countries has been increasing at a rate of 15 per cent compound, while the debt service payments of amortization and interest have been increasing, if anything, even faster. Meanwhile export earnings grow at a rate of less than half this. It is easy to see that the developing countries cannot grow, cannot find work and food for their people if capital is made available to them only in the amount which they can afford to borrow on commercial terms.

Gentlemen, I think I have said enough to give you an idea of the subjects of our discussions in Copenhagen.

We were all united in our thanks and appreciation to the Danish authorities for their hospitality, their efficient service, and their success in dealing with problems of organization, some of which were not easy.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (WORLD BANK)
INTERNATIONAL DEVELOPMENT ASSOCIATION

ROOM 908, KOKUSAI BUILDING
1-1, MARUNOUCHI 3-CHOME CHIYODA-KU
TOKYO (〒 100)

August 17, 1971

Dear Mr. Lind:

I am sending the Japanese edition of Sir Denis' Speech on June 4 in Tokyo, which comes out just today.

Mr. Sanders is now on leave and travelling around the South' East Asian countries.

With best regards,

Kazuko Kano

Mr Lind
I'd like back for file please.
Doris

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (WORLD BANK)

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COMMUNICATIONS SECTION

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世界銀行
と
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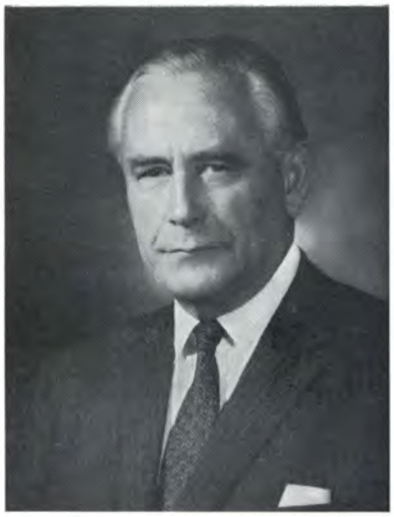
国際復興開発銀行
副総裁

デニス・リケット卿
の
演　説

TOKYO JAPAN
1971年6月4日



国際復興開発銀行副総裁
デニス・リケット卿

略　歴

デニス・ヒューバート・フレッチャー・リケット卿は、1907年7月27日、故大英帝国四等勲章保持者、治安判事ヒューバート・セシル・リケット氏の子息として生れた。1946年に故治安判事ウイリアム・アンダーソン・アームストロング氏の息女、ルース・ポーリン嬢（医学士・理学士・王立外科医学会々員、王立医学会認可開業有資格者）と結婚、二男一女をもうけた。

ラグビー校およびオックスフォード大学ベイリオール・カレッジに学んだ。1924年から1949年までオックスフォード大学オール・ソールズ・カレッジの特別研究員。

1931年に経済諮問委員会に勤務、1939年に戦時内閣事務局に勤務し、1943年から1945年まで、生産大臣オリバー・リッテルトン氏付主席秘書官をつとめた。同年、大蔵大臣ジョン・アンダーソン卿の補佐官（原子力担当）に就任、1947年、大蔵省に転任。1950年から1951年まで、C・R・アトリー首相の主席秘書官として勤務。1951年から、1954年まで、ワシントンの英国大使館の経済担当公使および国家財政、供給代表団長をつとめ，後1955年から1960年まで大蔵省次官補、1960年から1968年まで、大蔵省次官として勤務。1968年に国際復興開発銀行副総裁に就任。

デニス卿は、1947年に大英帝国三等勲章、1951年にバス勲章、1956年に二等勲章を授与された。

趣味は音楽。

会長殿、ならびにご列席の皆様

私は、まず小山、瀬川、副島の三氏の、あたたかい歓迎と紹介のお言葉に対し、お礼申し上げます。また、この集りの準備をされた大橋氏にも、お礼申し上げます。本日、日本の実業・金融界を代表する著名な方々にお話し申し上げることは、私の最も欣快とするところであります。

☆日本公社債市場へ初登場

世界銀行が、日本公社債市場において、初めて債券の公募を行なわんとするときに、皆様にお話し申し上げるのは極めて適切であると存じます。これは、日本と世界

銀行の関係における転機であります。この機会に、引続き将来も同様な債券の発行が、しばしば行なわれることを希望いたします。

☆14年間の実績

日本が1952年に世界銀行に加入してから14年間に、日本が世銀からかなりの額の借款を得たことを、この場でこと新しく申し上げる必要はありません。日本は、総額9億ドル近くの世界銀行借款を得ましたので、依然として世界銀行にとっては4番目の借入国です。私たち世界銀行関係者は、世界銀行の対日借款が、東海道新幹線、東名一名神高速道路の如き優れた事業用資金の調達に貢献し、また、日本開発銀行を通じ、国際的に著名な新日鉄、川崎、住友の如き巨大企業と関係を結んだことに少なからず満足しています。

日本の世界銀行からの借入は1966年に終り、今や、日本の世界銀行に対する純負債は急速に減少しています。事実、日本は1969年の後半に、世界銀行への負債のうち1億63百万ドルを返済しました。1970年の前半に、世界銀行は日本銀行からかなりの額の5年物借款を得、以来総額4億ドルにおよぶ日銀融資を得ました。

このように、かつて世界銀行にとって最大の借手の一つであった日本は、今や世界銀行に対する極めて重要な貸手になりました。このことが、世界銀行が1970年末に日本にその東京事務所を開設した理由の一つです。その東京事務所の初代所長に、皆様がよくご存知の副島氏を得たことは、世界銀行にとって極めて幸いでした。

☆世銀5大国の一つ

世界銀行に対する日本の影響力の増大は、もう一つの

例に示されています。今年初頭、世界銀行理事会における日本の相対的投票力は、かなりふやされました。これは、日本が、日本経済の成長にともない、日本の IMF の分担額と世界銀行に対する出資率をかなりふやしたからです。その結果、日本は世銀グループの理事会に初めて日本人の理事を指名することができました。自国人の理事を指名できる国は、他に5ヵ国しかありません。日本は、世界銀行グループにとり、5大国の一つなのです。

このことは、1世紀以上前にはじまり、過去10年間に年間10%以上の率で、加速的成長をとげた驚異的な日本の経済成長によるものです。

もし、この成長が続けば、既に西欧の水準に比肩し得る日本の生活水準は、20年以内に米国の生活水準を抜くのではないかといわれています。

☆日本と開発途上国のギャップ

このすさまじい成果の意味するものは、日本の生活水準は、隣接する国々の殆んどの国の水準より、ずっと早い速度で上昇しているということです。60年代の大半における開発途上国グループの国民総生産 (GNP) の平均成長率は、年率約5%でした。このように、開発途上国は、単に60年代の成長目標を達成しただけでなく、これらの国々の成長率は、同時期における殆んどの工業国の成長率をかなり上回りました。この時期は、開発途上国にとっては経済的跳躍期でした。1969年の、開発途上国全体の平均成長率は6%を越えました。60年代全体を通じて、GNP の年間成長率6%以上を達成した開発途上国は、19ヵ国に達しました。

しかし、ごく少数の豊かな鉱物資源を有する小国をの

ぞき、どの開発途上国も日本の成長率にはおよびませんでした。従って、日本と開発途上国間のギャップは、急速にひらきました。このことの意味については、また、言及いたします。

☆開発途上国の人口問題

その前に、開発途上国の相対的地位ではなく、絶対的地位についてお話し申し上げます。私たちは、今日、開発のおくれている国々には全く文盲の人たちが約８億人もあり、また、これらの国の人口の約半数はいちじるしく栄養不良であることを考えなければなりません。また、既に達成した成果にもかかわらず、開発途上国の諸問題は悪化していることを想起しなければなりません。これは、主として、これらの国々の殆んどが直面している高い人口増加率によるものです。1971年における文盲の数は、20年前に比べて１億人もふえているものとみられます。楽観的な予測でさえ、アジアの人口は21世紀までに約35億に達するものと予測しています。これは、今日の世界の人口総数に匹敵します。そして、楽観的な見通しでも、たとえ家族計画が成功しても世界の人口総数が安定するまでに150年を要し、そして世界人口がその水準で安定しても、それまでに人口総数は150億人、即ち今日の５倍に達するであろうとしています。全世界、特にアジアの開発を早めるための手段を緊急に講じないかぎり、この問題が重大な結果を惹起するものと思われます。

この人口増大と同様に、重大かつ緊急なもう一つの問題は、都市部において増大しつつある失業です。私たちが、いかに出生率を低くする努力をし、かつそれが成功しても、それが失業率の低下をもたらすまでには多年を

要するものと思われます。その結果は、今世紀末までには現われないでしょう。これは、その時期までに失業者群に加わるであろう人々の殆んどが、既に生れてしまっているからです。

これらの問題は、日本にとり何を意味するでしょうか？　なぜ、日本が経済開発援助の分野で主要な役割を果すべきかについては、いろいろな理由があります。その一つは、日本は、未だ赤貧状態にある人々を助けるべき道徳的な義務があるからです。私が、この道徳的義務を第一にあげるのは、日本は他のいかなる工業国よりもこの点に対する理解があると思うからです。わずか100年前の日本自身の窮乏、1930年から1950年に至る20年間の日本人の苦しみと困難の記憶、および現在でも、より適切な経済、社会環境への日本人の満されざる要求が、殆んどの日本人をこのような考えに導きます。

