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IMF, THE WORLD BANK GROUP* AND THE DEVELOPING COUNTRIES

by

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** Although the author is on the staff of IBRD the views expressed in this paper are those of the author. They should not be interpreted as reflecting the official views of the World Bank Group.

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IMF, THE WORLD BANK GROUP AND THE DEVELOPING COUNTRIES

> I think that there is a real, though very slow-moving, tendency for national interests to overrule provincial interests, and international interests to overrule national, and I think the time will come at which it will be thought as unreasonable for any country to regulate its currency without reference to other countries as it would be to have signalling codes at seas which took no account of the signalling codes at sea of other countries.
>
> Alfred Marshall (1888)

> Do not discourage us. Perhaps we are laying the first brick, though it may be a colourless one, in a great edifice.
>
> Lord Keynes (1944)

Introduction

The need to create an agency for international monetary control had been evident to some long before the convening of the International Monetary and Finance Conference of the United and Associated Nations -- even long before the international monetary crisis which precipitated the meeting. But, as Harold Lasswell has noted, "crisis concentrates attention," 1/ and thus it was that on July 1, 1944 the representatives of 44 nations met at Bretton Woods, New Hampshire, to establish two institutions*-- the International Monetary Fund (IMF) which was to prevent such a crisis from occurring again, and the International Bank for Reconstruction and Development (the World Bank), which was to deal with the reconstruction of Europe. The organizations were born, then, of urgency, but once that critical phase of history had passed, the IMF and, especially, the World Bank had to meet the burgeoning problems of the Third World. The last twenty-five years have brought the emergence of many new nations and an awareness of the disparity between the rich nations and the poor. The immediate challenges of the Third World are the challenges of development. How the World Bank and the IMF have adapted to meet the needs of the present, and the ways in which they deal with development problems are the subjects of this paper.

1/ Harold D. Lasswell, "Attention Structure and Social Structure," in The Communication of Ideas, Lyman Bryson, ed. New York: Harper, 1948, p. 262.

The Nature of the Earlier Crisis

The depression of the 1930's revealed the perils of the international monetary system which then obtained -- a system devoid of systematic international control, one in which each country was responsible only to itself for the value it set on its own currency in terms of gold (the accepted international standard). With the sharp decline of economic activity in the major industrial countries had come an attendant drop in their level of imports. International trade had falled from $55.9 billion in 1929 to $21.8 billion in 1932. There was strenuous rivalry for foreign markets, and both as consequence and as cause, each country took measures which it thought would help to stimulate business activity within its borders and increase its exports. In many countries, the currency was devalued in order to lower export prices. All over the world, severe restraints were placed on international trade; and, in particular, exchange controls were established to prevent the free use by exporters and others of foreign currencies which they had earned. A vicious circle was set in motion -- each country taking desperate measures irrespective of their international ramifications, in attempts to save its economy and other countries being forced to take counter-measures in response. There was no international regulatory agency to turn to; when countries ran into balance of payments difficulties they had nowhere to seek shelter but under nationalist umbrellas which could not possibly be strong or broad enough to provide much protection from falling economic debris. By 1937-38 the volume of international trade had risen only to $24.3 billion, and then came World War II which left the old economic order in shambles. Those who met at Bretton Woods were therefore motivated by the need and the desire to establish a new monetary order based on firmer foundations.

Bretton Woods Conference

The Bretton Woods Conference marks a triumph of international monetary order over unrestrained nationalist interests and of pragmatism over doctrine. There the Articles of Agreement 2/ of the IMF and the World Bank were drafted.

The IMF was to combine three major functions: regulatory, financial and consultative. In its regulatory aspect, it was to be the guardian of a code set up by its Articles. In its financial aspect, it was to be an agency with resources available for lending at short- to medium-term to national monetary authorities to meet balance of payments deficits. In its consultative aspect, it was to provide a center for international cooperation and a source of counsel and technical assistance to its members. The Bank was to aid in the reconstruction of post-war Europe and the development of underdeveloped countries. It was intended to give private investors assurance that their investments overseas would be safe. It was to encourage foreign investment, at most to complement it, but not to compete with, or displace, it. Thus only one-fifth of the Bank's original subscribed capital was paid in cash, while the other four-fifths was uncalled commitments serving as guarantee for the Bank's obligations. It was soon to be realized, as will be seen later, that the Bank would better serve the interests of both borrowers and lenders by serving as a channel rather than as a guarantor for capital.

Membership

Membership in the two institutions is not available to countries as a right, but the criteria applied in permitting membership are few. 3/

2/ The Articles of Agreement of each one of the two institutions is the "constitution" or "charter" which defines their purposes, determines their powers and governs their conduct.

3/ Joseph Gold, "The Institutions," in The International Monetary Fund 1945-1965, Vol. II, J. Keith Horsefield, ed. Washington, D. C. IMF, 1969, p. 514.

The basic condition is that members agree to establish with the Fund a par value of their currency, expressed in terms of gold or of the U.S. dollar of the weight and fineness in effect on July 1, 1944. Recognizing that any change in their par value is a matter of common concern, members undertake to refrain from such action except to correct a fundamental disequilibrium in their payments, and even then to act only after consultation with the Fund.

Membership in the IMF is the principal condition for membership in the Bank; thus it is the IMF that must satisfy itself that the country is a state that conducts its own international affairs and that can meet the obligations of the Articles. Applicants need not be members of the United Nations. (Thus the Federal Republic of Germany, Japan, the Republic of Korea and the Republic of Vietnam are members of the IMF and the Bank.) Neither are all members of the UN members of the Fund, as indeed the USSR and most other Eastern bloc countries are not. 4/

The Bank and the IMF are distinctive among UN specialized agencies in respect of two provisions which are central to their power structure, their internal organizations and their methods of operations. These two provisions are (a) capitalization, and (b) weighted voting.

a. Capitalization

The capital structure of the IMF and the World Bank is the key, not only to their methods of financing, but also to the means by which they are governed. At their establishment, the IMF was provided with authorized resources of $8,800 million, and the Bank with an authorized capital of $10,000 million. 5/ A country joining the IMF is required to pay a certain

4/ USSR, Poland and Czechoslovakia attended Bretton Woods. Poland resigned membership of the Fund on March 1950, alleging that IMF had become "a submissive instrument of the Government of the United States." (p. 258). Czechoslovakia was required to withdraw on May 1955 after refusing to supply data on national income. (p. 363). Cuba withdrew on April, 1964 (p. 594). The USSR never joined the IMF, although it made "no formal refusal." (p. 117). All references are from J. Keith Horsefield, The International Monetary Fund, 1945-1965, Vol. I, Washington, D.C. IMF, 1969. In retrospect, this may have been a fortunate development, for these organizations, due to the nature of their activities, were thus spared the sort of political and ideological conflict characteristic of some other U.N. agencies, which might have impeded their growth and destroyed the harmonious working atmosphere which has prevailed.

quota which is founded on a somewhat complicated formula designed to reflect the economic strength of the member country. To join the Bank the country must subscribe to the capital of the Bank, again approximately proportionate to IMF quota. It would serve no purpose in this paper to go into greater detail on how the IMF quota or Bank subscription are determined 6/ except to point out that the size of quota determines the weight of the vote of the member country and, second, that it regulates the amount a country may draw from the IMF. (It does not affect the amounts of loans that the member may seek from the Bank.)

