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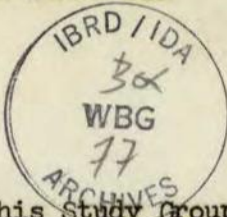
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THE ROLE OF IBRD IN THE ECONOMIC DEVELOPMENT OF THE MIDDLE EAST

by Feliks Bochenski

December 1954



What is the Middle East?

As you, Ladies and Gentlemen, of this Study Group, undoubtedly realize, the term "Middle East" is far from being uniformly applied. In fact, it seems to have a fluidity quite unexpected from such a barren and rocky territory; its limits seem to be shifting continuously. Depending on the period of history or on the vantage point of the external observer, different countries have been referred to under this collective name and nothing has been gained by the fact that the term "Near East" is often being used alternatively for a similar area. At a certain moment the confusion was so great that the UN Secretariat found it necessary to prepare a study on the various definitions of the Middle East and of the Near East.

Rather than trying to propose a new answer to this problem into the solution of which enters a variety of geographical, historical, sociological and economic elements, I should like to mention as a curiosity that, according to the criteria applied by the Middle East Institute in Washington, the Middle East ranges all the way from Morocco to India and from Iran to Ethiopia and the Sudan. As we heard recently from a retired diplomat in the US foreign service, prior to World War I the Near Eastern Section included not only the entire Balkans but even the Austro-Hungarian Empire. This is another example how time affects geographical terms. Now, not only the Balkans but even Turkey, with the bulk of her territory in Asia Minor, like to be regarded as part of Europe rather than to be referred to as belonging to the Near or Middle East.

There is undoubtedly a hard core of countries including the Arabian Peninsula and Egypt which are included in all definitions of the Middle East and a group of outlying countries in relation to which the terminology varies. If we should distinguish further within this hard core between what is the Near East and what is the Middle East the definition applied by the Baron de Dumast, the Director of the port of Beirut, in one of his publications is as good as any. He proposes that countries which open up towards the Indian Ocean, the Red Sea and the Persian Gulf should be referred to as countries of the Middle East, while countries opening up on the Mediterranean should be called the Near East. I am sure that the latter name would be more acceptable to the nations concerned than the term "Levant" which, during the course of history has been given a slightly unflattering connotation. It also permits us to avoid this third name and thus to avoid further confusion.

What Countries shall I talk about?

For the International Bank's operations our task of clarification is made easier by the very statutes of the Bank which limit loans to projects situated in the territory of a member nation. The Sudan, Libya, Saudi Arabia, Yemen, the Trucial Sheikdoms on the Persian Gulf and Afghanistan are at present not members of our institution. Turkey, for reasons already mentioned as well as because of its links with Europe through OEEC, is not treated organizationally together with the Middle East. I am therefore, limiting my remarks primarily to Iran, Iraq, Syria, Lebanon, Jordan and Egypt.

What are the links between these countries?

Obviously all of these countries are, or have been referred to, at one time or another, as belonging to the "undeveloped", or speaking more politely, the "underdeveloped" part of mankind. I would recommend to those of you who propose to work successfully in the area a certain caution in applying these terms. Some of these people will be quick in pointing out that they are undeveloped only in a purely materialistic sense of the word. Such will be, for instance, the case of the Lebanese, a people who walk on layers of ruins of ancient civilizations and who are proudly conscious not only of their somewhat misty Phoenician heritage, but also of strong contemporary links with Western, primarily French culture. Egyptians may point out that their agriculture which in that over-populated country has become almost as labor intensive as gardening, shows some of the world's highest yields, not only because of climatic and soil conditions, but also because of skillful cultivation and the lavish use of fertilizers.

It is true that all of the six countries mentioned have comparatively low income levels ranging from per capita income of \$70 to \$250 per annum. But in some cases this is a result primarily of an unfavorable ratio of people to existing economic resources rather than of the fact that large potential resources have not yet been developed. The situation in this respect varies from country to country.

