Folder Title:	Presidents Speeches - Woods
Folder ID:	30126309
Series:	Speech reference collection
Dates:	03/11/1965 - 05/08/1968
Fonds:	Records of the Office of External Relations
ISAD Reference Code:	WB IBRD/IDA EXT-01
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President's Speeches - Woods

Address by
GEORGE D. WOODS

President of the
World Bank and
its Affiliates

to the Economic and Social Council of the United Nations

United Nations, N.Y., March 26, 1965

At the outset, let me say how happy I was to find that Ambassador Matsui of Japan would be President of this session of the Council. Last September, the Governors of the Bretton Woods institutions held their Annual Meeting in Tokyo; and we were all overwhelmed, not only by Japan's famous hospitality, but by the prodigious industry, talent and discipline that are being put into the building of the Japanese economy today. It is a privilege to appear here before Ambassador Matsui and his colleagues on the Council.

This meeting comes at an opportune moment. These are times of great tension between nations. Nevertheless, amid all the tumult, in the underdeveloped world the eternal problems of ordinary men and women persist—the problems of earning a livelihood, of living with some measure of dignity, and of escaping from illness, ignorance and want. To raise the living standards of the world's millions continues to be a pressing objective of the international community. Of this task, the meetings of the Council bring to us a vivid and needed reminder. They can also serve to illuminate available approaches to the solution of many of the world's baffling and frustrating development problems.

I am glad today to be representing three institutions engaged in that area—the World Bank (the International Bank for Reconstruction and Development), IFC (the International Finance Corporation) and IDA (the International Development Association). Since the Council last considered the activities of the World Bank group 15 months ago, the Bank and its affiliates have extended a record volume of finance for economic development. We have made commitments in new countries; in suitable cases we have made loans on new terms; we have lent for new kinds of projects; and we have provided technical assistance on a wholly new scale. When I last spoke to you—it was in December 1963—about the World Bank group's approach to economic development problems, much of what I had to say was promise. Today, I can speak to you of performance.

During the calendar year 1964, the World Bank, IDA and IFC made commitments totaling nearly \$1.2 billion in 35 countries. This was a new record. It represented an outstanding accomplishment by IDA. The Association extended credits of \$418 million, nearly one and a half times as much as in its best previous year; and its total commitments passed the \$1 billion mark.

All three organizations extended the geographical scope of their operations. Much of this expansion was for the benefit of the new countries of Africa. Liberia, Sierra Leone and Tunisia received their first loans from the Bank; Kenya, Mauritania and

Niger received their first IDA credits; and Ethiopia, Nigeria and the Sudan received their first commitments from IFC.

The operations of 1964 increased to 84 the number of countries and territories that have been assisted by one or more of our three institutions, and raised the aggregate volume of our financing through the end of 1964 to more than $9.3 billion. Since the first of this year we have added more than $200 million to that amount.

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When I last met with the Council, I mentioned that we were giving serious thought to the possibility of modifying the terms of World Bank loans in suitable cases, in order to lighten the burden of our financing in every way commensurate with sound practice. We have pressed ahead on this front. In a number of instances, when the character of the project being financed and the economic situation of the borrowing country warranted, we have made Bank loans with final maturities as long as 35 years. On occasion, we have also extended to as much as ten years the period of grace during which no repayment is due on Bank loans.

Other paths we were exploring at the time of our last meeting have led us to broaden the scope of Bank lending. Both the Bank and IDA still devote most of their financing to large-scale public utilities which are basic to economic growth. More than three-quarters of our loans and credits in the year just past were, as usual, made for the development of transportation and electric power. But at the same time, the Bank and IDA are much more active in the fields of agriculture and education, and, along with IFC, in assisting in the growth and diversification of industry.

To strengthen our effort in agriculture and education, we joined forces last year with FAO (Food and Agriculture Organization of the United Nations) and with Unesco (United Nations Educational, Scientific and Cultural Organization). Under special partnership arrangements with these agencies, we are now applying our combined knowledge, experience and skills, as well as Bank and IDA financing, to a more determined search for ways to improve the contribution of education to economic development.

Over the years the Bank and IDA have financed many projects of benefit to agriculture, such as forestry, dams, irrigation schemes and farm-to-market roads. But until last year we had never really dug our fingers into the soil, into the multitude of complex and inter-related problems that lie at the root of the failure of farm production to keep pace with other aspects of development. This is changing fast. We see now that the Bank and IDA must take a growing interest in comprehensive land development programs, comprising many different but interdependent measures to achieve decisive advances in agricultural production—measures, for instance, in the fields of training and extension work, farm credit, crop storage, fertilizers and pesticides, transportation, land distribution and soil and plant research. We already are giving financial support to a few broad programs of this kind. We hope to do more. By the end of this year we expect to publish the results of a two-year study of experiences with the development of African agriculture that I believe will be a real stimulus to our efforts and, more significant, to those of others in this field.

The crucial importance to economic development of an adequate educational system hardly requires emphasis, but the shocking deficiencies of education in terms of economic development may not be so widely recognized. The lack of trained manpower is today one of the critical bottlenecks in the development process. The most serious shortages in most countries are of administrators, entrepreneurs, teachers and technicians—the upper and middle-level manpower without which no development program can be successfully carried out.

While the Bank and IDA combined could never hope to provide any significant proportion of the very substantial finance required for education, I think we can help point the way to solutions for some of the key problems. To do so, we are financing strategic projects that will help to fill gaps or otherwise assist in breaking bottlenecks in educational systems. Beginning with an IDA credit in 1962 to enlarge the secondary school system in Tunisia, we have now advanced more than $52 million for educational projects, including a recent credit of $20 million to Nigeria. Many projects related to education are now in our pipeline.

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We have also taken additional steps during the year to improve and expand our assistance to industry. We broke new ground in this field during 1964; IDA made a $90 million credit to India to finance the import of components and materials in order to make possible the full utilization of already existing facilities of three important capital goods industries. This credit has already proved its worth, and a second credit to India of a similar kind is now in process.

Another initiative has been taken to strengthen IFC, the Bank's special arm for industrial financing. We are now in the process of amending the Articles of Agreement of the Bank and IFC to enable the Bank to make loans to the Corporation, without any government guarantee, in a total amount up to four times IFC's capital and surplus. Approval of these amendments involves a rather elaborate voting procedure which is now under way. I hope that these steps will be completed expeditiously. I bespeak your assistance in this regard.

When the amendments become effective, about $400 million will be added to IFC's potential resources. This action will be both welcome and opportune. Operations during the year 1964 raised the total of IFC's commitments beyond the amount of its subscribed capital. While IFC still has funds to invest, chiefly as a result of its sales from portfolio to other investors, the time is approaching when new resources will be needed. The funds ultimately to be available from the Bank will increase the scope and usefulness of the Corporation and enable it to apply its considerable experience in the field of industrial development financing more widely for the benefit of the developing countries.

IFC is instructed by its charter to invest only in enterprises that are predominantly private in character, and $1 billion which the Bank, for its part, has lent directly to manufacturing enterprises also has gone to private companies. We have been reluctant to finance State-owned industrial enterprises primarily because of the great difficulty of assuring that they would be managed on a businesslike basis, free of political pressures. We are quite aware, nonetheless, that in some of our member countries, and especially in the newer ones, a shortage of private savings and of industrial entrepreneurship harshly limits what purely private capital can accomplish. We are therefore embarking upon a re-examination of our policies as applied to such cases to see whether there are ways, other than through completely private ownership, in which effective management of industrial ventures can be assured. Quite apart from this question of ownership, we are exploring how we can effectively expand our technical assistance activities in the industrial sector. To the extent that this search for constructive answers is successful, the Bank group should be able to help its developing members far more in the future than it has up to now in promoting their industrial growth.

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The Bank believes that if the underdeveloped countries are to make faster progress, they will have to bring forward a steadily increasing number of projects suitable for financing. One of our major operating problems has been to find projects of high economic priority that have been well-conceived and well-engineered. This is equally a difficulty for IDA, because IDA, no less than the Bank, must finance only projects that are soundly conceived and executed.

We are intensifying our own activities to increase the flow of well-prepared projects. The Bank itself does not have enough staff to give all the assistance necessary in project preparation; and the assistance needed goes far beyond the merely physical aspects of the project, into the weighing of possible alternative schemes, a study of economic factors, the drawing up of financial and market forecasts, and the consideration of new administrative organizations or other management arrangements that may be required. To an increasing extent, however, we do discuss with the borrower what kinds of technical service are needed; we advise on how best to obtain these services from consulting engineers, economists or other appropriate sources; and if necessary, we help to draw up terms of reference for the consultants.

When the loan is finally made, the Bank or IDA includes in it the amount necessary to reimburse the borrower for the cost of technical services needed both for planning and for the later execution of the project. For countries not well able to bear the expense of pre-investment surveys, we may actually pay the foreign exchange cost of consultant services. In Nigeria, for instance, we are helping to finance a series of highway planning surveys; in East Pakistan we are supporting work on the plan for developing the waterways; and in the Philippines we have supported studies to determine future water needs for Manila. These activities have grown rapidly during the last two or three years. We are, of course, continuing to act as executing agency for pre-investment studies financed by the United Nations Special Fund. Nine of them are in progress, and more are being planned.

We intend to press these efforts further. In Africa we are opening two field offices to help member countries to identify and to begin the detailed study of development projects. One of these offices is being established in Abidjan, which is also the headquarters of the African Development Bank; and the second will be opened as soon as possible in Nairobi. The two offices will be staffed initially with experts in transportation and agriculture, but eventually the functions of both may be extended to embrace other fields.

Under the arrangements with FAO and Unesco which I have mentioned, these agencies now actively cooperate with us in project formulation. FAO experts are helping to identify and prepare specific agricultural projects in many countries, to be submitted to the Bank and IDA for possible financing. Similarly, missions from Unesco are visiting selected countries to develop educational projects. Many projects in both fields are now under active consideration, and the flow undoubtedly will increase. In some cases, FAO and Unesco staff members will undertake to inspect projects as they progress and, in suitable cases, to provide technical assistance in carrying them forward. Appraisal of agricultural and educational projects, as well as the final decision about financing, remain the responsibility of the Bank and IDA.

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The Economic Development Institute, our senior staff college for officials of less developed countries who deal with economic and financial problems, also is extending its work in the project field. Beginning in 1963, the EDI added to its basic six-month course in development planning a course concentrating on the problems of project evaluation. Recently it has undertaken specialized training in the evaluation of industrial projects, and this coming summer it will give for the first time a course on agricultural projects. Furthermore, last fall in Jaipur, in association with the Indian Institute of Management, EDI experimentally gave its first regional course on project evaluation for officials of eight Asian countries.

I have stressed the importance of adequate project preparation because, in the last analysis, it is on projects that the Bank, IDA, IFC and the developing countries themselves must spend their efforts. Neither general programs nor even generous supplies of capital will accomplish much until the right technology, competent management, and manpower with the proper blend of skills are brought together and focused effectively on well-conceived projects. Projects are not only focal points, they are growing points, not only for the goods and services they contribute to the economy but for the new skills and the new attitudes which they engender both among the people carrying them out and those who benefit from their effects.

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The Bank pursues as faithfully as ever its interest in the broader aspects of development planning. A Bank mission of 20 men recently completed a review and appraisal of Brazil's economic situation and prospects, and a study of the government's development program and policies. By this summer, we expect that a Bank mission, which spent about four months in the field during 1964, will have presented comprehensive suggestions about the economic development of Morocco. Another mission of 16 men has just left for Turkey, to appraise that country's economic position and its prospects for the use of further assistance. Bank staff members continue to serve as economic development advisers to member governments in many parts of the world, and we are continuing to recruit or provide experts to deal with special problems or to fill other strategic posts in the development field.

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The essential purpose of all of the Bank's technical assistance is to improve the quality of the economic performance of the developing countries. Among the devices we have employed in this cause are the consortia for aid to India and Pakistan, and what we call "consultative groups" of capital-exporting countries and international agencies interested in the development of particular countries. These groups offer the developing countries the prospect of an orderly and timely flow of development assistance from all aid-giving sources, directed to priority needs. They offer the donor agencies the opportunity to consult effectively among themselves and with the recipient country on means of strengthening development efforts of the country concerned.

We have recently come to a decision in the Bank to redouble our efforts in this respect. We plan to take the lead, insofar as practicable, in organizing consultative groups where they promise to be of some advantage, and we have started conversations with member governments on this subject. We no longer intend to wait until a developing country has a reasonably well-defined economic program before considering the formation of a consultative group. Our principal criterion will be whether the activity of such a group may significantly improve the prospects for a better development effort in the country concerned.

To organize and effectively serve a significant number of consultative groups will call for great effort on the part of the Bank and will require current, intimate and detailed knowledge of the economies, plans and problems of each of the developing countries involved. I believe, however, that the resulting give-and-take of ideas, finance and technical aid may well produce an important breakthrough, enhancing the performance of receiving countries and inspiring new confidence in those who supply assistance.

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It is still a primary mission of the Bank to act as a channel for the flow of capital from the developed countries into the developing world. We are engaged more actively in money raising for the Bank this year than at any time in the recent past. In January we sold $200 million of our bonds in the United States market; last month we sold an issue of 25 million Canadian dollar bonds in Canada; just this week we floated an issue in Germany, denominated in Deutsche marks, equivalent to $62.5 million; and we are planning still other issues in Europe.

The cost of our money is rising, and for some of these funds we will be paying considerably more than we now do on the average. Nevertheless, for the present we intend to hold the interest rate we charge the less developed countries at its current level of 5½ percent. We do not feel that we can do this, however, for loans to member countries which are usually able to borrow a substantial part of their needs in the commercial channels of the world. For these countries, we are establishing rates roughly comparable to those which the market would charge and which they are well able to pay.

For the underdeveloped countries, the problems presented by a sharply rising burden of debt service continue to be fundamental. IDA was established five years ago as one means of easing this burden by making funds available over long periods and at minimal cost. Thanks to action completed during 1964 by the capital-exporting countries, IDA's resources have been replenished by more than $750 million, bringing the aggregate of the Association's convertible funds to about $1.6 billion, including a grant of $50 million out of the Bank's net earnings for the fiscal year which ended June 30, 1964. These resources will, it is estimated, be fully committed by the summer of 1966. We are therefore about to commence discussions looking to a second replenishment of the IDA resources. I hope and expect that we can make annual grants to IDA out of Bank net earnings and that our members will give not only continuing but increasing financial support to the Association. The economically justified demand for capital on IDA terms continues to outstrip the funds available on these terms, and the demand is certain to grow rather than diminish.

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Basically, private savings are an essential and important source of capital for economic development. The international private investor is cautious; he quickly shies away from investment anywhere in the world whenever, for one reason or another, his confidence in being able to operate effectively and profitably is impaired. When I last reported to you, I mentioned a measure which we are sponsoring in an effort to increase and fortify investor confidence—a proposal for an international Convention which would establish a Centre for settling investment disputes between governments and private investors through conciliation and arbitration. This is another step in the direction of assisting the international flow of capital. I am happy to report that the Executive Directors of the Bank have completed their work on the Convention, as requested by the Board of Governors at its Annual Meeting last September. The Convention is now being transmitted to member governments. The text will be made public next week. Submission of disputes to the Centre will be on a strictly voluntary basis, but once the parties agree to avail themselves of the Centre's services they will be bound to carry out their undertaking. We cannot know how effective these new facilities will prove to be in practice, but there are convincing reasons to believe that they may help significantly to increase the flow of capital from the largest of all potential sources—the private investor. I recommend—unqualifiedly—that our member governments promptly take the necessary steps to become parties to this Convention. In this regard, too, I bespeak your assistance.

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No account of problems and progress in economic development can be complete without reference to the continuing upsurge in world population, which has increased by about 75 million since I last reported to you.

This Council is well aware of the urgent need for positive programs to combat this trend, especially in the developing countries that are already hard-pressed to provide food and work for their people. The discouraging fact is that hard-won increases in productivity are being inundated in country after country by this rising tide. We can derive some hope from recent advances reported by researchers. They may be on the verge of perfecting a low cost means by which excessive population growth can be brought under control in countries where the problem can be attacked without restraints, reservations or inhibitions. Speaking strictly from the point of view of economic development, I cannot overemphasize my belief that in another few decades by far the strongest of today's developing countries will be the ones that act now to effectively solve this problem.

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During 1964, Mr. President, we came to what might be called "a moment of truth" in this business of economic development. At the United Nations Conference on Trade and Development, held at Geneva, the viewpoints of the less developed countries were presented with vigor and frankness, and with a degree of unanimity that was new and remarkable. Great stress was put on the importance of the environment of trade and finance in which economic development takes place. At the request of the Conference, the Bank has agreed to explore a number of suggestions about how this environment might be improved. We have completed and sent to the United Nations a study of a proposal that funds for IDA-type loans be borrowed in the markets of the world and that the difference between the borrowing and lending interest rates be borne by the industrialized countries as a subsidy. Another study, still in progress, concerns a proposal by the United Kingdom and Sweden for a system of supplementary financing to help avoid disruption of development plans arising from adverse movements in export proceeds. Other studies in process concern the volume, nature and use of suppliers' credits and the possibilities for establishing a system of multilateral investment insurance. We have taken steps to broaden the economic work of the Bank and I believe we are improving the quality and effectiveness of our contribution to the development efforts of our member countries.

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The ambitions of the underdeveloped countries are being more clearly articulated and their programs are being more persuasively put forward at a time when, in many capital-exporting countries, there is a growing disillusionment both with the administration of aid and with the performance of many of the less developed countries themselves.

In the Bank, we are not satisfied with the progress being made, but we are not pessimistic about the prospects. The resources available for development continue to grow; the knowledge of development problems and techniques grows at the same time.

Discontent, in both the developed and the developing countries, would be a disaster if it were allowed to lessen the world's commitment to economic growth. Personally, I feel it is more likely to be the author of changes in attitude and approach that will give to the cause of development a new impetus—a new thrust forward. Uninterrupted financial support from capital-exporting countries is essential. So is the dogged determination of the recipient countries to themselves advance their own development and to assure that external assistance will be used effectively. Together we are engaged in a long-term effort, and in this perspective, I am convinced, the outlook is good. All of us in the World Bank group will continue to strive unceasingly to make the outlook even better.

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Statement of

GEORGE D. WOODS

President, World Bank Group

to the

Ministerial Meeting

DEVELOPMENT ASSISTANCE COMMITTEE

Organization for Economic Cooperation and Development

WORLD BANK

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

IFC

INTERNATIONAL FINANCE CORPORATION

IDA

INTERNATIONAL DEVELOPMENT ASSOCIATION

Paris, July 22, 1965

I SHOULD like to join, enthusiastically, in the commendations which have been extended to the Chairman's Report and which it so well deserves. The Chairman has lucidly, cogently and comprehensively reported on developments which are of keen interest to all those concerned with economic progress. I am sure that the document will be immensely useful not only as a record of the past year, but as a focus for the discussion of the very serious issues which face this meeting.

When I say that this meeting faces some very serious issues, I am not speaking lightly. For I firmly believe that unless the countries represented here take some bold decisions about the volume and character of development aid—and take those decisions soon—the climate of economic development, which by and large has been reasonably good, is going to change markedly for the worse. And by "decisions," I do not mean speeches or resolutions, I mean actions.

If we look around the world at what has happened recently, the record indicates that the GNP of the developing countries increased in 1963 and 1964 at about 4-5%, or perhaps 2% per capita. This growth was in large part achieved by reason of the rise, during 1963 and 1964, in the prices of the developing countries' exports—a useful reminder of the essential role which trade plays in the whole development business. Unfortunately, in the latter months of 1964, the prices of agricultural primary products began to weaken and in the case of some of these products—particularly cocoa, sugar and coffee—the decline has been precipitous.

IN SOME important individual countries, we can see some cheering examples of progress, often achieved in the face of serious obstacles, both economic and political. On the side of the aid-givers, too, there have been some favorable developments over the past year. There has been evolving a healthy disposition to concentrate attention on those countries which have performed satisfactorily and which have been following sound economic, financial and development policies. As the Chairman's Report notes, there appears now to be a greater readiness to coordinate aid, both its objectives and its terms, in the interest of increasing its impact. Although some of the established consortia and consultative groups have been more effective than others in achieving such coordination, on the whole I am convinced that these mechanisms can and will prove to be an instrument, enabling aid-givers to assess the potential performance and needs of the recipient countries, to adapt the character and terms of aid to those countries' requirements, and to identify development priorities. As you know, the Bank has decided to step up substantially its own coordinating activities. We have in mind the organization of five or six new consultative groups within a matter of months and we have been in touch with a number of governments represented here to ascertain their willingness to join in these endeavors. We shall soon be sending to governments notification of our plan to convene a high-level meeting at the time of the Bank's Annual Meeting. We expect to set in train at that time the formation of new groups for those countries for which priority attention is appropriate. We also intend that the work of the consultative groups already organized by the Bank will be intensified.

SO MUCH for some of the highlights on the asset side of the ledger. It would not have been fair to paint a picture which ignored the significant progress which is being made on many fronts. But what I really want to emphasize here are the serious problems which confront those whose business is development finance.

Many of the less developed countries themselves have the power, if they have the will, to overcome particular difficulties or to change particular circumstances which slow down their economic growth—continuing political instability which forecloses effective development even with official funds, and completely discourages the flow of all important private investments; excessive administrative or defense expenditures, which preempt already limited resources without contributing to economic growth; unrealistic exchange rates; and so on. Each of us could draw up the list.

But this is not the forum in which to concentrate on the deficiencies of the less developed countries. We are considering here how to make our own performance, as aid-givers, more effective. Since it is fashionable nowadays to talk of a "gap," let me use that term to describe a situation which seems to me of growing concern as we judge our performance. That is the variance, the very marked variance, between what the developed countries—the DAC countries, if you will—say about development and what they do about it. Unless that gap is narrowed and quickly narrowed, I believe that what lies ahead is an inevitable and a heartbreaking slow-down in economic development and even in international trade.