(b) The Weighted Voting 7/

The principle of weighted voting puts the IMF and the Bank (along with the Bank's affiliates) in a special category among UN specialized agencies. The authors of the charters of these institutions struck one of the most important innovations in relations among sovereign nations. While respecting the principle of equal sovereignty among the states by entitling each stage to a base of 250 votes, the IMF and the Bank acknowledge the difference in the states' economic strength, in a differentiated quota system. The size of the quota determines the weight of the vote (i.e., the number of votes beyond the base 250). The quota system thus establishes the principle that a country's power is generally proportionate to its quota.

The voting rights are held in the first instance by each institution's Board of Governors, comprised mainly of ministers of finance and governors of central banks (in some cases, the same person serves as his country's governor on both boards). The Governors meet only once a year though they cast mail votes when necessary, and they delegate most of their responsibilities to a working Board of Executive Directors. 8/

5/ The authorized capital for each institution was since increased to the present level of $__________ for the IMF and $__________ for the Bank.

6/ Readers interested in the subject should consult reading ...,..., and ... in the bibliography.

7/ For a study of the weighted voting system, see E. McIntyre, "Weighted Voting in International Organizations," International Organizations, Vol. 8 (1954), pp. 484-498.

8/ There are 20 Executive Directors at the present time.

These Executive Directors, most of whom serve full time, direct the general operations of the IMF and the Bank. Five of the Directors are appointed directly by the five largest participants, the U.S., U.K., France, Germany and India. 9/ The remainder represent groups of countries, each group aggregating sufficient votes to provide the Director with an audible voice in the councils of the Bank and the IMF. Some of these groupings are fairly natural, such as that formed by the five Nordic countries. Some are strangely disparate, like the conjunct of Cyprus, Israel, the Netherlands, and Yugoslavia that is represented by a citizen of the Netherlands. And there is one enormous group of 17 African states, represented by one Executive Director. It must be noted here that an Executive Director who represents more than one country cannot divide his votes according to the countries' quotas. He may voice the views of the member governments which constitute the coalition he represents, but his votes are one unit. There are few formal votes, however. The search for consensus on both major and minor issues is one of the distinctive characteristics of the policy-making and decision-making process of these institutions.

Organization and Management

By way of comparison one could liken the Board of Governors to stockholders and the Executive Directors to a Board of Directors. 10/ The executive responsibilities lie in the hands of the President of the Bank and the Managing Director of the IMF, assisted by their respective staffs of international civil servants. Each is selected for a five-year term by his institution's Executive Directors and serves as their chairman, and each has a casting vote in case of an equal division. An American has always served as President

9/ In the most recent reapportionment of quotas, Japan will occupy the place of India as the fifth largest shareholder in both institutions.

10/ The Executive Directors for the Bank serve *ex officio* the International Finance Corporation and International Development Association (see below).

of the Bank, and a European as Managing Director for the IMF. 11/ Each heads a large institution operating according to principles of hierarchy and division of labor. Each institution carries out its tasks through departments organized according to function (projects, in the Bank; central banks in the IMF), area (e.g., Europe and Middle East, Western Africa) and service (e.g., legal department, secretary's department). In the case of the Bank, for example, a functional department appraises a project, the area department negotiates with the borrower the conditions of the loan and the legal (service) department draws up the legal agreement. Similar procedure is followed by the IMF.

To understand the relationships between the Executive Directors and the staffs, a number of factors must be borne in mind: (a) that there is a division of labor between the directors, who decide on policy, and the management and the staff, who are responsible for operational, administrative and organizational matters. The management of the Bank has, however, greater freedom in administering the affairs of its institution than has the management of the IMF, a distinction which has apparently obtained since the two institutions' inception. Commenting about the Bretton Woods Conference, Dean Acheson noted that while the charter of the IMF "was largely dictated by monetary experts and narrowly hedged about, the Bank management could do anything it wanted to." 12/ (b) As an international civil servant, a Bank or IMF staff member is not accountable for his conduct of business before the executive directors. He is accountable solely to the President of the Bank or the Managing Director of the IMF, each of whom has unlimited power of hiring and

11/ When both institutions were established, the United States, as the largest stockholder, had a choice between the two positions. The Americans felt at the time that an American President would have more avenues to the American financial market than a foreigner.

12/ Dean Acheson, Present at the Creation (N.Y. W. W. Norton & Co., 1969), p. 83.

firing (within limits of the budget, of course) and for shielding their operations from undue incursions from an Executive Director. (c) As in any professional organization, in these two institutions it is the permanent staff, and not the relatively temporary executive directors, which becomes over the years the repository of detailed technical knowledge. (d) In the case of the Bank Group the authority to propose the making of loans is vested in the management of the Bank, while the authority to approve them is vested in the Executive Directors. (One is reminded of the right of the U.S. President to nominate and the right of the U. S. Senate to advise and consent).

The management and the staff owe their duty entirely to their respective institutions and to no other authority; they are officials of these institutions and are paid by them. The international character of these institutions is represented in the national diversity of their personnel. In contrast to many other UN agencies, there are no national quotas for personnel, but the management of each institution is required by its articles "to pay due regard to the importance of selecting personnel recruited on as wide a geographical basis as is possible."

The Bank and the IMF are prohibited by their Articles of Agreement from conducting their business on the basis of political considerations. They are enjoined from interfering in the political affairs of any member and are expected not to be influenced in their decisions by the political character of the member country. In practice, however, policies are not always determined solely by economic considerations. For one thing, each of the Executive Directors is the representative of a state or a group of states, and thus bears in mind national or, at least, regional, interests. Second, the system and weighted voting gives considerable strength to the wishes of a few industrialized countries, and principally to the United States (compare the U.S. 24% with Lesotho 0.10% of the vote -- i.e., a ratio of 240:1). The old proverb, "He who pays the piper calls the tune" must apply, in some measure, to the work of both organizations. This does not mean that there are irreconcilable differences in the Board between representatives of the rich and the poor countries. The fact that formal voting has almost completely disappeared and the fact that almost all decisions are reached by consensus and not by majority is indication that the rich countries have been reluctant to assert themselves beyond the limits of prudence. Indeed, there is no natural disparity of interests to warrant less harmonious relations.

In the first section of this chapter we have viewed briefly the circumstances of which the IMF and the World Bank were born, and have looked at the primary purposes and the internal organization of these two institutions. In the following section we shall explore more fully how the IMF and the Bank and its affiliates aid their member developing countries.

II. Economic Assistance to Developing Countries

"Fortunate is the country," says Ursula Hicks, "that can manage its development without external borrowing."[13/] Few countries have been so fortunate; certainly not those underdeveloped nations which have undertaken rapid growth. The problem of financing economic development is, of course, only one dimension of the large and complex issue of modernization and nation-building, and in this paper we shall be exploring but some aspects of the problems of financing -- principally, the roles of the World Bank Group and the International Monetary Fund in aiding developing nations.