これに加え、世界で現在の低開発国の開発に、日本ほど直接的な利害を有する国はありません。特に、開発途上国の人口の殆んどが住み、生活水準改善の余地が極めて多いアジアの国々は、既に日本輸出品の主要市場であり、これらの国々の開発が進むにつれ、よりよい顧客となることができます。

☆開発途上国と日本の立場

これらの国々は、日本の産業が必要とする石油・鉄鉱石・ゴム・スズその他多くの原材料の重要な供給国でもあります。従って日本は、これらの国々の政治的安定に極めて重大な利害を有しています。勿論、経済開発はそのような安定の保証ではありませんが、今日では、経済開発なくして安定を確保する機会は殆んどありません。

ご承知の如く、日本のGNPの約10%は輸出から生じ

ますが、私は皆様が、日本の国際貿易依存度はこの数字が示すより、ずっと多いという見解に同意下さるものと思います。これは、日本が必要な大部分の工業用原材料の事実上全部を輸入に依存するからです。この意味で、日本と、日本の貿易総額の40%以上を占める開発途上国を含む、他の国々との関係は日本の将来にとって決定的な重要性をもっています。人間の通有性からみて、日本と開発途上国、少なくともアジアの国々との関係は、彼らの日本に対する相対的地位の急速な悪化が続くと、日本に悪影響を与えるであろうことは、殆んど疑う余地はありません。

勿論、私は日本が既に開発途上国の経済成長にかなり援助を与えていることを承知しています。1年ちょっと前、私はニューヨークのコロンビア大学で開かれた、国際開発委員会、いわゆるピアソン委員会の結論を討議する会議に出席しました。日本からは優れた経済学者である大来博士が出席しました。そのとき私は東アジア諸国の代表が日本の経済が東アジアの成長におよぼす影響に対する関心度にうたれました。他の国々の代表は、より広範な問題に関心をもちましたが、東アジア諸国代表にとっての最大関心事は、日本の貿易・対外投資および海外援助政策でした。韓国や台湾のように、日本の成長の影響を最も直接的に受けた国々の経験からみて、彼らの関心は妥当と思われました。約1世紀半前、ナポレオン戦争の当時、有名な英国の政治家ウィリアム・ピットは「英国は、自らの努力で自国を救い、この実例がヨーロッパを救うであろう」と言いました。この言葉は、殆んどそのまま、今日の世界における日本の立場に適応できると思います。日本は自らの努力で、ときには使われすぎるきらいのある「経済的奇跡」という言葉にふさわ

しい方法で、自国の経済を再建しました。日本の実例は、知性、健全な立案と勤勉が、いかなる成果を達成し得るかを開発途上国、特にアジアの国々に示すことと思います。

☆日本は第2位の資本供給国

主要な先進国で、過去5年ないし10年間に日本が開発途上国に対して行なった資金援助ほど、急速に拠出をふやした国はありません。1964年における日本の開発途上国に対する拠出総額（公的および民間）は、僅か2億9千万ドルでした。5年後の1969年までに、日本の拠出総額は12億63百万ドルに達しました。今日年間のトータル・フローは20億ドル近くに達します。かつては多くの中規模の拠出国の一つにすぎなかった日本は、今や資本供給量の点では米国に次いで2位を占めています。もし、日本がGNPの1%を海外援助にあてるという約束を果せば、日本は程なく、開発途上国に対する最大の資金供給国となりましょう。1970年の日本の拠出量はGNPの0.93%に達したとのことです。

現段階での日本の総拠出額のうち、公的開発援助、すなわち開発目的の性格の強い、条件のゆるやかな援助の占める割合は、やや控え目です。事実、予備的な数字によれば、1970年に日本が開発途上国に対して行なった資金供与は前年に比べ44%ふえましたが、公的援助は僅かに5%しかふえませんでした。その率は、1970年の日本のGNPの僅か0.23%で、ピアソン委員会と国連第二次開発計画で提案された0.7%には遠くおよびませんでした。残りは、主として商業ベースで供与された資金、特に直接投資、輸出信用、市場相場での債券発行などでした。従って、この事実と、日本の公的開発援助は、他の

殆んどの OECD 諸国の援助の条件より少々きびしく、従って日本から開発途上国に流れた総資金の条件もややきびしい結果となりました。

しかし、私は日本が、その総援助の中に占めるゆるやかな条件の援助部分をふやすような手段を講じていることを承知しています。このことは、歓迎されるべきことです。過去数ヵ月、世界銀行職員は開発途上国の対外負債の見通しについて詳細な検討を行なっています。ここは、その結果を述べるときでも場所でもありません。ただ、一つ明らかなことは、私たちが将来増大するであろう負債の危機をさけるためには、私たちは、相当額のグラントを含むもっと多額の資本を、ゆるやかな条件で開発途上国に供給しなければならないだろうということです。

日本の援助の大部分は、大多数の他の国々と同様に、二国間ベースで供与されています。なぜそうであるかということを、私は勿論十分認識しております。しかし、多国籍機関を通じてなされる援助に、いくつかの重要な利点があることを私が信じていると云っても、皆様は驚かれないでしょう。今残りの時間を利用して、皆様に私がお話ししたいテーマは、この多国間ベースの援助問題です。

☆多国間ベース援助の利点

私が考えるには、多国籍貸付機関を通じてなされる援助には、重要な利点が二つあります。第一点は、驚かれるかも知れませんが、政治的利点です。これまで人々は、二国間援助とは、政治的利点を獲得する手段として供与国が行なうものと考えました。そして確かに現在でも、二国間援助を供与することによって、なんらかの短

期的な政治的利点を得るかもしれません。しかし「友だちを獲得するためや影響力を持つため」に、供与国がもし援助を利用すれば、そのような供与国は、相手に敵意を起させることのみに成功するだけであり、また供与国が大国であればあるだけ〝目立てば〟目立つだけ、今述べたような危険が増大するものであるという認識が、いたるところで強まっていると、私は思います。しかし多国間援助の場合には、事情は全く変ります。多国籍機関の場合には、明らかに、機関自身のために追求される政治的利点などありません。そして受益国の代表者たち自身が、手に入る援助の使用方法の決定に参加します。このように、二国間援助のもつ政治的危険が避けられます。

多国籍機関にはまた、もう一つ重要な利点があります。つまり多数国の代表によって管理され、またあらゆる人種や職業的素地を代表する人たちがその職員となっているので、多国籍機関は、受益国の経済的行為を緊密に監視したり、また改善の方法を提案する立場にあります。財政・金融政策、交換レート、産業保護、電力・水道料金に関する助言は、いかなる「局外者」からでも、決して歓迎されぬものでないことは明白なことです。しかし、そのような助言を与える「局外者」が、その国の経済発展に関心をもっていることがはっきりわかっている国際機関からなされる場合には、私欲が皆無ではないかもしれぬ外国政府からなされる場合よりも、尊敬されるものです。その結果、国際的貸出機関の供与する財源は、二国間機関によるものよりも、もっと有効的に使用される傾向があります。

勿論、世銀グループが唯一の貸出機関ではありません。過去10年間に、日本の渡辺氏が総裁であるアジア開発銀行を含むいくつかの地域的銀行が設立されました。

それらのうち最大なものは米州開発銀行で、1970年中に行なった貸付は総額6億44百万ドルに達します。第2番目のアジア開発銀行は同年中に、総額2億45百万ドルの貸付を行ないました。これらの地域銀行は、それぞれの地域の発展に重要な貢献を既になしつつあり、また世銀は、可能なときには、常にそれらの地域銀行と密接に協力しています。

☆世銀・第二世銀の活動

しかしながら、本会計年度中に、総額24億ドルの貸付を引受けている世銀は、依然として、全国際貸出機関の中で最大なものであり、また1946年にまで遡る長い活動の歴史を持っています。世銀の応募資本は殆んど240億ドルに達し、出資国は115ヵ国にのぼります。この資金のうち、10%が払込みを終っており、残りの90%に関しては、世銀がその債務を果す必要のある場合には、その要請に応えて、すべての加盟国が、共同あるいは個々に応じることを保証しています。これにより、極めて競合的利子で、世銀は世界の資本市場で財源の調達を行ない、これらの資金を開発途上国がそれ自身の信用に頼って債券市場を利用する場合には、とうてい望めない金利で開発途上国に又貸しすることが可能になります。過去5年間に、世銀は総計で48億ドル（正味26億ドル）調達し、その内訳は諸国の中央銀行が引受けたドル建期限2年の債券15億ドル、アメリカで14億ドル、ドイツで12億ドル（マルク債券を含む)、日銀から4億ドルおよびオーストリア、カナダ、クェート、リビヤ、オランダ、サウジ・アラビヤ、スイスから、それぞれに小額となります。

しかしながら、世銀貸付の条件は、開発途上国のある国々にとっては、重荷すぎるのです。そこで、世銀グループの第二のメンバーである国際開発協会（第二世銀）に助けを求めなければなりません。この機関は、世銀の同族機関で、1960年に設立されました。その目的は、世銀の与えることのできるやや譲歩的な条件でさえも、貸付の返済を果すには、あまりに貧しかったり、あるいはその国際収支が悪い国々のための開発資金需要——あるいはその需要の一部——を満たすことです。世銀のやや譲歩的な条件とは、利率7 1/4%（現在）4年から5年の据置期間で、20年から30年払というものです。これとは対照的に、国際開発協会（第二世銀）は、0.75%のサービス料以外は無利子で、据置期間10年、返還期限50年という条件で貸付けます。