But there are certain common features of the area both among physical and human factors. The six countries of the Middle East, as defined for the purpose of our discussion, all depend largely on agriculture. The limiting factor for the growth of agricultural production in most cases is the shortage of water rather than the absence of potentially cultivable land or the absence of a people which could till it. Apart from oil, which is exploited only in three of the countries (Iran, Iraq and Egypt), the area in general is poor in mineral resources; it has practically no coal and only little iron ore. Industries are little developed and seem handicapped by the lack of cheap fuel as well as by a narrow raw material basis and low levels of purchasing power of the populations.

Culturally, racially and politically there exist not only similarities but even strong links. Most of the people are Moslem and all of them, except the Persians, regard themselves as being Arabs. Arabs have a common language and tradition. All of them have been united recently under foreign rule. The antiquity of their historic tradition is in striking contrast to their short experience as modern states. Excessive nationalism in all domains, including the economic one, can be found everywhere, though its manifestations vary in intensity. By and large, none of these countries has any strong socialistic or etatist tendencies. The private sector predominates in their economies. There is a rather general respect for commercial and financial obligations.

Bank Operations Country by Country

I do not want to take more time of this audience, which must be already familiar with the area, to depict the background against which the International Bank tries to develop its operations. I want to mention right now that while we made many loans around the area described (in Turkey, in Ethiopia, in Pakistan, India and Ceylon), we only made one loan until now to any of the Arab countries. In all of them, however, technical assistance activities have taken or are taking place. In

several of them preparatory studies for quite substantial loans have reached fairly advanced stages. The problems encountered and the experiences made in this work can best be described on a country by country basis.

IRAQ

Iraq is economically the most blessed country of the six. It is not overpopulated. It has very large undeveloped resources in the form of land and water which with some investment can be brought together for productive purposes. It has oil which provides the revenues needed for such investment. As Iraq happens to be also a country in which we have already made a loan, I shall talk about it at rather greater length; treating it as a case study to illustrate some of the Bank's policies and procedures.

After various informal discussions early in 1949, the Government of Iraq put forward a request for a loan to cover the foreign-exchange costs of a number of development projects to be carried out over a four-year period. In April of that year staff members visited the country to study these proposals in the light of economic conditions in Iraq. They selected a flood control plan for early consideration. They also suggested that the plan should be executed by a Development Board, establishment of which had been under discussion for some time.

The project chosen for a Bank loan was intended to protect the Baghdad area from the flooding of the Tigris which since the earliest times had plagued the city. These floods are caused by the spring melting of the snows in the Zagros Ranges to the north of Iraq and by the heavy rains which occur in the same season. A sudden rainstorm in the upper reaches of the Tigris can raise the water level in Baghdad 8 to 12 feet in a single day. The maximum rate of flow in Baghdad in April is ten times as fast as in the September dry season, and the level of the water is 18 feet higher. Levees have been built to prevent the flood waters from overrunning the capital. But they have not been high enough to provide full protection. To save Baghdad it has again and again been necessary to allow water to run off through breaches made far upstream. This can only be done at the cost of damage to large and valuable tracts of agricultural land. In the floods which struck the area in the spring of 1954, 1-1/2 million acres were submerged; even so, it was not possible to protect Baghdad itself from some flooding. Total damage done was estimated at 20 million Iraqi dinars (\$56 million).

To attempt to raise the Tigris levees until they are high enough to hold back all flood water would be a very costly operation. The project supported by the Bank aims to continue the traditional policy of running off the excess upstream of the city, but will discharge the water harmlessly in the area of a depression known as the Wadi Tharthar. This is an arid and desolate stretch of country, whipped by dust storms and of no present value to agriculture.

The possibility of diverting flood waters into the Wadi Tharthar had been under study for several years when Bank engineers were called in. They considered that it would be practicable, and accepted it as a first step in a comprehensive plan to solve the age-old problem of the Tigris floods. Loan negotiations occupied the winter months of 1949-50. In June 1950, a loan of \$12.8 million to the Government of Iraq was signed. Execution of the loan project was made the responsibility of the Development Board, which thus began to play an active part in speeding the economic progress of Iraq.