A major reason, no doubt, for the importance of these two institutions lies in the preference of the developing countries for international, or at least, multilateral financial assistance. In these countries, many of which are but recently free of the colonial yoke, bilateral aid remains suspect. They are wary, and their fears are at least in part justified by their experience, lest a donor should, under guise of assistance, pursue its own political and economic interests to their disadvantage; they reject such relationships with other nations as might infringe upon their sovereignty. It may be that some of the fears are unsubstantiated, but in a world where images have been elevated to position of high respectability the image of aid is at least as significant as the content. And the image of bilateral aid has, in recent years, been tarnished. In contrast, while either the Bank or the IMF might suggest changes in a borrowing country's economic policy, such assistance is, of course, free of political strings. Neither is a borrower constrained (in the case of borrowing from the Bank Group) to purchase particular goods and services from any particular member country.

13/ Ursula K. Hicks, Development Finance: Planning and Control (Oxford University Press, 1965), p. 38.

If the two institutions were to be ranked in terms of their contribution to financing economic development according to the criterion cui bono, it would have to be the Bank which would be assigned first place. This is not to say that the Bank is more important than the IMF; rather it reflects the manner in which the two institutions complement each other -- a relationship emanating from their different functions and their differing roles in the developing countries.

The reader will remember that the International Monetary Fund was created as the embodiment of three principles: (a) a code of financial conduct in the international sphere which would outlaw competitive depreciation of exchange rates, (b) a common recognition that international financial assistance would be needed to assist countries to abide by this code, and (c) a readiness to relinquish some part of national authority in the interests of the international community.

The primary function of the Bank is to make its resources available for the augmenting of economic growth and development, i.e., to increase productive capacity and economic efficiency. These different emphases in the objectives of the two institutions were reaffirmed in 1966 in an arrangement between them defining clearly their spheres of operations. According to this arrangement the IMF was to have primary responsibility for exchange rates and restrictive systems, for adjustment of temporary balance of payments disequilibria, and for evaluating and assisting members to work out stabilization programs as a sound basis for economic advance. The Bank, on the other hand, was recognized as having primary responsibility for the composition and appropriation of development programs, for project evaluation and for the determination of development priorities.[14/]

14/ Horsefield, Vol. I, op. cit., pp. 603-4. On p. 43 Horsefield relates that India's proposal at Bretton Woods that the IMF be required "to assist in the fuller utilization of the resources of economically underdeveloped countries" was opposed on the grounds that this was a matter for the Bank rather than the IMF.

The methods of operation of the Bank and the IMF, respectively, will be explored in more detail in the two sections which follow. In accordance with the scheme of the United Nations official publications, we shall divide economic assistance into (a) financing of economic development, and (b) technical assistance.[15/] As it is the World Bank and its affiliates (which we have yet to discuss) which are responsible for most of such financing, it is to the activities of the Group that this section will principally address itself.

Economic Assistance

The World Bank Group

A. I.B.R.D.

In their quest to create a new economic order, the conferees at Bretton Woods were concerned primarily with the industrialized countries. The developing countries represented at the Conference were Latin American States, and they were really considered the backyard responsibility of the United States. The emergence of many newly developing countries and their attendant economic and political problems were completely unforeseen at the time. Indeed, according to Eugene Black, a former President of the World Bank, the idea of development aid for the developing countries was more or less an afterthought.[16/] This orientation is evident in the Bank's Articles of Agreement which state as the purposes of the Bank:

(1) To assist in the reconstruction and development of territories of the members, by facilitating the investment of capital for productive purposes, including the restoration of economies destroyed or disrupted by war, the reconversion of productive facilities to peacetime needs and the encouragement of the development of productive facilities and resources in less developed countries.

15/ See also Uner Kirdar, The Structure of United Nations Economic Aid to Underdeveloped Countries. The Hague: Martinus Nijhoff, 1966, p. 5.

16/ Eugene R. Black, The Diplomacy of Economic Development. Cambridge: Harvard University Press, 1960, pp. 42-43.

(2) To promote private foreign investment by means of guarantees or participation in loans and other investments made by private investors; and when private capital is not available on reasonable terms, to supplement private investment by providing, on suitable conditions, finance for productive purposes out of its own capital funds raised by it and its other resources.

(3) To promote the long-range balanced growth of international trade and the maintenance of equilibrium in balances of payments, by encouraging international investment for the development of the productive resources of members, thereby assisting in raising productivity, the standard of living and conditions of labor in their territories.17/

It was soon realized that due to originally unforeseen problems the attainment of some of these purposes would be difficult, if not impossible. First, private capital was quite unsuited to the task of reconstruction and what could be mobilized was wholly inadequate.18/ Secondly, private portfolio investment after the war was concentrated in institutional lenders, who, with the memory of the pre-war years still fresh in their minds, were unwilling to take the risks involved in international investments. Thirdly, the Bank's role as a channel for private portfolio investment was restricted in too many ways. The Bank's statutory requirement for government guarantees for loans to non-governmental borrowers was not compatible either with government policies or with the interests of the entrepreneurs, many of whom were reluctant to seek such a guarantee in view of the fact that it would leave them vulnerable to government-imposed conditions. The Bank's responses to these difficulties were, first, to shift focus from "reconstruction" to development, and a few years later, in 1956, to establish the International Finance Corporation, which does not require a government guarantee for its investments, to serve as a catalyst for private investment.

17/ Articles of Agreement, Art. I

18/ The Marshall Plan had replaced the Bank's role in reconstruction.

In focusing upon development, the Bank was to make loans designed to improve the productive capacity of the borrower. The Articles of Agreement clearly stipulated that the Bank loans were not to cover budget deficits, finance international "shopping lists" or go into monetary reserves; they were to finance the creation of real, not paper, assets.[19/] Real assets were, moreover, to be productive, with priority given to the projects that were the most useful and urgent.[20/] As a matter of normal practice, loans were to cover only the foreign exchange costs of projects and only exceptionally to finance expenditures in local currency.[21/] The Bank was to ensure that the proceeds of loans were applied only to the purposes for which they were made,[22/] and drawn down only to meet expenses as they were incurred.[23/] Interest rates and repayment schedules were to be appropriate to the project.[24/] More broadly, the Bank was to act prudently, paying regard to the prospects for repayment.[25/] It was required to base its decisions on considerations of economy and efficiency without regard to political or other non-economic influences or considerations.[26/]

In making a decision to lend money the World Bank takes two primary considerations into account: (a) the quality of the project, and (b) the creditworthiness of the country.

19/ This section of the paper relied heavily on a lecture by J. H. Williams, "International Bank for Reconstruction and Development," (Paper delivered to the Fourth Maxwell Institute on the United Nations Bretton Woods -- 27 August - September 1, 1967). Mimeographed.