UNCTAD DEBATES and resolutions are a rich source of official assurances that economic development is at the forefront of the advanced countries' political concerns, and of agreement in principle that they should provide enough assistance to enable the less developed world gradually to achieve more satisfactory standards of living. These assurances of help to the developing countries for the realization of their development potential are always made, I know, in all sincerity. But if we look at the figures, we find that in fact aid is now on a plateau. The total net official flow of long-term capital from the DAC countries has remained at about the same level since 1961. This is despite a rise in GNP of the industralized countries, over that period, at a rate of about 4-5% annually—in other words, by perhaps \$40 billion a year—with the result that the constant amount of net official aid represents a declining percentage of the aid-givers' national income. Similarly, there has been no significant increase in the total annual net flow of public and private financial resources from the DAC countries to the developing world, a flow which has in recent years remained about \$9 billion. This amounts to about 9/10ths of 1% of the GNP of those countries. However, if receipts of profits, dividends and interest are taken into account, the annual net contribution to the developing countries by the DAC countries has been about \$6 billion, or about 6/10ths of 1% of their GNP. And from the developing countries' standpoint, the level amount of assistance provided has represented a declining amount per capita—due to the increase in their populations by some 2-3% a year.

While the amount of external finance has tended to remain static, the capacity of the developing countries to make productive use of resources has not. Despite differences in performance of individual countries, the absorptive capacity of the developing countries has been steadily expanding as their institutional structures become more firmly established, as education and skills become more widespread, as administrative and managerial abilities improve and as project preparation becomes more effective. While agreement is quite general, I believe, that absorptive capacity can be expected to continue its growth—and probably at a faster rate than has prevailed up to now—there are, as the Chairman's Report notes, widely ranging estimates of the figures for external aid requirements into which that capacity should be translated. A preliminary Bank inquiry based, for each country, on the judgment of the Bank's country specialists and area economists, suggests that between now and 1970 the less developed countries might productively use an additional \$3-4 billion a year. I myself see little point in arguing about precise figures, since although analyses and estimates of the developing countries' needs for external capital are a necessary background for decision, in the end the amount of aid which will be made available will be determined by practical and political realities. What I want to make clear, however, is my deep conviction that the present level of finance is wholly inadequate, whether measured by the growth rate which the advanced countries say they are willing to facilitate or in terms of the amount of external capital which the developing countries have demonstrated they can use effectively. The whole order of magnitude of external capital flows to the developing countries wants changing. If, to achieve that, we need to change political climates—in the industrialized countries, to permit a much greater flow of official capital, and in the developing countries, to encourage a much greater flow of private investment from abroad—then ways of doing so must be explored, must be agreed upon, and must be implemented.

I SUGGEST, in addition, the desirability of a new perspective on the part of donor countries. The less developed countries are urged to plan their development for a reasonable period ahead. Since every development program necessarily assumes some measure of finance from abroad, the realism of a national development plan would be greatly enhanced, and therefore the likelihood of its achievement greatly facilitated, if the country in question could formulate its program with some broad notion of the amount of finance which might be extended over the plan period. This would require the donor countries themselves to take a long-term view, agreeing for planning purposes on assistance targets over perhaps a three or five-year period, for at least those developing countries which are recipients of major amounts of aid. These targets would, of course, not be firm or irrevocable commitments. Not only would they be subject, on the part of the donors, to yearly legislative authorization, but the availability of the amounts projected would in every case depend upon convincing demonstration, in annual reviews, that the recipient country's economic performance had been satisfactory.

Orderly development would be immensely facilitated, too, if the developing countries could have some measure of assurance that their development programs will not be disrupted by sharp declines in export earnings due to unpredictable fluctuations in commodity prices. We are studying what contribution the Bank and IDA might make in this connection pursuant to the UNCTAD resolution on the U.K./Swedish proposal for supplementary financing, and I hope we may have some proposals to put forward on this matter this fall.

LET ME TURN now to the question of the terms of aid—a problem, as the Chairman's Report notes, which is inseparably linked to the magnitude of aid. While the capacity to use foreign capital has been growing and will continue to grow, the ability of many developing countries to service additional external debt on conventional terms is declining. You are all familiar with the relevant data, but they bear repeating.

Present total external public debt—long and short-term—of the developing countries, as a group, is estimated at about $33 billion, and amortization and interest payments on this debt may be as high as $3.5 billion a year. This debt amounts to about 15% of the combined GNP of the developing countries. Service charges on it have been rising by more than 10% per year, despite a few important rescheduling operations, and they now amount to about 12% of the developing countries' total export earnings. These levels of debt service are dangerously high. They mean that a good deal of the proceeds of new loans must be devoted to servicing previously contracted obligations, rather than being invested in new productive development. Indeed, when all service and dividend payments on both public debt and private investment are taken into account, the backflow from the developing countries offsets about half the entire gross capital inflow which these countries receive from all sources.

Notwithstanding these facts and despite the general recognition of the importance of relating aid to the circumstances of recipient countries, there has been over-all only a modest improvement in the terms of aid. A recent study by the U.S. Government has, indeed, noted that there has been a steady hardening of the terms of U.S. assistance—a shift in emphasis from grants to loans and from loans repayable in local currency to loans repayable in dollars, together with an increase in the minimum interest rate on dollar-repayable loans. Other aid-giving countries, which previously offered aid on terms much harder than those of the United States, have softened those terms somewhat, but not yet sufficiently—on average, they do not yet approach even the hardened U.S. terms. The problem of aid-tying, as the Report of the Chairman notes, remains a serious and a difficult one. As we all know, the harder the terms of lending, the larger will be the amount of gross capital transfers necessary to assure a given net transfer of resources, and the longer it will take for the developing world to be assured of the gradual but steady growth which the DAC members have in principle undertaken to assist. The recent announcement of the United Kingdom that it will make long-term development loans free of interest or management charges to selected developing countries reflects a commendably long-range view, all the more to be applauded because it has been taken by a country which is itself confronted by difficult and pressing problems in its own economy. We can only hope that this policy will prove a lodestar for other countries.

If the considerations I have mentioned are taken together—the leveling-off of aid notwithstanding the increasing absorptive capacity of recipient countries, the tendency toward a hardening of aid terms notwithstanding the increasing magnitude of the debt burden—and if they are viewed against the background of a certain boredom, at the least, and disillusionment, at the worst, with the subject of development finance in most of the countries represented here, you can see why I am so concerned about the prospects for economic development. You can see, too, why I consider it so urgent that the governments represented at this meeting should take a firm decision to reverse recent trends, not only by very substantially increasing the amount of their aid but also, and importantly, by making an even larger proportion of it available on very easy terms.

THIS BRINGS me logically and, I dare say, not unexpectedly, to a more parochial and institutional point. Governments have at hand a ready vehicle for avoiding the threatened slow-down of economic development and for moving in the direction of the objectives subscribed to at the 1964 UNCTAD Conference—I refer to the forthcoming IDA replenishment. The amount of that replenishment is of course a matter for the collective judgment of governments. But there is no doubt that there are useful, productive and high priority opportunities which would enable IDA to invest at a rate several times that permitted by the resources which have been available to it up to now.

There are a number of advantages to investing in development through IDA. It is devoted to encouraging countries to follow appropriate economic policies. Its credits are used to finance only those projects and programs which are soundly conceived and which can be efficiently executed. IDA's financing terms are concessionary, but no concessions are made in the project standards which it applies. Through IDA, the aid-giving countries can achieve their objectives—and here I quote from papers before this meeting—of "relating the financial terms and the appropriate 'mix' of hard loans and soft loans or grants on a case-by-case basis to the circumstances of each underdeveloped country or group of countries, of seeking greater comparability among contributing countries in the terms and conditions of aid, and of achieving further over-all softening of terms." The DAC countries have recognized the desirability of keeping the tying of bilateral aid to the minimum consistent with political and balance of payments considerations. Aid extended through IDA is freed of procurement restrictions—to the full extent of the amount contributed, automatically and, most important of all, by simultaneous and concerted action of all the contributing countries. IDA thus not only affords a means of making untied aid politically more palatable but it assure that the funds provided will buy the greatest amount of development.

In saying this, I recognize that I may not be wholly free of institutional bias, but I am convinced, after some years of experience, that it is development finance provided through multilateral channels and invested solely on the basis of economic considerations which proves in the long run most beneficial to developing and developed countries alike.

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our speech file

ADDRESS

TO THE

BOARDS OF GOVERNORS

AND

CONCLUDING REMARKS

BY GEORGE D. WOODS

PRESIDENT

WORLD BANK

INTERNATIONAL FINANCE CORPORATION

INTERNATIONAL DEVELOPMENT ASSOCIATION

AT WASHINGTON, D. C.

ON SEPTEMBER 27 AND OCTOBER 1, 1965

ADDRESS
TO THE
BOARDS of GOVERNORS

We meet here in a cause which is always urgent: the cause of raising living standards—which for over half the population of the member countries of the World Bank are intolerably low. In the past year, the Bank and its affiliates have put forth strenuous efforts in this cause. The World Bank Group committed more funds to financing development than ever. Our commitments exceeded a billion dollars for the third year out of the past four; and our disbursements were more than $800 million.

We not only commited more funds: we committed them for a wider spectrum of purposes. The enlarged activities we have been discussing for the past two years made their mark. While the financing of transportation and electric power continued to be our main business, commitments for agriculture, industry and education increased. Our advisory and technical assistance activities stepped up.

The prospect is that the volume of our business will go on rising. This assumes no further deterioration in the peace of the world and continuing stabilization of the international situation. In part, this upward trend reflects the hard work that we and others have been doing to lift the number and quality of development projects in the member countries of the Bank. Activity is increasing under our new cooperative arrangements with the Food and Agriculture Organization of the United Nations (FAO) and the United Nations Educational, Scientific and Cultural Organization (Unesco). I am hoping that as a result, the expanding trend of operations in agriculture and education will continue.

The Bank and the International Finance Corporation continue to be financially strong. In fiscal 1964/65, the Bank sold bonds in Canada, Germany, Switzerland and the United States at rates that compared favorably with general market levels for government issues. For the future, we hope to tap capital markets more frequently than in the recent past. I bespeak the continuing cooperation of the industrialized countries in opening capital markets to us, and in giving our bonds a place of priority in the queue of international issues. Investors in these bonds receive a fair interest rate, enjoy unexcelled security of principal, and at the same time, participate in the task of development.

We are pressing other efforts to encourage private international investment, and two special projects we have undertaken for this purpose are nearing completion.

One is the amendment of the Bank and IFC charters for the purpose of enabling IFC to engage in borrowings from the Bank up to an amount equal to four times IFC's paid-in capital from governments. Substantive action on the charter amendments has been completed, and they will become effective soon. I invite industrial entrepreneurs to note the possibilities that IFC's increased resources will then present.

The second special project on which action is moving to completion is the Convention for the Settlement of Investment Disputes. The Convention will enter into force after signature and ratification by 20 States. I am pleased that in the less than six months since the Convention was submitted to governments, 20 governments of Europe, Africa, Asia and the Western Hemisphere have signed the Convention, and ratification is under way. I am sure that the availability of the machinery to be established under the Convention will improve the climate for international private investment and I urge governments to quicken the steps they are taking toward ratification.

As this project advances, we are beginning to consider another type of measure which has been suggested as a further way to encourage the confidence of private international investors. That would be to establish a multilateral system for guaranteeing foreign investments in developing countries against noncommercial risks. In June, the Organization for Economic Cooperation and Development (OECD) transmitted to the Bank for its consideration one possible scheme for such investment guarantees. Using this as a springboard, we have begun an examination of the whole matter.

Mr. Chairman, I think you and most of the Governors know that by nature I am an optimist; and certainly I am an optimist about the long-run prospects for economic progress in the less developed areas. The wealth of the world and the well-being of its peoples unquestionably can increase, and it is my belief that they are going to increase.

At the same time, no one can be happy about the state of the international development effort today. Not enough of the underdeveloped countries have taken the true measure of their problems, and not enough countries—both industrialized and underdeveloped—are taking the actions which would adequately respond to the gravity of those problems.

On the side of the high-income countries, income is rising even higher; but the level of development assistance has been stationary for several years. Not enough people understand that the tasks of development not only take a long time, but that any hesitation in the pace of development tends to make them bigger, more complicated and more difficult. Unless we lenders and donors perceive the urgency of our situation, and soon, such actions as we may be driven to take a few years from now may be too late. Unless we perceive the tremendous size of the problem, they may be too little.

Many countries are showing what can be done to lift output and living standards. Out of 80 developing countries in the Bank's membership, about one-third have attained in the recent past rates of 5% or more in growth of real income, the target rate of the Development Decade. A high rate of growth is different from self-sustaining growth, however, and those countries will need encouragement and support for a considerable time to come. On the other hand, in close to half the 80 countries, accounting for 50% of their population, income per head has risen by 1% or less. Even to keep abreast of recent high rates of population growth is not a negligible achievement, but it is far from sufficient. The average per capita income in this group is no more than $120 a year. At a 1% growth rate income levels will hardly reach $170 a year by the end of this century. In some countries it will be much lower. This is crude arithmetic. But its implications are true and sobering. If the present trends are allowed to continue there will be no adequate improvement in living standards in vast areas of the globe for the balance of this century. Only massive and coordinated efforts of both the rich and the poor countries can bring about a substantial acceleration of growth and real progress toward a tolerable level of well-being.

No amount of external assistance, however, can substitute for a greater and more effective effort by the underdeveloped countries in the mobilization and allocation of internal resources. It is this effort which fundamentally determines the rate of growth; it is this effort which provides a basis for external assistance to be received and used effectively.

It is useless to attempt to sugar-coat the fact that in many of the underdeveloped countries, economic performance can be greatly improved. It is essential that these countries take effective measures to increase the mobilization of capital through taxation and through incentives to investment, both domestic and international. It is urgent for many of them to cut down some of the biggest items of waste—excessive military expenditures, prestige projects, inefficient administration, overstaffing of railways and other public enterprises, and subsidies to public services that could and should be self-supporting. These countries should get more for their money through better development programming and project planning. They need, among other things, to maintain fiscal equilibrium and to avoid excessive short-term borrowing. Some must take firm steps to keep excessive population growth from devouring the hard-won gains of development. Nearly all of the low-income countries must redouble their efforts to overcome the lag in agricultural productivity—literally the most vital, yet at the same time generally the most feeble, of the economic sectors in the underdeveloped world.

It is the effectiveness of internal effort which to a large extent is going to determine the future of external assistance. The low-income countries should take more realistic account of this fact than many of them are inclined to do. In my daily activities, I am constantly and sympathetically aware of the impatience, disappointments and frustrations in the developing countries; but at the same time I am conscious of the frustration and disillusionment that the industrial countries feel about development assistance. Governments which provide development finance are subjected to searching questions by their legislatures and peoples about it. The most careful use of aid by each of the recipient countries is constantly necessary if they are to expect continued assistance, and on a larger scale. Performance will have to stand up to close scrutiny.

Improved performance by the developing countries is vital for accelerating the pace of growth; but it will not by itself be sufficient. A dominant difficulty which these countries face, despite their own best efforts, is the uncertainty which clouds the prospects for their exports.

Export earnings, far more than investment and foreign assistance—the ratio is about four to one—finance the imports needed to carry forward the development of the underdeveloped countries. But the demand for many of the commodities exported by these countries has grown only slowly. The rise of export earnings, despite the over-all increase of world trade, has been only 3 to 4% a year. This is less than enough to support a satisfactory rate of development.

In the short run the problem is further complicated by abrupt and wide fluctuations in some commodity prices. Many underdeveloped countries have had to adapt themselves to unexpected year-to-year variations of as much as 15% in their export income. Some have experienced shortfalls twice as great.

The result of the slow and uncertain growth of export earnings is to retard development, to upset continuity of effort, to diminish the impact of external finance. Uncertainty makes it difficult to plan and effectuate the structural changes that would liberate the developing countries from overdependence on a narrow range of exports; it exerts pressures leading to fiscal imbalance, to inflation and to stagnation of constructive effort.

Let me suggest that both the high-income and the underdeveloped countries give renewed and purposeful attention to these problems. And let me report to you two initiatives in which the Bank is joining that may help to mitigate some of these problems. The first is a study, organized jointly by the International Coffee Organization, FAO and the Bank. The study will examine the needs of coffee-producing countries to diversify into other lines of production which would impart greater strength and stability to their economies, and will try to identify the possibilities that they have for doing so. A dozen countries in Latin America and Africa depend on coffee as a major source of export earnings: and coffee exhibits some of the worst features of the commodity problem.

The other initiative stems from a proposal put forward by the United Kingdom and Swedish delegations at the 1964 United Nations Conference on Trade and Development, which the Conference asked the Bank to study. The proposal aims at defending development programs from the dangers of disruption arising from unexpected shortages in export earnings by providing supplemental resources under certain conditions to be agreed. Our staff study examines the many facets which impelled the proposal. The study is now nearly ready. I will not attempt to summarize its findings, but I can say that the approach under consideration would call for continuous consultation with the developing countries and close collaboration with the International Monetary Fund. I expect to forward our study to the United Nations in the not too distant future, and I hope that both the capital-exporting and receiving countries will give it their earnest consideration.

Another dominant problem of the underdeveloped countries is their continuing need to receive finance from external sources. Our Annual Report gives our staff estimate of the magnitude of resources which effectively could be used. The problem of finance is given added urgency by the volume of the debt that already confronts these countries. In 1956, their outstanding international debt was estimated at just under $10 billion. In 1964, it reached an estimated $33 billion. Because of rising interest rates and the accumulation of short-term debt, the amount of money needed annually to service this debt climbed even faster. From 1956 to 1964 it rose over four times, from $800 million to $3.5 billion.

The external debt of many developing countries, of course, was bound to rise rapidly. These countries were newly independent; they had little debt to begin with, and increased it rapidly as they plunged with energy and enthusiasm into economic development. At the same time, it must be admitted that there was much unwise borrowing—brought about in no small part, it should be added, by the proffering of credit from the high-income countries, at unrealistically short terms and in some cases for purposes of little economic value.

The resulting supplier-credit problem is being studied by the Bank staff at the request of the United Nations Trade and Development Conference. We hope to be able to suggest ways of eliminating the undesirable features of past practices, while maintaining the use of private credit facilities to finance the international exchange of goods and services.

In any case, the underdeveloped countries as a whole must now devote more than a tenth of their foreign exchange earnings to debt service; and the figure is still rising. On present form, amortization, interest and dividends are offsetting the actual gross flow to the developing countries from all sources by half, and will continue to offset it at an accelerating rate. In short, to go on doing what we are doing will, in the not too long run, amount, on balance, to doing nothing at all.

The predicament of the debtor countries calls for a continuing country-by-country review of existing debt and careful consideration of how to handle it. For some countries already caught in exceptionally difficult circumstances, the solution may lie in a rescheduling of obligations. But for the longer haul, and for the developing countries as a group, the requirement is for a greater flow of long-term capital on less burdensome terms.

At the present time, terms are not easing fast enough. Although the need for more favorable terms is universally accepted in principle, and the United Kingdom and Canada have recently taken substantial steps in this direction, the improvement, on the average, has been small. Given the financial facts of life in the underdeveloped countries, a general easing of terms is clearly indicated if we are to avoid disaster in the future. Otherwise, cases of default and serious interruption of capital flow would seem to be inevitable. And harm done by defaults, in my opinion, is much deeper and more serious than the financial figures show; it is truly beyond calculation.

The solution of the debt problem is at least in part within the power—and the means—of the developed countries. They have already demonstrated their willingness by the creation of IDA—a major international initiative for transferring capital to the poor countries on concessionary terms. In a few days, the Association will complete its fifth year of operations. The record of these five years demonstrates that IDA is fully as businesslike as the Bank in its concentration on workable, high-priority projects which bring a reasonable economic return, and in its determination to produce the most development for the money spent.

I again acknowledge with gratitude a number of steps which have been taken to augment the initial resources of IDA—the first replenishment in 1964 by 18 countries, the special contributions by Sweden, and permission to use part of the subscriptions of some of the developing countries in IDA's membership. The Bank itself is acting to supplement IDA's funds. In Tokyo last year, the Governors approved the transfer of $50 million to IDA from the Bank's net income. At this meeting, you have before you the recommendation of the Executive Directors that $75 million more be transferred to IDA in the form of a grant from the earnings of the fiscal year just ended. I trust you will give this recommendation your favorable consideration.

What the Bank does to augment the resources of IDA, however, is only supplemental to the contributions made by governments. The first replenishment of IDA funds, as many of you will recall, was intended to support IDA commitments through the current fiscal year, that is through next June 30. It is now time to consider the future of IDA.

As an initial step looking toward replenishing its funds, I recommend that you approve the resolution in the agenda which calls on the Executive

Directors of IDA to examine this question. In the final analysis, the high-income countries in IDA's membership must decide what scale of operations they want IDA to undertake in the future. For our part, we will continue to do our best with the resources entrusted to us.

The replenishment of IDA resources is closely related to the broader issue of assuring that external financing for development, from whatever source, is used to the best effect. Optimum deployment of development assistance requires close coordination among the aid-giving nations; more important still, it requires full understanding and cooperation between them and the recipient countries. As I see it, a primary task of the World Bank is to facilitate this essential collaboration.

We have already organized groups consisting of interested aid-giving governments and international financing agencies, to coordinate the finance provided to six of our member countries. Now, as our Annual Report indicates, we are undertaking to strengthen and intensify the work of these groups and considering the formation of similar groups for other countries. During and after these Annual Meetings we shall be carrying on discussions in this regard.