貸付の目的以外では、この二つの機関の構成および組織は全く同じです。総裁、職員および理事会のメンバーもすべてみな同じです。両機関とも、経済活動の殆んどすべての分野、即ち農業、教育、家族計画、工業、港湾、電力、鉄道、道路、電信・電話、観光産業、水道等の分野で、最も優先的な計画に融資します。

しかしながら、国際開発協会（第二世銀）のように非常に譲歩的な条件——即ち100ドルの融資のうち80ドルが贈与にあたるような条件で融資する機関としては、世界の資本市場でお金を借りて、それを使って融資事業にあてることができないことは明らかです。そこで、各国の政府から、これもまた贈与に近い条件の貸出を得ることが必要です。

国際開発協会（第二世銀）は、当初、10億ドルの拠出額で設立されました。そのうち、7億50百万ドルは先進諸国が出資し、残りの2億5千万ドルは開発途上諸国が出資しました。しかしながら、開発途上のより貧しい国々の場合には、10%のみが交換可能の通貨で出資がなさ

れ、残りの90%は、それらの国々が十分に力のついたときに出すという条件でした。最初の拠出以来、国際開発協会(第二世銀)財源に、二度追加が行なわれました。第一次・第二次補充と呼ばれ、それぞれ7億5千万ドルと12億ドルにのぼりますが、毎年それぞれ2億5千万ドルと4億ドルづつ3年間にわたって出資されます。これらの補充出資は、すべて富める国によって行なわれました。

去年の夏、われわれは、第三次補充に関する交渉を各国政府と完了しましたが、これも同じく3年にわたるものですが、ただし金額は第二次補充の倍増で、年額8億ドルです。この取決めは、一定数の国の議会の批准を得たときに発効します。

世銀グループの二つの大きな機関の資本構成および目的に関して、ごく大ざっぱなスケッチをいたしました。世銀グループには、また3番目に大きな機関として、国際金融公社(IFC)というのがあり、この機関の役割は、開発途上国の民間に対する投資の育成です。極東における国際金融公社の特別代表である西原直廉氏の仕事を通じて、同公社の活動内容をよくご存知のことと思います。

ここでは簡単に、世銀および国際開発協会(第二世銀)の現在の活動規模および、今後数年間に期待される発展に関して、お話ししましょう。

1968年に、マクナマラ氏が総裁に就任したときに、彼がまず行なったことの一つは、世銀グループの数年間にわたる貸付および資金調達に関する5ヵ年計画を作成すること、および必要な職員を獲得することでした。マクナマラ氏は、世銀グループがその活動をさらに拡大できるものと信じ、その信念に基づいて、1964～68年の5ヵ年に比べて、その貸付活動の倍増を、1969～73年の会計年度の計画としました。この倍増計画は、そのときには、大胆な決定に思えましたが、今その5ヵ年計画の半ばにあたって、その実現は全く可能のように思えます。実現のあかつきには、5年間に、120億ドルの貸付を世銀グループは行なったことになり、この貸付および借用国がそれぞれの国内で調達した資金とを合せ用いて総額300億ドルにつく優先的開発計画を可能にすることになります。世銀グループが設立当初の23年間に行なった貸付総額が約135億ドルであるのに比して、これはまことに対照的です。

われわれはまた、われわれの活動範囲の拡大を図ってきました。即ちわれわれは、ただ単に貸付額を増加するだけではなく、われわれの開発に対する貢献をより良好なものにするよう努めてきました。貸付は堅実なものでなければなりませんが、しかしその目的は変って行く開発途上国の必要とするものに、ペースを合せなければなりません。過去数年間に、まず農業に対するわれわれの貸付が非常に拡大し、次に教育に対するわれわれの貸付が、非常に増大しました。1969年と1970年の2年間に、世銀がそれまでに行なった貸付の半数に匹敵する農業計画に貸付を行ないました。同様に、この2年間に、世銀は、教育に対して、世銀設立以来それまでにした貸付額より多額の貸付を行ないました。世銀の貸付政策にみられるこのような傾向は、如何なる側面からみても、まさしく歓迎されるべきものです。

☆日本と世銀グループの協力

数日中に、世銀が日本市場で初めて行なう債券公募によって多々象徴される、世銀の活動に対する日本の支持について、私は既に申し述べました。国際開発協会(第二世銀)に対する日本の支持もまた高く評価されるもの

です。第三次補充に関する協定に先だつ交渉において、日本は、前の補充のときの日本のシェアの約 5.5%を、6%にふやすことを申し出ました。日本のこの好意的申し出は、われわれが補充協定に達するのに大いに役立ちました。私はまた、日本が、第三次補充に参加する批准に関して、その先鋒であることを、特にうれしく思っています。

私は、日本と世銀グループ間のこの密接な関係は、日本にとっても有益であったということに、皆様が同意して下さると思います。ある面では恩恵は、直接的でありまた明らかなものでした。私は既に、1950年代、60年代に、世銀が日本に貸付けた8億57百万ドルに関して申し述べました。日本は、また世銀および国際開発協会（第二世銀）が他の国々に行なった貸付を用いでそれらの国々が、日本から輸出に支払をしたことからも、恩恵を受けました。1970年末までに、そのような輸出は6億9千万ドル以上に達し、またその額は現在、年8千万ドルから1億ドルの率で増加しています。勿論、なおもっと重要なことは、援助のおかげで、それだけ急速に発展している地域に生活しているという間接的な恩恵のあることで、これは即ち日本の繁栄と安全を意味するものです。

私は日本の世銀グループに対する支持およびその影響力が、今後ますます強まることを期待できると信じています。そしてそのことが、われわれのみならず、同じように日本の利益にもなると確信しています。

このパンフレットの他にも、日本および世界各国の世銀活動関係資料をご入用の節は、下記宛ご通知下さるか、またはお電話下さい。
〒100 東京都千代田区丸の内3の1の1
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Address to be given by Sir Denis Rickett, Vice-President, International Bank for Reconstruction and Development, at Kyoto on Monday, November 29, 1971

THE AIMS AND POLICIES OF THE WORLD BANK GROUP

I want to talk this morning about the aims and policies of the World Bank Group and to say something about the way in which they have changed and developed since the Bank was founded some 25 years ago.

When I talk about the World Bank Group, I am of course referring both to the International Bank for Reconstruction and Development and to its affiliate, the International Development Association, which was set up in 1960. The Bank, as you know, makes loans on terms approximating to those on which funds can be borrowed in the market. The International Development Association (IDA) lends on very soft terms equivalent to providing four-fifths of the money as a grant. There is a third member of the Group, the International Finance Corporation, whose function is to promote private investment in the developing countries.

When we look back to the setting up of the International Bank and of the International Monetary Fund at the Bretton Woods Conference in 1944, we should, I think, recognize the imagination and foresight which was shown in the planning of those new institutions. It is easy enough to set up new international organizations, but there are few which have shown so clearly by the test of experience that the root idea underlying them was sound and that they had the capacity to grow and develop.

The root idea of the World Bank was comparatively simple. The Second World War had produced widespread devastation and there was an urgent need at that time for reconstruction. That was the first part of the Bank's task. But, behind that, there was a longer-term need for capital to enable the poorer countries of the world to develop. In the past such long-term capital had been provided partly by direct private investment, partly by international bond issues. It seemed unlikely that such bond issues would ever play the same role again since they had been brought to a halt by the disastrous collapse of 1929. What was needed was some mechanism which would give investors an adequate guarantee of security on the one hand and pass on the capital so raised to countries which could not, by themselves, provide such a guarantee. The basic idea was to set up a cooperative system through which funds could be raised partly by the subscriptions of the member countries, partly by bond issues in the capital markets of the world, the interest and repayment of which would be guaranteed by all the member countries. In this way it has been possible for the Bank to make a whole series of loans for economic development to countries which could never have borrowed on their own credit in the capital market.

By the late Fifties it was recognized that this system by itself was not enough. Even if account was taken of bilateral aid given on soft terms there were too many countries which were too poor and whose balance of payments prospects were too uncertain to enable them to borrow from the Bank with a reasonable probability that they could meet the interest charge and repay the loan by the due date. What was needed, therefore, was a fund based not on borrowing in the market but on contributions by governments. Since the credits made from this fund would bear a negligible rate of interest and would be repaid over a very long period, it could not be looked upon as a revolving fund which could be used over and over again. Nor would it be sensible to base it on loans from governments which IDA would have to repay. IDA, therefore, gets its money from governments in the form of contributions which are virtually equivalent to outright gifts.

Let me say something now about the loans and credits that have been made by these two branches of the World Bank Group: about the rate at which they have increased in total; about their distribution between different countries and types of countries; about the way in which the terms on which they are made are settled; and about the purposes for which they are intended to be used. As I am sure you all know, the World Bank Group has been expanding its operations in the last few years at a pace which is very impressive whether you look at the total amount of loans committed, the number of lending operations, or the number of staff employed. There were times when for a short period lending increased only slowly or even declined, but the general trend during the 25 years of the Bank's existence has been strongly upwards.