20/ Bank Articles of Agreement, I(iv)

21/ Ibid., IV Sec. 3(b)

22/ Ibid., III Sec. 5(b)

23/ Ibid., III Sec. 5(c)

24/ Ibid., III Sec. 4(iv)

25/ Ibid., III Sec. 4(v)

26/ Ibid., III Sec. 5(b)

(a) The Quality of the Project

The practical experience of the Bank has reinforced the stipulation of the Articles of Agreement that a loan should be made to a well-defined project. Definitions of a project vary with its size, complexity and purpose. A non-technical definition of a project is that it is "a proposal for a capital investment to develop facilities to provide goods or services."27/

Project analysis is essentially microeconomic -- concerned with individual economic units, individual enterprises, and specific projects. The recognition of the interdependence of projects and their coordination plays, or at least should play, a major role in project planning. A failure in implementation is a failure in selecting and appraising projects thoroughly. 28/

Bank loans are made principally to cover the foreign exchange cost of a project. The rationale behind this limitation is the desire to conserve foreign exchange for uses in which it has no domestic substitute. A common objection to local cost financing is that it is an inefficient way of providing balance of payments support. The arguments in favor of local cost financing have two general themes. The first is that the nominal foreign exchange cost may bear little relationship to the actual foreign exchange burden of a project. The second is that inability to finance local costs may exclude the Bank Group from important development opportunities and may introduce biases into a borrower's pattern of economic advance.

While the Bank Group continues to maintain that its resources will best serve the objectives of development by limiting them to financing foreign currency requirements, it approaches the issue with some latitude. There

27/ John A. King, Jr. Economic Development Projects and their Appraisal. Baltimore: The Johns Hopkins Press, 1967, p. 3.

28/ John H. Adler, "Allocation of Investment," in: Some Aspects of the Economic Philosophy of the World Bank. (Transcript of Talks by World Bank economists at a seminar for Brazilian Professors of Economics, 18-22 September, 1967. (Washington, D. C. 1968) p. 41.

have been many instances recently, particularly in the case of agricultural and educational projects which initially have a small foreign currency component, where the Bank has agreed to finance some proportion of local currency expenditures. Often in cases where an economy has been too poor to generate sufficient savings to finance a project with high development priority and where local bidders were able to compete favorably with outside bidders, the Bank Group has tended to be less doctrinaire.

The Bank's policy of lending to individual, albeit well-selected, projects drew criticism on various grounds. One criticism is that the project approach is a piecemeal approach where a more integrated approach is needed. It is claimed that too much time is involved in appraising a project in accordance with Bank's standards, and that carrying out appraisals to such a degree of refinement is unjustifiable in cost-benefit terms. "An unkind critic," Sir Alec Cairncross wrote, "would say that the whole idea of financing economic development project by project smacks of paternalism and a pedagogical outlook." 29/ Cairncross also pointed out that "the tendency in the Bank to erect project appraisal into a mystique," 30/ and that "the system of rigorous supervision and control over disbursement" involve "covenants and procedures" that are viewed, primarily by the large recipients, as "both superfluous and harassing." 31/ The Bank would argue that while financing directed at broadly-based programs would be much more satisfying, quite often "it is only the pieces that one can get hold of." 32/

29/ Alec Cairncross, The International Bank for Reconstruction and Development. Essays in International Finance, Department of Economics and Sociology, Princeton University, No. 33, March 1959, p. 17. On the methods by which the Bank appraises projects, see King's volume, op. cit. The volume includes 30 case-studies of projects in electric power, transport and industry.

30/ Ibid, p. 18

31/ Ibid, p. 19

32/ Williams, op. cit. The Bank has engaged in some program lending in a few exceptional circumstances.

Obviously, improvements are always possible even at times of vastly increasing activities. One must not forget, however, that in the very nature of banking orthodoxy, prudence, more than dispatch, is the yardstick of optimal performance. And like any large organization the Bank has its logic and its own inertia.

While the Bank continues to make its financing available to individual projects, in accordance with its Charter, there will probably be more attention given to the whole gamut of development. An expression of this new emphasis was offered recently by the President of the Bank who recommended that there should first be established an overall development strategy and then such projects should be selected as would "mutually support and interlock with one another within that overall plan." 33/ Moreover, while the Bank's activities in such areas as population planning, education and urbanization are still embryonic, they nevertheless demonstrate clear tendency towards increasing involvement in social development.

(b) Creditworthiness

In order to avoid the risks and errors involved in international lending, and in order to protect its own credit in the international financial markets, the Bank Group inserts in each loan agreement a number of protective provisions governing loans made by the Bank. The borrower may be a member government, a political subdivision (e.g., water supply authority), or a business, agricultural or industrial enterprise, but if the borrower is other than a government, the loan must be guaranteed by the member government concerned. In assessing the capacity of a member country to repay the loan with the accrued interest and charges, the Bank makes its assessment, not on the basis of the capacity of the project for which the loan is to be granted, but on the capacity of the borrowing country's economy as a whole and the country's traditional attitude towards its foreign debts. A country is considered uncreditworthy when it has behaved in a manner which defies the accepted canons of international

33/ Robert S. McNamara, Address to the Columbia University Conference on International Economic Development, New York, February 20, 1970.

financial morality by defaulting on debt obligations or expropriating foreign assets without entering serious negotiations concerning compensation. A country is also considered uncreditworthy if its records show consistent mismanagement of economic resources. But during all the years the Bank has operated, no country has defaulted to the Bank Group.

The weapon of creditworthiness is a two-edged sword -- one directed against the borrowing country, the other against the Bank itself. For, like any other bank, the World Bank borrows and lends. It borrows in the international capital markets and it lends to member countries. In addition to the paid-in portion of the subscriptions the Bank raises money in the capital markets of the world and most particularly from private investors in the United States, Western Europe and, most recently, in Japan. That the Bank has been successful over the years in raising over $8000 million in international monetary markets is due to two basic reasons. One is the confidence in the Bank that has been engendered by its record of operations. The other reason is that investors know that the Bank has available still larger sums which it can call upon to repay its borrowings, should it ever be in difficulty. These sums are of course the portions of the member countries' subscriptions that have not been paid in, but remain on call, including principally the subscriptions of all the industrialized countries of the West and Japan.

It should be emphasized that the Bank is not a charitable organization. It can expand and break new ground only as long as it enjoys the confidence of the international monetary markets. This confidence can be maintained and nurtured by the Bank demonstrating, as it has in the past, prudent banking operations that ensure both capital and interest. By so protecting its creditworthiness, the Bank will continue not only to serve as one of the primary channels of investment money from capital-exporting countries to capital-importing countries, but it will also determine the rate of interest the

Bank will have to pay for its borrowing. The greater the Bank's creditworthiness the lower the rate of interest for its borrowing and consequently the lower the rate of interest on its lending. 34/ The profit which the Bank makes in the course of its operation ($________ million in fiscal year 1969) is not distributed as divident to member countries but is in present practice added partly to the Bank reserves and usedpartly to finance IDA activities, in accordance with a decision made year year.