Each consultative group has one essential objective: to accelerate economic growth; and it seeks to accomplish this purpose in several ways. In the first place, it aims at enhancing absorptive capacity by helping in the planning of development, in the preparation and screening of projects, and by advising on administrative or financial problems. Second, it is designed to provide the several aid-givers with informed, objective analyses of the country's needs for external finance and technical assistance—not only the amounts it could effectively use, but also the appropriate terms of financing and the purposes that deserve priority. It also undertakes a continuous assessment, in cooperation with the International Monetary Fund and the recipient country, of the latter's economic progress, and attempts to work out agreed solutions to its problems. We expect that these consultations will help to bring about a more adequate and assured flow of aid to the countries with a good record of effective use; and, equally important, encourage the cooperation and mutual trust that is so necessary to the common purpose.

It is our aim over the course of time to bring into this consultative system perhaps a score of developing countries comprising the recipients of much the largest share of international development finance. The Interamerican Committee for the Alliance for Progress—CIAP—is already working in this direction, and our own activities with respect to countries of Latin America will be carried on in cooperation with CIAP and the Inter-American Development Bank. As regional organs evolve for Africa and Asia we shall expect to cooperate with them also. And we look especially to the International Monetary Fund for strength and counsel in all these consultative arrangements.

Mr. Chairman, development, to be successful, requires a dedication and singleness of purpose. However, thus far, no means have been devised to deeply stir patriotic emotions for massive and intensive economic development in agriculture or in extractive and manufacturing and service industry. Yet development should be waged as a war, a war against intolerable living conditions that must be carried on with a determination to overcome all obstacles.

Let us not forget that the World Bank itself is the child of adversity—its charter was written while one of the most violent battles of World War II was raging on the European continent, and at a time well before the end of the war in Asia was in sight. The Bank has not hesitated to carry on in countries faced by adverse and extraordinary circumstances, when it believed that in spite of these circumstances, the objectives of economic development, in the end, could be achieved. We have carried forward projects without interruption in African, Middle Eastern, Southeast Asian and Latin American countries affected by alarms of war and violent political upheavals which sometimes threatened internal order. It is our sincere belief that intensive economic development is the indicated antidote in the 20th century for the age-old instinct for military encounters. We consistently make disbursements against our commitments in troubled areas, and we intend to continue as long as our judgment indicates that it is not an unreasonable development finance risk to do so.

Mr. Chairman, development is not a short-run problem: it is not something we can give marginal attention to for a period of time and then forget. The developing countries need time to accomplish deep-seated changes: in outlook, in social institutions, in economic organization. We have to measure this time in terms of at least a generation.

While progress may at times seem slow, there is no doubt that the ability of the developing countries to make effective use of capital is increasing. Many of the countries are far ahead of where they were one or two decades ago—in the ability to formulate and carry out development policy, in the number of institutions able to conceive and administer measures for economic progress, in the number of individuals able to direct private and public enterprises.

This state of readiness represents an opportunity for further advance which the aid-providing countries should seize. It is clearly time to find more development capital, and I can assure you that much more capital, both public and private, can be effectively used. The sheer bulk of the problems of underdevelopment—the number of mouths to be fed, the number of human beings to be maintained in decent shelter and gradually to be educated and made productive—continues to grow. If we do not begin to make faster progress in these matters, the prospect is for discontent, unrest and tensions that in the end must spill over national boundaries and ultimately infect the rich nations as well as the poor. We have to exchange views and act in collaboration with each other, with speed and on a large scale. It is in this spirit, Mr. Chairman, that I hope this 20th Annual Meeting of the World Bank and our sister entity, the International Monetary Fund, will proceed.

September 27, 1965

CONCLUDING REMARKS

I join with the Chairman in expressing appreciation to President Johnson for his visit this morning. We greatly value his continuing support of our joint endeavors. I have only a few words to say as this meeting comes to an end and each of us prepares to return to his task. Mr. Chairman, I want to thank you and all of our Governors, who, both formally and informally, have expressed confidence in the World Bank and its affiliates. The assurances you have given us of your continued support and encouragement have been heart-warming, and they are deeply appreciated.

Let no one underestimate the value of these meetings. Here, in one place, are gathered the financial leaders of the world both in and out of government. I am sure each of you has gained much from this opportunity to tell this distinguished gathering about the problems and aspirations of your own country and, equally important, to learn from your colleagues about theirs. Each year we in the Bank gather new strength from the currents that flow out of your peoples, in their hundreds of millions, through your thoughtful and constructive speeches and into our councils. We will ponder your advice, be alert to your criticism, and diligently execute your decisions.

I am particularly pleased by the favorable comments made by a number of Governors concerning our plan to intensify activity in the coordination and in improving the quality of aid. This week we have had discussions looking to the formation of several additional consultative groups. I deeply believe in the usefulness of this approach, for both the aid recipients and the aid suppliers. The Bank has obligations to both parties to the consultative process, and we are aware of the difficulties and delicacy of the role we shall have to play. But with good will and a spirit of cooperation on all sides, I am confident that we can together make consultative groups serve development well.

I have also noted with satisfaction your welcome to the greater emphasis now being given to assistance, both financial and technical, for agriculture and education. We intend that our assistance in these areas shall continue to expand. And to our African friends I would say that we have every confidence that with the assistance of our new regional offices, the number of sound projects eligible for IDA financing will steadily increase.

You have approved a resolution instructing the Executive Directors of the International Development Association to formulate specific proposals for replenishing IDA's resources. I have been encouraged by hearing from some of the Governors that their governments are well aware of the need for additional IDA resources in the near future and of their willingness to play their full part. I have also noted the widespread support for the policy of transferring a certain portion of the Bank's net income to IDA, thus channeling back into the stream of development finance substantial resources, and reducing, to that extent, the net burden of debt service for the developing countries taken as a whole.

At the same time, I should perhaps inject here a note of caution. It is tempting to look at the increasing earnings of the World Bank as a kind of magic, self-replenishing pool into which we can dip from time to time for various worthy purposes without causing any political pain to governments. I believe this temptation must be sternly resisted. The Bank's earnings represent real resources of member countries and they are dedicated first and foremost to assuring beyond any shadow of doubt the financial strength of our institution. Any allocation of net earnings other than for the traditional purpose of building up the Bank's reserves must be based on a clear demonstration that the Bank's fundamental development objectives would be thereby furthered without in any degree weakening its inherent financial soundness or its standing in the financial markets of the world.

Mr. Chairman, no one who has carefully attended this meeting, as I have, can doubt that the drive toward economic development reaches deep into the national aspirations of all our member nations. But I would be less than candid if I did not remind you on this occasion, and at this period in the world's history, that the objective of economic growth can be blurred, indeed it can be obscured, by other, perhaps temporarily more exciting, national endeavors unrelated to peaceful economic development. It is not the role of the President of the World Bank to comment, or even to have an opinion, on priorities in terms of national aspirations. But it is my duty to warn that the carefully and painfully built structures of international cooperation, which occupy a small but growing part of the field of international finance, are not invulnerable. We are still building with wood, not yet with marble, much less with steel. A careless match can do untold damage, and only the historians will care to debate who tossed it. Likewise important segments of our structures could be overwhelmed by floods of misdirected national emotion which, once receded, would leave only wreckage. But the structure exists. It can be strengthened. You have strengthened it even in these past few days by your suggestions, your criticisms, and your expressions of support. We shall do our utmost, with all the vigor and influence we command, to defend what has been built, to build a solid base for new advances, and to play our part in planning for the future.

We are encouraged by your support, but we shall not rest content. For, if I may paraphrase a great poet from my own country:

> We have promises to keep,
> And miles to go, before we sleep.

October 1, 1965

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THE IMPORTANCE OF AN OLD BRITISH HABIT

Address before

THE PILGRIMS

by

GEORGE D. WOODS
President
World Bank Group

London
November 29, 1965

I AM PARTICULARLY happy to be here tonight on the occasion of my friend Lord Harlech's initial appearance at a Pilgrims' dinner in his new office as President. It is by way of, as you might say, an added attraction for me—in addition to the honor of being invited to join you for dinner tonight.

If I may say so with reference to my friend and colleague in the profession—if I may use that term to describe our activities—of trying to finance development in the poorer countries—I refer to Lord Howick—I find myself speechless. I think that his remarks were generous, even over-generous, and so I am in just that position—speechless. Fortunately and happily from my point of view, I have a few prepared remarks which I will share with you in an effort to bridge this speechlessness resulting from the remarks by Lord Howick. Before I do so, however, I should just like to say to Lord Howick: thank you very much.

I AM SURE that many more pilgrims come to London these days than leave here for alien lands. Many, no doubt, are searching for fame and fortune, but many, too, I'm sure, come as I do to pay their respects—as did at least some of the pilgrims who went to Canterbury in the distant past.

The thought comes easily to many Americans—and of course to many Canadians, Australians and New Zealanders as well. But apparently it also comes easily to an increasing number of individuals from other lands you used to rule, and this is perhaps the greatest compliment. Few nations have been able to survive the experience of empire; like Ozymandias, "King of Kings," most were able to leave only shattered statues, standing in a desert. But if the poet Shelley were alive now, he would have to revise his thoughts. For you can justly say, "look on our works, both mighty and humble, and take hope!" The fact that so many millions are so willing and eager to work with you in the timeless tasks of building a better future is the true measure of your ability to substitute a partnership of commonwealth for the trappings of empire.

IT IS VERY risky for one in my position to say anything nice about empires, but I have to run that risk. A great deal of the routine of the World Bank Group is simply carrying on—with you and others—some of the great works of construction which you started in the exciting days of empire. We are helping to expand the irrigation works in the Indus Basin, just as you expanded what had been built thousands of years before you came. We are helping to modernize ports and railways which you first constructed in countries as far apart as Argentina and Thailand. Because you surveyed so much land and so many underground prospects in Asia and Africa, we are able to finance a wide variety of development projects in these continents today. We are helping to build dams on rivers you first studied and harnessed, and paving roads you first forced through the jungle. The examples are legion.

Even the financial instruments we employ resemble some you invented. A hundred years ago the City of London financed the construction of the Indian railways with the help of a Crown guarantee, assuring a 5% return to bondholders. And the Chancellor of the Exchequer had to make good that guarantee on more than one occasion. We raise most of our money by floating bonds in the capital markets of Western Europe and North America, and our bonds are guaranteed by all member governments of the Bank. While no government has yet had to make good on its guarantee, all have subscribed capital to the Bank to be called upon if necessary. A dozen and a half governments, including the United Kingdom, have also contributed funds to our International Development Association, which allows us to extend our work in scope and quantity without increasing the risk of having to call upon subscribed capital to make good the guarantees to our bondholders.

THESE ARE reasons enough for me to make a pilgrimage to London, but I have another. As an American banker, I know that Texans and Californians, New Englanders and Middle-Westerners, adopted the habit of investing some of their material surplus overseas—thanks in part to the ground you had prepared and the example you set. Now as a banker, turned stateless diplomat, it is one of my primary duties to encourage others in surplus to adopt the habit, too. I just don't think there is any other way in which the vast discrepancies in wealth among nations today can be prevented from breeding mounting hostility and even war.

But here I appeal to you for inspiration and encouragement. The problem of persuading affluent nations to invest some of their surplus overseas involves demonstrating that the investment is worthwhile. I don't mean just "profitable" in the narrow, banker's sense. I mean worthwhile as a habit—as an ordinary exercise in enlightened self-interest, if you will. In my business we continually have to show the skeptic that we are getting somewhere. And this can be a Sisyphean task.

I'm going to take it for granted that you know we are getting somewhere in terms of worldwide construction. I promised myself not to inflict any statistics on you this evening, and I am not going to. But in any event statistics often serve better to support an argument than to illuminate it. And illumination is what is needed. If the unbeliever is to be convinced that we are getting somewhere, we have to make him see the construction, and not just the chaos, in the countries of Asia, Africa and

Latin America. We have to make him hear the sound of work over the noise of bickering and dissension.

"Foreign affairs" these days are awfully noisy affairs. Sometimes it seems that modern diplomacy is beset with Mods and Rockers, who, like their counterparts in England and the United States, are out to vent their frustrations on all the neighbors they can reach. Governments have taken to shouting over the heads of other governments with all the gangling media of modern propaganda. In the United Nations and elsewhere government representatives have fallen into the habit of making presumptuous and preposterous claims about the aims and aspirations of people whom they do not govern. Even the growing orchestra of financial instruments, each playing its own composition of "foreign aid," seems to produce more cacophony than harmony. And while they appeal to our hearts, even the statistics of misery, so amply at hand, tend to dull our minds and imaginations through constant repetition; they become a dirge instead of an inspiration to action.

HOW THEN DO WE make the real and hopeful message of economic development heard through all this din and clamor? I have no easy answer to that question, but I'm hopeful that you can help me find one. Your Ministry of Overseas Development is already at least posing the right questions. When it comes to describing my business problems today, I can't improve on what your Ministry said in its White Paper of last summer: "The solutions to the problems of developing countries are neither simple nor obvious. They will involve new methods, new institutions, new relationships, new experiments. There are many paths to development. Our aim is to help the developing countries find and pursue them."

But why is this "our aim"? How do we make this eminently sensible message heard and understood more widely? I suggest we should start by disentangling the real prospects from our illusions in thinking and talking about these "developing countries." I suggest that it is not so much diminished prospects as it is lost illusions which prevents us from seeing the construction and hearing the work over the noisy headlines which crowd the pages of our newspapers.

What shakes our confidence most, I think—whether we be bankers or just observers—is that we see so many newly-independent countries where there is not even the necessary minimum of law and order, much less even rudimentary habits of public accountability, which we have come to associate with the very idea of nationhood. We have seen one after another discard the conventional symbols—parliamentary procedures, "two-party" systems, loyal oppositions, even the rule of law—which we were taught to believe distinguished a nation from anarchy. And when we see these things we shake our heads and close our pocketbooks.

But if we stop a minute and ask ourselves what we really expected, I wonder if we won't find that it isn't real prospects which have been diminished by these events, but rather some cherished illusions which have been shattered. The institutions and forms which have been discarded are, after all, transplants for the most part, and wasn't it always a great illusion to think that these people could or would work out their nationhood on the basis of transplanted institutions? Wasn't it always an illusion to think that they could adopt our institutional forms—and make them work—without our historical experience or our particular cultural heritage?

And if we recognize and discard this particular illusion, can we honestly say that the prospects for genuine nationhood in these lands have somehow diminished? I think not. If most developing countries are still some way off from fashioning real nations out of their diverse peoples, they very probably will do so in less time than it took the warring peoples of Scotland, Wales and England to reconcile their differences. And it is through the process of reconciling their differences that these societies will become nations.

I THINK it is very parochial of us not to recognize that the peoples in these developing countries do differ in language, tradition and religion and often have long histories of mutual hostility behind them. This is true of little countries in Africa as well as a big country like India. If there is much chaos and bitterness among the leadership groups, it is at least in part because unreconciled differences—combined with great poverty—often leave the leaders of these countries precious little with which to rally their followers other than the most inflammatory slogans—born of real or imagined colonial experiences in the past.

I cannot avoid seeing this great common problem firsthand whenever I visit member countries of the World Bank Group in these parts of the world. This is because our work aims at engaging governments and as many people as possible around the problems of increasing their productivity. This may be done by encouraging formal planning mechanisms, covering the whole of a country's economy, as in the case of India and of Pakistan. Or it may be done by a series of much less formal and much less inclusive consultations. But in any case I can't get on with my job—and they can't get on with their economic development—unless important interest groups are brought together in one place where they can reconcile their differences. The opportunities which exist in all countries for concerted actions of self-betterment depend first on some reconciliation of outstanding differences.

AND HERE we come up against another illusion, common to our times. This is the illusion that differences cannot be reconciled within these countries by what we recognize as democratic procedures. There is nothing in my experience which supports such a pessimistic conclusion. Quite the contrary—as far as engaging governments and people around the problems of their economic development is concerned, democratic forms are going to be a simple necessity in nine out of ten cases. For the more real diversity which there is in a society, the more necessary it is that important interest groups have a voice in making decisions—especially if those decisions are to be translated into economic growth.

I was struck with the force of this idea after reading a brilliant essay on Africa by Arthur Lewis in *Encounter* magazine this past summer. Professor Lewis was addressing himself to those who despair over the phenomenon of African dictatorship. But he wasn't despairing. Lewis argued that ultimately African states must develop forms of government in which all the traditional, tribal, regional and racial groups have an opportunity to share in the making of decisions. Only if all have such an opportunity he wrote, "can all feel that they are full members of a nation, respected by their brethren and owing equal respect to the national bond that holds them together."

Reading that passage, I got to thinking that it might help if we could somehow make the old rallying cry, "No Taxation without Representation" fashionable in the context of these countries' struggle to work out their nationhood. Today there is often neither taxation nor representation—and both are needed. I would like to see this slogan a cornerstone of the development programs of these "developing nations" today, and who knows, that might actually happen. Reconciling differences is the first order of business whether it is democracy or economic progress you are interested in.

Of course the democratic forms will be different. New institutions, as your White Paper implies, are going to be the rule, not the exception, in all these countries. And it is not just new institutions of government, but probably new educational institutions and new types of business organization as well. We cannot predict what they will be in most places, other than that they will differ from our own—and from one another—in many ways. But isn't it quite an arrogant and self-defeating illusion to conclude that because our particular institutional forms have been rejected our ideals have been rejected—and our mutual interests will be ignored as well?

WHAT WE NEED to do is to concentrate on real necessities, not on forms. I, as an American, should be very sensitive to this distinction. After all, it was a long and difficult eighty years after our independence—and only one hundred years ago—that my country concluded a civil war to decide whether our Union should be one and represent all the people or whether it would disintegrate. And can I pretend that the United States would be as powerful and as "democratic" as it is today if it had become the disunited states instead? I should be the first to agonize with India and Pakistan and Nigeria as they struggle to preserve their Unions without civil war—and the first to congratulate them as they succeed.

And I should be the first to see great hope in the experience, say of Mexico, where the problem appears to be working itself out and where the emergent democratic forms represent nothing so much as a unique Mexican achievement. For even in Latin America today the basic problem is one of devising indigenous institutions of government which represent all of the people—and which work. That is gradually, painfully happening in Colombia and Venezuela, in Chile and Peru—even in Argentina and, hopefully, in Brazil.

It is not my purpose to make excuses for these countries, but to explain them. It will take time—a generation or more at least in most countries—before new institutions have taken root, before the slogans of economic progress eclipse the slogans of resentment. The task in that time is to make the new institutions work—whatever their name. To a crucial extent the new institutions will only work as they increase productivity. And surely that argues for cultivating the habit of investing our surplus overseas—rather than despairing of lost illusions.

It is through adding a measure of our experience and wealth to the scarce resources available for increasing productivity in these lands that we help to live down resentment—and encourage the substitution of the slogans of economic progress. I know of no other effective way of preventing the huge disparities in wealth among nations from ultimately engulfing us all in despair and giving rise to a new and hideous kind of tribal warfare among states. Yet I read in *The Economist* last month, in the aftermath of our Annual Meeting that "across the world, (foreign) aid is on the defensive." I agree. I am worried about it.

BUT IS NOT "foreign aid" on the "defensive" because it has itself bred new illusions, rather than concentrating on maximizing real prospects? Is it not because "foreign aid" has generated too simple notions about the relationship between economic progress and particular political attitudes and institutions? Is it not because "foreign aid" has generated some absurd expectations about the relationship between gifts of money and economic development?

I have tried to suggest this evening that we do not need these too simple notions. I have tried to suggest that the works of construction with which you and we are identified around the world are the real and realistic expectations which "foreign aid" should foster. But as I close I must record my deep concern with how the case for development assistance is presented to the people and the governments of the capital exporting nations. I know, of course, of the balance of payments difficulties which exercise political leaders today. I have been schooled in the budgetary and monetary problems which are exercising financial leaders. But just stop for a moment and think how these problems must look to the financial and political leaders of the developing countries. These are the problems of affluence, not of poverty. What are they to think if we use these problems of affluence as excuses for reducing our share of the help they need to overcome their problems of poverty?

What is legitimate, what is indeed imperative, is to make sure that financial assistance well and truly serves to increase productivity in these countries. Accountability on this score is the first duty of every responsible practitioner in my business—accountability on this score is the necessary test of whether we are getting somewhere.

But had I chosen to make an accounting of the World Bank Group tonight—complete with statistics—I can assure you that the accounting would have shown that the real prospects, far from diminishing, have outstripped both the financial resources available and the ability of many developing countries to service further conventional loans. The facts are that we have been getting on with the job in dozens of different countries—but we can't continue to do so unless countries with a material surplus continue to cultivate the habit of investing some of that surplus in development overseas.

I lay this matter before you because so much of the case for cultivating such a habit rests on your example. Your experience, to me, is worth far more than gold, although I need that too. The number of pilgrims who come to London these days—from international organizations, from rich countries and from poor ones, as individuals or as officials on errands of public business—is proof enough of my faith that you can help find the right answers.

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GEORGE D. WOODS

President of the World Bank and its Affiliates

to the Economic and Social Council of the United Nations

United Nations, N.Y., February 25, 1966

I AM VERY PLEASED to be here with you again today, and to have the opportunity of reporting on the activities of the World Bank Group. It is fair to say that just about all the shades of opinion represented in the United Nations on economic and social development matters are now also represented in this Council. And as these words "economic and social development" are used in common U.N. parlance, they touch upon virtually all the peacetime activities in which ordinary human beings are engaged.

Inevitably, each Specialized Agency which reports to you has only a partial view of the many affairs you oversee. We each have our own point of view within the universe of economic and social development. We each ask to be understood; we each lay claim to your special attention; yet often our language must seem quite incoherent to you. As if there were not enough natural languages dividing us, we must also accommodate the new and often awkward, technical languages of our business.