Even in its early years, the rates of growth were very high. Compare, for example, the second five years of its operation (1952 to 1956) with the first five years (1947 to 1951). In that time the total of Bank loans for development, that is to say leaving out the half billion dollars lent for post-war reconstruction in West Europe, exceeded the total of development loans in the first five years by more than two and a half times and the total doubled again in the third five-year period from 1957 to 1961. In the succeeding period the rate of increase was not so rapid and there was a pronounced slackening during the middle Sixties due to a difficulty in raising funds, particularly the soft loan funds needed for IDA. The result was that total Bank Group lending in 1968 fell to the lowest level in five years. Even during this period, however, the Bank staff was growing and new projects were being prepared and appraised, so that expansion could be resumed once funds were available.

When Mr. McNamara first addressed the Governors at their Annual Meeting in September 1968, he announced a new five-year program for Group lending during 1969 to 1973. One objective of this program was to double Group lending as compared with the total lent in the most recent five-year period. This meant that total lending for the five years had to be raised from $5.8 billion to around $11-1/2 billion -- an absolute increase in the amount of lending far greater than had ever been achieved before. You will notice that I am talking of amounts committed. Amounts actually spent, or net disbursements, lag behind commitments. In FY1971 the Bank Group extended 151 loans and credits totalling some $2-1/2 billion to 69 member countries. The Bank's disbursements are expected to reach $1-1/2 billion for the first time in the present fiscal year.

This rising level of commitments and disbursements has, of course, required a corresponding effort in raising funds, both by the sale of Bank bonds in the market and by securing contributions from governments for the International Development Association. Net borrowings in the market in the five fiscal years 1969 to 1973 will be more than three times the level in 1964 to 1968, and there will be a further substantial increase in the years 1974 and onwards.

For IDA, a further replenishment of its funds was negotiated between governments in 1970 at an annual level of a little over $800 million or twice the level of the previous replenishment period. Unfortunately, the Agreement has not yet come into effect because it has not yet been ratified by the United

States Congress. IDA has been able to keep going only because a number of governments, including the Japanese Government, have agreed to make part of their contribution available as a voluntary act and without waiting for the Agreement to become effective.

I think you will agree that this is an impressive record of sustained expansion. In the earlier years of the Bank's existence it was often criticized as being unduly cautious. It was said that it had not expanded its lending fast enough and that it had concentrated too exclusively on meeting the foreign exchange cost of large capital projects. In 1951 a group of economists prepared a report to the United Nations in which they recommended a figure of $1 billion a year as a reasonable target for Bank loans to underdeveloped countries. Ten years later the current rate of disbursement of loans to all countries was still somewhat under $400 million a year of which only $275 million went to countries which could strictly be called underdeveloped. It was not until FY1967 that disbursements reached the level of $1 billion. There was ample ground, therefore, for following a policy of expansion in the Bank Group's activities. Yet, when Mr. McNamara announced his target in 1968 for a further doubling of the level of lending, it seemed doubtful to some people whether or not such an ambitious target would prove feasible. We are now halfway through the third of the five years for which Mr. McNamara planned and, if lending commitments were to continue in the final two years at no more than the level reached in the third year, the target would be comfortably exceeded.

One reason why a continuing growth in the Bank's lending operations is desirable is because of the build up of interest and amortization payments on past loans. In the present fiscal year these already amount to almost $800 million. The Bank Group will certainly wish to make new loan commitments each year at least equal to the amount of loans repaid. I would go further than this and say that we would not want to see a decline in the rate of our net lending, i.e. new loans less repayments. We cannot necessarily commit ourselves to maintain the present rate of net transfer, that is to say after deducting from new loans not only amortization but also interest payments. We would not accept the view that is sometimes put forward that a declining rate of net transfer means that the Bank is reducing its contribution to development. If loans to developing countries are to achieve anything, they should lead to an increase in total output and ultimately in export earnings. To talk of net transfer as being synonymous with the contribution to development is to ignore the gain from past loans in terms of output and export earnings. Nevertheless, I would agree that individual developing countries may have difficulty in meeting the interest and repayment on development loans, if the terms of lending are such as to allow too little time for the full benefits of increased output and earnings to be achieved. The life cycle of the development process differs so much from one country to another that there must be corresponding differences in the terms of lending to them.

Let me now come to the distribution of the Bank's lending between different countries. Its earliest loans in 1947 were made to provide foreign exchange for the work of reconstruction in such countries as Denmark, France, Luxembourg, and The Netherlands. When, in 1948, the Marshall Plan was introduced to meet just this kind of need, the focus of the Bank's lending shifted gradually towards development projects and developing countries. For some little time, however, the Bank's borrowers included a number of countries which, while they were still developing, were certainly not underdeveloped. Conspicuous amongst these were Italy and Japan, to whom the Bank's last loans were made in 1965 and 1966, respectively. Your country is an excellent example of the fulfillment of the purpose of development lending. In the years 1953 to 1966, Japan was one of the Bank's largest borrowers. We lent you a total of $857 million. Development in Japan has been so rapid that you are now well able to repay those loans and have even done so in effect ahead of schedule by lending, in your turn to the World Bank, at first through the Bank of Japan, and more recently through market issues. So that, as between the Bank and Japan not only has net transfer become negative but net lending as well. There are, of course, other countries in this category and we hope that it is one which will grow. If we say that we want to maintain a satisfactory rate of increase in the Bank's net lending and that we do not wish to see too great a decline in the net transfer of resources, that does not mean that this should apply uniformly to all the Bank's borrowers. At any time there should be some who have come to maturity and are able to repay not merely individual loans but the sum total of what they have borrowed. Other countries will need longer to reach that stage and some may need a very long time indeed. Those are the countries which must rely mainly on finance from IDA.

You will see that the effect of this sort of evolution in the pattern of the Bank's lending is to change the composition of its portfolio of loans outstanding. This now consists, to a much larger extent, of loans to the poorer countries, though one can mention several (Taiwan, Israel, Yugoslavia, Mexico) who were poor yesterday but are much more prosperous today. One should not, therefore, think of the Bank's portfolio as suffering a continuous decline in quality. It is probably true, however, that at this moment of time there is a greater degree of uncertainty about the rate of economic progress amongst our borrowers than there was in the early years of the Bank's existence.

The Bank's largest borrowers in terms of loans and credits outstanding are India, Brazil, Mexico, Pakistan, and Colombia. I shall not try to forecast what is the economic future of each of these countries. What is clear, however, is that at the present time India and Pakistan, which are the largest and poorest of them all, are progressing more slowly and have a longer road before them than had the others. Nevertheless, the situation in any country can change drastically and quickly. India itself is in a far stronger position today than it was a few years ago with a rate of growth in gross national product of 4.3%; a rate of growth of exports of 2.7%; and a rate of growth of food production which is bringing her rapidly to the point of self-sufficiency. Moreover, the projections for the period 1971 to 1975 show an even more rapid rate of growth both for production and exports. On the other hand, in Pakistan, for reasons largely of a non-economic kind, the situation has deteriorated after a period of remarkably high growth.

Let me say something now about the terms of loans and credits made by the World Bank. We have already seen that there is a great difference in what I have called the life cycle of the development process in different countries. It is not so much that investment in one country is more productive than it is in another. If that were all, it would be of questionable wisdom except on grounds of equity to devote scarce capital to investment where the rate of return which could be obtained was lower than it was elsewhere. What distinguishes one country from another for this purpose is the level of its income per head, and hence the marginal rate of saving which can reasonably be expected from it; and the rate at which additional output can be transformed into increased foreign exchange earnings, whether through an increase in exports or a saving in imports. It is in countries where this transformation process is likely to be prolonged that capital on concessionary terms is needed most. In the extreme case we would make all our credits on IDA terms, that is to say repayment over 50 years with an interest charge of three quarters of 1%. But there are intermediate cases where something less than this is needed. In these we use a blend of IDA credits and Bank loans. Bank loans, as you know, carry an interest rate of 7-1/4% and are repaid over 20 to 25 years. We calculate that the grant element in an IDA credit is some 80% and in a Bank loan 20%. Blends of these two types of funds will result in intermediate levels of grant element.

In our view what determines the appropriate terms of lending should be, in the main, the economic situation of the country as a whole rather than the lead-time of the individual project and the life of the assets which it creates. We talk, therefore, of IDA countries rather than of IDA projects or Bank projects.

Nevertheless, it is true that if we are financing what has been called social overhead capital, that is to say roads, schools, hospitals in a country where income per head and domestic savings are low, the terms appropriate to such loans should be soft. Whereas, even in the poorest country, investment in mining and oil will produce returns on a scale which will attract private capital. These are the so-called enclave projects in which it is possible to distinguish between what the country can afford and what the project can afford.

This brings me to the question of the purposes for which the Bank and IDA have lent. We need to be clear about the meaning of that term. It is always possible to identify the purpose of a loan, if one is thinking in legal terms, as being the project or form of expenditure which the borrower undertakes to carry out in return for the loan. The real purpose of the loan in economic terms may, however, be different. Defined in that way the effect of a loan should be thought of as the marginal use of resources anywhere in the economy which it makes possible taking into account all resources both internal and external available to the borrower. That marginal use of resources may or may not be the piece of investment which the loan ostensibly finances, since that particular piece of investment might have been carried out in any event. The marginal use of resources may not even be for investment at all, it may make possible the same rate of investment, with additional consumption, i.e. a reduction in the rate of saving. In practical terms what this means is that in approving a loan the Bank must think not only of the project itself, though it must certainly do that, but also of the development program of which the program forms a part, and of the macro-economic policy in which the development program has its place.