Technical Assistance

Technical assistance by the Bank Group is generally rendered in conjunction with the Group's lending activities. Since most lending is directed to specific projects, it is natural that most of its technical assistance is directed toward identification, preparation, execution and management of such projects. One of the most effective means of preparing development project(s) is through project feasibility studies. Such studies help to determine the technical feasibility and economic and financial viability of individual projects. They include preliminary engineering work, establishment of cost estimates, determination of likely economic benefits and financial profits, investigation of the management capacities of administrative readiness of the project's sponsor to execute a project on the scale contemplated, and an examination of the adequacy of the proposed financial contribution of the sponsor of the project. Feasibility studies provide data which will enable estimates to be made of physical requirements for raw materials, equipment, supplies, and manpower; in projects involving the production for export or substitution of imports, they also give information on world market conditions and their outlook as well as costs of production abroad. While this type of technical assistance is not explicitly referred to in the Articles of Agreement, it has become a major instrument in overcoming

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34/ Unlike other banking institutions the World Bank does not apply differentiated rates of interest to countries in accordance with their degree of creditworthiness. "Not that such evaluation is very hard to make," wrote a commentator, "but it is unadmissible for an international organization to do." Ordoobadi Abbas, The Loan Policy of the International Bank for Reconstruction and Development. Ph. D. Dissertation. New School of Social Research, 1964, p. 34 and passim.

difficulties experienced by the many new members of the Bank Group which lack the technical and managerial capacity necessary to present to the Group well-prepared projects.

Other forms of technical assistance have included general survey missions, advisory missions, the stationing of development advisors in member countries, and the organizing and financing of capital market studies. In addition, the Bank often serves as executing agency for the United Nations Development Program (Special Fund) for a wide variety of studies [35/] financed by that organization and executed by consulting and/or contracting firms under the technical and administrative supervision of the Bank. Frequently, a Bank loan (or IDA credit) itself will include the necessary funds to cover the fees of expert advisors consulted by the borrower during both the planning and execution of the project. For example, during the 1968/9 fiscal year, provision was made in Bank or IDA project loans or credits for technical assistance activities having a total value of $39.5 million. Of this total, $9.1 million was for feasibility studies of future projects, and $28.9 million was provided for the engagement of consultants or outside experts in setting up projects and providing managerial or technical services during their early stages -- services which are essential in a country where the initial supply of local expertise is low. The remaining $1.5 million was provided for training and for overseas fellowships in order to aid countries to become self-supporting in management and other essential skills required to administer a project successfully. The Bank Group has, on occasion, stationed missions in a number of developing countries either to keep the Bank informed on the economic conditions of a particularly large borrowing country such as India and Pakistan, or to provide assistance in project identification and preparation which is the primary task of the two permanent missions, one in

35/ During 1968/9, for example, 8 of the 24 completed studies the Bank had undertaken as Executing Agency for the UNDP had led the Bank or IDA project financing totalling $714.7 million.

eastern Africa and the other in western Africa. The Bank has also established a resident mission in Indonesia, primarily to advise the authorities on questions of economic policy and administration, and secondly to help the planning organization with coordination of effective use of technical assistance. These regional and country resident missions add an additional perspective to staff members located at the Headquarters and help improve the flow of activities between major borrowers and the Bank.

In addition to technical assistance connected with projects, there are three other Bank activities that fall in the domain of technical assistance -- namely, aid coordination, training and advisory services.

In response to a crisis in India's foreign exchange position a Consortium of five countries -- Canada, Germany, Japan, the U. K. and the U.S., subsequently joined by Austria, Belgium, France, Italy and the Netherlands, met in Washington in August 1958 under the chairmanship of the World Bank for a "rescue operation." 36/ The same group of countries met in October 1960 to meet the requirements of Pakistan for external assistance. Through these two consortia \$6000 million and \$3000 million had been channelled by the end of 1968 to India and Pakistan, respectively. In addition, the Bank has helped to organize other coordinating groups for a number of countries which have requested them and whose development programs have attracted sufficient support to justify them. By the end of 1969 ten such bodies, called "consultative groups" had been formed, for Colombia, East Africa (Kenya, Tanzania, Uganda), Korea, Malaysia, Morocco, Nigeria, Peru, Sudan, Thailand and Tunisia. The Bank has also been a participant in five coordinating groups organized under other auspices for Ecuador, Ghana, Greece, Indonesia and Turkey. The primary purpose of these groups is to bring together several aid-giving governments to consider, in a comprehensive fashion, the economic needs of a country and to adjust the character and terms of aid to meet these fields.

36/ See Michael L. Hoffman, "The Scaffolding of Aid," Finance and Development Vol. 5, No. 4 (December, 1968), pp. 14-19.

(b) Training

One of the most important bank-financed activities has been the establishment of the Economic Development Institute (EDI) in Washington. The purpose of the Institute is the training in the field of economic development of senior officials from developing countries, thereby improving the knowledge and competence of officials directly in charge of the development programs in their respective countries. 37/ Moreover, the participation in a single group of fellows from as many as 15 countries helps provide the participants with an opportunity to share common experience and gives them a better perspective about the nature of the problems outside their own countries. Thus far, more than a thousand Fellows have gone through EDI's courses since its establishment in 1955.

(c) Advisory Services

Due to the very nature of its activities the Bank Group has become the repository of a considerable amount of expertise in the various fields of economic development, which the Group is willing to share with those countries in the need of it. In addition to the permanent missions and resident missions which render advice to the countries which they are accredited, the Bank offers a variety of ad hoc services in such areas as development planning, population, education, consultancy firms, development banking, and a host of other activities geared to meet the special needs of a country.

B. International Finance Corporation (IFC)

IFC was established as an affiliate of the World Bank in July 1956, in order to help finance private enterprises, in association with private investors and management, to assist in developing local capital markets, and to encourage the international flow of private capital. Unlike the Bank, IFC was set up to deal exclusively with the private sector and to operate

37/ For further details see John H. Adler, "Training Programs for Developers: The Economic Development Institute of the World Bank," The International Development Review, Vol. V, No. 1 (March, 1963), pp. 7-13.

IFC was set up to deal exclusively with the private sector and to operate without any kind of government guarantee. The most significant yardsticks of its operations were to be the extent to which it could act as a catalyst in stimulating other investment and the degree to which it would be able to resolve its own funds by selling off parts of its investments to other investors.

Nevertheless, IFC came into existence with two major handicaps. Its own share of capital resources was comparatively limited. In addition, under the original Articles of Agreement, IFC was restricted from providing equity financing, even though it was expected to make loans with equity features, such as the right to participate in the profits of an enterprise. These restrictions proved to limit IFC's ability to meet the needs of private enterprises in the developing countries, and by way of remedy, IFC's Articles were twice amended: in 1961 to permit the Corporation to invest in equities and in 1965 to permit IFC to supplement its own share capital by borrowing from the Bank. The effect of these changes has been to widen the scope of IFC's operations. IFC has emerged as the investment banking arm of the Bank Group, participating in carrying out stand-by and underwriting arrangements, and developing the kind of continuing relationship with clients characteristic of a private investment banker.