Yet, gradually, as we counsel together, even the awkward new languages come to be better understood, so that when we say a word like "profit," we agree that we are not talking about morality, but about efficiency; and when we say a word like "efficiency," we agree we are talking about how well a man or an institution produces goods and services which people want and can use—and nothing more. Or when we talk about "planning," we are talking about ways through which various interest groups can resolve their differences around the common problems of their economic growth, and not about ways of imposing arbitrary solutions. Or even when we talk about "development," we are talking about a very special state of affairs, and not, alas, about the normal state of human society.

I think that it is through counseling together at meetings like this, where all the major streams of political thought are represented, that we can hope to find that minimum degree of precision in our debate out of which some enduring international cooperation can grow.

Within the United Nations family, the World Bank Group is concerned with many aspects of economic development, but its principal operational task is to provide finance for specific projects—specific investment opportunities—designed to raise the level of productivity and to stimulate economic growth. The word "project" is not a rigid, inelastic word; it can and does cover a growing number and a variety of investments, as the reports before you amply illustrate. But it is a vital word in our operations because it permits the degree of precision necessary for lasting and constructive cooperation between those who have funds to invest and those who so desperately need investment funds. In my own mind as I view the stream of projects from our Loan Committee which pass over my desk on the way to the final judgment in our Board Room, I constantly ask the question, "Is this an investment which promises to make a lasting contribution to increasing productivity? Will it produce the wealth necessary, not just to repay the loan but also to add something to the well-being of the people of the country?"

You have before you in our annual reports and two supplementary documents an account of the projects which we have helped to finance in the 18 months leading up to the beginning of the present year. Let me bring the record up to date.

IN THE SEVEN WEEKS since January 1 of this year, the International Development Association has announced $65 million in credits, directed at projects in Pakistan, Tanzania, Basutoland and Ethiopia—for agricultural credit, industrial imports, grain storage and handling, roads and school building. Another dozen Bank loans and IDA credits are on the point of being presented to our directors; they involve, among other things, finance for roads, electric power, water supply and port facilities in Latin America; water supply and a development finance company in Africa, and power in Asia.

Also since January 1, the International Finance Corporation has announced two transactions—one in Ethiopia and one in Venezuela—which involve underwriting issues of public shares in new or expanding manufacturing enterprises in these countries. Helping local investors to buy into ownership of new, local industries—to share directly in the risks and rewards of their own industrial development—is the essence of IFC's work. There is no more important work done by the World Bank Group, for there is no substitute for mobilizing local savings and putting them to work productively in local enterprises.

This is just the work currently at or near the end of our production line. We also dispatched nearly 50 missions in the first seven weeks of this year—missions ranging from a single man surveying a new project proposal to missions, staffed with a number of experts, whose charge is to appraise economies and economic performance in depth. Some missions are concerned with pre-investment or feasibility studies, often financed by the United Nations Development Programme —studies of a sort which in the past have resulted in sizable new investments. During these seven weeks we also formally opened the second of our regional offices in Africa, this one in Nairobi. We hope it will help African governments increase the flow of good projects, which we very much want in order to increase the pace of our operations in Africa. This same office, I might add, will oversee our Agricultural Development Service in Africa, which is to provide member governments with experienced technicians to help carry out agricultural projects.

Following the meeting of the Consultative Group for Tunisia in Paris last December, a similar group met two weeks ago in the same city to review the development problems and prospects of Nigeria. Plans are going forward for meetings this spring in London of the Consultative Groups for Malaysia and Thailand and, in Paris, of the Consultative Group for Colombia. We are trying to schedule more of these meetings in tandem—and in European capitals—by way of economizing on the time of those whose support is so essential for the on-going development work in these countries.

In January we celebrated the tenth anniversary of our staff college, the Economic Development Institute. More than 500 officials, carefully selected from nearly 100 member countries and territories, have attended EDI and most are now performing key "management" roles in the economic development of their countries. In the year beginning this March, the EDI will conduct courses in three languages. In addition to its basic course, offered in English and in a shorter form in French, EDI now offers special courses in project evaluation in English, French and Spanish.

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THE VARIOUS STAFF activities of the World Bank Group, a more complete description of which is contained in the documents before you, have one thing in common; they are designed to increase the volume and variety of investment opportunities which come to us for finance. To illustrate the flexibility of our approach I would like to review what we have been doing in two areas which have occupied a great deal of our attention since I was privileged to join the World Bank Group—education and agriculture.

As you know, much of our work in education and agriculture involves close cooperation with Unesco and FAO. These cooperative arrangements were started a year and a half ago in an effort to make more efficient use of the many talents available in the U.N.

family. We are receiving useful professional consultation from both Unesco and FAO, and I hope in turn we are helping them to master the techniques of project preparation and finance. In any case, so far as the World Bank Group is concerned, I want to express my satisfaction with the progress thus far made under these arrangements and to say it is our intention to build upon them in the years ahead. I do not have to tell this Council that there is a grave need to economize on talent and on time in the work of the United Nations agencies.

EDUCATION IS THE NEWEST branch of development finance. The very idea of preparing "bankable" projects in education wasn't taken seriously until a few years ago. Economists have been telling us for much longer that the largest common need in economic development (besides human energy, perhaps) is the skills that have to be learned. But the idea of investing money, according to banking standards, in the accumulation of intellectual capital is only beginning to be exploited.

The need is vast. According to our investigations at least half of the developing countries are already allocating 20% or more of their public expenditure to education. Yet in very few, if any, of these countries is the enrollment of students in courses of instruction related to economic development anywhere near adequate.

In addressing ourselves to this problem, our first task was to put together sensible projects. We cannot contribute indiscriminately to the educational budgets of member countries. Our task is to finance economic development, and not all instruction can be said to be equally relevant to that task. Primary education is vital, of course, but in our opinion even more crucial gaps exist in secondary education, and in instruction in the sciences, in technology and in the several vocational skills—from crafts to business administration—including teacher training in all these fields.

In themselves these are broad areas of need and it is no easy job to identify practical, bankable projects within them. Between March of 1964 and the end of last year we dispatched 72 missions to member countries, 34 in cooperation with Unesco, for the purpose of finding, preparing and appraising specific projects. We are still beginners in this business, but we can point to 16 loans and credits, totaling nearly $110 million, completed or nearing completion. Let me cite two by way of illustrating how we define "bankable" projects in education.

Among our first investments were two IDA credits to Pakistan, totaling $13 million. (I am sure you are aware that whether the investment comes from IDA or the Bank depends solely on the financial position of the borrowing country, not on the nature of the project.) These credits are helping to expand the facilities for technical training in agricultural science in two leading Pakistani universities—Lyallpur in West Pakistan and Mymensingh in East Pakistan. The former has been offering professional degrees in agriculture for 40 years; the latter is brand new. Our investments will pay for half the costs of construction and equipment installation at these two universities to permit the present enrollment of 1,500 students to reach 6,000 by 1970.

The credits are also financing construction, equipment installation and teacher training for six polytechnic schools in West Pakistan and eight in East Pakistan. By 1970 enrollment at these schools should increase from 1,700 today to 7,000.

In contrast, our most recent investment, a $7.2 million IDA credit to Ethiopia, is directed at strengthening secondary education. It will help to finance an $11 million equipment and construction program in Ethiopia's 77 secondary schools. These schools graduate today less than 1,000 students. The present program aims at increasing the number threefold.

At two of the schools—at Nazareth and Dire Dawa—adult evening instruction will be offered to local craftsmen and businessmen. Another part of the same project includes construction and equipment installation at Ethiopia's two major technical training institutes. Finally, again part of the credit is earmarked for teacher training—within the education department of Haile Selassie I University in Addis Ababa. Here our investment is being made in cooperation with the United States Agency for International Development.

When this project in Ethiopia is completed, enrollment in secondary education will increase from 33,000 students to about 51,000. Instead of only 1% in the 13-to-18 age group going to school, about 1.7% will attend. Obviously, this beginning is a modest one, but in absolute numbers it is of great importance to the country's educational development.

I cite these examples to show how we are applying the project approach to education. We are trying to achieve the same kind of precision in our loans and credits for education which we seek in other kinds of World Bank Group operations. We want to be sure that the kinds of instruction we support are related to present and likely employment opportunities in a given country and to the obvious manpower requirements of that country.

I might add, by way of digression, that we are watching very carefully the new ways in which technology—particularly the media of mass communications—is being applied to teaching. Ten years from now I would be very much surprised if these new applications did not suggest projects requiring large-scale finance, which could be bankable. But this depends not so much on innovations in electronics as it does on the imagination of those in the developing countries to whom these new applications hold out the most promise. Technology is not the toy of the prosperous; it is, potentially, the servant of all societies trying to engineer an escape from their poverty. The application of technology to teaching will get its real justification in the developing countries where the needs are so great. However, as in all matters of education, progress must come from within—from a clear idea of what should be taught and a firm determination to set high standards of teaching and then stick to them.

I know these things will come, as surely as new technical innovations will come. And when they do, there will be a good case for providing financial support.

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FINANCING AGRICULTURAL development presents somewhat different problems. A great deal of technical knowledge exists about how to make land yield a bigger harvest. Hundreds of specialists have been at work in the field for many, many years. Yet I do not have to tell you that no sector of development has resisted innovation more stubbornly than agriculture.

The reasons for this stubborn resistance are not hard to come by. The huge rural population, which makes up the majority in the underdeveloped world, quite understandably clings to the attitudes and practices of the past. These people are the least able to take risks, the least receptive to technical assistance. They are penalized both by the vagaries of world prices and by the natural desire of governments to keep the price of food low for the thousands who are crowding into the towns and cities each year. And often still there is opposition to change on the part of traditional landlords and overseers who believe that their status and incomes depend upon preserving the status quo in the countryside.

Then again there is among many politicians in the underdeveloped world a prejudice against agriculture and in favor of industry. The latter appears as the wave of the future, while the former suggests stagnation and subjugation associated with the past. However, in most developing countries agriculture provides employment for the great majority of the people; there must be much greater emphasis on increasing production on the land both to feed growing populations and to feed growing industries.

Agricultural development means growing more food, but it means more than that, of course. Increased productivity of cultivated land also means increased raw materials for processing, manufacturing and export.

Except for solutions to the dire problem of controlling population growth itself, solutions in agricultural development remain the most difficult in all the development process. The need to persuade millions of small farmers to change their ways suggests no simple or single remedy. But surely the place to start is to give change in the rural areas high priority and attention.

The growing awareness among governments that higher priority and greater leadership must be forthcoming is reflected in the steady rise in the number and variety of loans and credits which the World Bank Group has made for agricultural projects in the past two years. At the end of 1963 we had only 7 such projects in the process of being appraised or negotiated and another 19 in the "pipeline." In contrast, we had 25 agricultural projects under negotiation at the end of 1965, involving possible Bank or IDA finance totaling $250 million. Another 43 projects are currently in various stages of identification and preparation. The total workload of our Agriculture Division, which includes technical assistance and agricultural sector surveys in addition to project operations, has increased over threefold during this two-year period.

Time does not permit me to illustrate the range of our on-going work in agriculture, but I must mention one area where we expect to be greatly expanding our activity. That is the area of fertilizer production and distribution.

For decades now, agricultural specialists in a great number of countries have been preaching the benefits of chemical fertilizers and demonstrating the striking increases in yields which they can make possible. But until recently acceptance in the underdeveloped world has been slow. It has taken tragedies, like the present shortages in India, to break resistance to change and to arouse officials to action. But there is now quite convincing evidence that acceptance of the benefits of fertilizer is spreading rapidly throughout the developing countries. In fact, it will take the efforts of a great many organizations, cooperating with one another, to make sure that adequate supplies are available—together with the management techniques, pesticides, improved seeds and irrigation water, all of which are necessary if the fertilizer is to have its full effect in bringing the higher yields we know it can.

Out of the present confluence of need and tragedy we can and must seize a very real and a very large opportunity. There exist in the underdeveloped world ample supplies of the ingredients which go to make up modern fertilizers. But nature did not distribute her gifts in accordance with the needs of present-day nations. Rich finds of raw materials lie buried in some countries for lack of a ready market; one key ingredient, natural gas, is simply being thrown to the winds in some places. Assembling the necessary ingredients at the right places and at the right times poses some complicated problems. But the technology is known; capital is available. All that is missing is ingenuity, imagination and cooperaton—particularly cooperation.

I say there is a great opportunity here. Because both the ingredients and the principal areas of unsatisfied demand exist in the developing countries themselves, increased fertilizer production and use should mean a significant and enduring increase in trade within the underdeveloped world. At the same time, exploitation of the ingredients available in the developing countries will involve bringing to those countries the most modern, large-scale technology in order to permit mass production at very low cost. And it is precisely such large-scale production at low cost that is needed to meet the vast and growing demand for fertilizers in the developing countries.

The capital and the technology for such large-scale operations now exist in the industrialized countries, ready to go to work when there is adequate assurance that investments will be welcomed and treated fairly. In the World Bank Group we are actively exploring a wide range of specific projects in the fertilizer field right now. We stand ready to give prompt and sympathetic consideration to further requests for assistance, employing whatever financial techniques seem most appropriate to a given situation. It is my hope that we can serve as honest broker for organizations in the public sector or the private sector or both wherever collaboration is necessary or desirable. It is my hope, too, that we can serve as honest broker between governments in the various regions of the underdeveloped world where international cooperation is necessary or desirable.

It will be essential to combine programs for increasing fertilizer production and use with expanded services to the farmer himself, including massive increases in farm credit, which must come in the main, of course, from local currency resources. Governments, too, almost certainly will have to look again at the hard questions of price policy in agriculture, of import policies as they affect fertilizer production and, very important, to the adequacy of their distribution systems. There is no magic solution to these problems—years not months of concerted effort will be necessary—and certainly we in the World Bank Group do not approach them with rigid pre-conceptions in mind. But there is one paralyzing pre-conception which I think we all should now lay to rest once and for all. That is the notion that agriculture and industry should exist in a perpetual state of divorce. In a concrete way, fertilizer production illustrates that, far from divorce, an enduring marriage between agriculture and industry must be arranged if our hopes for economic progress are to be realized.

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WE ARE ALL FAMILIAR now with the statistics of need which have been gathered in so many quarters to illustrate the great and growing gap between the wealth and welfare of different groups of countries today. These illustrations should alarm the conscience of men everywhere. But when it comes to raising capital for development I would not be serving member governments well if I were to encourage them to believe that these statistics are in any way a substitute for projects—liberally defined, soundly conceived and daringly planned.

Our own contribution to calculating the need for external development capital is set out in the annual report before you. We estimate that the developing countries as a group—ignoring wide differences in capacity and performance—could effectively use in each of the next five years some $3 billion to $4 billion more in development finance than they are now receiving. I believe this to be so on the basis of our experience. But that capital will not be forthcoming as a result of our educated guess. Our guess must be fortified by good and visible performance on the part of the developing countries. Substantial sums will only be forthcoming as developing countries express more of their needs in sound projects which promise to raise the productivity of their people.

The kind of performance I am talking about *is* evident in an increasing number of countries I am glad to say. But I can't stress enough the fact that the job of enlisting the needed capital and skills for our work would be much less difficult if more governments would devote more attention—commit more of their prestige, in fact—to the hard business of project preparation. Project preparation involves a lot more than simply drawing up plans and conducting engineering studies. In particular, it involves commitments by responsible authorities . . . commitments of money, of managerial talent and very often of political leadership. Nothing depresses me quite so much as seeing a carefully researched and evaluated investment opportunity going a-begging because those responsible are in the last analysis unwilling to commit themselves. Today in Central America, for example, the stage is set for building a regional system of telecommunications which would materially speed up the economic integration of the countries in that region. And integration is the direction in which all agree their future progress lies. The United Nations Development Programme provided more than $600,000 to finance a feasibility study of this project which was carried out under the direction of the World Bank. We have for some time been ready to assist in financing the implementation of the study and we still are. But three of the five governments concerned have yet to decide.

Maybe we were wrong in this case to undertake the study, for no project proposal is worth anything until those who are supposed to benefit are committed to it. But I don't think we were wrong. What's missing in this, and other cases like it, is a sense of urgency —a sense of priority, the absence of which seems too often to belie the great needs of which we in this room are all so aware.

I appreciate the serious problems which most governments in the developing countries face these days in trying to resolve the grave differences which exist among their people.

I am not unmindful of the competing and conflicting claims which are made on their meager resources. But I am also aware of what can be done when governments undertake to resolve internal differences around the common problems of their economic development. I am also aware of what can be done when economic development is given top priority in the allocation of scarce resources.

THE JOB OF ENLISTING the needed capital and skills for our work would likewise be less difficult if the developed countries would recognize the same kind of top priority in formulating their external aid programs. I am on record on several occasions as saying that what is now being done is not nearly enough. I am not going to restate my views on this matter today. Just let me appeal once again to the developed countries, pre-occupied as they understandably are with their own problems, not to neglect their recognized self interest in helping others to manage an escape from poverty.

The present flow of development assistance is not just inadequate in volume; it is also somewhat diluted in quality. There is an extravagance involved in the common practice of tying aid to sources of supply in the donor country. There is still an inadequate portion of development finance offered on long term and low interest rates. And there is a persistent anomaly which finds the developed countries urging the developing ones to think about their investment priorities in the context of a long-term plan while the developed countries themselves are unable or unwilling to provide even target figures of external aid over a comparably long period. Each of these factors dilutes the effectiveness of external aid programs.

But what makes it most difficult of all to enlist the money and skills needed for our work is the fact that so much of the real progress being made is hidden under a barrel of political complaint and controversy. We talk a great deal about the importance of international cooperation for social and economic development, but nowhere is it the featured news of the day. Other diversions, more or less hostile to the aim of increasing productivity, continually crowd the stage.

It needn't be this way. We in the World Bank have been able to continue our work in the face of some very noisy diversions of late, and we have every intention of continuing to do so. We can do this partly because we are engaged in works of construction which people can see and whose benefits people can use. More important, we can continue our work because underneath all the controversy reflected so amply in the press, there is a hard core of men and women from all countries who are dedicated to getting on with the job of development. I just wish these men and women could be heard more in their own lands and throughout the world. I just wish they were accorded the prestige which politicians and military men in all countries still reserve too often for activities which impede economic development and at times make progress virtually impossible.

When is it that men and governments will come to attach the same priority, the same prestige, to providing jobs and to producing things society wants which is now attached to preparing for war or to waving the flags of nationalism? You know and I know that governments which do not cultivate this kind of prestige are destined to see their people remain mired in poverty.

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DEVELOPMENT— THE NEED FOR NEW DIRECTIONS

Address to
The Swedish Bankers Association

by

GEORGE D. WOODS
President
World Bank Group

Stockholm,
October 27, 1967

DEVELOPMENT— THE NEED FOR NEW DIRECTIONS

I AM PARTICULARLY HAPPY to be here today at this meeting of the Swedish Bankers Association and to be able to tell you how much we at the World Bank appreciate the splendid support and encouragement we receive from the Swedish community. In addition, I believe that at this uncertain and not altogether promising moment in world economic development, Sweden's exemplary support for the International Development Association (IDA) has an importance and a significance beyond the actual capital sums that it has made available. For I believe that the plight of the developing peoples—of the two-thirds of humanity who are striving to cross the threshold of modernization—is *the* central drama of our times. Not all the success and skill and accumulated wealth of the minority of developed peoples can right the balance of our unstable and lopsided world unless part of these resources are effectively used, over the next 20 to 30 years, to help the developing peoples achieve a steady advance toward their goals of modern productivity, appropriate modern education and self-reliant growth.

As you probably know, IDA is par excellence an instrument for stimulating economic growth in developing lands. It normally operates only in countries where annual per capita income is $250 or less. Its loans are repayable in 50 years, with a grace period of 10 years. They are interest free, save for a service charge of three-quarters of 1 per cent on amounts outstanding. Apart from grants, they are thus the most concessionary, the "softest" development finance available. But they are not otherwise "soft". They are all for high priority developmental purposes and are tested and scrutinized for economic viability and use with just the same rigor as is applied to lending by the World Bank itself.

The terms on which Sweden provides finance to the less developed countries give support to precisely those objectives that IDA pursues. This identity of objectives has enabled the Swedish International Development Authority (SIDA) and IDA to join together in a number of operations. But Sweden's support for IDA goes beyond this. Since IDA's establishment in 1960, your country has given most welcome financial support to the Association. Sweden's original contribution of just over $10 million equaled 1.3 per cent of IDA's usable funds. These resources were later virtually doubled when the richer members agreed on a general replenishment, of which Sweden's share was $15 million, or 2 per cent. But Sweden has also, *alone* among IDA's 98 members, given a further $28 million in special annual contributions.

IDA's funds are now within sight of exhaustion. We are currently engaged in negotiations amongst the countries that have provided IDA with the bulk of its resources, and I am cautiously hopeful that our talks will result soon in a substantial replenishment of the Association's funds, enabling it to go about its business on a considerably expanded scale. Certainly there has never been a time when the calls of her poorer members on IDA have been so urgent and so justified.

TO MY MIND, Sweden's generous and positive support of IDA shows two things. It shows a belief that development is possible, that present policies should be pursued and expanded and that they promise a reasonable hope of success. But at the same time, it underlines the fact that ordinary commercial lending on a "business as usual" basis is not adequate to meet the enormous problems which developing nations must confront. Although historical analogues must be used with caution, today, in 1967, just 20 years after the first framing of the Marshall Plan, we may perhaps recall that in that strained and exhausted summer, no ordinary measures or policies would have been enough to get Europe moving again. Our worldwide crisis today may seem less acute, but, I assure you, it is vaster and deeper and even more complex. Certainly it cannot be resolved by pretending it is not there or by admitting it exists but assuming that in one way or another it will simply take itself off. Left alone, it can only grow worse. And at the back of that possible deterioration lies the risk of stark crises—in food, in work, in hope—for over half the human race. If this is not a serious challenge, I am at a loss to know what is.