The Bank's loans normally cover only the foreign-exchange costs of a project, while the remainder is met from local resources. Thus the loan to Iraq covers only the foreign-exchange part of the total cost of the Wadi Tharthar project, estimated in the original plans at \$29 million. The balance, covering the expenditure to be made in national currency, is being provided by Iraq. It was arranged during the negotiations that the finance required for this purpose would be paid out of oil royalties into a special account. A pledge of oil royalties constituting a security for loan service payments which could be called into play if needed, was also given by the Government of Iraq.

The interest rate on the loan is 3-3/4%, which includes a 1% commission charged on all Bank loans, as required by the Articles of Agreement, in order to provide for possible losses or defaults. The life of Bank loans - all of which are medium- or long-term - is related to the kind of project financed. In the case of the Wadi Tharthar, the loan is for 15 years and principal repayments begin in April 1956.

The proceeds of a Bank loan are not immediately paid over to the borrower when it has been signed. Various conditions are usually written into the loan agreement; the loan is not declared effective and disbursement does not begin until they have been met. The Bank then pays over the loan only as it is required for the project, and is anxious to make sure that the borrower receives good value for his money. A small commitment charge is made, in place of interest, on any part of a loan which has not been paid to the borrower.

The Wadi Tharthar loan became effective in July 1951. By that date all the legal questions connected with the loan obligation and of the security arrangements had been cleared up. By June 1954, \$6 million had been disbursed. This sum had been spent by Iraq mainly on earth-moving equipment required to build the diversion channel. Part of it had also been spent on contractors' services and on interest and commitments charge payments.

In a project such as the Wadi Tharthar, much depends on the efficiency and speed of the contractors' work. The Bank therefore required the appointment of qualified consulting engineers to prepare final designs and specifications and to supervise construction. In the choice of contractors it stressed the advantages to the borrower of competitive bidding. Bids for the first of the two main contracts were in fact received from engineering concerns in three countries, and the Bank offered suggestions on the criteria to be adopted in making the final decisions. Construction began in December 1951.

The Bank keeps in close touch with projects which are being carried out with the help of its finance. Regular reports have been received and staff members have made periodic visits to Iraq to obtain first-hand information on the progress made with the Wadi Tharthar project.

Although the economic, engineering and other merits of a project are carefully studied before the Bank makes a loan, it is prepared to consider changes from the plans originally laid if this promises to bring advantage to the borrower. Further study of the Wadi Tharthar project has made it possible to introduce a number of improvements. The main features of the plan, comprising the erection of a barrage across the Tigris and the construction of a 60-kilometer diversion channel into the Wadi Tharthar, have remained unaltered. But the barrage has been relocated 7-kilometer lower down the Tigris than the site originally chosen. This makes it

possible to reduce the length of the channel by a similar amount, and to cut the cost in a number of ways. It is also proposed to raise the height of the barrage and to expand the original concept by further provision for irrigation and by provision for the generation of electric power.

The completed project, in addition to controlling flood water, will now allow for the irrigation of between 200,000 and 300,000 acres in the area between the barrage and Baghdad, and for the installation of a considerable generating capacity. Because of various economies made possible by the change in design, the additional benefits will be obtained with only a modest increase in the total cost of the project.

As the result of the Wadi Tharthar enterprise, 1955 promises to be the last year in which Baghdad may again stand in imminent danger of flooding. It should be the last year in which life and property upstream may have to be jeopardized to save the capital. The completion of the task should also bring a large saving on the cost of repairing and strengthening the levees in the Baghdad area.

The main credit for this achievement goes to the Development Board (now the Ministry of Development) and to the Government and people of Iraq. If present plans are realized, about 2/3 of the finance will have been provided by Iraq, and nearly all the labor and skill will have come from national resources. But the Bank's loan will have increased the supply of foreign exchange available for productive investment in Iraq. By making available the lessons learned in other countries and on other projects, the Bank will also have helped Iraq to solve some of the unfamiliar problems encountered in economic development. This should prove of continuing value to Iraq in carrying out other development projects in the future, whether financed by the Bank or from the country's own resources.