There are a number of criteria which guide IFC in its operations:

1. IFC makes investments only in member developing countries, in cases where sufficient private capital is not available on reasonable terms. At the outset of 1970 IFC had 92 members, which have subscribed approximately $107 million capital.
2. The enterprises which IFC helps finance must be in the private sector and must be of high economic priority to the country concerned; the prospect of profitability must appear sufficiently

attractive and the presence of IFC must seem likely able to make a constructive contribution to the project.

3. IFC must be satisfied that the proposed venture is sound, that a market exists for the company's products or services, that management is capable and experienced and that the plan for financing the project is realistic.

4. IFC will generally finance only ventures in which there is provision for domestic participation.

5. IFC generally limits its participation in an enterprise to under 25 per cent of the equity and is unwilling to be the largest single shareholder.

Thus, IFC has constantly to strive to strike a balance between its function as an investment corporation, looking for its profits where it can, and its function as a development institution. As stated by its newly-appointed Executive Vice-President:

> IFC has to do two things.
>
> First of all, IFC's investments must hold out the promise of earning a profit. I say this for three reasons: first, we want partners in the enterprises in which we invest; second, we want to sell participations in our investments, that is to say, we want to sell part of the shares that we buy and loans that we make in order to turn over our capital so we can make new investments; and third, above everything else, we are trying to show that private enterprise works.....
>
> This is true of any normal private investment company, but the difference is that we don't stop there. We shouldn't make any investment unless it's going to contribute to the development of the country in which it is located. It's our job, as I see it, to test every one of our investments against that standard. Does it fit in with the priorities of the country? Is it competitive? Is it going to bleed the country's economy? Or is it going to contribute to the development of the country in country's economy? We have to be just as hardheaded as a private investment banker, but we also have to make sure that our investments are in enterprises which will contribute to economic development.... 38/

38/ "Interview with Mr. William S. Gaud," Finance and Development, Vol. 7, No. 1, March 1970, pp. 12-18.

Over a period of time, IFC has become more flexible in the kinds and amounts of financing it will provide as well as in the range of enterprises it is prepared to finance. In the past, the Corporation confined its attention almost exclusively to the manufacturing industry: the bulk of the commitments of more than $______ million to date have been to iron and steel, pulp and paper, textile, cement, and fertilizer companies. Since 1962, however, IFC has helped finance ventures as diverse as an electricity utility company, a tourism project, and such agricultural enterprises as grain storage and livestock raising. In all, IFC has now made investments in enterprises located in ..... countries in Latin America, Asia, Africa and, most recently, in Yugoslavia.

Management and Staff

Under IFC's Articles of Agreement, Executive Directors of the World Bank representing governments which are members of IFC serve also as Directors of IFC. The President of the Bank is also President *ex officio* of IFC. This unity in the highest levels in the hierarchies of the Bank and its affiliates ensures that their policies are compatible, not divergent. IFC has its own operational staff gathered through the recruiting machinery of the Bank and subject to the same work conditions. The Corporation also depends on departments of the Bank for a variety of administrative, economic and other services.

C. International Development Association (IDA)

IDA, the third side in the triangle of the World Bank Group, is the only organization for "soft-lending" window, i.e., making loans on fully concessionary terms, within the Group. It was created largely due to a resolution submitted by Senator Mike Monroney to the U.S. senate in late 1957.[39/]

[39/] For details see Hearings before a subcommittee of the Committee on Banking and Currency, U.S. Senate eighty-fifth congress, second session and S. Resolution 264. Washington, D.C. 1958, quoted by Kirdar, *op. cit.*, p. 259.

By 1958 the idea of establishing IDA was adopted by the Eisenhower Administration and by 1960 its Charter was drawn up and approved by member countries. The most significant feature of the Charter was the recognition that assisting less developed countries was an international obligation. 40/ The attachment of IDA to the Bank broadened the latter's scope of action as a development institution.41/ Under IDA's Articles of Agreement members of theAssociation are divided into two groups: Part I countries, consisting of the countries which are advanced economically, and Part II countries, comprising the less developed nations. Part I countries make about 75% of IDA subscription in convertible currencies, and Part II countries the remainder. A Part II country, however, pays only 10% of its subscription in convertible currency and the rest in its own national currency which may not be used by IDA without the member's consent. Under the Articles of Agreement, the Assocation is required to seek replenishment for its resources every five years.

The background of the creation of IDA is the increasing burden of debt service being carried by many developing countries. In itself, the fact that a country's external debt is growing is nothing to worry about, if its economic strength is also growing. But there are many countries able to make good use of considerably more outside capital than they can safely undertake to repay on conventional terms. In some of these countries, the limited ability to borrow on such terms simply reflects their poverty. In others, it reflects the unfavorable structure of their debt, often incurred on unsuitably short terms -- for instance in the shape of 3- or 5-year commercial, export credits. In approving an IDA credit, four criteria are observed:

(a) Poverty test: IDA's assistance is limited to the poorest of countries classified as Part II countries. These are countries whose populations still have yearly income below $250 per capita,

40/ Kirdar, op. cit., p. 260

41/ Lester B. Pearson, Partners in Development, New York: Praeger, 1969, p. 223.

and which continue to face such severe handicaps as excessive dependence on volatile primary products' markets, heavy debt servicing burdens, and, often, rates of population growth that outweigh the gains of production.

(b) Performance test: Within the range of difficulties of establishing objective standards of performance, these factors serve as the yardstick for adequate performance test: satisfactory overall economic policies, and past success in project execution.

(c) Project test: The purpose of IDA, Mr. Eugene Black used to say, is soft loans, not soft projects. IDA projects are appraised with the same yardstick as those applied to Bank projects. Thus, as is the case with projects financed by Bank loans, the test essentially requires that proposed projects promise to yield financial and economic returns adequate to justify the use of scarce capital. Indeed, reiterates Williams, "to talk of an 'IDA project' ... that might be distinct from a 'Bank project', remained heretical." [42/] A relatively large proportion of IDA credits has been allocated to non-revenue earning projects in the social sectors, which are bound to make long-term contribution to the economic development of a country. This is particularly important in view of the special needs of IDA clientele.

The increasing demands for IDA credits on the one hand, and the limited resources of IDA, on the other, have aroused the question whether some kind of rationing device based solely on a criterion of equity would not be preferable to a system that could inadvertently cause accidental unfairness. In the early years of operations, India and Pakistan received 51% and 19%, respectively, of IDA's credits. The growing demands for credits from other

42/ Williams, op. cit.

countries that met the above criteria resulted in lowering the ceiling on lending to India and Pakistan. 43/ The new ceilings, 40% for India and 12.5% for Pakistan, were in line with Mr. McNamara's promise before the Board of Governors in 1968 to devote relatively more resources to Africa and Latin America, with the intention of bringing about a more balanced distribution of IDA funds among a greater number of countries that could meet the "poverty test" established by IDA. Increased IDA lending will help meet the rising demand for assistance that results from growth of IDA membership, an increasing flow of prepared projects and a growing debt service burden in many potential borrowing countries.