Under the Bank's Articles the loans which it makes or guarantees are required to be "for the purpose of specific projects of reconstruction and development" but this provision does not commit the Bank to a single inflexible technique of lending and many different sorts of undertakings are, in fact, considered for the purposes of Bank lending to be projects. For example, they may comprise a single project or a series of related projects in a particular sector. The same is true of IDA.

The Articles also provide that in special circumstances the Bank and IDA may make non-project or program loans if these would provide the most effective way of helping the development of a member country. Such circumstances might arise if a borrowing country presents a development program which is regarded as being a satisfactory basis for external assistance in a given amount but the needed transfer of resources cannot be achieved effectively and expeditiously by financing individual projects. The country may, for example, be one in which there is a well developed capital goods industry. While, therefore, it may need external resources to enable it to meet all the competing demands upons its economy, including those of development, nevertheless it may not need those external resources in the form of imports of capital goods which it can produce itself. It may be more important that it should be able to import materials and equipment which are needed to maintain existing productive capacity and to enable it to be used effectively.

There is another direction in which the Bank's lending may depart from financing the foreign exchange requirements of projects. The Articles of Agreement permit the Bank and IDA, in exceptional or special circumstances, to lend foreign exchange to finance local expenditure. Here, again, the circumstances justifying this kind of lending are typically those in which a country needs more funds for its development than it can provide from its own savings or from existing foreign exchange resources, but these additional funds cannot be provided solely by lending for projects requiring imported goods and services or, at any rate, not without neglecting other projects of higher priority the needs of which are mainly for local expenditure. It is, of course, clear that what the Bank lends is always foreign exchange which will be spent ultimately on additional imports. The use of program loans divorces such lending entirely from the direct needs of individual projects. The making of loans to finance local expenditure keeps the link with projects but not with the foreign exchange expenditure on them. In general we may say that either of these techniques are appropriate where a developing country has the productive capacity to carry out individual projects but cannot do so without overloading its economy in a way which is likely to call for additional imports whether of raw materials or of consumption goods. Some of the Bank's earliest loans took this form. In Italy, for example, the Bank lent $250 million in the form of what was called an "impact" loan. It was intended to meet the additional demands for imports which were likely to arise as a result of a large and ambitious program of development in southern Italy and of the higher level of activity in the economy to which the carrying out of this program would give rise. More recently the Bank Group has extended a series of credits to finance industrial imports for India and Pakistan. Similarly, the last major Bank loans to Japan for railways and highways included a large element of finance for local expenditure.

In the great majority of cases, however, Bank and IDA lending is linked to specific projects. The Bank Group clearly has an interest in seeing that such projects are properly prepared and appraised; that they are efficiently carried out and that the rate of return which they were expected to yield is, in fact, realized. The Bank, therefore, works closely with developing countries to help them meet this need and in effect provides them in the process with much valuable technical assistance. Where the loan is linked not with an individual project but with a whole range of projects in a particular sector, the advice given by the Bank may be concentrated upon issues of policy which arise in that sector, e.g. the proper level and structure of charges to be made by public utility undertakings, such as transport or power undertakings, or the proper level of water charges to be made to ensure an equitable distribution of the benefits of a scheme of irrigation. But, in addition, to giving advice on these problems of individual projects or sectors, the Bank is always closely interested in the economic policy of the government and is concerned to see that development programs and projects are backed up by satisfactory policies, for example in the field of taxation and promotion of domestic savings, demand management, balance of payment adjustment, exchange rate policy and debt management. The Bank has a highly developed system of economic reports which are drawn up by economic missions which visit each country often as frequently as once a year.

In the years since the Bank was founded, there has been a certain change of emphasis in the distribution of its lending between different projects. In the early years there was a heavy concentration of lending on roads, railways, electric power and irrigation, on what might be called the basic infrastructure of the economy. Two thirds of the Bank's lending was devoted to these purposes.

Half the remainder went to industry. In the Sixties the emphasis changed and far more attention was given to agriculture and education. This corresponded to a change of emphasis in the development policies followed by most of the developing countries. It was seen that to be effective development should not be concentrated excessively on spectacular industrial projects, but must meet the most elementary needs of the population, to assure them of an adequate food supply and of the basic training without which they could not use improved capital equipment.

It was sometimes urged, at the time when this change in emphasis took place, that agricultural and educational projects could not be expected to be self-liquidating or to produce within a reasonable period of years a financial return which would enable the loans to be repaid. It is, I think, more generally recognized now that development loans are made not on the basis of the creditworthiness of individual undertakings but of the government of the country or of some agency of it. The capacity to repay thus depends on the rate of economic progress of the country as a whole. It can hardly be denied that improvement of the standard of education and food supply in any relatively poor country commands a very high priority indeed and to help them to meet such needs cannot fail to improve their efficiency and, hence, their creditworthiness as a borrower.

Today, indeed, we see that we must take an even wider view and think of the purpose of development as being not merely to increase growth but to ensure that the benefits of that growth are reasonably distributed between different regions of a country, between different sectors of development, and between different social classes. We have become more aware also of the appalling pressures which are building up in developing countries as a result of the growth of population - a process which has now reached such a momentum that it will take many decades to bring it under control. Population planning has been seen to be fundamental to development, not least because of the effect it has on two other immensely serious problems which confront the developing countries -- those of proper nutrition and the provision of employment.

I have not time this morning to discuss these wider needs. They can be summed up in the proposition that the true object of development should be not merely to increase the average rate of growth in national income, important as that aim may be. The true objective must be to improve the quality of life for the people as a whole. We, in the World Bank, believe that the provision of external capital and technical assistance to the developing countries has played, and will continue to play, an indispensable part in lifting the developing countries, in some measure at any rate, out of the poverty in which they have struggled for so long.

Address to be given by Sir Denis Rickett, Vice-President, International Bank for Reconstruction and Development, in Osaka on Tuesday, November 30, 1971

TRADE, AID, AND DEVELOPMENT

I want to talk today about three closely-related subjects, about Trade, Aid, and Development, and about Japan's interest in all three as I see it. About the first of these - about trade - there is little I am sure that I can tell you which will be new to you. Japan is, after all, one of the great trading nations of the world. Here, in Osaka, we are at the heart of modern industrial Japan. One has only to look round one, and to observe the prodigious growth of industry which is taking place here before our eyes to see that this growth would never have been possible if it had been based on the growth of the Japanese economy alone, and on the growth of the home market.

After all you live, as you are well aware, in a densely populated island which resembles in one respect my own country, the United Kingdom. In the United Kingdom we have to import a large part of our food and an even larger part of our raw materials. Here, in Japan, 60% of your raw materials come from abroad. We all know how close the trading links are which you have developed with all parts of the world, to take a single example: with Australia, where spectacular discoveries of great mineral deposits have made that country a natural partner for the manufacturing industry of Japan.

It needs little argument, therefore, to show that Japan's economic future is bound up with the growth of international trade, with the expansion of markets throughout the world, to which you can export your manufactured products and earn the means to pay for food and raw materials, that are needed to support your growing industry and your large population.

All this is very familiar to you, I am sure, and indeed obvious. That Japan is vitally interested in the growth of international trade is clear: and that international trade depends in large part on the progress of development is equally clear. Is it also true that economic development is bound up with the expansion of development assistance? Let me carry the argument a little farther and see where it leads.

The industrial revolution of the nineteenth century in Europe took place with but little government intervention and under the impulse, for the most part, of market forces, and at the spur of profit. Why, it may be asked, should that process not be repeated and carried further in the twentieth century? If the poorer and more backward countries need capital from abroad, why should they not get it from the private investor? Is there any need for the intervention of governments and of international organizations? And why should that intervention take the form of aid, of providing capital on terms which make a large part of it a gift? If trade requires and depends upon a widespread and accelerating process of economic development, why should development require and depend upon aid?

First of all let me say that I am not maintaining that without aid there would be no development. After all, the giving of aid to the poorer countries on the scale on which we see it today is a comparatively recent development. It is true that in the past the colonial powers did a good deal to develop the countries for whose government they were responsible. And, as I have said, this was supplemented by large international movements of private capital. Even today, as you know, the development of the poorer countries is being financed in very large part (some 80-85%) from their own savings. Of the remainder, roughly $7-1/2 billion is provided by private capital and export credits, leaving the remainder, amounting to some $8 billion, to come from official economic assistance. What then are the respective roles of trade and aid in fostering economic development?

As a source of foreign exchange, trade is by far the more important. As compared with total bilateral disbursements, private and official, of $15-1/2 billion or so in 1970, export earnings of developing countries totalled over $48 billion in 1969, the last year for which figures are available. Trade thus accounted for over three quarters of the total flow of foreign exchange into the developing countries. In sheer volume, therefore, export earnings are three times as important as capital flows for the developing countries.

Let me illustrate this same point in another way. In the ten years, 1960 to 1969, export earnings of the developing countries grew at a rate of just under 7%. At this rate the growth of foreign exchange earnings would, in two years, be equal to the official aid available from the industrialized countries. Trade is therefore much more important to the developing countries than aid, not only in terms of volume but also because trade receipts can be used in most cases without conditions or restrictions. On the other hand, it has to be remembered that export earnings involve a cost in terms of resources which aid receipts do not. It is for this reason that some economists have calculated that one dollar of aid is equal to three dollars earned from trade.

Does that mean that the right policy for the future should be -- in the phrase coined by a British Minister in the past - "Trade not Aid". I do not think so. The circumstances in which he used that phrase were different.

