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The World Bank
1818 H Street NW
Washington DC 20433
Telephone: 202-473-1000
Internet: www.worldbank.org

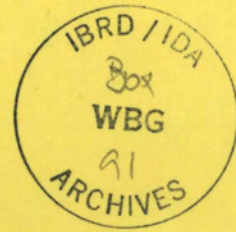
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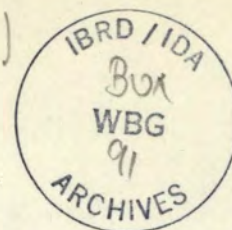
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D. PRYOR

filed: MR PRYOR - (3 copies in cabinet speech P)



Mr. van Campenhout

March 9, 1971

Donald J. Pryor

Outline and supporting data for Brussels seminar

I have tried to follow the general pattern we discussed, in a way that might generate some lively discussion. It's shockingly over-simplified, but I hope it helps, and wish you luck.

Five Ages of the World Bank

I. The Conception at Bretton Woods, 1944

A. The context

1. Collapse of the international financial structure between the wars.
 - a. Total instability in exchange rates.
 - b. Beggar-thy-neighbor monetary policies -- competitive devaluations, multiple and discriminatory rates, etc.
 - c. Massive defaults, resulting in a collapse of confidence in international obligations and the virtual disappearance of international capital markets; in the U.S., site of the only viable capital market remaining, the adoption of legislation prohibiting the purchase of international obligations by institutional investors.
2. Collapse of international trade.
 - a. Competitive and discriminatory tariffs, quotas, preferences, etc.
 - b. Resort to barter.
3. Deep, worldwide depression.
4. Imminent consequences of the war.
 - a. Destruction in western Europe, requiring finance for reconstruction.
 - b. Collapse of the colonial system, requiring the construction of a new order which, hopefully, would be more viable, stable and beneficent than the old.

B. The assumptions.

1. Reasonable exchange stability buttressed by a cushion for the adjustment process through short-term aid to countries in balance of payments difficulty was seen as the first prerequisite -- fundamental to all other steps that might be taken. Hence the Fund.

2. While step (1) would provide the financial framework for a rebirth of trade, adequate expansion would require swift and progressive liberalization, including the elimination of excessive tariffs, quotas and other discriminatory obstacles to movement. Hence, the assumed necessity for an International Trade Organization, which instead came to be GATT (no pun intended).
3. The concept of the Bank rested on four assumptions.
 - a. There would have to be adequate capital to finance the transfer of goods from America required for the repair of European destruction. No one knew how big the task would be, but it was assumed that some international assurance would be required by the American financial and industrial institutions.
 - b. If trade was really to flourish, confidence in international obligations would have to be established and stimulation provided for the free flow of capital. This, too, would probably require some international guarantee, at least for a time.
 - c. If the new order, replacing the colonial system, was to contain the seeds of peace, it would have to rest on the self-reliance and integrity of truly independent nations. This also might require considerable transfers of capital (no one had the vaguest notion of how much) to help the former colonies and other poor countries finance imports for their development needs.
 - d. The achievement of these objectives, especially of (c), would require that financing be tied whenever possible to specific projects of high priority, fully justified on sound economic grounds and with assurance of the borrower's ability and willingness to repay. There must never again be the kind of irresponsible international lending, for unspecified purposes and without supervision, which had led to the inter-war defaults and collapse.
4. Underlying all this was general recognition that the fundamental problem to be overcome was poverty everywhere -- as explicitly stated in the opening address at Bretton Woods by the Chairman, the United States Secretary of the Treasury, Mr. Morgenthau.

II. The age of Meyer and McCloy -- June 1946 to June 1949.

A. Administrative and financial organization.

1. Membership increased from 38 countries to 48.
2. Staff increased from a small nucleus to 392 of 21 nationalities.

3. Starting with a slight deficit on operating expense, total funds available for use increased to more than \$1,000 million. Subscriptions rose to more than \$8,000 million, against an authorized total of \$10,000 million.
4. The Bank made its first borrowings, and its debt increased to \$261 million.