Economic Assistance

The International Monetary Fund

According to IMF's Articles of Agreement (Art. I) one of its purposes is "to give confidence to members by making IMF's resources temporarily available to them under adequate safeguards, thus providing them with an opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international property." The Article emphasizes two points: that aid should be given in the context of balance of payments, and that it is temporary. Thus, the primary difference between the Bank and the IMF is that the former is concerned directly and primarily with specific development projects, for which it lends money, whereas the latter provides help to governments that are in balance of payments difficulties. Stated differently, the IMF is involved more in the short-term difficulties whose solution may have long-term effects whilst the Bank is concerned with long-term problems which have, no doubt, short-term effects. It could be said, however, that the provision of financial assistance by the IMF serves the development process indirectly by helping the

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43/ Pearson, op. cit., p. 226.

member to deal with payments disturbances, either without interruption to the development effort or at least without a serious setback to that effort.

Already in their first annual report to the Governors, the Executive Directors stated that "members could not properly use the Fund to finance long-term reconstruction plan which involves sustained use of the Fund's resources to meet a continuing deficit in their balance of international payments. The Fund is not empowered to provide financing of that sort. The essential test of the propriety of use of the Fund's resources is ... whether the prospective balance of payments position of the country concerned ... will be such that its use of the Fund's resources will be of relatively short duration." 44/ Four primary avenues for borrowing from the Fund are available to countries which run into balance of payments difficulties. We shall explore these avenues briefly.

(a) Drawings

The use of the IMF's resources is linked to the efforts of countries to establish and maintain currency stability and convertability, following sound financial policies. Assistance from the IMF takes the form of an exchange transaction, in which the country using the IMF exchanges its own currency for the one it is buying from IMF; the member country is expected to "repurchase" its own currency from IMF within a period of three to five years after the transaction, with gold or convertible currencies acceptable to the IMF. The member country must meet a small service charge and also interest payments, which rise with the amount of foreign exchange involved, the country's position within its quota, and the length of time the drawing from IMF remains outstanding. These charges, however, are substantially below rates prevailing in the financial markets.

As a matter of policy, the maximum volume of financial assistance to a given country is determined normally by its quota in the IMF, although

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44/ International Monetary Fund, Annual Report (1946), p. 13.

transactions can, legally, go beyond a member's quota. These quotas reflect the economic importance of each member, and they range, for example, from \$5.1 billion for the United States to \$2.4 billion for the United Kingdom, \$1.2 billion for Germany, and down to \$3 million for the smaller members. And this, of course, is the crux of the problem.

(b) Stand-by Arrangement

Under this system IMF gives advance assurance that a stated amount of resources will in case of need be available to support a program of action presented by a member country. Since the system was first introduced in 1952, well over four-fifths of exchange transactions with developing countries -- not including transactions under the Compensatory Financing Decision (see below) or in connection with increases in quotas -- have been in the form of stand-by arrangements. So far, more than two hundred such arrangements have been concluded with these countries.[45/] There are countries that have maintained more or less continuous stand-by arrangements with the IMF, although they have not faced such serious financial difficulties either of an internal or external nature, as would have forced them to use these credits. These countries, however, find the review and discussions involved in drawing up a financial program that qualifies them for the IMF support extremely useful in their internal planning and, of course, the stand-by credit is available as a second line of reserve in case difficulties should arise.

(c) Compensating Financing

Since many developing countries rely on export of specialized crops, their balance of trade is vulnerable to fluctuations in the international market. In order to alleviate difficulties arising from a shortfall in export receipts for reasons beyond the country's control, IMF initiated in 1963 procedures whereby such a country could draw an appropriate amount of

45/ P-P. Schweitzer before the Economic and Social Council of the United Nations (December 5, 1968), mimeo.

foreign currencies in place of those which it would have earned had there been no shortfall. This procedure follows from a number of principles: (a) the country will be getting a loan, not a grant; (b) the loan will have to be repaid within five years, that being the maximum time that a member may wait before repurchasing a drawing from the IMF; and (c) whatever assistance shall be given will have to take into account the member's whole economic situation, just as is done with an ordinary drawing. 46/

(d) Special Drawing Rights (SDR)

Special Drawing Rights are international reserves, 47/ created in 1969 by the Board of Governors of the International Monetary Fund, and allocated annually to member countries. The rights are not used directly in settlement of international transactions, but are transferable from country to country in accordance with a set of rules. On January 1, 1970, a total of $3.5 billion was allocated, distributed to participants in proportion to their quotas in the IMF. In 1971 and 1972 each, a further $3 billion will be allocated, making a total of $9.5 billion over the first basic period. If compared with a current total of world monetary gold reserves of about $39 billion, and a current total of international reserves of some $75 billion, the new international reserves are significant. 48/

The main purposes of SRD are (a) expansion of international trade, economic activity, and development; (b) promotion of multilateral payments and elimination of restrictions; (c) promotion of exchange stability and orderly exchange rate adjustments, (d) correction of payments maladjustments and reduction in payments disequilibria without resort to measure destructive

46/ For a discussion of the exact formula for such drawing see J. Keith Horsefield, "The Fund's Compensatory Financing," Finance and Development Vol. 6, No. 4 (December, 1969), pp. 34-37.

47/ Popularly referred to as "paper gold" in contradistinction with reserves made up of "real gold."

48/ Pierre-Paul Schweitzer, Stamp Memorial Lecture (London, Dec. 2, 1969), mimeo.

49/ Proposal by the Managing Director, International Monetary Fund, Allocation of Special Drawing Rights for the First Basic Period, Washington, D. C., 1969, pp. 4-5.

of national or international prosperity; and (e) the avoidance of economic stagnation and deflation as well as excess demand and inflation in the world. 49/

The developing countries will benefit directly by their access to the new resources created by SDR; still, due to the quota system, this benefit will not be sizeable. It is the indirect benefits which, according to the Managing Director of IMF, are apt to be more significant. Since the most urgent need of the developing countries is to expand their exports, an adequate supply of international liquidity is essential if world economic activity is to permit such an expansion. 50/

Technical Assistance

Technical assistance in the IMF was developed in response to the needs of developing countries which joined IMF in recent years. Many of these countries have a shortage of experienced administrators and technical personnel, and their financial institutions are not always well adapted to meet the rapidly changing requirements of a growing economy. As a measure to meet the needs of these members the entire technical assistance program was reorganized and enlarged in 1964. The most significant aspect of that reorganization was the establishment of two new departments -- Fiscal Affairs Department and the Central Banking Service, which, amongst other things advise countries regarding fiscal affairs and banking.

The various forms of technical assistance rendered by the Fund are designed primarily to improve the fiscal and monetary performance of the

50/Accoding to Mr. Schweitzer, the Managing Director of IMF:

> Any threat of reserve stringency in the industrial countries is likely to lead to policies aimed at depressing their demand for imports and restraining their capital exports. A slowdown or a recession in the industrial world has a particularly unfortunate effect on the terms and volume of trade of the primary producing countries. The assurance of adequate reserves, besides lessening the danger of such contingency, should also improve the prospects for development aid. It is for these various reasons that I believe the developing countries have a very real stake in the special drawing rights scheme.