IRAN

In Iran, as in Iraq, there has been basic understanding of the fact that income from oil represents drawing on irreplaceable national wealth and, therefore, should not be wasted on current expenditure but invested for productive purposes in order to provide sources of income for the population at the time when the oil will cease to flow. A Seven Year Plan was created some seven years ago and a hundred per cent of oil royalties were assigned for its execution. This policy might not have been completely realistic because it left a gap in the country's ordinary budget widely open. In order to decrease this deficit in the state budget the Seven Year Plan was given the responsibility for some deficit bearing existing state industries. Thus, the Government was taking back with one hand what it had given with the other. Worse than that was the bad start which the Seven Year Plan Organization got by having to concentrate its limited managerial experience on the organization of old, often misdirected establishments instead of working on some of the new, promising ventures. Public opinion, a factor so often neglected by Middle Eastern governments, was enraged by what seemed a lack of progress. A potentially explosive political situation facilitated the access to power of Dr. Mossadek, who - having obtained considerable terms from the concessionary company - either would not or could not stop in time by coming to an earlier agreement which would have saved his country many hundred millions of dollars and years of severe hardship. During the time that the oil ceased to flow the country could not be expected to meet additional foreign obligations and no loans were possible. If the present arrangement will work satisfactorily, Iran should be able

to make great strides towards the development of its considerable - though not yet completely surveyed - potential resources. If credits should be needed at all, they may be in the nature of advances to bridge the gap between immediate needs and future revenues from oil exploitation.

SYRIA

Syria has common traits with Iraq and Iran as it disposes of a certain reserve of land and water for irrigation. It has no oil resources, except from transit oil pipelines and an oil port. On the other hand, it has comparatively higher standards of general educational and professional skills. Private capital and enterprise are responsible for favorable developments in recent years consisting largely of an increased area under cotton cultivation. The time has come in Syria where the state should contribute to the basic equipment of the country by providing better transportation facilities and by undertaking certain large-scale public works, especially in the field of irrigation and power, which exceed the possibilities of the private sector.

In order to assist in the planning of this investment over the next years, the Bank has organized in collaboration with the Syrian authorities a General Survey Mission consisting of ten experts of some seven nationalities. This Mission spent about three months in Syria in early 1954. Its findings will become available in book form in the next months. This will be the twelfth or thirteenth case of this specific form of technical assistance of the Bank to its member countries. In the immediate neighborhood of Syria, Turkey and Iraq had been surveyed by similar missions in recent years.

Irrespective of technical assistance, the Bank is also actively considering financial assistance to Syria in the form of possible loans for several projects, including the drainage and irrigation of the fertile Ghab valley and the building of a road network linking the agriculturally productive North Eastern corner of the country with the commercial centers of Aleppo and with the new port of Latakia.

LEBANON

A country which derives much of its income from services of its commercial and financial community, obviously needs to augment its receipts on invisible account (from emigrant remittances, tourist trade and transit) by increased production. This aim will be presumably well served by the Litani development project which is supposed to increase substantially the country's hydroelectric power production and also to add to the irrigated area. In contrast to most of the other rivers in the area, the Litani is a purely national stream, which makes its development independent of international agreements. Under a rather complicated but ingenious scheme, prepared by US technicians operating under a US technical assistance program, the waters of this river will be partly diverted to the coastal region by tunnels north of the normal estuary of the river. This will allow the further irrigation of the coastal strip which grows citrus and other fruit. The considerable drop of the water will be used for hydroelectric production. As the latter will vary depending on the time of the year, it will be supplemented by thermal power and all production centers will be connected by a national grid. This important project is currently studied by a Bank mission.