You are all aware, I am sure, that the United Nations Organization gave to the decade of the Sixties the title of the "Decade of Development". They set a target for that decade which called for an average annual rate of growth in the developing countries of 5% in gross national product. That target, as you know, was more than fulfilled. Many of the developing nations did better. Now we stand at the beginning of the decade of the Seventies, to be called "The Second Decade of Development". The target has been raised to an average rate of growth of 6% a year. There is every prospect that this target, also, will be achieved - but on one condition, namely that the flow of aid and of private investment should be increased.

It is true that trade bulks larger in the foreign exchange earnings of the developing countries and that for that reason I said just now that in volume, at any rate, trade was more important than aid. But we have to think not only of the two sides of the account, of the total of receipts and the total of expenditures, but also of the balance between them. It is the gap between the resources of the poorer countries and all the demands upon them that is crucial, and the gap between the total of their foreign exchange earnings and receipts - the "resources gap" and the "foreign exchange gap" as they are called. It is these gaps which must be filled by an inflow of capital from abroad if the developing countries are to keep up the rate of investment on which their growth depends. And a substantial part of that inflow must come to them on easy terms if they are not to pile up debts which they cannot in the end repay.

It is for this reason that as part of the strategy of the Second Development Decade two targets have been proposed - one for the total flow of capital and one for that part of the total which consists of aid given by governments. The first target is set at 1% of gross national product, the second at 70% of that figure, or 0.7% of gross national product.

I should like to emphasize that in the past decade no other country in the world has increased its official flows of aid as much as Japan, either absolutely or relatively: from $143 million in 1960 to $811 million in 1969. To be sure, it was less difficult for Japan to achieve such an increase than for any other country in the world. For Japan's gross national product quadrupled over that same period, whereas the GNP of most other advanced nations merely doubled. As a result, the level of Japanese official development assistance has not increased in recent years in relation to Japanese GNP. Indeed it was a smaller proportion of Japanese GNP in 1970 (.23%) than in the 1965-67 period (.30%). A further argument for suggesting increases in the level of Japanese aid is Japan's great and rising strength in the balance of payments. Thus, Japan's current account balance moved from a deficit of $.4 billion in 1964 to a surplus of $2.2 billion in 1970 and there will be a further large surplus this year. Similarly, its balance of payments moved from a deficit of $.1 billion to a surplus of $1.2 billion. The balance on current account determines basically the ability of a country to transfer resources through official and private capital flows.

In the ourse of the Sixties not only the size, but also the structure and quality of Japanese aid have altered dramatically. The share of official development assistance <u>loan</u> commitments rose from 15% in 1960 to 55% in 1970. But, at the same time, the share of bilateral <u>grants</u> declined from 69% in 1960 to 25% in 1970.

The share in the total flow of funds from Japan represented by export credits on comparatively hard terms is also exceptionally high, amounting to 40% of the total. It is for these reasons that there has been some hardening in recent years of the terms on which Japan has provided capital to the developing countries (grant element at 10% discount rate fallen from 35% in 1965 to 21% in 1970).

I am all the more pleased to be able to acknowledge the strong support which your government has given to the international organizations in the field of development. You are now one of the five largest subscribers to the capital of the World Bank, you have opened your capital market to borrowings by the Bank, and you have increased your percentage share in the latest round of contributions to the resources of the International Development Association, the affiliate of the World Bank which makes credits available on easy terms. You have taken also, if I may say so, a clear and bold lead in providing funds for the Special Fund of the Asian Development Bank, to which you have committed $100 million.

We, in the World Bank, welcome the growing importance of Japan not only in the international economic community as a whole but in the ranks of the countries which provide funds for the developing countries. Japanese economic assistance is becoming one of the principal factors in the world-wide international program of development assistance, not only in East Asia in which you have a traditional interest, but in the rest of the world as well. The total flow of funds from Japan to the developing countries is expected to increase rapidly as your national product continues to grow and as your official development assistance expressed as a proportion of that product rises to the level of other industrialized nations. We confidently expect that, as a result, your official development assistance will increase several times over during the next ten years.

I have spoken at some length about the Japanese aid program because it seems to me that an audience such as this has a double interest in it -- a general interest and a particular interest. You have a general interest in it because of the importance which it has for the economic progress and international standing of your country. You have a particular interest in it because you are the people who produce and export the goods and services that aid finances. In that way you benefit from Japan's aid and from other untied aid, notably World Bank and Asian Development Bank aid, for which you compete successfully. I hope you will feel, therefore, that you have a particular interest in the growth of official foreign economic assistance from your country since it helps to finance your sales abroad. You will not only benefit, I suggest, from a rising volume of official aid but also from improved terms, that is to say softer terms, both of Japanese and of other aid. Softer terms will mean that the balance of payments problems of the countries where your customers are will be lightened. Softer terms will mean that the burden of debt service for these countries will be easier to carry. Finally, softer terms will mean that the developing countries can invest more in their growth and buy more from you because they do not have to make such large transfers of resources to meet amortization and interest on their debt.

Let me now spend the time that remains to me this morning in considering further the trading prospects and difficulties of the developing nations.

There is no doubt about the importance of trade in development. Whether exports promote growth or whether growth promotes exports is a controversy which has been of absorbing interest to economists for a long time and is still unresolved. Some believe that exports are an overspill of domestic production once production becomes efficient by world standards. Others believe that exports expand under the stimulus of world demand and that domestic economies are thereby enabled to grow faster. This is the theory of "export led growth".

Whatever the truth about this may be, the link between growth and exports is clear in practice and can be shown from the figures. There is a strong correlation between exports and GNP growth rates in the period 1960 to 1969 in the developing countries.

Nevertheless, trade does not seem to be as powerful an engine of growth today as it was in the nineteenth century. The enormous growth of incomes in North America, in Japan, and in Europe does not translate itself into the same proportional increase in demand for primary products as it tended to do in the past. Sophisticated industrial processes today require fewer raw materials per unit of output. The agricultural picture, too, is different. On the one hand incomes have now reached a level in the advanced countries where very little of the increase in them is spent on food stuffs as compared with the high proportion spent on food in poorer countries. On the other hand, some of the richer countries have become extremely efficient in agricultural production themselves. On top of this all the rich countries have large farming sectors to which they give protection for social and political reasons. This means their markets are very difficult to penetrate for the producers in developing countries. It is this fact - that the income of the richer countries is growing faster than the demand for primary products - which is crucial. The situation varies, of course, from one rich country to another. The case of Japan differs, for example, from that of the United States or the European Economic Community. Even Japan, however, has managed to become more than self-sufficient in rice and, though its raw material imports are high, they are not expected to grow much faster than the growth of your GNP and, perhaps much slower.

Since investment in the developing countries depends to a large extent on the demand for primary products, the changes I have just described tend also to slow down investment.

The conclusion which follows from all this is that industrialization must play a large role in the process of development and that this, in turn, will require faster export growth. This will call for a change in the strategy of development. In the 1950s and 1960s much stress was laid in developing countries on the need for import substitution. Most of them adopted such a policy to help their industries to grow. In the course of time, however, it has become clear that import substitution, if carried too far, leads to a blind alley and can have detrimental effects on economic development. It often leads to an inward-looking attitude on the part of producers and to the creation of industries which even in the long run are inefficient and require a continuing high level of protection. As Mr. McNamara pointed out in his address to the Governors of the World Bank at their Annual Meeting in September, "These problems can be overcome by an alternative strategy of development which gives greater emphasis to manufacture for export. The industries stimulated by such a program will be those most suited to conditions in developing countries. Many are likely to be relatively labor-intensive, thus contributing to the solution of the employment problem, and production for foreign as well as domestic markets, should help ensure the benefits of large—scale production." "These advantages are not merely hypothetical" added Mr. McNamara and, indeed, the record speaks for itself.

During the Sixties the exports of developing countries grew much more slowly than those of the developed countries, at 6.9% a year compared with 9.5%. The share of developing countries in total world exports has in consequence fallen, and this fall is still more marked if oil exports are excluded.

Historically the trade of the developing countries has been concentrated on primary products, both agricultural and mineral. While manufactured exports from the developing countries have grown rapidly -- by as much as 15% in the most recent years -- they still represented only 14% of total exports of developing countries in 1967 and only 5% of world exports of manufactures. By contrast Japan alone in that year shipped 10% of the world's exports of manufactures.

Because, for a number of reasons, exports of primary products are growing only slowly, the best hope for the future economic independence of the developing countries lies in a growing export of manufactures.

Latin America has achieved a very strong rate of growth of such exports both to the rest of the world and within the region. But it is from Asia that there comes the larger part of all exports of manufactures by developing countries. Korea and Taiwan have been outstandingly successful in this respect. But other Asian countries have done well also. In the period 1960-67, the average annual growth of manufactured exports was 18.5% for Pakistan, 21.4% for India, and 31.9% for the Philippines. Those are striking figures.

What are the prospects for the Seventies?

If the exports of manufactures from the developing countries are to continue to grow, many obstacles will have to be overcome at home, in the shape of inappropriate foreign exchange rate and trade policies. But other factors are present: the cost of breaking into new markets, the limited knowledge which their producers have of foreign demand, inadequate control of quality, poor marketing techniques and other difficulties.

How can the developed countries help the developing countries to increase their exports? Partly, by increased technical assistance. I was glad to see, for example, that the Japanese Government has agreed to send a marketing expert to help the Thai Government to plan farm produciton intended for export to Japan during the next five years, and that your government also plans to despatch a marketing expert to Thailand to help them increase their industrial exports.