LET US LOOK at two factors a little more closely—the reasonable hope of development on the one hand and the need for exceptional policies to promote it on the other.

It is no secret that we are living through a time of disillusion and distaste for economic assistance. Although the developed nations have added some $300 billion to their combined gross national product from 1961 through 1966, the flow of official aid net of amortization has not increased much above the $6 billion a year reached in 1961. As a share of national income, it has fallen below six-tenths of 1 per cent. The flow of private capital, it is true, rose from $2.4 billion net of amortization in 1963 to nearly $4 billion in 1965. But it fell back to $3.4 billion in 1966. Furthermore, the bulk of these private funds tends to be concentrated on only a handful of the developing countries, mostly those that possess marketable mineral resources.

The reason behind this slackening of effort is not only the normal pressure of domestic priorities on governments and peoples. It is also a belief that waste, inefficiency and even dishonesty have all too often deflected resources from development; to give more aid now, it is said, would simply send good money after bad. There are few parliamentarians who do not have a favorite story of hair-raising waste—fertilizer left out in monsoon rain, grain devoured by rats, paved roads leading only to the president's country villa, foreign exchange stashed away in bank accounts abroad. Even some of the kinder critics question whether there is skill and administrative capacity enough in developing countries to absorb more capital, even if aid *were* to be increased.

It is important, therefore, to try to disperse some of this gray fog of suspicion and discouragement by constant repetition of the actual facts.

The average annual rate of economic growth of the poorer countries since the early 1950s has, in fact, surpassed 4.5 per cent—a rate that can stand comparison with the pace achieved in the 19th century by the countries that were then pioneering the industrial revolution in Western Europe and North America. In at least 25 countries, many of them what one might call the "middle income states" with per capita gross national product between $200 and $600 per annum, GNP grew during 1966 at a rate between 5 and 10 per cent. Among these 25 fast-growing nations, to name but a few, were Israel, Korea, Malaysia, Mexico, the Republic of China, Thailand and Venezuela. These relatively rapid growth rates have been due, without exception, to increased investment—the average percentage of GNP applied to investment in the developing countries has risen to 15 per cent; 80 per cent of all this effort has been achieved with capital provided by the developing nations themselves.

The picture of pervasive waste and failure is simply not borne out by the facts. One must suspect that the impact of good news is relatively slight on our strange human psyche, and that disasters and failures alone stay vividly in our minds. Perhaps, as King Lear suggested, we need not only to know the facts but to "sweeten our imagination," if we are to see the development effort in its proper perspective.

It is precisely because this relatively rapid growth has been going on now for up to two decades that the absorptive capacity of the developing countries is steadily increasing. When we at the Bank ask that IDA's resources be increased to a billion dollars a year, when we state that in the remainder of the 1960s the developing countries could effectively use several billion dollars a year more than they are now receiving in development finance, we are not taking numbers out of a hat. They are the result of careful and continuing investigation. Like anyone else we can be wrong. But the Bank's record at least suggests that we take reasonable care. And these investigations convince us not only that the flow of assistance on concessionary terms must be greatly increased, but also that the developing economies will be able, technically, managerially and administratively to absorb that flow. Equally, we are certain that the risk of serious trouble lies ahead if today's drift is allowed to continue.

The reason for this risk, I can only repeat, is *not* the developing nations' poor performance. The fact is that for good and poor performers alike, the problems of development at this stage of the world's economic history cannot be resolved by relying on the "normal" methods of international trade and investment. Many of today's problems did not confront the developing countries of earlier days when the ground rules of the international economy were being established. To develop in the mid-nineteenth century was in a number of ways an essentially different problem from trying to develop in the last third of the twentieth. The most important and dramatic contrast is the trend in population growth during the two development periods, and the profoundly different consequences arising from it.

In the 19th century, the major developed powers experienced their greatest expansion only *after* the processes of modernization had set in. One thinks of Britain with six million people in the middle of the 18th century and, even more astonishingly, America with only five million and a virtually empty continent in 1789. The first spurt of rapid population growth provided a new mass of laborers in industry, new markets for food and helped to populate the new industrial cities. Later on, public health began to lengthen life and lessen infant mortality. Later still a more sophisticated work force became necessary to man increasingly labor-saving machines. But by that time, family size had shrunk and, in farm or town, population growth had slowed down. The pioneer nations were trebly fortunate. On the whole, their trends of population growth, urbanization and mechanization helped and reinforced each other.

FOR PRESENT-DAY developers the opposite is the case. All the various elements—population, patterns of technology, urban expansion—contradict and impede the others. A measure of public health activity has preceded modernization in developing lands. The spurt of population is taking place *ahead* of the means of feeding and absorbing it—at a time when farming is still insufficiently modernized to provide increasing food for the whole population and at a time when the trend in industry is to need fewer but more highly skilled workers. A refinery at Port Harcourt in Nigeria may cost $12 million. But it will only employ 350 men. These unlucky disproportions are due not to vice or incompetence or perversity. They are due to a certain historical timing, to a certain place, if you like, in the queue of world development, in which newcomers cannot follow the favorable patterns of the pioneers simply because the world has moved on, conditions have changed, and the same advantages are no longer there to be seized.

Admittedly, there are countervailing benefits. Industrial technologies have already been invented and can now be borrowed. A vast network of world commerce exists to which economies can plug themselves in. These facts give us hope of the possibility of rapid advance in the future.

But there are difficulties here, too. First of all, modern technology just cannot be superimposed wholesale on the delicate fabric of traditional ways of life. You do not, after all, erect a 10-story building on the aging foundations of a centuries-old house. Preparation by the developing countries, psychologically as well as structurally, to bear the weight and pressures of modernization can be a most delicate and time-consuming exercise.

Secondly, the technologies of modernization—the skills, the machines, the infrastructure—all demand capital. To save massively in the face of bounding population increases, to check the aspirations of peoples exposed to, and more than ever aware of, the increasing affluence of the rich countries—this takes a really dogged effort. Mobilizing the capital needed to expand the economy and get ahead of population growth will continue to demand the hardest domestic discipline.

Much of the capital needed will also have to be in the form of foreign exchange, since developing countries cannot be expected to provide all the required materials from their domestic production. It is difficult enough to raise domestic capital; but it is even more difficult to obtain sufficient foreign exchange, especially if the effort has to be conducted through the traditional means of investment and trade. Private investment has, of course, a vital role to play in development. It assists in all the tasks of modernization and its disciplines give admirable training in efficiency and in the most rewarding use of resources. But the international flow of private capital, as I have mentioned before, tends to by-pass most of the very poor. The countries with annual incomes of $250 per capita or less—the IDA countries—account for two-thirds at least of the number of developing countries. Yet they receive only 15 per cent of all private investment. In any case, developing countries are already confronted with massive problems of repayment. Annually, amortization, interest and dividends take around $7 billion in reverse flows from developing to developed countries. This is about half the gross flow of all financial resources from rich to poor lands in 1965. To give a specific example, nearly one-third of the gross inflow of official capital called for in India's Fourth Plan would be needed to service loans.

We also have to recognize that international trade is not yet the resource that it clearly could become. The exports of the developing countries rose in 1959 through 1966 from $27 billion to $42 billion, and in a sense this was an encouraging step forward. At the same time, however, their share in world exports fell from 27 to 23 per cent; and income from exports, in the case of individual countries, continues to fluctuate from causes that lie largely beyond their control. These facts, I know, are particularly well understood here in Sweden; it was your Government, at the first United Nations Conference on Trade and Development in 1964, which with Great Britain instigated a study, since completed by the World Bank staff, of measures for defending the poor countries against the disruptions to development caused by unforeseen short-falls in their export earnings.

IN SOME MEASURE, the developing countries today, like the nations of Europe in 1947, are caught in a series of interlocking contradictions and bottlenecks which cannot be broken by purely conventional means. The need is for exceptional action on a sufficient scale. The need is to launch a contrary movement in which growth feeds saving, saving generates more growth and both together help two-thirds of humanity over the next two critical decades—critical because, although population increase will only begin to slacken over the next 20 years, the groundwork can nonetheless be laid for successful modernization and greater stability later on, say the turn of the century, now not much more than three decades ahead.

The alternative—of stagnation, frustration and disappointed hopes—will leave the great majority of our fellow men hungry, restless and reduced to a sort of delinquent despair. I, for one, do not believe that our small planet can survive half-sated and half-starved. I believe the case for exceptional responses and exceptional measures to be unanswerable.

DESPITE THE ENCOURAGING attitude of Sweden and a few other governments, including the United States and Canada, the more prosperous countries as a group have yet to agree on new initiatives which the world situation demands. We may be back to a sort of 1947, a time of decision in which we may either turn toward our problems or away from them. Let us be clear, however, that we are not confronted by a question of fundamental resources. After nearly two decades of uninterrupted growth, the developed nations enjoy an economic elbowroom and a freedom of maneuver never before even dreamed of in human history.

In the countries of the Development Assistance Committee of the Organization for Economic Cooperation and Development, combined gross national product grows by some $60 billion a year, a sum corresponding to approximately two-thirds of the entire income of Latin America. The United States alone, growing by between 5 and 6 per cent a year, adds over $40 billion to an annual GNP which is now over $730 billion, thereby acquiring each year, as an extra, almost as much as the entire GNP of India or Africa. This order of resource generation gives the developed nations the capacity to act on a completely unprecedented scale.

It is true that they confront particular difficulties—pressure in domestic budgets or vexing problems with their balance of payments. But on the budgetary aspect, it is surely not impossible to give economic assistance a somewhat higher priority when one recalls that arms spending in the world at large has passed the $160 billion a year mark and when, in any case, an annual rise in national income at 3 to 4 per cent is now the norm. As far as balance of payments considerations are concerned, it seems to me that the richer countries have to decide whether or not they are going to accept the earmarking of a definite, adequate percentage of their increasing resources for development assistance as an immutable fact of life. The balance of payments effects of the transfer of such resources is at most very, very small in the over-all picture of external payments and receipts of the developed countries. In no case would they be anything except a minor factor in any serious balance of payments deficit which may be experienced—well within the capabilities of mechanisms for the relief of balance of payments difficulties that from time to time afflict the wealthier countries.

But I have the impression that the tardiness in confronting the scale and nature of the world's economic crisis springs not so much from these difficulties as from discouragement and skepticism about the general effectiveness of aid to development. I have already told you of my conviction that in fact the record of the developing nations is far better than the popular image suggests, and I have tried to outline the special difficulties and deadlocks which impede more speedy and obvious success. But it may be that ten angels swearing would not, at this minute, alter the bias of opinion among the rich nations or convince them of facts they have become unaccustomed to hearing.

WHAT CAN BE DONE? I would like to suggest that the governments of the developed countries—on whose support and resources any more ambitious strategy for the 1970s will depend—decide to get away from rumor and innuendo and half facts and half truths and put themselves in the position to learn the real facts. I suggest that they invite the dozen or more leading world experts in the field of development to meet together, study the consequences of 20 years of development assistance, assess the results, clarify the errors and propose the policies which will work better in the future. In 1947, before Europe and America could enter wholeheartedly into the experiment of the Marshall Plan, an official body of experts under the leadership of Lord Franks, drawn from the participating nations, studied the whole range of programs and policies required to achieve European recovery. Today, it is high time to work out a similar perspective of the problems of growth in the less developed countries, and to draw, for all to see, a genuinely comprehensive, objective and expert picture of where we are and where we can go from here.

We are ready at the World Bank, together with interested governments, to help to select and finance such a group of experts. I am ready to put at their disposal all the information and statistical material the Bank has accumulated and, if requested, to second staff to their their service. Such a "grand assize" —judging the world's record and prospects of growth— should in any case precede any attempt to round off our faltering "Decade of Development" with a genuine reformulation of policy.

But our present crisis of overpopulation and undernourishment, of bounding hopes and flagging performance, of vast wealth and desperate poverty, is much too urgent for this re-examination to be delayed. I hope that we can start at once to set the machinery of consultation in motion and to ensure that, by the end of 1968, the essential groundwork for policy in the seventies has been laid.

I have faith both in the good sense of governments and the generosity of peoples. I believe that if a strategy for growth is presented to them by experts of unimpeachable objectivity and honesty, based upon an entirely unbiased examination of the facts, failures and achievements of the last 20 years, and giving a reasonable guarantee of hope and progress, their response will be to accept the implications of that strategy and to provide the resources, in capital and manpower, necessary for success.

FOR MANY YEARS after World War II, differences between nations of the East and West were the most divisive force on the world political scene. But these differences have been diminishing perceptibly, and the most ominous force that divides us today is the wide disparity between the living standards of the rich countries of the North and the poor countries of the South. It is this economic gulf—proving so difficult to bridge—which, in my judgment, represents the basic threat to our world. Today we have the resources, the experience and the knowledge to narrow the separation between the rich and poor. But we are held back by lack of direction and lack of will. We may have stolen the Promethean fire but at present we do little more than complain that it is burning our fingers.

Humanity really can do better than this. Twenty years ago, a way was shown in the rebuilding of Europe. We had a demonstration of what an unprecedented response to an unprecedented challenge can achieve in the recovery of confidence and hope. Today, the challenge lies even further beyond the reach of normal responses. Let us therefore have the audacity to seek new ways of recovering our sense of mastery and surer ways of securing our threatened future.

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Address by

GEORGE D. WOODS

President
World Bank Group

to the Economic and Social Council of the United Nations

United Nations, N.Y.,
November 13, 1967

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November 13, 1967

THIS YEAR for the first time I am reporting to the Economic and Social Council less than two months after the Annual Meeting of the World Bank Board of Governors which was held in Brazil.

At that meeting I spoke of the environment in which the World Bank Group and other institutions engaged in economic development are operating. I pointed to the significant economic progress being made in many of the developing countries, but I also emphasized that real and serious obstacles are causing that progress to be slower than we would like.

Rather than repeat today what I said then, I arranged for my address to the Governors to be sent to each member of the Council. Today, I propose to talk chiefly about the World Bank Group: to report on some of the highlights of the past year, and to discuss the major activities within our institutions.

During the fiscal year ended last June 30, the financing activities of the Bank, the International Development Association (IDA) and the International Finance Corporation (IFC) continued at a high level.

The Bank and IDA committed over $1.2 billion for economic development projects in 40 countries—about $100 million more than the year before. Disbursements reached an all-time high, exceeding $1 billion.

For IFC, last year was the most active in its history. Investments totaled almost $50 million, and were both larger in amount and directed to a broader range of enterprises than in the past.

So far in this fiscal year, the pace has continued. Between July and November the Bank and IDA have committed about $450 million and IFC has made investments totaling $27 million.

ALTHOUGH INFRASTRUCTURE projects—particularly power and transportation—continue to absorb the bulk of our financing, three other priority areas in development—agriculture, industry and education—are more and more becoming central concerns within the Bank Group. I want to speak briefly about our financing in each of these areas.

Agriculture is not only a central concern but a long-standing one. We have provided in total more than $1 billion for the agricultural sector, and in the last few years, the pace of our activity has quickened. At the end of 1963, we were working on 26 agricultural projects in various stages of preparation. Today the figure is over 80. So far in calendar year 1967 we have committed about $200 million for agricultural projects—much more than in any previous comparable period.

In the Bank's early days, most of its direct assistance to agriculture took the form of loans for large irrigation and flood control works. But such projects are often too costly or too complex for many of our members, particularly the newer ones.

Two years ago, I reported to the Council that we had begun to "dig our fingers into the soil," making a deliberate effort to finance more projects which would have a direct and immediate impact on the farmer and the land. The kind of assistance we are trying to provide demands imagination and flexibility. There are enormous differences among our members—in soil and climate, custom and tradition, and willingness and ability to use new technologies. An approach suitable for one member is likely to be inappropriate for another. And so we have tried to accommodate our assistance to the varied circumstances of our prospective borrowers.

LET ME ILLUSTRATE. In Uganda, as elsewhere, almost all tea has until recently been grown on large estates. There we are helping to finance a program to expand tea production in smallholder areas. About 5,500 African subsistence farmers will be helped to grow a cash export crop. They will be provided with technical assistance in cultivation, with collection and processing facilities, and with credit.

In Cameroon, in contrast, we are assisting the expansion of an already large-scale plantation program, primarily for another export crop, palm oil. There the work of planting and cultivation will be performed not by independent farmers but by employees of the public corporation which operates the plantations.

In Tunisia and Iran, we are helping to implement land reform programs.

In Tunisia, subsistence smallholdings are being merged with large blocs of government-owned land to form large-scale production co-operative units. Our financing will help to expand cooperative farming and will meet the foreign exchange cost of managerial and technical assistance.

In Iran, on the other hand, our assistance is taking the more customary form of support for the first stage of a long-term project to develop water resources and agriculture within a defined region. But although the project includes irrigation works, there are no massive dams or canal systems. Moreover, a very sizable component of our financing will be used to meet the cost of agricultural advisory, supply and marketing services, training of Iranian personnel and other technical assistance.

We have been devoting special attention to providing farm credit, particularly for medium and small farms. Sometimes we have helped to start an agricultural bank or a credit corporation, sometimes to strengthen an existing one. Increasingly we are seeking to mobilize local capital, designing a project so that not only the Bank Group and the government but also the ultimate beneficiaries participate in the financing. And where it is feasible, we seek to draw in private banking systems.

We are continuing and intensifying our assistance to governments in project identification and preparation. In this we are greatly assisted by the cooperative relationship established with FAO in 1964—a relationship which has become both closer and broader in scope. As one aspect of this cooperation, we have jointly selected those UNDP studies being carried out by FAO which look most likely to lead directly to promising investment opportunities. Over 40 studies so far fall into this category. We have arranged with FAO to follow these studies closely with a view to assuring that they produce the information which is essential for prompt investment decisions.

Better seeds, better equipment, improved farming methods, and adequate credit facilities are all prerequisites to greater production. But the availability of fertilizer to the farmer, at an economic cost, makes possible a particularly rapid gain in output. Its effective use, with increased water supplies, offers the best hope for the breakthrough in food production which will be necessary if world requirements are to be satisfied.

IFC, THE INSTITUTION within the Bank Group which evaluates industrial projects, has been giving particular attention to the possibilities of expanding chemical fertilizer production within the developing countries themselves. Last year, fertilizer projects occupied more of IFC's attention, and received more of its money, than any other business. Financing arrangements were completed for three new plants, in Brazil, Senegal and India, and there are seven major projects in the pipeline, all of which will call for Bank Group financing to supplement substantial capital from other external sources.

To give you some idea of the possible results from increasing fertilizer capacity, let me use India as an illustration. Over the last few years the average annual grain production in India has been about 80 million tons. To feed India's estimated population ten years from now, at nutritionally acceptable levels, would require doubling this production. Such a doubling from the same cropping area would in turn call for increasing present fertilizer nutrient consumption over the decade by 8 million tons of nitrogen, 4 million tons of phosphate and 2 million tons of potash. The capital investment in production facilities required to manufacture, within India, finished fertilizer containing these amounts of nutrients would be of the order of $2 to $3 billion—at least half in foreign exchange —depending upon the amount of semi-processed materials used as inputs. On the benefit side, the resulting increase in grain tonnage would have a value of approximately $5 billion a year, while the total value of the additional grain produced over the ten years, allowing for the build-up period, would be about $30 billion. These figures speak for themselves.

In some countries, there is intense political debate as to whether fertilizer plants should be in the public or private domain. In my view, such debate is sterile. Publicly owned fertilizer plants can certainly play an important role. Where we are convinced that they are soundly conceived and will be well managed enterprises, we will lend to them—as we did last year for a potash project in the Congo (Brazzaville). But in view of the magnitude of the capital requirements, as well as the need for access to modern technology, it is unlikely that the developing countries can approach the production targets they have set for themselves unless they succeed in attracting the major international oil, chemical and fertilizer companies to join in partnership with them in creating the new production capacity and particularly in training personnel necessary for its operation. The stakes are too high for the issue to be decided on other than strictly practical considerations.

FERTILIZER PRODUCTION is by no means the only industry to receive financing from the World Bank Group. During the past year, we committed over $400 million for a broad range of industrial projects and for development finance companies. In addition, the Bank opened a $100 million line of credit to IFC, the first since charter amendments permitting such loans. Already its effects are evident. Last year, IFC raised the size of its investments to an average of $4.5 million as against a $1.4 million average in its first decade. Three of its commitments—in Brazil, India and the Philippines—were for $10 million or more, compared with a previous high of about $6 million. As in years past, IFC brought in partners from the developed countries for many of its projects.

Our assistance to private development finance companies deserves special mention. Up to now, we have committed about $650 million to these companies which are designed to finance both medium-sized and large industries. But financial support is only part of the story. We have also helped to expand and reorganize some finance companies, to start others, to bring in foreign investors, and to find experienced management. We work closely with the newer companies in their investment operations. As they gain experience, our advisory role diminishes.

Essentially we are institution building—trying to help create organizations that will become generators of economic progress. Development finance companies provide medium and long-term loans and equity capital, underwrite securities issues, promote new enterprises, and help entrepreneurs in preparing investment proposals. They are also channels for associating foreign capital and technology with local investors. By helping to mobilize and direct domestic savings into productive activities, they can become an important element in a country's capital market. As local sources of industrial financing on a nonpolitical basis, they can have a long-term impact, much greater than is suggested by the amount of the Bank Group's investment.

BASIC TO IMPROVED productivity in both agriculture and industry is the education of men and women who are qualified to run the farms, man the machines, and manage the affairs of societies in transition. That is why I attach so much importance to our efforts in lending for education.

Our investment in education is growing, thanks in no small measure to the cooperation we have received from Unesco, but it is still modest in relation to the totality of Bank financing. It is even more modest in relation to the manpower needs of developing countries. It will grow, but since it will always be only a small part of the total expenditure on education, we are attempting to apply our assistance where it will have the greatest multiplier effect.