Address before the Economic and Social Council (December 5, 1968), op. cit.

countries involved. IMF aids countries to make basic improvements in tax systems and in budgeting practices and policy. It also offers assistance in the areas of central banking and statistics. It aids in the establishment or reorganization of central banks to make them responsive to the needs of the economy. It assists in the revision of monetary and banking legislation, the development of monetary policy instruments, and the mobilization and transfer of financial savings. It aids the countries to improve their compiling and reporting of statistics, and it brings together, in central bank bulletins, statistics necessary for the analysis of balance of payments and other aspects of the countries' economies. Where advice alone is inadequate the IMF provides experts to fill such positions as governors for central banks, directors-general, and controllers. 51/

Training

Similar to the Bank, IMF has established an IMF Institute through which intensive courses in the fields of financial and fiscal analysts and policy, and balance of payments techniques are conducted for officials of member countries.

51/ Horsefield, Vol. I, *op. cit.*, p. 552

III. Conclusion

The primary purpose of this paper was to chart briefly the development of the International Monetary Fund and the International Bank for Reconstruction and Development with its two affiliates, and the courses which they have followed in order to meet the needs of the developing countries.

Often details, some of significance, needed to be sacrificed to the brevity of the paper, but it is hoped that the many footnotes which were included may help the student explore the subject at greater depth should inclination or assignment lead him to do so.

This paper dealt with past and present activities of these two institutions but the challenges of the future, even the immediate future, may prove to be even greater than those that have been experienced to date. The development revolution is still in its heroic phase inspiring the kind of redeeming devotion characteristic of great new religion, and generating governmental and international concern with the implications of social and economic issues that are yet only dimly formulated.

In facing the challenges of the seventies, the period denominated by the United Nations as the "Second Development Decade," the Bank Group seems to be charting a new course of action, moving toward an "integrative" approach to development, or, in the words of the President of the Bank Group, a qualitative approach seeking "to provide assistance where it will contribute most to removing the roadblocks to development." "Our objective," declared Mr. McNamara, "is not to search for good investments in sick economies. Our objective is to try to understand what makes economies sick in the first place, and to take those remedial steps that will encourage recuperation and health."[52]

Thus the Bank is definitely moving still further away from the "bricks and mortar" to development or from that which views increasing the amount of

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52/ Address to the Board of Governors, Washington, D.C. (September 1969). In his address to Columbia University Conference on International Economic Development (February 20, 1970) he again called to establish and pursue "quality" goals of development.

capital as the central element in economic growth. It is increasingly adopting the more elaborate "social science" approach to development which maintains that the crisis of economic backwardness is only one dimension of a broader crisis of modernization, that economic development is unlikely if other dimensions remain constant, and that frontal attack on the entire problem should prove to be the most effective strategy.

Coupled with this new approach has been a considerable effort to increase the Group's lending. But while such increase is desirable -- indeed essential -- it also threatens to become another thread in a web of bi- and multi-lateral loan repayment obligations, in which a number of borrowing countries have become hopelessly entangled. The problems of servicing previous loans has become so unbearable that a few countries have entered into a vicious circle of using new loans to pay for old ones. "It is painfully evident," wrote the Financial Times (September 26, 1969) "that [development financing] is still very much a case of it being necessary to run fast in order to avoid going backwards."[53/]

It would be dangerously overoptimistic to expect either the Bank or the IMF, under their present charters, to do much to alleviate the burden of servicing loans, or, certainly, to provide all the necessary development financing. One possible avenue would be to increase IDA credits. The Task Force appointed recently by President Nixon has recommended to him the channeling of a greater portion of American aid through IDA and other multilateral institutions.[54/] If this 'new approach' is adopted, one may expect

53/ Mr. David Horowitz, the Governor for Israel in the 1969 Board of Governors Meeting estimated that the accumulated debt of 92 underdeveloped countries increased fourfold in one decade from the end of 1956 to the end of 1966.

54/ Report to the President of the United States from the Task Force on International Development, U.S. Foreign Assistance in the 1970's: A New Approach. Washington, D.C. March 6, 1970 (mimeo). On p. 22 the Task Force emphasized that "If the goal is economic development, the issue is one of efficiency, not ideology."

that the burden will be alleviated, but not removed. The "Horowitz Proposal" which calls for the industrialized countries to subsidize interest charges incurred on loans to developing countries could provide partial remedy.

Yet another avenue was suggested by the Pearson Commission which suggested that "there are strong reasons of simplicity and equity for the developed countries to relinquish a part of their quota" of special drawing rights (SDR) in favor of the developing countries.[55/] Whether this will come to pass is not for the IMF management to decide. It is a decision that has to be made by the few industrialized countries which have the majority of the vote in the Board of Governors. This, in turn, will depend on their own balance of payment situation. How they will choose to decide in the long run is not a subject for speculation by this writer.

But no matter what approach, if any, is adopted, and what decision is taken, one can safely speculate that there will continue to be unlimited demand on the limited resources available to the two institutions. It is unfortunate that one has to accept the pessimistic conclusion of Mr. Cherif Belkacem, the Governor for Algeria, who declared that "many of the developing countries can expect the incoming of the 21st century not with hope but with apprehension and concern."[56/]

This being so, the crisis of development will continue to pose many challenges to the developed countries, the developing countries, the international organizations and, indeed, to every one of us.

55/ Pearson, *op. cit.*, p. 225.

56/ The Board of Governors (1969).

TABLE I

BANK LOANS AND IDA CREDITS
By Sector

Purposes	Bank Loans 1/	IDA Credits 2/
Reconstruction		
Electric Power		
Transportation		
Communications		
Agriculture		
Industry	(up-to-date figures will be supplied later)	
General Development & Program Loans		
Water Supply		
Education Projects		
Technical Assistance		
IFC	________	________
Total		

1/ 1946/7 - 19

2/ 1960/1- 19

TABLE 2

BANK LOANS AND IDA CREDITS

By Areas

Area	Number	Bank Loans	Number	IDA Credits
Africa				
Asia				
Australia				
New Zealand	(up-to-date figures will be supplied later)			
Europe				
Western Hemisphere				

TABLE 3

IFC INVESTMENTS AND STANDBY AND UNDERWRITING

By Sector

Development Finance Companies	$
Industry	
Manufacturing	
Iron & Steel	
Fertilizer	
Cement and Other Construction Material	
Paper and Paper Products	
Textiles and Fibers	
Food and Food Processing	
Machinery	
Chemical & Petrochemical Products	
Other Manufacturing	
Non-Manufacturing	
Mining	
Utilities & Printing & Publishing	
Tourism	

TABLE 4

IFC INVESTMENTS AND STANDBY AND UNDERWRITING

COMMITMENTS BY AREA

Area	No. of Investments & Standby & Underwriting Commitments	Operational Investments	Standby & Underwriting Commitments	Total Commitments
Australia				
Africa				
Asia & M.E.				
Europe				
Western Hemisphere				
Totals:				

Table 5

Activities of the IMF

PURCHASES OF CURRENCIES FROM THE IMF, FISCAL YEAR ENDED

APRIL 30, 1970

Member Purchasing	Under Stand-by Arrangements	Under Decision of Compensatory Financing	Other Purchase Transactions	Total

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