Marketing and distribution problems are undoubtedly important and are often not given the importance they deserve by economic and other advisers.

The most important single form of help, however, is for the developed countries to reduce the level of protection in their markets against imports from the developing countries. For this reason we all welcome the Generalized Preference Scheme which Japan, the E.E.C., and the Nordic countries have adopted, and in which Japan has played a leading role. Under this scheme tariffs on most manufactured imports from the developing countries and on some imports of primary commodities are reduced to zero. It has been estimated that if these preferences, which have been planned by the highly industrialized countries, are put into effect by 1972, the export earnings of the developing countries will ultimately be expanded by between 800 and 900 million dollars.

Even more important in its effect on trade would be action by the developed countries to rationalize and to harmonize such quantitative trade restrictions as they must maintain. The rich countries should also take steps to help the poor countries to diversify their exports over a wider range.

In all these cases action by the rich countries is needed to help the poor countries to increase their receipts from exports and thus to help to finance the investment programs which are needed to promote their economic growth. I am sure that Japan will continue in the future to play her full part in measures of this kind.

I have not said much this morning about private investment in developing countries. There is no question that this, too, is of great importance not only as a source of capital but also because it brings with it managerial skills and technical knowhow of which the developing countries stand in great need. I am glad to know that Japan is becoming increasingly active in the field of overseas investment and that your government has taken a number of steps to promote such investment. For example, in 1967 it ratified the convention sponsored by the World Bank on the settlement of investment disputes. In 1970 the program of investment insurance which had already been established was expanded and combined into a new overseas investment insurance scheme covering not only equity investment but long-term loans to and bonds issued by enterprises whose management is under Japanese control. Your government has also given tax incentives to encourage overseas investment and has also extended direct official financial support to private investors overseas through the Export-Import Bank and the Overseas Economic Cooperation Fund. Policies regarding both trade, aid, and overseas investment should together form a single coherent strategy each part of which supports and supplements the others.

Let me conclude by saying that your country has been the outstanding example of rapid economic growth based upon exports. I am sure that it is your wish to enable other developing countries to follow your example.

As one of the fastest growing industrial nations in the world you are in a unique position to help both yourselves and others in all the ways which I have tried to outline this morning. The challenge is there and I am sure that you will accept it and will continue to seize the opportunities that are before you.

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0700 : WORLD BANK PRESS REVIEW:
BY REUTER

UNDATED: -- WORLD BANK ADVISE IN JAPAN ON TRADE, AID AND DEVELOPMENT, THE URUGUAY ELECTIONS AND THE GROUP OF TEN TALKS IN ROME ARE LADING PRESS TOPICS TODAY (WEDNESDAY).

NEWSPAPER COVERAGE INCLUDES:-

TOKYO: -- WORLD BANK VICE PRESIDENT SIR DENIS RICKETT HAS TOLD A GROUP OF JAPANESE BUSINESSMEN AND SCHOLARS THAT INDUSTRALIZATION MUST PLAY A LARGE ROLE IN THE DEVELOPMENT PROCESS, THE ENGLISH LANGUAGE MAINICHI DAILY NEWS REPORTED TODAY.

SIR DENIS WAS GIVING AN ADDRESS ON "TRADE, AID AND DEVELOPMENT" AT A LUNCHEON MEETING OF THE ASIAN AFFAIRS RESEARCH COUNCIL AT OSAKA YESTERDAY.

THE PAPER QUOTED THE VICE PRESIDENT OF THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT AS SAYING: "TRADE, AID AND DEVELOPMENT SHOULD ALL FALL INTO A SINGLE COHERENT DEVELOPMENT STRATEGY."

HE EMPHASIZED THE IMPORTANCE OF TRADE AND AID AT THE BEGINNING OF THE 70'S, CALLED THE SECOND DECADE OF DEVELOPMENT, MAINICHI SAID.

NOTING THAT TRADE WAS IMPORTANT FOR UNDERDEVELOPED NATIONS, HE ASSERTED THAT THERE WERE NOT ONLY THE TWI SIDES OF ACCOUNT -- TOTAL RECEIPTS AND TOTAL EXPENDITURE -- BUT ALSO THE BALANCE BETWEEN THEM, THE PAPER SAID.

RESOURCES GAPS AND FOREIGN EXCHANGE GAPS, TYPICAL OF THE DEVELOPING NATIONS, MUST BE FILLED BY AN INFLUX OF CAPITAL FROM ABROAD IF THE COUNTRIES WERE TO MAINTAIN THE RATE OF INVESTMENT ON WHICH THEIR GROWTH DEPENDED, HE SAID.

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0705 : PRESS REVIEW 2 UNDATED:

IN LAUDING JAPAN'S EFFORTS IN ECONOMIC GROWTH AND HER CONTRIBUTIONS TO FOREIGN AID, SIR DENIS WAS QUOTED AS SAYING THAT IT WAS NOT ONLY IN THE GENERAL INTEREST FOR JAPAN TO GIVE AID, BUT ALSO IN THE PARTICULAR INTEREST, IN THE SENSE THAT JAPANESE EXPORT SALES WOULD BENEFIT IN THE PROCESS.

ON THE TRADING PROSPECTS OF THE DEVELOPING NATIONS, HE ADMITTED THAT THERE WAS A STRONG CORRELATION BETWEEN THEIR GNP (GROSS NATIONAL PRODUCT) AND EXPORTS IN THE 60'S, MAINICHI SAID.

HOWEVER, IT SAID, SIR DENIS STRESSED THAT "TRADE DOES NOT SEEM TO BE AS POWERFUL AN ENGINE OF GROWTH TODAY AS IT WAS IN THE 19TH CENTURY." THIS WAS MAINLY BECAUSE THE DEVELOPED NATIONS DID NOT REQUIRE AS MANY PRIMARY GOODS AS THEY USED TO, DUE TO PROGRESS IN TECHNOLOGY AND INDUSTRALIZATION.

"IN OTHER WORDS, INDUSTRIALIZATION MUST PLAY A LARGE ROLE IN THE DEVELOPMENT PROCESS, WHICH, HOWEVER, REQUIRES A FASTER RATE OF EXPORT GROWTH," HE SAID.

THEREFORE, "A CHANGE IN THE STRATEGY OF DEVELOPMENT," NAMELY, A GREATER EMPHASIS ON MANUFACTURING FOR EXPORT, WAS NEEDED, SIR DENIS WAS QUOTED AS SAYING.

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0709 : PRESS REVIEW 3 UNDATED:

THE INDUSTRIES STULATED BY SUCH A PROGRAMME WOULD BE THOSE MOST SUITED TO CONDITIONS IN DEVELOPING NATIONS, AND BEING LIKELY TO BE LABOUR-INTENSIVE, THEY WOULD SOLVE THE EMPLOYMENT PROBLEM AMONG OTHERS, HE WAS QUOTED AS SAYING.

THE WORLD BANK OFFICIAL CITED THE SUCCESSES IN MANUFACTURING EXPORT IN KOREA, TAIWAN AND OTHER ASIAN NATIONS, THE PAPER ADDED.

AS FOR HOW DEVELOPED COUNTRIES COULD HELP, SIR DENIS INDICATED THAT IN ADDITION TO GIVING FOREIGN AID, THEY COULD "REDUCE THE LEVEL OF PROTECTION IN THEIR MARKETS AGAINST IMPORTS FROM THE DEVELOPING COUNTRIES."

HE GAVE AS A GOOD EXAMPLE THE GENERALIZED PREFERENCE SCHEME ADOPTED BY JAPAN, THE EUROPEAN ECONOMIC COMMUNITY, AND THE NORDIC COUNTRIES, THE MAINICHI SAID.

THE JAPANESE LANGUAGE MAINICHI SHIMBUN ALSO CARRIED THE GIST OF SIR DENIS'S SPEECH.

MORE MFH/AB

2/24/71
Peter Ritchie — for speaking engagement - Sir Denis Rickett (Cairo in March)

IS AID A FAILURE

1. Purpose:

Eugene Black has remarked that aid is one of those areas "where institutions develop a rationale for what they are doing only after having done it for awhile."

Origins: Special relationship of former colonial links; acts of charity to "win friends", and strategic considerations have given way to economic considerations. These in turn are currently being supplemented by a view of the world as a global community: i.e., "No man is an island...."

2. Development assistance attempts to redress the imbalances between capital exporting and capital importing nations. Purpose is to assist nations create the conditions for self-sustaining economic growth, and to improve the quality of life for the 2 billion people who live in poverty. Balanced economic interdependence can help ease the propensity for violence as a means of settling disputes. Rich nations recognized this in creating the OECD of which DAC is a natural extension.

Development assistance has become, by and large, a distinct area of public policy in more advanced countries. There is a growing concensus, exemplified in the Pearson report and the words of President Nixon that each capital-exporting nation should, as a matter of sound policy, put a certain percentage of its resources into foreign aid. This has been accompanied by the general acceptance by developing nations that economic planning is an integral part of domestic affairs.

3. Economic Gap: Persistent and growing wider.

(a) Gross National Product -- In developing nations, the rate of growth has been between 5% and 6%. In the DAC countries, gross national products grow by almost $70 billion annually, or two-thirds the entire income of Latin America. What the United States adds to its GNP yearly equals the entire GNP of India or Africa, approximately $40 billion.