B. Lending for reconstruction.

The Bank's participation in European reconstruction began and ended in this period, totaling about \$500 million. The last loan for the purpose was one of \$16 million to Belgium, made in March 1949, nearly two years after the main task had been taken over by the Marshall Plan, which in three and a half years provided a fifth again as much as the Bank's total authorized capital.

G. First glimpses of the development problem.

1. The need for technical assistance as an integral aspect of development finance -- lesson of the first development operation, two loans to Chile in March 1948 for power and the import of agricultural machinery. Some results, agreed to and carried out by the government:
 - a. The budget was balanced, and showed a 10% surplus in 1948.
 - b. The decline in foreign exchange reserves was reversed.
 - c. Agreement was reached with foreign bondholders on settlement of external debts which had been in partial default since 1931.
 - d. The value of exports increased by 19% in 1948, while imports were held at the 1947 level.
 - e. Major advances were made in both industrial and agricultural production, helping to mitigate the effects of a sharp decline in copper prices.
2. Loans to Brazil (\$75 million) and Mexico (\$34 million) for power.

III. The age of Black -- July 1949 to December 1962.

- A. Final abandonment of guarantees to generate development finance.
- B. Establishment of a large and broad market for Bank bonds.
 1. The public relations effort.

- a. Repeal of legislation prohibiting purchase of Bank obligations, first by the U.S. Congress, then by most of the States.
- b. Acceptance by the banking and investment community, first in the United States, then in other countries.
2. The performance effort. In its operations, the Bank consciously established a reputation for the productive use of funds, an unblemished repayment record, and profitability.
3. Results.
 - a. Funded debt rose to more than \$2,500 million, including \$620 million denominated in currencies in other than U.S. dollars: Canadian dollars, deutsche mark, Italian lire, Netherlands guilders, pounds sterling, Swiss francs -- and \$10 million in Belgian francs.
 - b. This permitted lending to increase to more than \$7,000 million in 51 countries.
- C. The evolution of techniques for development financing.
 1. The institutional structure -- area and technical departments; country economic missions and appraisal missions; the project task force; negotiations; recommendation by the President; decision by the Board.
 2. Loan conditions -- the Loan Agreement; uses*of consultants; methods of procurement; supervision.
 3. Emphasis on policies, development programming, and priorities in the allocation of resources -- the further development of technical assistance.
 - a. Country surveys and economic reports.
 - b. Advisers on project identification and preparation, planning, resource mobilization, etc.
 - c. Technical assistance stemming from project work -- institution-building, management, financial analysis, accounting, technical training.
- D. Emphasis on infrastructure. At the end of this period, two-thirds of Bank financing was in electric energy and transport, 16% in industry. Less than 8% was in agriculture, and 85% of that was for large irrigation projects and farm machinery.
- E. The establishment of IFC in 1956, of IDA in 1960.
 1. Rationale for IFC

2. Rationale for IDA

- F. First experiments in the coordination of aid -- the consortia for India and Pakistan, 1958 and 1960.

By the end of the period, membership had increased to 85 countries and the staff to 884 of 55 nationalities.

The Bank's authorized capital was increased to \$21,000 million.

IV. The age of Woods -- December 1962 to April 1968.

A. The realignment of development priorities.

1. After world food production fell below the increase in population in 1965, virtually all countries reassessed their priorities and gave agriculture a higher place. Under Mr. Woods, the Bank had taken the lead in urging this change. Lending for agriculture increased during the period by 78%, against a total for all purposes of 60%.
2. The Bank urged greater stress on industrial investment, and its own operations in this field increased by 100%.
3. Mr. Woods also stressed the crucial importance of education, and committed the Bank to help its developing members overcome strategic development-related problems in this field. Its first loans for education were made in this period.

- B. Increased emphasis on the coordination of aid -- establishment of consultative groups. By the end of the period there were 11 under the Bank's chairmanship and several under the auspices of other institutions. Some 40% of aid from all sources was affected by these mechanisms and the consortia.