Our criteria for financing education have not changed greatly since we began in this field in 1963. We are looking for projects that will make a relatively direct impact on the economic development of a country. This leads us to concentrate on the middle levels of education—mainly projects for modernizing and expanding secondary education, for technical training useful in industry, commerce and agriculture, and for primary and secondary school teacher training.

One of the problems we encounter most often relates to curriculum structure—to what is to be taught in the schools we finance. In many countries school systems have been slow to slough off their colonial heritage. Frequently these systems have but one aim: preparation for university entrance; and this does not change even when the secondary school output has overtaken the university input. In such cases, we try to persuade the country to adopt a diversified and modernized curriculum which also prepares students for entry into polytechnics, and provides terminal courses leading directly into jobs.

Education—which is normally one of the largest employers in any country—remains one of the few activities which has not undergone a technological revolution; despite the insistent demands of modernizing societies, schooling in most countries is still provided on a handicraft basis. This surely will not do. Today educational expenditures in many countries are increasing at about 10 per cent annually while gross national product grows at no more than 3 to 4 per cent. Where this is the case, education is likely to reach the limit of its allowable share of domestic resources long before it has begun to meet legitimate national needs and aspirations.

We need greater productivity in educational systems—a better relationship between input and output. And this I believe can be had by bringing what is taught and learned into line with what is needed; and by recognizing the potentials of new technology—particularly television. This will require training teachers so that, whether in the studio or the classroom, they are effective parts of this new technology; it will also require better planning and modern management; and, not least, it will require courageous political decisions which insure that, at any given stage of development, a country is educating the right numbers, at the right levels, and in the appropriate skills.

It is impossible to overemphasize the necessity of more and better planning and execution in the vast field of education. Results—a generation hence—in new developing countries which today give education a high priority as against military or other nonproductive expenditures, will be striking and important.

NOW LET ME TURN to some of our nonfinancial activities.

When the Bank was established, technical assistance was not foreseen as one of its principal functions. But we are now devoting a substantial amount of time, effort and funds to that activity. Our technical assistance always has an operational orientation—that is, we undertake it only where it may be expected to facilitate new capital investment in high priority projects. This includes the strengthening of institutions upon which member countries must rely for preparing and carrying out projects. I think we are succeeding in these objectives.

We recently analyzed all the completed sector and feasibility studies organized by the Bank. There have been some 37 of these, which we have either financed ourselves or carried out as Executing Agency for the UNDP. We found that these studies, for which we and the UNDP together had contributed some $15 million, have already led to more than $450 million of investments by the Bank Group. Moreover, some of the financing attributable to the sector studies is only the first step; additional investments are likely to follow. These studies have also been useful in pointing out that certain investments should not be made because the contemplated project would be technically unsound, uneconomic or premature.

Preinvestment studies are extremely complex. In normal lending operations we are simply required to pass judgment on the merits of a proposal already prepared. Preinvestment work, on the other hand, requires the kind of creative technical competence which can conceive and formulate such proposals. In addition it takes a vigorous and constant effort to assure that not only the investment but also the institution-building potentialities of these studies are realized. As an example of how important these potentialities can be, let me cite the transportation study we started in Brazil two years ago. Initially the study involved the entire railway system of the country, three of its major ports, its coastal shipping, and highway development in four states. To work along with the foreign consultants selected by the Bank, the Brazilian Government formed a counterpart organization which is staffed with engineers and economists from a variety of domestic transportation agencies. The first phase of the study is now completed and phase two, which involves highway studies in fourteen states, was begun last January. The counterpart group formed during phase one has remained intact, is making a significant contribution to phase two, and, we hope, will continue to work for a long time to come.

Certainly preinvestment activities of this type are far more valuable when what is left behind is not only a study but also a local institution with staff trained to carry out similar activities in the future.

WHEN I SPOKE here last December, I reported the establishment of the International Centre for Settlement of Investment Disputes. Last February, its inaugural meeting was held in Washington. All 28 of the then contracting States were represented. As of today, 55 States have signed the Convention and 37 have deposited instruments of ratification. The wide interest shown by investors, as well as by governments, testifies to the potential effectiveness of the Convention and the Centre.

Another potentially important stimulus to development finance is a system of multilateral investment insurance, to provide essentially the same protection to private foreign investors against noncommercial risks that is presently offered under several national programs. A possible scheme is under discussion by the Bank's Executive Directors.

Still a different type of nonfinancial activity which has occupied much of our attention over the past few years is aid coordination. As I have previously reported to the Council, the Bank has organized aid coordinating groups for nine developing countries, in addition to the India and Pakistan consortia. Nineteen capital-exporting countries are associated with one or more of these groups, and we have also had the benefit of UNDP participation in their meetings. It has proved to be a delicate and sometimes difficult business to harmonize the concerns of the principal participants, but, nevertheless, all are benefiting. Industrialized country members are, I think, gaining a greater appreciation of the problems and obstacles to change which exist in particular developing nations. And on the recipient side, it seems to me that there is a new awareness that the quality of performance will largely determine —country by country—not only how effectively domestic resources are mobilized and invested, but also the level of assistance likely to be forthcoming from abroad. For the present, we intend to concentrate on improving the quality of existing coordinating groups. However, we are exploring a few possibilities for additional groups; one new one is likely to be created soon, and, over time, there will probably be others.

ANOTHER ACTIVITY, also related to the strengthening of institutions, is the Economic Development Institute (EDI), now in its twelfth year of providing training for senior officials of our member governments. There are more than 700 graduates of the EDI who are moving into increasingly responsible positions all over the world—as Ministers, Vice Ministers, Governors of Central Banks, Presidents and Chairmen and Managing Directors of development financing institutions and public authorities. At our Annual Meeting I was pleased to note that 13 fellows of the EDI were present as Governors or Alternate Governors of the Bank or the Monetary Fund. Five fellows are now serving as Alternate Executive Directors of these two organizations.

One other nonfinancial activity I want to mention is an important study which we are just beginning. At the recent Annual Meeting, the Boards of Governors requested the Bank and the Monetary Fund to analyze the problem of the stabilization of prices of primary products, and the possible role each institution might play in finding solutions for that problem. We have completed the organization of a task force to work cooperatively with the Fund. On our side it will be headed by the Bank's Director of Special Studies, one of our senior officers.

MR. PRESIDENT, these are highlights of the World Bank Group operation. Over time we have built up a staff of experienced professionals whose knowledge about the problems and potentials of the developing countries is, I believe, unique, and whose services enable the Bank Group to contribute with dedication and with increasing effectiveness to the economic growth of its members.

Yet, what we can accomplish depends to a large extent on the environment in which we operate—and, as this Council knows full well, the present environment, in both developed and developing countries, is in many respects unfavorable.

Political instability is a basic cause of trouble. The last few years have seen political and military conflicts, internal and external, in widely separated parts of the developing world. The adverse effects are manifold: the attention of governments is diverted from constructive approaches to the problems of growth; private investors, both domestic and foreign, are frightened off; and the taxpayers and legislators of the industrialized countries question the wisdom and utility of providing finance for development, with consequent delays and reductions in appropriations.

A further unfavorable factor is the continuing slow increase in the export earnings of the developing countries. Trade is and must remain the chief source of foreign exchange for economic development—but we are yet to see the kind of effective action, on either side of the development equation, which is necessary to give a real push to the exports of developing nations. Let me emphasize that this is not just a matter of the developed countries opening their markets more liberally to imports from the less developed ones—important as that is. It is also a matter of the developing countries adopting economic policies favoring export industries, and then of painstakingly building up those industries to the point where they can assure buyers abroad of a *continuous* supply of goods of *uniformly high quality*. The development of export markets is no easy task, but where it has occurred, the results are impressive. They justify, fully, the long sustained efforts which are required.

Finally, of course, there is the basic problem of the inadequacy of public development finance from abroad. On this subject, my views are too well known to need repetition. I do want to urge the members of the Council, however, to give thought to the suggestion I advanced in Stockholm two weeks ago—that to dispel the mistrust, the frustration, the misunderstandings which plague the cause of development assistance today, the leading experts in the world should meet together, study the consequences of 20 years of aid to development, assess the results, identify the errors and propose policies and procedures which might be more effective for the future. As I said in Stockholm, the World Bank is ready to help governments to organize and finance such an effort; to make available its store of information; and, if requested, to second staff to the group. Such a "grand assize" would, I am convinced, furnish us with a much firmer foundation than we now have for moving ahead in the 1970s. I believe copies of the Stockholm address have been distributed to you.

MEANWHILE FOR THE BANK GROUP the immediate problem of obtaining adequate funds for our operations continues—and it is increasingly serious.

On the World Bank side, our bond issues enjoy a good reception from investors. However, we can offer bonds only with the consent of the governments in whose markets they are to be sold. In our last fiscal year we encountered difficulty in gaining access to those markets. Of the $282 million of new money raised through the sale of long-term bonds, only $32 million was raised outside the United States. However, the clouds may be beginning to part. Last month we had a successful first public offering of bonds in Sweden amounting to the equivalent of $14.5 million. During the coming winter and spring, I have reason to expect that we will be offering bond issues in several European capital markets. In the United States market, we had a $150 million issue in August, and if our efforts in Europe are successful I would hope to obtain permission to sell another large issue in the United States before the end of our present fiscal year.

As to IDA, we still await the collective decision of the contributing nations regarding the replenishment of IDA's resources. The negotiations are disappointingly slow, but a series of meetings with officials of the donor countries is now under way which I trust will be fruitful. I am grateful for the helpful resolutions of support for IDA that have been forthcoming from ECOSOC, from UNCTAD's Trade and Development Board, and most recently from the Second Committee of the General Assembly.

The delay in the replenishment of IDA is beginning to be felt in a lack of finance for many worthwhile projects. IDA has a full pipeline of promising proposals from poor countries in the usual balance of payments difficulties. These countries have been learning to mobilize their resources effectively and can invest substantial amounts of external capital if available on appropriately concessionary terms. It is for these countries that the size and speed of IDA's replenishment are matters of urgency.

I trust that an agreement to replenish IDA—and at a much higher level than in the past—will soon be reached. In a very real sense, the measure of support given to IDA will be a test of the dedication of nations to the cause of development. Provision of significant new resources for the IDA operation will be evidence of a determination that momentum shall be maintained and opportunities for sound development shall not be lost for want of appropriate finance.

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ECONOMIC DEVELOPMENT:

A MOVING TARGET

Address by GEORGE D. WOODS, President of the World Bank and its Affiliates, before the Society for International Development, Washington, D.C., March 11, 1965

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
WORLD BANK

It isn't necessary for me to tell you how fortunate you are to have as the head of your Society a person with Paul Hoffman's rich experience, infinite energy and dedication to development. I have always found it difficult to turn down anything that he asks, and I couldn't turn him down when he asked me to come here today. Besides, I was a little bit flattered to be invited to appear before this highly professional group, having lost my own amateur standing only a short time ago.

My exposure to the subject matter of international development, on the other hand, has been a pretty long one. Back in the 1920's, the investment house for which I was working unleashed me against the mainland of China and a number of other foreign countries in search for clients overseas. For me, it was a wonderful education: I got to see not only China but other parts of the Far East and a good deal of South America as well—much, in fact, of what we now call the underdeveloped world. But it never occurred to me that the day would come when help to this world would become a matter of high national policy in the industrial countries. In those days, things had a simpler look: we left development pretty much to the businessman, and to the laws of Providence and Adam Smith.

Today we could hardly be looking at these countries with more different eyes. It isn't only that the United States and the other industrial countries of North America and Europe have programs of development assistance. They have been joined in these endeavors by the vanquished of the last war—Germany and Japan. And more lately, countries of the so-called free world have even been joined by their adversaries in the cold war—the Soviet Union, the mainland Chinese, the Eastern Europeans. It is refreshing to think that the Communist countries also have their problems about development aid and that they, too, are learning how sharper than a serpent's tooth is the thankless aid recipient.

In any case, it is a striking fact—and probably a good thing—that however much the rival powers of the world disagree on other matters, they all agree that the progress of the underdeveloped world is worth their time, effort and support. Despite recurring doubts and debates in the United States and other countries about the size and form of development aid, I do not think this fundamental concern is going to change soon.

Since the war, a very imposing structure of development organizations has been built. Just to mention international institutions, the old Marshall Plan organization in Europe has become world-wide in its outlook, as has the Organization for Economic Cooperation and Development. The development fund associated with the European Economic Community has opened its horn of plenty to the lands of Africa. A development bank has been established, devoted exclusively to the interests of the Latin American countries; the Africans are even now putting one of their own into operation; and similar institutions seem likely for other areas of the world. The United Nations organization has given birth to Mr. Hoffman's Special Fund. Even the World Bank has known the joys of parenthood, having mothered two affiliates, the International Finance Corporation and the International Development Association, to enlarge the versatility of development financing institutions. The proliferation of national development institutions, both public and private, has been at least equally profuse.

All this creation has brought a new calling into the world—the vocation of international development expert, which you represent here today. This vocation is having a population explosion of its own. To take the United Nations and its related agencies alone, back in 1950, they had about a thousand experts in the field. Today they have more than five thousand. Taking bilateral programs into account, the number of all experts in the field today is probably more than fifty thousand; and the amount of personnel giving them rear-echelon direction and support is on a comparable scale.

It points to the great scope of development assistance that these practitioners are drawn from a myriad of professions, from accountancy to zoology. Development truly involves the whole range of human activity and knowledge. When we get discouraged, as we must from time to time, with the magnitude of the problem and the slow pace of progress, we ought to remind ourselves that what we are trying to do is to change the lives of most of the human race. All history has been engaged in this project, and it should not surprise us that even with the most determined and intelligent efforts there are frustrations, setbacks and defeats. Yet through all adversity we must keep in mind the motto that used to hang on the wall of General Somervell's office during the Second World War—"The difficult we do immediately. The impossible takes a little longer."

The way of the development adviser is hard. Very often, as the members of this Society are well aware, he goes out to his job with too little briefing, works under difficult local conditions, deals with people who do not understand how to be helped and who may not even want to be helped. And when it comes to getting himself back into a career at home, he faces more re-entry problems than an astronaut.

Many of the development assistance organizations are aware of these problems and are working out ways to deal with them. As a group, we have not realized that old dream of having an international development service which could serve both as a source and a shelter for technical advisers going to and returning from the field. But in the Bank, for instance, we have created the equivalent on a small scale—a permanent corps of experts who are available for temporary assignments ranging from a few months to a couple of years; and when these men are not in the field, they are usefully employed among their Bank colleagues in Washington. Since the demand for experts for a long time is going to exceed the supply, we also are glad to invite help from advisers who do not intend to make a career in the Bank; we think that two or four years spent with the Bank will enrich both them and us.

It is important, of course, that development specialists be kept reasonably content through thoughtful care and regular feeding. I would not want to give you the impression, however, that we regard them simply as an exceptionally valuable kind of livestock. The day is long past when you could define an expert, as once was the fashion, as a damn fool a long way from home. Today's expert, more than yesterday's, is a real professional—as witness the presence of David Bell, at the head of the United States Agency for International Development, and of Paul Hoffman himself as Managing Director of the United Nations Special Fund.

The development specialist, wherever he may be, is engaged in a make-or-break job for mankind. His assignment is nothing less than to be the cutting edge that will open the way for technological, social and economic change to produce a better standard of living and a fuller life for most of the world's people. His is a task of immense practical complexity and intellectual difficulty—to dispel skepticism, to kindle understanding, to encourage the growth of initiative and innovation, to bring in the new without destroying the continuing values of the old.

None of us believes that we are progressing fast enough; far too much of the world is underfed, underemployed and overpopulated. Yet most of the discontent felt in the aid-giving countries does not spring from these causes; it exists for political reasons. Lower lips naturally start to quiver when countries receiving development assistance start stoning embassies or burning down information libraries. But I never heard of anyone throwing rocks because you helped them build a highway system or a technical school. And I cannot resist quoting to you the remark of Senator Fulbright on the Senate floor last week: he said that in his travels around the globe, he had never seen a sign saying, "World Bank, go home."

The undeniable fact is that on the economic front, we are making progress. In many countries, development assistance has made a critical contribution to that progress. The economies of the Latin American countries, on average, were kept moving ahead through the 1950's and into the 1960's, for example, despite a severe slump in export earnings. The economy of India, the second most populous country in the world and the home of one out of every seven members of the human race, has been kept afloat since the war despite a multitude of adversities. These in themselves are prodigious accomplishments.

We are putting down the foundations of economic growth, in many respects, faster than current trends in per capita income growth reveal. For instance, investment in economic development has grown rapidly in the postwar decades, and particularly in the last three or four years; the evidence suggests that the net flow of international development finance, public and private, to the underdeveloped countries has increased from something under a billion dollars a year in the years immediately following the war to something over eight billion dollars a year today—exclusive, naturally, of military aid. Taking the domestic effort of the underdeveloped countries into account —and after all, that is the basic effort—real expenditures on economic development in many countries are double or more what they were 10 or 15 years ago.

The growth on the physical side has in many instances been imposing. The Indian Railways, for instance, today are carrying two and one half times as much freight as they did in the first year of India's independence. In Mexico, the public power supply has tripled in the last 15 years; in Brazil, it has nearly quadrupled. Nor have the gains been confined to the physical side: in the decade after 1950, the number of children in primary schools in South America nearly doubled; in Africa it did double; and in Asia it more than doubled. All this began, to be sure, from a low starting point; but the trend is up.

The trend equally is up with respect to intangibles that are harder to measure. Above all, the developing countries have been gaining in experience and wisdom. In the ability to formulate policy, in the number of institutions able to originate and administer measures for economic development, in the number of individuals able to come forward to lead private and public undertakings, nearly all the developing countries are far ahead of where they were a decade or two ago. All these are hopeful signs.

On the side of the developed countries, there has been a comparable process of maturing and growth. We began the era of development assistance with a heavy emphasis on the importance of capital. Perhaps a decade ago, the importance of so-called non-economic factors began to be borne in upon us, and especially the importance of improving the capabilities of the human beings whose greater wellbeing is our ultimate objective. All the time, our thoughts about the vehicles for economic development were evolving: we widened our focus from projects to programs, and we are thinking more in terms of the complex and inter-related character of the measures that must be taken to speed development.

Our perspectives are still widening. We appreciate that the problems of the underdeveloped countries are not neatly bounded by national frontiers; they are part of a world-wide complex of problems. The need of the developing countries for more accessible markets in Europe and North America; the necessity for devising ways of stabilizing the prices of their commodity exports; their urgent requirement for greater amounts of capital on terms that will not impose impractical burdens on their balance of payments—all these problems, we see, must be solved in a world context.

We also realize more keenly than we did that if it is getting more difficult to bound development by sectors and by countries, it is also getting more difficult to define its boundaries in time. It wouldn't be much of an over-simplification to say that in the first years of the postwar era, the Marshall Planners were worrying about how Europe's imports of fuel and materials were going to be financed from month to month.

Today, the time path we are following in the developing countries is of an entirely different order. The fertilizer plant we are talking about today may, with great good luck, benefit crops in 1968 or 1969. The hydroelectric plant whose site is being prospected now may put electricity into farms and factories by 1975. The 15-year old youngster we enroll in a vocational school today will still be part of the work force in the year 2000.

It is the essence of your vocation as development specialists that you will always be aiming at a moving target. The very measure of the success of the development effort will be the amount of constructive change it causes. The goals we are seeking today already are different from those of yesterday; and tomorrow's techniques and goals, in their time, will also be new. The subject of economic development will always be fresh, always worthy of the best minds and the sharpest analysis we can bring to it. That is why the vigor of the membership of this Society is so important —and so immensely encouraging. I congratulate you on the contribution you have already made in spreading understanding of the problems of economic development, and I wish you continued success in your discharge of that important role.

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THE DEVELOPMENT DECADE IN THE BALANCE

By GEORGE D. WOODS

Reprinted from

FOREIGN AFFAIRS

AN AMERICAN QUARTERLY REVIEW

January, 1966

FOREIGN AFFAIRS

AN AMERICAN QUARTERLY REVIEW

JANUARY 1966

58 East 68th Street • New York, N. Y. 10021
Subscriptions, $6.00 a year, post free to any address

THE DEVELOPMENT DECADE IN THE BALANCE

By George D. Woods

"HOPE," said Sir Francis Bacon, "is a good breakfast but it is a poor supper." The 1960s began with hope for the economically underdeveloped countries, but it is becoming uncertain how they will end. Unless the Development Decade, as President Kennedy christened it, receives greater sustenance, it may, in fact, recede into history as a decade of disappointment. The amount of finance moving from the developed to the underdeveloped world is not rising; and the present trend is for the growth of the low-income countries slowly to lose momentum.

Almost two-thirds of the world's population live in underdeveloped countries; but they have only one-sixth of the world's income. The condition of mankind can be outlined quickly with a few brutal statistics. Defining countries with a per capita income of under $100 as very poor, those with a per capita income of from $100 to $250 as poor, those with a per capita income between $250 and $750 as being of middle income, and those with a per capita income of more than $750 as the high-income countries, here is how the world's people are distributed:[1]

Very Poor	990 million	Middle-Income	390 million
Poor	1,150 million	High-Income	810 million

Just how poor the approximately two-thirds of the world in the Very Poor and Poor Countries are is illustrated by comparing their per capita income of less than $250 with the average per capita income of $1,400 in the Common Market countries (population: 175 million), and the United States' (population: 194 million) per capita income of about $3,000.

The underdeveloped countries are seeking to enter the twentieth century, but many of them, in some respects, have not yet reached the nineteenth. Many still need to achieve the preconditions of industrialization, including stable government, an acquisitive outlook and technical capacity. The price of admission to industrial society, moreover, is much higher than it was a cen-

[1] See Escott Reid, "The Future of the World Bank," p. 60–63 (International Bank for Reconstruction and Development, Washington, D.C., 1965). The population of mainland China (700 million) is included in the 1,150 million population estimate for the Poor Countries.

tury ago. Technology is costlier, capital requirements are greater, established producers are harder to overtake in world commercial competition.