JORDAN

Jordan which consists of former Transjordan and parts of Eastern Palestine, is a generally poor country, which was created largely as a result of power politics following World War I and which suffers great hardships as a result of the Palestine war. About one-third of Jordan's present population consists of refugees, who live in camps on food rations supplied by the United Nations Relief Works Agency at a value not exceeding the equivalent of \$30 per year per person. The country depends to a high degree on foreign aid both for its external and internal finances. The known development possibilities are limited to the mining of phosphates and potash as well as a few other minerals from the Dead Sea and to the development of irrigation mainly in the Jordan Valley. This latter, in turn, depends largely on the conclusion of an agreement between Israel and the Arab States on the development of the multinational Jordan basin.

Jordan joined the Bank only in 1952. The first contribution of the Bank to Jordan's development will consist of sending a small Survey Mission with the purpose of coordinating the various scattered studies prepared by different national and international agencies and to merge them into a comprehensive development plan. The execution of such a plan may still not make Jordan fully viable, but it will undoubtedly represent a major step in this direction. As this development would have to be financed primarily from grant aid, the Bank proposes to cooperate very closely with the United Nations as well as with the United Kingdom and United States Government which, at present, provide most of the aid funds for the country.

EGYPT

Somehow, the Ancient and the Modern seem never very far apart in the Egyptian picture. Now, as before, there are series of lean and of fat years; the economist will say that they have something to do with the movements of world cotton prices and with the Nile's water supply; he will regret that these cycles no longer occur with biblical regularity. Now, as before, there is the necessity to cover the deficits of the lean years by storage, but the storage of grain is largely being replaced by the storage of water needed to grow grain during the years of a low flood. One might even say that now as before Egyptian rulers are preoccupied with the erection of pyramids. But here the analogy ends. While the ancient pyramids were to serve the needs of the dead, the modern pyramid is to serve the needs of the living. I am referring to a pyramid of rock, earth and concrete which is to be built right in the riverbed of the Nile, a few kilometers south of Aswan and which is generally referred to as the High Aswan Project. The enormous reservoir to be created by this dam will extend a few hundred kilometers upstream into the Sudan and will probably be the largest artificial lake in the world. It will have sufficient capacity to store two full annual flows of the river. Its benefits to Egypt will consist of permitting an increase of the cultivated area of the land by about 50% and of producing some 10 billion of kwh per year. This project, which has been conceived only a few years ago, is to replace previous projects of a few smaller reservoirs in Egypt and in the Sudan. The project has been surveyed by a commission of several internationally famous experts from France, Germany and the United States; it is now being studied by Bank engineers.

As you probably know, only about 4% of Egypt's area is cultivable - just the narrow strip of land along the river and in the Delta. On this strip, which in

some parts of the country is not more than 2 km wide, are congested over 20 million people. The density of population in the inhabitable part of Egypt exceeds the density of population in the industrialized countries of Western Europe and in Japan. During the past fifty years, the population of Egypt has been growing much more rapidly than the area under crops. The annual rate of population growth in Egypt now is about 400,000 persons. New industries can only absorb a very small part of this increase. It is, therefore, very obvious that only considerable addition to the cultivated land - made possible by more water storage - can allow Egypt to prevent a further deterioration of the ratio of people to resources and, perhaps, even to achieve a small improvement of the income per capita. That makes the success of the High Aswan or of any comparable scheme of Nile water storage a matter of life or death for the country. Another project, which is being currently studied by Bank engineers is the construction of a new plant for nitrogenous fertilizers, which, together with the existing plant at Suez, which had been partly financed by an Export Import Credit from the United States, should more or less cover Egypt's needs for nitrogenous fertilizers which are between 500,000 and 600,000 tons per year.