(By the end of this period, membership had increased to 103 governments. The staff had expanded to 1,326, comprising 68 nationalities. There had been a further increase in authorized capital to \$24,000 million. The funded debt had gone up to \$3,290 million and total lending to \$11,247 million. IDA's resources had been increased to \$1,383 million and a second replenishment of \$1,200 million had been agreed upon.)

C. Deep involvement in African development.

1. Membership. At the beginning of this period, 18 African countries were members of the Bank; at the end there were 34.
2. Lending. Including IDA's new operations, total lending in Africa increased during the period by 80%, to more than \$1,700 million.
3. Technical assistance. Needs in Africa both more comprehensive and more intensive. Establishment of Permanent Missions in Abidjan and Nairobi. Conclusion of special agreements with Unesco and FAO to help identify and prepare projects in education and agriculture.

V. The age of McNamara -- April 1968...

A. The target (Annual Meeting speech, 1968) and results.

1. In the five years to mid-1973, to double the Bank Group's lending of the previous five years -- or about 90% as much as in all of the Bank's previous 22 years. That would be an average for the five years of \$2,360 million; in the fiscal year which ended last July 1, actual lending by the Bank Group was \$2,398 million. If IDA's funds are replenished in accordance with an agreement now being considered by various legislatures, we expect the level to rise to about \$3,000 million next year; \$900 million of this would be provided by IDA to the very poorest countries, in 50-year credits with no interest except for a service charge of $\frac{3}{4}$ of 1%.
2. To triple investment in Africa over the same five-year period. It has already increased by 270%.
3. To double lending in Latin America. It has more than doubled.
4. To triple the Group's financing of education. So far, it has increased 260%.
5. To quadruple lending for agriculture. It has expanded by 333% so far, half-way through the five-year period.
6. At the same time, total lending to Asia has increased by nearly 80%, and there have been substantial increases in all other sectors in addition to agriculture and education.

B. Borrowings. To finance such expansion, the Bank has borrowed more heavily than ever before. By January 31 of this year, its funded debt had grown to more than \$5,200 million, and its liquid assets to somewhat more than half of that amount.

C. Mr. McNamara also committed the Bank to assist its member countries, whenever requested, to establish or improve programs to reduce the rate of population growth. Today, the Bank has a fully operating department for population projects and an active program of lending in that field.

D. Expanded coordination effort. The Bank now sponsors 15 aid coordinating groups, provides staff support for three additional ones, and is an active member of another. Estimates of the proportion of total aid scrutinized by these groups suggest that it amounts to some 60%.

E. Further goals.

1. Mr. McNamara has committed the Bank to a search for solutions to the increasingly serious problems associated with excessive urbanization and rampant unemployment, and to assist by financing appropriate projects whenever possible.

2. In their regular analyses of borrowing countries' economies, the staff now make every effort to incorporate major social problems, including health, and their consequences for development.
3. The environment. The Bank has employed an outstanding ecologist, whose function is to screen all proposed projects in terms of their effects on the environment, to bring these problems and possible solutions to the attention of the borrowing country, and to assure that they are given full attention in the Bank's appraisal reports.

(During this period to January 31, 1971, the Bank Group's lending operations have increased by 39%. The Bank's funded debt has grown by almost 60%. IDA's third replenishment became effective, adding \$1,200 million to its resources. Subject to necessary parliamentary approvals, donor countries had agreed to a third replenishment at the rate of \$813 million a year for three years. The Bank continued to make grants to IDA out of its net earnings, and by the fall of 1970 these had totalled \$485 million. By early 1970, the staff had risen to 2,800, including nationals of about 90 countries.)

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You had included in your verbal outline some discussion of the limits on future expansion, etc. Also some emphasis on the pragmatic nature of the Bank Group's evolution, and some mention of the young professional program. Pragmatism applies throughout, of course. The young professional program belongs in the Age of Woods. You may want to wind up with something on the first point.

DJP:ij:az