The aim of the Development Decade is for the underdeveloped countries, as a group, to reach a yearly rate of economic growth of 5 percent. In the period 1950–54, the rate of increase in their gross national product did approximate that figure. But in 1955–60 it dropped to 4.5 percent; and in 1960–64 it was 4 percent. When allowance is made for population growth, per capita income in about half the 80 underdeveloped countries which are members of the World Bank is rising by only 1 percent a year or less. Even to keep abreast of recent high rates of population growth is not a negligible achievement, but it is far from sufficient. The average per capita income in this lagging group is no more than $120 a year. At a 1 percent growth rate, income levels will hardly reach $170 annually by the year 2000. In some countries they will be much lower.

This is crude arithmetic. But its implications are plain and sobering. If present trends are allowed to continue, there will be no adequate improvement in living standards in vast areas of the globe for the balance of this century. Yet, over the same period, the richer countries will be substantially increasing their wealth. In the United States, for example, the present per capita income of about $3,000 a year will, if it continues to grow at the current per capita rate, reach about $4,500 by the end of the century. In other words, one group's per capita income will increase over this period by $50, while America's will increase by about $1,500.

As the gap widens intolerably, one is bound to wonder when the fine sentiments so eloquently and so often expressed by leaders in all the industrial nations will give way to positive action to help raise the living standards of the developing countries at a much faster rate. For how much longer can the industrial nations justify the relatively low place that development finance has hitherto been accorded in their list of priorities?

II

An important difference between economic development in the twentieth century and past times is that today the rich nations have accepted a measure of responsibility for the progress of the poor. Outside the Soviet and Chinese blocs, a score of countries—including Israel and the Sheikhdom of Kuwait—have institutions for granting aid to other countries, and these institutions are constantly evolving in the direction of greater professionalism and efficiency. In the past two years, for example, Canada, the Netherlands, Sweden and the United Kingdom have all reorganized their aid effort to bring a fuller weight of knowledge and experience to bear on development problems.

Since the war, very imposing machinery of multi-national and international organizations also has been built to promote economic growth. The old Marshall Plan organization in Europe has acquired a world-wide outlook in its reincarnation as the Organization for Economic Coöperation and Development (O.E.C.D.), an important center for coördinating the policies and techniques of the aid-giving countries. The development fund associated with the European Economic Community has opened its horn of plenty to the lands of Africa. A development bank has been established to serve the interests of the Latin American countries, and the Inter-American Committee for the Alliance for Progress (C.I.A.P.) is establishing priorities for the financing of Latin American development. A regional African bank, owned entirely by African states, has called up its first capital; and an Asian development bank promises to become a reality in 1966.

The World Bank has shared in this evolution, to a point where it would scarcely be recognized by the founders who wrote its charter just over 20 years ago. Originally intended to operate chiefly as a guarantor of loans by others, the Bank from the beginning has been a lender on its own account. In the fiscal year which ended last June 30, it lent more than $1 billion. Since its creation, the Bank has given birth to two affiliates: the International Finance Corporation (I.F.C.), established in 1956 to specialize in the financing of productive private projects in the underdeveloped countries; and the International Development Association (IDA), established in 1960 to make development finance available on special terms to countries too poor to borrow at conventional rates of interest and repayment. From being purely a lending institution, the Bank has widened its activities to include, amongst other things, a substantial program of technical assistance, designed to improve the quality of development programing in its member countries and to assist them in drawing up specific development projects for financing.

Other patterns of bilateral and multilateral coöperation are taking form. Among the most promising are the groups, consisting of aid-giving countries and international financial agencies, organized to coördinate the flow of finance and technical assistance to particular underdeveloped countries. Groups of this kind now exist for eleven countries; two (for Greece and Turkey) organized by the O.E.C.D., one (for Ecuador) by the Inter-American Development Bank, and the remainder (for India, Pakistan, Colombia, Malaysia, Nigeria, Sudan, Thailand and Tunisia) by the World Bank (in company with IDA). Others are in prospect.

Each consultative group has one essential objective; to increase productivity by accelerating economic growth. Its members seek to accomplish this purpose in several ways. In the first place, the arrangement is designed to provide the several aid-givers with informed, objective analyses of the country's needs for external finance and technical assistance—not only the amounts it could effectively use, but also the appropriate terms of financing and the purposes that deserve priority. Second, the group aims at enhancing the developing country's ability to invest by helping in the planning of development, in the preparation and screening of projects and by advising on administrative or financial problems and the like. It also undertakes, in coöperation with the recipient country, a continuous assessment of progress, and attempts to work out agreed solutions to development problems as they arise. We expect that these consultations will encourage the coöperation and mutual trust that is so necessary between the providers of finance and those who receive it, and we hope that a more adequate and assured flow of finance will be the result.

III

On a more general plane, the concerns of the industrial and the underdeveloped countries are brought together in the working committees of the new United Nations Trade and Development Board, created as a result of the U.N. Conference on Trade and Development (UNCTAD) in 1964. Among the accomplishments of this meeting was the focusing of attention on some of the major problems of the underdeveloped world—among them, the "commodity problem" and the necessity for a continuing and adequate flow of capital to the developing countries.

Of the 80 or so underdeveloped countries of the world, more than 30 depend for more than half their foreign-exchange earnings on exports of a single crop or commodity, and many others are heavily dependent on exports of only two. The rate at which the underdeveloped countries can invest in their own growth depends very largely on how these commodities fare in international trade; what their exports earn brings the developing world four times as much foreign exchange as loans, grants and direct investments from abroad.

But as a source of income, primary commodities are notoriously fickle. Fluctuations of production and demand may cause export earnings to swing up or down by as much as 50 percent in a single year. The long-term trend of commodity earnings, however, is that they decline as a proportion of world trade. Over the years 1950–62, the export income of the underdeveloped countries rose by an annual average of only 3.5 percent—not enough, by itself, to sustain adequate imports of the equipment and materials the low-income countries must have for economic progress.

The slow and uncertain growth of export earnings exerts pressures leading to fiscal imbalance, inflation and stagnation of constructive effort; it retards development, upsets continuity of investment and diminishes the impact of external finance. In the medium term, the commodity problem may be mitigated by international commodity agreements. In the short term, some way has to be found of cushioning a developing country against the effect of a sudden drop in export earnings on which it has been relying for the financing of its development plan. In the long run—a span that may stretch for a generation or more—the solution must be for the developing countries to diversify their production to a wider range of goods; and the industrial nations, as a matter of trade policy, must show a more hospitable attitude toward the exports of the developing nations.

In 1966, both the high-income and the underdeveloped countries need to give renewed and purposeful attention to this problem. Two initiatives in which the World Bank is joining should eventually help. The first is a study, organized jointly by the International Coffee Organization, the U.N. Food and Agriculture Organization and the Bank. The study will examine the needs of coffee-producing countries to diversify into other lines of production which would impart greater strength and stability to their economies, and will try to identify the possibilities that they have for doing so. A dozen countries in Latin America and Africa depend on coffee as a major source of export earnings; and coffee exhibits some of the worst features of the commodity problem. By making studies of the possibilities and problems of diversification, the coffee group will develop a better notion of the long-term supply situation on the world coffee market, thereby investigating the basic factors involved in long-term market stabilization.

The other initiative stems from a proposal, put forward by the United Kingdom and Swedish delegations to UNCTAD, which the Conference asked the World Bank to study. The proposal aims at defending development programs from the dangers of disruption arising from unexpected shortages in export earnings, by providing supplemental resources under certain conditions to be agreed upon. As I write, our staff study is in its final drafting stages and will soon be forwarded to the United Nations. It examines the many facets of the problem, and outlines a possible approach based on continuous consultation with the developing countries and close collaboration with the International Monetary Fund.

The continuing need of the underdeveloped world for an adequate flow of external capital is given added urgency by what might be called the "debt explosion." In 1956, the outstanding international debt of the low-income countries, stemming from public sources or carrying governmental guarantees, was estimated at just under $10 billion. In 1964, it reached an estimated $33 billion. Because of rising interest rates and the accumulation of short-term debt, the amount of money needed each year to service this debt climbed even faster. From 1956 to 1964, it rose over four times, from $800 million to $3.5 billion.

The external debt of many developing countries, of course, was bound to rise rapidly. These countries were newly independent; they had little debt to begin with, but increased it rapidly as they plunged with energy and enthusiasm into economic development. At the same time, there was much unwise borrowing—brought about in part, it should be added, by the proffering of credit from the industrial nations for an unrealistically short term and in some cases for purposes of little economic value.

In any case, the underdeveloped countries as a whole must now devote more than a tenth of their foreign-exchange earnings to debt service; and the figure is still rising. These levels of debt service are dangerously high. They mean that a good part of the countries' foreign-exchange resources must be devoted to servicing previous obligations rather than to new productive development. Indeed, when all amortization, interest and dividend payments are taken into account, the backflow of some $6 billion from the developing countries offsets about half the gross capital inflow which these countries receive. These payments are continuing to rise at an accelerating rate, and in a little more than 15 years, on present form, would offset the inflow completely. In short, to go on doing what the capital-exporting countries are now doing will, in the not too long run, amount to doing nothing at all.

More finance is needed, and on terms more appropriate to the facts of life in the underdeveloped countries. Although the need for more favorable terms is universally accepted in principle—and the United Kingdom and Canada recently have taken laudable steps toward meeting it—further steps need to be taken if we are to guard against cases of default and serious interruption of capital flow. And the harm done by defaults is much deeper than statistics can indicate; it is truly incalculable.

The solution of the debt problem is within the power and the means of the developed countries. They can ease their own terms, and they can dispense finance through other channels. One of the latter is the Bank's affiliate, IDA, the major international institution for transferring capital to the low-income countries on concessional terms. IDA's clients so far comprise 29 of the poorest nations; its credits are extended free of interest (although there is a small service charge) and for a term of 50 years. Principles similar to those of the Bank are followed by IDA in appraising projects and negotiating credits. The same high standards have to be met; only the terms are different. There is no separate IDA staff; the Bank's experts are IDA's experts, and over the years the Bank has assembled a multi-national professional staff of high quality and with a wealth of experience to handle the growing range of responsibilities in the development field.

Unlike the Bank, however, IDA cannot raise funds by borrowing in the capital markets, and its earnings are miniscule. By far the largest part of its resources has originated from the governments of the high-income countries—from their initial subscriptions and from later contributions—and these resources have been supplemented at the close of each of the last two fiscal years by transfers of $50 and $75 million from the Bank's net income. The total of convertible funds so far at the disposal of IDA has amounted to just under $1.7 billion. The amount that it has committed in credits has now topped the $1 billion mark. If IDA is to continue, further authorizations to make commitments must be obtained in 1966 from the governments of the high-income countries among its members. Actual appropriations of funds, which involve budgets and affect balance-of-payments figures, are not required for two to three years after commitment.

IV

The prime ingredient of economic progress in the underdeveloped countries is their own effort in mobilizing and using their own resources. It is this effort, fundamentally, which determines the rate of growth; it is this effort which provides a basis for external assistance to be received and used effectively.

In many of the underdeveloped countries, economic performance must be greatly improved. Many can take more effective measures to increase the mobilization of capital through taxation and through incentives to investment, both domestic and international. It is urgent to cut down some of the biggest items of waste—excessive military expenditures, prestige projects, inefficient administration and subsidies to public services that should be self-supporting. Measures are widely needed to keep excessive population growth from devouring the hard-won gains of development. Recent technical advances and birth-control methods have proved dramatically effective in pilot projects and give real hope that, for example in India, the growth in population may at last be slowed down. Nearly all the developing countries can redouble their efforts to overcome the lag in agricultural productivity. Agriculture, now generally recognized as the most vital economic sector, is generally the most feeble. And yet, in those places where land reform and the difficult transition from ancient to modern agricultural methods are being effected, hope for solid improvement in productivity runs high.

Some countries, in spite of many obstacles, are nevertheless making good progress in achieving rising living standards for their people. Among the developing countries in the Bank's membership, a score in the recent past have attained rates of 5 percent in annual growth of real income, the target rate of the Development Decade. Mexico and Venezuela, for example, have been blazing a trail that can be followed by an increasing number of their Latin American neighbors. On the other side of the world, Thailand and Nationalist China, among others, have attained high growth rates; and up to the time when the hostilities in Kashmir began, the economy of Pakistan had been showing a marked response to a determined government's efforts to invigorate agriculture, support industrial expansion and mobilize domestic financial resources. In the Arab world, growth has accelerated in Libya and Tunisia. These stars in the development firmament are not alone in catching the eye; others, too, are visibly gaining in strength.

Despite differences in the achievements of individual developing nations, and despite some discouraging failures among them, the underdeveloped countries as a group are growing in their ability to carry out investment. Their development institutions are becoming more firmly established, education and skills are spreading, administrative and managerial abilities are improving, and program and project planning is becoming more effective.

I am concerned that, with the time now ripe to take advantage of these opportunities, there is no parallel upward trend in the movement of financial resources to the low-income countries. The gross official flow of long-term capital from the countries represented in O.E.C.D.'s Development Assistance Committee (DAC) has remained about the same since 1961. This is despite a rise in the gross national product of the industrial countries over that period of from 4 to 5 percent annually—in other words by perhaps $40 billion a year—with the result that the amount of net official finance represents a dwindling proportion of the aid-givers' national income. If the backflow of amortization payments, profits, dividends and interest is also taken into account, the DAC countries' annual net contribution which would actually represent finance for the developing countries' current import capacity has been about $6 billion, or about 6/10ths of 1 percent of their gross national product.

A preliminary study made by the World Bank staff, utilizing available data and their own experienced judgment, suggests that the developing countries could put to constructive use, over the next five years, some $3 to $4 billion more each year than is currently being made available to them. It may be tempting to suggest that these countries accommodate themselves to what is currently available, on the grounds that it would be a mistake to increase the flow until the recipients had learned more about the effective uses of external resources and considerably diminished their present level of indebtedness. But neither an improvement in the handling of investments nor a constructive easing of the debt burden will be achieved simply by holding down the level of the flow of external resources.

The suggestion that more aid be made available to the developing countries, and on better terms, is in fact a call for a marked change of outlook on the part of the donor countries. It is true that the industrial nations face difficulties in persuading reluctant legislatures to muster resources for the peoples who must have their help. But development finance is not a thing that can be turned on and off like a tap. Any slowdown or lack of orderly and consistent acceleration in its provision means a slowdown in development, though it may take two years or more before the effects of this become apparent. A decision at that stage to counter the ill effects with an increase in financing will also be followed by an interval of years while momentum is regained, and in the meantime some countries may be tempted to retreat into an isolation of despair. The need therefore is for more action now, and there can be no doubt that, in spite of all the problems and difficulties, the basic economic and financial position of the high-income countries is strong enough to support such an increase.

From every point of view, the time is now ripe for the capital-exporting countries to come to a major and irrevocable decision about development assistance. A vast store of knowledge and experience in development—a whole new technology—is at their disposal; there is no lack of able professionals ready to apply it; the need for its application grows daily more insistent; the industrialized world has itself voiced acknowledgment of the urgency of the situation. With so much already done, and so much still left to do, it would be unthinkable for the richer nations, by their inaction, to let the developing world lose hold of its hard-won gains and lose sight of its ultimate goals.

Speech delivered by Mr. George D. Woods,
former President of the World Bank
to the
Annual Dinner Meeting of the World Affairs Council
at Pittsburgh, May 8, 1968

It is a privilege and a pleasure to have this opportunity to speak to the World Affairs Council, especially when I see the familiar faces of so many old friends amongst you. I am glad that my friend, John Harper, lured me back to Pittsburgh, and I want to thank him, and you, Mr. Phelps, for making this evening with you possible.

We are living in rough and troubled times, in a world plagued with a bewildering array of crises. Whether domestic or international, the problems of this age crowd in upon our nation; the war in South-east Asia, the violence in our cities, unrest in our universities, danger of inflation in our economy and the repeated difficulties in our international currency system. Add to all this the feeling of unease that a presidential election year often engenders, and it is hardly surprising that nerve-ends in the United States should be somewhat raw. Amidst all the doubt and confusion, it is hard to predict what history will have to say of various aspects of this age in which we live. But of one thing I like to think we can be sure. Arnold Toynbee eloquently put it when he wrote: "Our age will be remembered not for its horrifying crimes nor its astonishing inventions, but because it is the first generation since the dawn of history in which mankind dared to believe it practical to make the benefits of civilization available to the whole human race." What Toynbee said is a challenge rather than an accolade. There is all the difference in the world between daring to believe it practical to do something, and actually doing it. Tonight, I want to take up this question of whether Toynbee's challenge can be met.

As Mr. Phelps has told you, it has been my privilege during the last five years and a few months to head the World Bank Group. This Group, as most of you know, is a cluster of three institutions: the International Bank for Reconstruction and Development, widely known as the World Bank, the International Development Association, and the International Finance Corporation. The Bank itself is a remarkable institution. It is the World Bank -- the only thing of its kind. Its 107 member-shareholder governments are spread over the world; it finances projects in all quarters of the world; its Executive Directors, officers and staff are from all parts of the world. In the truest sense of the word, the Bank is a cooperative, deriving its resources from its members and using these resources for their benefit. Its member governments are not only its principal debtors, but also its shareholders and large creditors. But impressive as its credentials may be, the World Bank, together with its affiliates, can provide only a fraction of the needed assistance. Nonetheless, because of its unique experience it can, and does take the lead in speaking up for development assistance. Its officers and staff have one sole objective: the economic development of the underdeveloped world.

When I talk about the under- or less developed world, I mean a group of some 88 nations of Asia, Africa, Latin America and parts of southern Europe, about one-half of humanity -- about 1 billion 6 hundred million human beings out of 3 billion 3 hundred million. While at times referred to collectively as "the Third World", there are in economic terms only two characteristics that are common to each and every one of them: a low level of real income and accumulated capital, and a lack of any large-scale application of science and technology.

In the quarter-century since the end of the Second World War, a great deal has been learned about development economics and financing. The governments of aid-giving countries, public and private institutions, and the developing countries themselves, all have contributed to the creation of a significant body of knowledge in this field. Thus we have at our disposal a technology of development which allows us, in Toynbee's words, "to believe it practical to make the benefits of civilization available to the whole human race."

But it is no secret that we are living through a time of disillusion and distaste for economic assistance. Although the developed nations have added some $300 billion to their combined gross national product from 1961 through 1966, the flow of official aid net of amortization has not increased much above the $6 billion a year reached in 1961. As a share of national income, it has fallen below six-tenths of 1 per cent, far short of the generally accepted goal of 1 per cent which itself is now inadequate.

The reason behind this slackening of effort is not only the pressure of domestic priorities on governments and peoples in these difficult times. It is also a wide-spread belief that waste, inefficiency and even dishonesty have all too often deflected resources from development. To give more aid now, it is said, would simply send good money after bad. Even some of the kinder critics question whether there is skill and administrative capacity enough in many poor countries to absorb more capital even if aid were to be increased.

To dispense some of this gray fog of suspicion we need a little less of fault-finding and a good deal more of fact-finding. The average annual rate of economic growth of the poorer countries since the early 1950's has, in fact, surpassed four and one half per cent -- a rate that can stand comparison with the pace achieved in the 19th Century by the countries that were then pioneering the industrial revolution in Western Europe and North America. In at least 25 countries, many of them the "middle income states" with per capita gross national product between $200 and $600 per annum, GNP grew during 1966 at a rate between 5 and 10 per cent. This compares pretty favorably with rates of growth in such high-income countries as the United States with a per capita GNP of $3,240 and a growth rate of 5.8 per cent in 1966, and the six countries of the European Common Market with an average per capita GNP of $1,500 and a 1966 average growth rate of 4 per cent.

These are the sort of hard facts that need to be repeated again and again, for they are the indicators of solid progress being made around the developing world where in many places, prospects are encouraging. Let me take you on a fast world tour to demonstrate what I mean.

Let us look first at the developing countries around the Mediterranean, from Portugal to Turkey and from Turkey back to Morocco. These countries have the advantage of proximity to the industrial heartland of Europe, which makes possible substantial earnings from trade. A number have oil and gas deposits and other mineral resources which can serve as the basis for material advancement. For all of them, tourism promises to be a steady foreign exchange earner and investment in tourist facilities is high on the list of priorities. Given moderate political stability, the Mediterranean group can be expected to make steady progress.

Across the Atlantic, there are abundant signs of progress in many of the countries of Latin America. The first development loans the World Bank made were for projects in Latin America and a large proportion of all private international investment, other than in petroleum, has gone into such countries as Mexico, Brazil and Colombia. The basic infrastructure facilities needed for economic growth -- roads, railways, ports and electric power -- have been developed to an impressive degree in Latin America, and this in turn facilitates the rapid growth of industry. But the path ahead is not all roses. There are weaknesses in fiscal and monetary management to be eliminated, and several economies walk the tight rope of reliance on a single crop, such as coffee. The high rate of population growth, touching 3 per cent annually, will have to be held back if the area's economic gains are not to be substantially offset. But Latin America has staunch and committed friends, both amongst governments and international institutions, and I feel that countries in this area face the next twenty years with far more confidence than would have been justified twenty years ago.

In Asia, a number of countries in the Pacific area have shown what can be accomplished in a short time by concentrated effort. Taiwan, the Republic of China, is today a thriving island with a viable economy and a highly competitive export trade in industrial products. South Korea, a country and people of proven resilience in the aftermath of war, seems well set for a period of solid economic growth and expansion. Thailand and both Malaysia and Singapore are achieving satisfactory growth rates, while in the Philippines, progress, though painfully slow, is nonetheless progress. And then there is that vast and scattered nation of 110 million people, Indonesia -- its western and eastern extremities separated by more than 3,000 miles, about as far as from New York to San Francisco. For several years the country's leadership failed and, with her rich natural resource potential untouched , Indonesia seemed to be marching backwards. Today, under new leadership, Indonesia is back on course, and given the assistance, particularly technical assistance, that she needs in the years immediately ahead, steady if slow economic progress is inevitable.