Regional Approach

I should like to follow this brief country by country account by a word on the regional approach to development in the Middle East. Of the six countries mentioned before, all except Iran form part of the Arab League which also includes Lybia, Saudi Arabia and Yemen. The Arab League having not always been very successful in its political undertakings, appears now to shift some of its efforts to the economic field to promote closer economic integration between its member countries. This program is a reflection of a very real and intensive popular demand for closer cooperation between Arab countries. It is not always dictated by purely economic considerations. In fact, it can be said that while not highly competitive the Arab economies do not supplement each other to any considerable degree. All these countries have surpluses of foodstuffs and other agricultural and farm products. They all require imports of industrial goods. Nonetheless, a certain increase of intra-Arab trade can be envisaged and this aim will probably be served adequately by the Inter-Arab preferential trade and payments agreement which has now been ratified by Egypt, Lebanon, Saudi Arabia, Syria and Jordan. It foresees a complete tariff exemption for some agricultural products and tariff reductions for industrial goods produced by the signatory states.

Another problem is that of facilitating movements of capital from the oil producing countries on the Persian Gulf, which have surplus revenues, but sometimes (as in the case of Kuwait) no domestic investment possibilities, to neighboring Arab countries which have undeveloped resources but are short of capital for investment. Some time ago, a project for an Arab Development Bank was conceived within the Arab League. This project was largely based on the statutes and organization of the IERD, and was submitted to the Bank for comment and advice. In a memorandum prepared by our Bank and circulated by the Arab League to its member countries, certain practical steps were recommended to adjust the structure of the proposed institute to its main purpose, i.e. the encouragement of investment by oil rich countries within the Middle East. Further studies and conversations on this project are under way.

Apart from the creation of a separate Arab Development Bank, another solution has been recently suggested. It would consist of all the Arab States joining the

IBRD and the latter preparing a special issue of bonds within the oil rich countries to be earmarked for the financing of projects in Arab countries. This might require the cooperation of the top authorities of such currency areas as are involved, as, for instance, the Sterling area. There might be, in case of such a special IBRD bond issue, a separate Arab body - perhaps in the form of a Regional Development Board, to prepare recommendations and to provide additional screening for the various projects within the area.

Resume

In concluding these remarks, I would like to make a few remarks about the general experience of the Bank within the area. Contrary to what may be sometimes believed, the lack of "creditworthiness" or "capacity to carry foreign debt", an aspect which is very carefully examined each time before a loan is made, has not been so far a factor limiting the Bank's operations within the area. Neither has there been any unwillingness on the part of the Bank to go ahead with worthwhile projects. Everytime any of the member countries of the area expressed an interest in the Bank's assistance, a project mission or individual experts were dispatched, often at considerable cost to the Bank. Although the number of promising projects in these countries, by and large not too richly endowed by nature, is somewhat limited, yet most of these projects are sufficiently well defined to allow quicker progress than that which actually took place.

It would appear that the two greatest obstacles to more extensive loan operations until now have been: (a) lack of qualified people in the area able to work on the proper preparation of the project, or even able to understand what such a preparation involves; (b) lack of stability and continuity.

The first handicap can be overcome by patient and sometimes prolonged technical assistance from the Bank itself (during the preparation stages) and by first class consultants (in the stage of execution).

As far as political stability is concerned, the Bank's influence, of course, is nil. But perhaps even worse than political instability is lack of continuity. In the Middle East, as in many other politically and administratively not quite experienced and mature lands, new governments are often inclined to disregard completely, if not even to condemn, any preparatory economic planning which had been carried out by preceding governments. Many of the new cabinets or regimes, which are often themselves of short duration, tend, nevertheless, to adopt the attitude that the world begins from the day on which they acceded to power. In several specific cases, preparatory work done in cooperation with the Bank was thus frustrated by changes of the administration.

This handicap can probably be best overcome by the creation of development board which would represent a certain continuity irrespective of political changes and assure the execution of projects of a long-term character.

I hope that my presentation has not sounded too discouraging. Difficulties of various natures exist but the greater the challenge the nobler the effort. As an international cooperative the Bank has the duty to help its member countries and will continue to make every effort in this direction with every increasing experience. Ours is an ambitious task but the importance of the purpose and the satisfaction of every success are the source of continuous inspiration for all of us who have the privilege of being associated with this work.