(b) Per Capita Income -- Rich nations have an average income of $2,200 per person annually, ten times the per capita income in developing nations. The rate of increase during the 1960s was slightly over 10% in developing nations, 25% in DAC countries. Transformed into human deficiencies, these figures are staggering.

(1) nutrition: a third to a half of world's population is suffering from hunger and malnutrition; less developed countries are spending $4 billion yearly on food imports in late 60s;

(2) health: high infant mortality; 110 per 1,000 in developing world as a whole, compared with 27 per 1,000 in developed; endemic diseases common, while less developed countries average 27 doctors per 100,000 population, compared with 134 per 100,000 in developed world;

(3) education: 800 million illiterates in less developed countries; meanwhile about 40% of their total population is under 15 years of age;

(4) employment: about 20% of adult males are unemployed in less developed countries; problem especially bad in cities, whose rate of growth of urban population about twice that of urban jobs; the urban population of developing nations was 70 million in 1920. By 1960 it had increased almost fivefold to 310,000,000 and is expected to reach 1.4 billion by the end of the century.

Population growth rate of over 3% per annum in less developed nations threatens to erode any real increase in national income as it absorbs roughly half of their average annual rate of economic growth. If population continues to grow at present rate, it will result in a doubling of the world's population in 25 years. This problem is compounded by the lack of technical skills, now recognized to be an important factor in economic growth. The need for trained personnel is exacerbated by a disturbing emigration of skilled persons to more prosperous nations. 100,000 foreign engineers have settled in the United States alone, and more are now leaving the nations of Africa and Asia for Europe. One look at any large urban American hospital reflects the large number, perhaps 30%, of the medical doctors from the Philippines, Iran, Turkey, Pakistan and Central America who come to the United States. Similar figures are now true for Europe.

External Debt: Now approaching $55 billion, it continues to increase over $3 billion annually. Merely servicing these debts is a costly burden, requiring an outlay of $4 billion annually in hard currencies. Mexico alone spends over $27 million for this purpose or about one-fifth of her exports of goods and non-factor services. To simply reschedule these debts would not be healthy, since further investment would be discouraged.

4. What Is Being Done:

Fifteen years ago, development assistance to less developed nations was of marginal importance; since that time it has made enormous strides. The flow of public loans and grants for development assistance increased about 12% yearly throughout the first half of the 1960s. It has remained relatively static for the past few years, now totaling approximately $7 billion annually. Of this amount, 30% is channeled through multilateral lending agencies, such as the World Bank, the Inter-American Development Bank. Bilateral aid donors work increasingly through consortia and consultative groups. Last year, the World Bank participated in 18 such joint efforts. In 1969, $13.3 billion flowed from DAC members to the less developed world. Six billion dollars of this amount was private.

Official development assistance is required to fill the gap where private investment capital is missing; this applies especially to infrastructure development.

Total official disbursements represented less than one-half per cent of the Group's gross national product; 59% of the official commitments were grants. Interest rates on public loans averaged 3.5%. But the terms of aid are hardening. The World Bank cannot raise sufficient money on the world capital markets without charging 7¼% interest, up from 5-3/4% six years ago. United States bilateral aid rates have gone from less than one per cent in 1961 to almost 5% today. Meanwhile the grant element as per cent of total commitments has decreased in all donor countries, dropping from over 80% in 1964 to about 70% today. This trend is taking place at a time when the need is greatest.

Clearly then, the real burden falls on these nations themselves. The best we can do is offer our knowledge, skills, capital and experience.

5. Development assistance from abroad, however, accounts for only 15% of these nations' total investments. To continue at this rate over $20 billion will be needed by 1975. Aid funds contribute about 20% of the capital formation in less developed nations whose GNP is growing at a rate of 5-6% yearly.

The World Bank Group has evolved to meet the needs of less developed nations. In recent years, the emphasis has shifted to agriculture and education. Agricultural projects now receive over $412 million in loans and credits, a sharp increase in the $124 million yearly average between 1964 and 1968. Educational lending has almost tripled from its 1964-1968 average, from $31 million to about $80 million in 1970. Lending for industry doubled from an average of $141 million yearly between 1964 and 1968 to $293 million in 1970. Expansion of agro-industries holds great promise. The consumption of commercial fertilizers in less developed nations reached 10 million tons last year, with a threefold increase expected by the end of the decade. Much of this is being produced domestically.

The World Bank's interest in population studies led to the first family planning loan of $2 million to Jamaica last year. Tunisia is now negotiating for similar assistance.

Recognizing the importance of balanced urban development, the Bank is now examining the problems of growth faced by Bombay, India, whose population may double in fifteen years.

6. Aid promotes economic development only if accompanied by adequate domestic policies which redress the imbalances in income distribution. In India, 12% of the population owns 50% of the land. In Brazil, 10%

of the population controls 75% of that nation's wealth. Tax reform and increased savings required if the majority of citizens are to prosper.

7. The average rate of investment in less developed nations has represented about 18% of GNP for the past decade. During this period the savings rate has remained constant at 16%.

8. Trade shows marked improvement. It has increased at a rate of 9% annually, somewhat below the 15% yearly increase registered by the rich nations. A number of barriers hinder further expansion. Tariffs, which could increase under the proposed U.S. trade bill, are imposed on light manufactured goods -- shoes, textiles. Quotas and artificial selling prices restrict export of chemicals and minerals.

While the U.S. faces a commercial challenge with Japan, that nation must now compete with the growing exports of Korea, China and Singapore.

Attitudes toward trade must change in the coming years. The recent negotiations in Tehran between the oil producing nations and the western petroleum companies clearly show that the organization of world trade will no longer remain exclusively in the hands of the rich nations. Patterns of trade and consumption may consequently have to be analyzed by exporter and importer alike, to determine which products are more valuable as export items and which ones should be produced for domestic consumption. This could avoid costly trade wars and "dumping" practices that could only harm everyone. Development assistance agencies can be of great help in this matter by sharing their data, knowledge and experience.

Private sector will continue to be the main source of funds for productive private enterprise. The International Finance Corporation, an arm of the World Bank Group, is playing an increasingly active role as a catalyst in drawing together the money and management which can usefully supplement the activities of the IBRD. To this end, the IFC last year succeeded in mobilizing $493 million for investment in private commercial ventures. Of this amount, $111.8 million was invested directly from the IFC portfolio, earning an average of 9.08 per cent per annum.

9. Development figures mean little if the quality of life is not improved. Increased food consumption must be accompanied by balanced nutrition. Education must be followed by employment opportunities, and industrial development must not pollute.

10. A crucial dimension of aid is providing technical assistance so that the momentum of development is maintained. This training occurs while a project is carried out. It provides the administrative, engineering, construction and legal experience which is indispensable if development is to succeed.

The results are not always immediate, nor should they be. Balanced economic growth requires time during which a number of stimulants and restraints can take effect. Development assistance should be provided to those projects for which concessional terms are in the best interest of all.

Included in this category are funds to provide adequate foreign exchange so that a nation's balance of payments deficit does not completely offset domestic economic improvements; funds, such as the estimated $650 million needed to import fertilizer, to supplement a specific sector of development which is progressing well; funds for roads and utilities which assist in bringing new products and services to the marketplace.

Capital is needed, but only if it is loaned on proper terms and invested in worthwhile ventures. Little if anything is accomplished by providing a high interest loan for a project that will produce obsolete goods.

Even a good project, like an electric power station, can be detrimental if the revenue earned from subscribers is exceeded by the amount required for debt service payments. Conversely, a low interest loan is worthless if it only aggravates a weak economic sector. Promoting a single crop or mineral, e.g. rubber, coffee, for export is of little value if a large surplus exists or if the price fluctuates excessively.

An appropriate loan, credit or investment acts as a catalyst in generating self-sustaining growth. Ideally, it promotes development in a number of related industries. A railroad from a seaport to a mine, which runs through timberland and alongside crops, provides an income for farmers, longshoremen, lumberjacks and miners which far exceeds the original investment.

11. Ecological factors will play a growing part in each project appraisal. Controversy over such celebrated projects as the Aswan Dam will erupt periodically, and calls for further evaluation of each recipient's peculiar needs are becoming an integral part of any development agency's affairs. Interest in preserving the environment is spreading from the rich to the poor nations.

12. Interest-free credits from the Bank's affiliate, the International Development Association, now supplement the development assistance program at a level of over $600 million annually. Since 1961 IDA has made nearly 250 credits to 56 countries around the world. The projects supported by IDA funds have ranged from flood protection in Asia to water supply systems in Latin America and road improvement in Africa. IDA has also assisted in the construction and expansion of over 700 secondary and teacher training schools and agricultural colleges, increasing enrollment by over 200,000.

IDA is in the process of replenishing its funds which come from contributions of its 18 richer member nations, and Switzerland. The United States has agreed, pending necessary legislative action, to provide $320 million annually for three years to help meet the total sum of $2.4 billion. For the first time, three relatively poor countries, Spain, Ireland and Yugoslavia, will be contributing to an IDA replenishment.

At the beginning of this new development decade, a number of countries are on the threshold of controlling their economic destinies. These graduates of development assistance programs, such as Korea, China, Yugoslavia and Japan, are now actively assisting others. California's neighbor to the south, Mexico, has by all standards of performance, made remarkable progress. She has achieved a 7% growth rate without excessive inflation for the past 15 years. Her per capita income has doubled in the past ten years, while inflation has averaged 3.2%.

In order to determine whether development assistance has succeeded or failed, one must ask what the economic state of the world would be if there had never been a public economic aid program.