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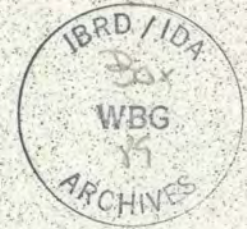
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Mr. A. F. Colet

March 30, 1970

G. Mahoney

Speech at Annual Meeting of  
International Road Federation



1. The Bank has agreed that I would make a short speech at the subject meeting to be held April 21 and 22, 1970 in Peoria, Illinois. There will be a reception and dinner the evening of April 21 with the business meeting (including my speech) on April 22.

2. Total attendance will be 60-75 people; about 30 IRF Board members and the remainder representatives of sponsoring firms. The sponsoring firms consist mainly of major US petroleum, automobile, construction equipment and tire corporations and a few large contracting and consulting firms.

3. The speech would be about 10-15 minutes in length with about the same time allowed for questions and some discussion. I have confirmed with IRF that the speech should not include any details on the organization of the Bank/IDA; should briefly touch on the past Bank/IDA lending in transportation (principally highways); and that the main emphasis should be on future programs. IRF clearly understands that the "future" can be discussed only in very broad terms and that no specifics on amounts, countries, etc. will be presented.

4. With the above background, I suggest the following speech outline which has been agreed in substance with Mr. Hanly. A draft speech based on an agreed outline will be submitted for your approval in early April.

G Mahoney/lsc

*Certainly no objection to  
either publication or  
delivery.*

*W. J. Hand  
4/10/70*

## THE ROLE OF THE WORLD BANK IN FINANCING WORLD HIGHWAY CONSTRUCTION

I understand that all of you are reasonably familiar with the organization of the World Bank Group so I will dwell on that subject only briefly.

At present the World Bank has 112 member countries, all with the common purpose of promoting economic development through sound investments that will assure continuing economic growth.

Later in discussing activities of the World Bank, I will refer to "loans" which include what we term loans and credits. Conventional loans by the Bank are made at a current interest rate of 7% with a term that is usually related to the life of the goods being financed. Credits are made by IDA to the poorer, undeveloped countries with no interest but with a 3/4% annual carrying charge and usually with a 50 year term.

The Bank assists its' member countries in practically every field - education, industry, power, agriculture, transportation, to name some of the most important. Today I would like to deal with transportation and, in particular, highways.

First, a brief look at the Bank's past efforts in the transportation field; and then some thoughts on our goals for the future.

For the past, a few statistics are pertinent and, I think, interesting. Bank lending during the 5 year period 1965-1969 totaled about \$6.5 billion. Of this amount about \$1.9 billion, or slightly less than 30% was for transportation projects. The distribution of this \$1.9 billion between transportation sectors was:

Ports	-	\$110 million or 6%
Railways	-	\$700 million or 37%
Highways	-	\$1.1 billion or 57%

The \$1.1 billion for highways is almost 15 times the total of highway lending in the 1951-55 period which clearly illustrates the substantial growth in Bank activity in this important sector. This amount of \$1.1 billion helped finance the construction or improvement of about 12,000 miles of roads in addition to maintenance equipment, technical assistance and training.

In 1969, the last year of this 5-year period, transportation loans showed a sharp increase - almost double in number and value as compared with the previous year. In 1969, 34 <sup>transport</sup> loans totaling about \$475 million were made to 26 countries - of this total, 63% or \$300 million was for roads. The investment in roads included the direct purchase of maintenance equipment valued at about \$30 million and we estimate that an additional \$50 million was used by contractors for construction equipment.

So much for the past.

I'm sure you will appreciate that I can discuss the "future" in only broad terms. I can give you some general values of planned Bank lending for main areas of the world which should be of interest.

When Mr. McNamara became head of the World Bank in 1968, one of his initial efforts was to have Bank staff prepare a 5-year program. To do this, a 5-year development plan was formulated for each developing country assuming the availability of funds and with the only limit on Bank activities being the capacity of the countries to use assistance effectively and their creditworthiness.

The results of this effort showed that there would be a substantial increase in World Bank activities - in fact, there was a potential for doubling the amount lent in the preceding 5 years. It was made clear, however, that this increase in the volume of assistance would be carried out with no reduction in the normal high quality of Bank operations.

For the 1970-74 5-year program, major emphasis will be given to education and agriculture but very substantial increases are also planned in the transportation sector where total lending is expected to be between 3 and 4 billion. This would be distributed within the transport sector approximately as follows:

Railways	-	\$700 - \$800 million	
Ports	-	\$300 - \$400 million	
Airports and Pipelines	-	\$ 75 - \$100 million	
Highways	-	\$1.9 - \$2.3 billion,	which is about twice the amount lent for the entire transportation sector in the preceding 5 years.

With this approximately \$2 billion we expect to make about 120 - 130 loans to help improve or construct some 30,000 miles of various types of roads. In this program it is estimated that nearly \$150 million would be for the direct purchase of road maintenance equipment and that an additional \$400 - \$500 million would be used by contractors for construction equipment.

Our rough projections for highway loans in the major areas of the world during the coming five years are:

East and West Africa	-	\$450 million
East & South Asia and the Pacific	-	\$450 million
Europe, Middle East and North Africa	-	\$250 million
Central and South America	-	\$800 million

This is an ambitious plan, but sound possibilities exist for the planned increase because of advances in skills and infrastructure and general economic growth in many of the developing countries.

In the past few years Bank projects have, in general, been taking a <sup>new</sup> different shape. In many countries, projects of obvious high economic priority have already been carried out and a need has arisen for sounder planning and coordination within the transport sector in order to assure the best use of investments. For this reasons we are placing a heavier emphasis on pre-investment work; - in many cases with the help of the United Nations Development Program (UNDP) and with bilateral agencies (usually individual governments of the developed world). This approach has led to use of what we call the "piggy back" system. While the greater part of a loan may be for construction of particular roads, at the same time the groundwork for subsequent projects is being laid. This may include transport surveys, road system studies, feasibility studies and detailed engineering.

In relation to project execution, we are placing greater stress on institution building. In many cases this entails consulting services, technical assistance and training for reshaping the borrowing country's highway department to improve its planning, design and construction capabilities. In some cases this involves regrouping and some reorganization of several agencies dealing with transport to create an effective transport planning and coordinating body.

An especially important phase of institution building is increasing a country's maintenance capabilities, calling for improvement in methods as well as for the purchasing of equipment. Under certain condition this aspect is so important that the Bank occasionally makes loans for maintenance projects alone.



Another gradual innovation in the execution phase is the effort to stimulate growth of the local consulting profession as well as the local contracting-industry in developing countries. These groups certainly welcome the opportunity to perform, and at the same time, this is a necessary step toward self-sufficiency. One thing should be made clear - the Bank never forces or makes compulsory "marriages" between foreign and local firms. But, where we feel the local firms have a potential to contribute to a project and that their association with a foreign firm will benefit them and the country, we certainly encourage joint ventures and associations.

The majority of future projects can be expected to follow these trends, as we become more and more involved in the overall improvement of transportation as a key factor in economic growth. We can see very encouraging results in many countries where we have included these elements as part of our projects. When we see sounder planning leading to better project selection; improved execution through better organization; and increased local involvement in all phases; we are convinced that our overall approach is sound.

Gentlemen, I have talked long enough on the role of Bank financing in world highway construction. If there are any questions, I will be happy to try to answer them.

GMahoney/isc  
April 20, 1970