In the Middle East area of Asia, in some regions the major changes beginning to take place in the oil-rich countries are clear demonstrations of the dimension of growth which is possible; and at the same time other regions reflect the devastating slowdown which accompanies political instability and aggressive military activity.

There are two large areas of the world whose very special problems make them areas of great concern. One is the so-called sub-continent of Asia where two countries, India and Pakistan, together account for some 625 million people, or 40 per cent of the population of the Third World. The other is the vast expanse of Africa south of the Sahara Desert, excluding the Republic of South Africa and the Portuguese provinces, and accounts for a further 200 million people.

It is still not sufficiently understood that the economic problems of India and Pakistan are of a size unequalled anywhere else in the developing world. India, after all, is the home of more people than are to be found in all the countries of Africa and Latin America put together. The four largest of India's sixteen states have a combined population greater than the whole of the United States. The single state of Uttar Pradesh has more people living in it than there are people living in Brazil. Four other Indian states each have populations more than twice Canada's 20 million. With such staggering numbers to support, it is a small miracle that India has achieved as much as she has on the development front in the twenty years since independence. Foreign assistance has been large in absolute terms, as indeed is the amount flowing into Pakistan. Yet on a per capita basis the level of assistance to both countries is small compared to the external resources being made available to many other countries.

During the first fifteen years of independence -- the period of the first three Five-Year Plans -- Indian national income increased in every year but one by an average of just under 4 per cent per annum. But, despite efforts to check population increase, the rate of national income growth was halved on a per capita basis. Only continued and adequate support from without, and good crops within can prevent growth from being halted. Even with the sharp increases in food production which are being forecast as a result of the use of new seeds, pesticides and fertilizers, a realistic view must contemplate continuing assistance to India for at least a decade.

Pakistan - at least West Pakistan - now seems to have moved out of the league of India with which it is inevitably compared. One Bank official, recently returned from a visit there, told me that, in his opinion, only a foolish military adventure or a serious political collapse could now stop sustained growth in this country - which as recently as ten years ago was close to the bottom of everyone's list.

The special problem that faces the newly independent countries of sub-Saharan Africa, on the other hand, is basically that of youthful inexperience. The European powers left Africa divided into an illogical patchwork of political entities, with many sovereign states populated with fewer people than you have here in Pittsburgh; others with frontiers effectively slicing age-old tribal regions in two, and several land-locked states with less than a sporting chance of surviving as viable economic units. In a number of the sub-Saharan countries, the essential prerequisites of a national economy are almost entirely lacking. Frequent political upheavals demonstrate the fragility of national authority, the inexperience of leadership, and the smouldering tribal rivalries. There are, however, hopeful indications that the majority of Africa's leaders now understand the development priorities which must be pursued at this stage. General education and especially training in basic skills stand high on the list. Public administration processes, simple industrial skills, and improved farming methods all have to be learned. While the key in-put as far as external assistance is concerned is technical assistance, there are uses for external capital as well. For instance, as groups of countries take further steps towards regional cooperation and the essential expansion of inter-country trade, the need to build the continent's basic infrastructure in line with these groupings becomes important. The old pattern of colonial infrastructure with roads running straight inland from the sea to the heart of the territory rather than as links between neighboring territories is a costly anachronism. And the fact that a telephone call between an eastern and western state has almost certainly to be routed through at least one European capital highlights the ultimate need for massive investment in telecommunications.

The potential of sub-Saharan Africa is enormous. As an agricultural producer it could well become a net-exporter of food and a major supplier to other nations. And there is still much mineral wealth to be opened. As Africa, with external assistance, effectively mobilizes its human resources, the continent will make progress. But the journey ahead is a very long one indeed. It must be counted not in decades but in generations, and it will require vast amounts of patience, tolerance and understanding.

Perhaps this tour of highspots has overwhelmed you with the magnitude of the development job, which I concede is a very big one indeed, but perhaps it has also persuaded you that the challenge of economic development is beginning to be met in many countries. You may have noticed that I omitted any reference to the countries of eastern Europe and to mainland China. It is not that I consider these areas without interest or importance, but I do not consider them part of the Third World which I have been discussing. So far as Russia and countries of Eastern Europe are concerned, they are, of course, the second of the two worlds which exist implicitly whenever we refer to the Third World. They contain 330 million people. I sense there is a growing flexibility in their relationships with non-communist developing countries, as well as in important areas of individual national policies. After all, economic backwardness or poverty is neither socialist nor capitalist; assistance in development is not the monopoly of one system or another. I hope for the introduction of collaboration, and at an ascending rate, between the Soviet Union and its allies and the countries of Western Europe, North America and Japan in providing assistance for development in the Third World.

As for mainland China, with a population said to be on the order of 750 million -- almost a quarter of the world total -- what can I say? China surely can no longer be regarded as part of a monolithic Communist bloc. She has cut herself off from the rest of humanity. And for a long time to come, she must be counted among the poor rather than the rich countries. Perhaps we should simply admit that for us China is yet a Fourth World whose relations with the other three are among the great and sobering unknowns we face.

Returning to the Third -- the developing -- World, the problems, despite some progress, are stark and unsparing. Too many nations continue to spend large amounts of their scarce foreign exchange on food imports, and are thus forced to restrict imports of capital goods badly needed for new production.

Some countries are at last devoting to agriculture the attention it deserves in the form of finance, incentives and in-puts for production; but many more must do so. A few countries are beginning to show what can be done to curb birth rates; but in this matter too, many, many more countries must take effective action. The less developed countries must also redouble their efforts to attract outside capital, and particularly to draw from the vast resources in the private sector of the high-income countries.

More must be done to conserve the capital that the underdeveloped countries already have. The humdrum business of preventing the loss of capital already invested could greatly improve standards of living throughout the less developed world. Adequate maintenance of capital assets in the developed countries is planned and carried out as a matter of course. But in the poorer countries, the very concept is often lacking; and for want of maintenance, these countries must unnecessarily expend many millions of dollars annually to replace industrial machinery, buildings, power and transportation facilities that have been reduced to the point of uselessness or minimum efficiency through lack of care. To develop the concept and practice of maintenance, like many other things in the spectrum of economic progress, raises new and different problems, but few would be more worth solving.

Waste can be found in many sectors but nowhere is it more serious than in agriculture. It is said that of all the crops produced in the world each year, about one-third -- mostly in the hungry countries -- is lost to spoilage, insects, vermin, fungus and plant diseases. If this loss could be prevented through better storage, herbicides and pesticides, the food crisis at least temporarily would disappear; and the problem of development finance in many countries would be considerably lightened. This is another unspectacular activity about which more should be done.

Yes, there is a great deal that the developing countries themselves must do by way of improving their performance. Nonetheless, it is inescapable that if we are to prevent an intolerable economic and political fission in the world, the development of the poorer countries also requires more effective participation by the developed nations.

It is time to consider basic changes in our development assistance attitudes. I would like to mention just three. First, development assistance must show a much greater skepticism about the extent to which the technology of the high-income countries can simply be transferred to the underdeveloped. It has been a long and painful experience to learn that the development of agriculture in the poorer countries requires different techniques from those used elsewhere. It is already evident that political institutions undergo a sea change when they travel from the countries which gave them birth; it is probable that forms of industrial and social organization, likewise, are not so transferable as we now suppose. Development finance must therefore demonstrate a greater regard for important national, cultural and regional differences that make the problems in each developing society unique. It must be much more concerned with helping the poorer countries to evolve technologies and institutions appropriate to their own special circumstances.

The second change needed is toward a greater modesty and realism in expectations. There is no such thing as instant or painless development. Development requires deep-seated changes; they are not only going to take time, as more and more people are beginning to realize, but they may lead to turbulence and even violence as is now being experienced in Nigeria, for example. For this, the nations providing assistance must realistically be prepared; they must not be easily discouraged or deterred.

A third and immediate change needed is improvement in the amounts and terms of capital transfers. The amount of these transfers, so far from keeping pace with what needs to be done, has, as I have said, tended to stagnate. Moreover, in many cases, capital is being transferred on terms that will eat heavily into the capacity of the receiving countries to finance future growth. The outstanding external public debt of the developing countries as a group is something over $40 billion. The problem is not only to alleviate the terms of future assistance for the countries that owe <u>this</u> debt to 12 or 14 developed nations. There is equally urgent need to extend terms which will avoid similar problems in the future for the newer countries that are now at the point where they can effectively use larger sums for development.

With my background it is not surprising that I should be emphasizing the importance of capital assistance. This does not mean, however, that I am not aware of the vital importance of trade in the development process. Foreign exchange earnings from exports -- especially of primary products -- are the main fuel of development, and if the less developed countries can be encouraged-- <u>and permitted</u> -- to improve their export earnings, many problems will become more manageable: external debt crises will be fewer, the need for aid will diminish, and the attraction for private capital will grow.

Every day we continue to learn more about the intricacies of economic development, and I very much doubt whether anywhere on the development spectrum there remain problems that cannot eventually be solved. Nevertheless, there must be a deep desire, a driving urge, to understand them and to solve them. If the peoples of the poorer nations were half-hearted in their desire for improvement, then maybe we should feel no great compunction. Andrew Carnegie said: "You cannot push anyone up a ladder unless he be willing to climb himself." But my years with the World Bank have convinced me -- through what I have seen and heard with my own eyes and ears -- that the peoples of the developing world <u>are</u> both passionate and determined in their desire to strive towards a better level of living.

So, ladies and gentlemen, being an optimist, I leave with you the proposition that given the almost unbelievable new technologies which are emerging; the firm determination and increasing experience in many developing countries; and the resources which the industrialized countries <u>could</u> make available without undue strain for development -- given all these things, the economic prospects in the Third World for the next 20 years are moderately hopeful. They could become brilliant, and the Toynbee challenge could be squarely met, if the political leaders of Western Europe, North America and Japan resolved that it should be so.

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As Prepared for Delivery
12:30 p.m. - Delhi time
Friday, February 9, 1968
(2 a.m. EST)

Address of George D. Woods, President
of the
World Bank
International Finance Corporation
International Development Association
before the
United Nations Conference on Trade and Development
New Delhi, February 9, 1968

It is a special privilege and a special opportunity to address this second United Nations Conference on Trade and Development. The delegates here have traveled from the four corners of the earth, and the subjects they are to consider are of great import for the shape of the future. Quite apart from that, this Conference stands out as a symbol: it gives expression to the hopes of mankind that out of all the variegated and sometimes conflicting activities of peoples and nations there will emerge some kind of rational order. Our planet earth, with the moon within reach and a landing on Mars a possibility, seems smaller and smaller. Its peoples seem more and more dependent on each other. It is right to be here on this vast subcontinent, in India, to explore the stubborn problems of development and of trade.

It would be less than human not to admit that this occasion also has a particular meaning for me. In all probability, it is the last time that I will be speaking to an important intergovernmental conference as the President of the World Bank. And while I do not intend to use the occasion for reminiscence, perhaps you will permit me to give a somewhat personal and subjective view of the state of economic development two-thirds of the way through this Twentieth Century. While I shall not address myself to the Conference agenda items, the World Bank Group is deeply interested in them, and our representatives here will express our views on these matters.

* * *

The state of economic development must and can be improved. The Secretary-General and most of the delegates here know that by nature I am an optimist. I am not going to recant the views I have often expressed, that in many parts of the world development is succeeding, and that in many others it can begin to succeed. But so far, our accomplishments have fallen short of our aspirations.

We must be frank to say that in many parts of the world, the situation is discouraging, even disturbing. Here in our host country, the home of one-seventh of all the human race, after 20 years of independence many millions of people have yet to experience more than the feeblest manifestations of progress. Those who believe as I do that India is engaged in a task of deep meaning for all the developing countries, must be gravely concerned by the uncertainties that cloud her national life. India is an exceptionally dramatic case because of its size and its location on the troubled Asian continent; but it is by no means the only country where hope has dwindled toward despondency.

Why is this? Everyone in this hall, I am sure, agrees that the advance of the developing countries is of first importance to mankind. Delegates from the rich countries state this belief no less vehemently and frequently than those from the poor countries. But I am afraid that the record shows that the agreement still needs to be nurtured by decisions and deeds -- by the rich and the poor -- to give it reality and substance.

The basic reason may be that vast force in human affairs which is called inertia. Social values are slow to change; and the institutions that give them expression are slower still. Few institutions deliberately seek innovation; many, to say the least, shirk the ordeal of changing themselves in order to respond more quickly to changing human needs. And inertia, it seems to me, can only be overcome by perception: the leaders of both the prosperous and the poor countries must now grasp fully the nature of the situations that confront them.

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For the less developed countries, it is <u>earlier</u> in their evolution, and there is much more to be done, than many of their governments are aware. On the face of our planet today, perhaps a billion people live in countries that have modern economies, in countries whose societies are largely agreed on political forms and social objectives, in countries where, broadly speaking, progress toward those objectives is continuous. That leaves more than two billion people living in countries that are still facing the travail of economic and social transformation. Some of these countries are well along; and we can predict with some confidence that they will achieve stable societies and a relatively high standard of living within the next 30 or 20 years or even less. But other countries have scarcely begun the process: most important, some have still to achieve some semblance of political stability.

Every developing country, by definition, is still nation-building. Its main task is to become truly independent -- not in a narrowly nationalistic sense, but in the sense that it is making the most of its resources for the good of its people, and that the nation itself, far from being dependent for direction and momentum on external forces, is a self-starting society in which the individual citizen has opportunity to develop his own creative and constructive possibilities.

Many countries fail to meet this ideal by the simplest possible test: they cannot feed themselves. I do not contend that any nation can or should achieve perfect, self-contained sufficiency in agriculture. But about 40 developing countries are net importers of food. The underdeveloped world imports 4-1/2 billion dollars worth of food a year. So long as the poorer nations must continue to spend large amounts of precious foreign exchange on food imports, they are going to have to skimp on imports of the capital goods needed for development. It is abundantly clear that the underdeveloped countries must achieve much greater agricultural productivity if they are going to become modernized.

This is no less true for being trite; and trite as it is, it is a lesson that many of the less developed countries are just beginning to learn. But an increasing number at last are devoting to agriculture some of the attention that it deserves, in the form of investment, research, incentives and supports to production. Some -- Pakistan and Israel, for example -- have already learned how great are the dividends paid by a virile and healthy agricultural sector. For the future, important scientific advances are to be expected in agriculture; and the countries which now effect the necessary institutional and policy changes can be optimistic about the chances of beating back hunger and increasing their rate of economic growth.

If one hallmark of the less developed countries is that they are hungry, another is that they have the highest rates of population increase in the world. As an exercise in simple division, this depresses per capita income and standards of living. Even in countries not now overpeopled, the rapid growth in numbers works further damage to the dynamics of development: at the same time that it greatly increases a society's needs for the bare necessities of food, shelter and clothing, and for capital investment in schools, hospitals and elementary services, it seriously diminishes the ability to produce a surplus, to save and to invest in the expansion of production and the growth of income.

Of all the problems of the less developed, rapid population growth may be the most stubborn; it is certainly not easily within the reach of pressures and inducements of the kind that governments are able to provide. The experience of Japan immediately after the war, nevertheless, offers a remarkable demonstration of what can be done. Some underdeveloped countries now are beginning to show what they can do; the Republic of China and the Republic of Korea already have achieved a measurable reduction of birth rates, and the same trend is appearing in Ceylon. This is a start; if the problems can be met on a far wider scale, economic prospects of the less developed countries will become far more encouraging.

Another task is to conserve the capital that the underdeveloped countries already have. The apparently humdrum business of preventing the loss of capital already invested could greatly improve standards of living throughout the less developed world. Adequate maintenance of capital assets in the developed countries is planned and carried out as a matter of course. But in the poorer countries, the very concept is often lacking; and for want of maintenance, these countries must unnecessarily expend many millions of dollars annually to replace industrial machinery, buildings, power and transportation facilities that have been reduced to the point of uselessness or minimum efficiency through lack of care. To develop the concept and practice of maintenance, like many other things in the spectrum of economic progress, raises new and different problems, but few would be more worth solving.

Waste can be found in many sectors, but nowhere is it more serious than in agriculture. It is said that of all the crops produced in the world each year, about one-third -- mostly in the hungry countries -- is lost to spoilage, insects, vermin, fungus and plant diseases. If this loss could be prevented through better storage, herbicides and pesticides, the food crisis at least temporarily would disappear; and the problem of development finance in many countries would be considerably lightened. This is another unspectacular activity about which more should be done.

The developing countries must not only conserve the assets they have; they must also take measures to attract new investment -- and particularly capital from abroad, with the technology, the experience in management and the links to world markets that international investment affords. Countries that adopt policies and take measures to make private capital welcome will find that such a course encourages the investment of public funds as well.

A task underlying all the other efforts is the improvement of human resources. "The foundation of every State," said Diogenes two thousand years ago, "is the education of its young." The spread of knowledge and useful skills is what led Europe out of the Dark Ages; it is the spread of knowledge that today will speed the developing countries into the last third of the Twentieth Century.

Despite the high value that the developing countries themselves have placed on schools, the educational effort has been tragically weakened by the expenditure of funds to no good purpose: on unplanned and unbalanced educational systems, on outmoded curricula and instruction not matched to the country's need for work and skills. A responsible and well-informed group of Latin American experts estimated a few years ago that half the expenditures on education in that part of the world had been wasted. Here is a sector in which development assistance must encourage and support a greatly improved effort.

The tasks of economic development place an exceptionally heavy burden on the leaders of the less developed countries. It is they, often in the most adverse and discouraging circumstances, who must stir the country's energies and wed them to the best use of resources, they who must create a sense of common purpose as the basis for orderly political evolution and change.

There are many leaders in the less developed countries today who are courageous, selfless and devoted; but unhappily there are some who are not. We see instances of personal aggrandizement; we witness waste through conspicuous and unproductive public expenditures; we see attempts to evade responsibility by blaming internal problems on other countries; we see failure to advocate and enforce necessary steps involving effort and a measure of sacrifice. And how to accomplish peaceful changes in the distribution of political power is a problem that in many of the less developed countries remains unsolved.

One of the serious liabilities of some poorer countries, in short, is leadership that does not lead. And one of the results is likely to be public apathy and cynicism instead of the ferment of enthusiasm and the hard work needed for economic progress.

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The high-income countries, no less than the developing ones, stand in need of a new perspective. For them the time is <u>later</u> than they seem to think. The world is already well on the way to new extremes in the imbalance of population and income. The swift movement of these trends is not being adequately recognized in the priority accorded to development finance among the other claims on the energies and resources of the high-income countries.

Changes in population have been striking since the end of World War II and are proceeding at an accelerating speed. Only a little more than 30 years from now, for instance, Brazil will be as populous as the United States or the Soviet Union is today, and at the same time, in the year 2000, the Philippines will be bigger than any country of Western Europe. The proportion of the world's population that lives in less developed countries, as compared with the number living in high-income countries, today is about two to one. Present trends would raise the ratio as high as three to one by the end of this century.

While the populous countries are rapidly becoming more populous, it is likely that the prosperous countries will go on becoming much more prosperous. On the basis of reasonable estimates, the gross national products of the high-income countries, which today total around $1,500 billion, will at least quadruple, to a figure of $6,000 billion or more by the end of the century.

The inescapable conclusion is that if we are to prevent an intolerable economic and political fission of the world, the development of the poorer countries requires a more effective and constructive participation of the developed nations on a high-priority basis.

Present policies of development assistance show too little recognition of this fact. The high-income countries do not seem to be thinking about tomorrow. Their aid policies have tended as much to mirror their own narrowest concerns as to focus effectively on the situation of the developing countries and its long-term meaning for the world as a whole. It is possible to overstate the case, but nevertheless it is true that up to now, bilateral programs of assistance have had as one of their primary objectives helping the high-income countries themselves; they have looked toward financing export sales, toward tactical support of diplomacy, toward holding military positions thought to be strategic.

These policies have not opened the window on a clear view of the tasks that ought to be undertaken in the less developed world. They have tended to distort assistance in favor of things rather than people. They have favored big construction which has required sales of big items of heavy equipment; they have delayed the attack on the fundamental problems of agriculture, of population growth and of education. They have obscured important differences in the developmental problems of different countries and different regions -- between the tasks to be undertaken, for example, in Latin America and those in Africa south of the Sahara. Some aid has not only failed to be productive: by doing the wrong thing at the wrong time, by making the wrong use of the slender resources available, at times it may actually have retarded economic growth. Solutions to the problems of trade between the rich and the poor -- most particularly with respect to prices of primary products -- have not been devised.

It is time to consider basic changes. I would like to mention just three. Development assistance must, first of all, turn away from expediency and toward effectiveness. It must show a much greater skepticism about the extent to which the technology of the high-income countries can simply be transferred to the underdeveloped. It has been a long and painful experience to discover that the development of agriculture in the poorer countries requires different techniques from those used elsewhere. It is already evident that political institutions undergo a sea change when they travel from the countries which gave them birth; it may well be that forms of industrial and social organization, likewise, are not so transferable as we now suppose. Development finance must therefore demonstrate a greater regard for important national, cultural and regional differences that make the problems in each developing society unique. Development assistance must be much more concerned with helping the poorer countries evolve the technologies and build the institutions appropriate to their own circumstances.

The second change needed is toward a greater modesty and realism in expectations. There is no such thing as instant or painless development. Development requires deep-seated changes; these are not only going to take time, as more and more people are beginning to realize, but they no doubt will lead to continuing turbulence and even violence. For this, the nations providing assistance must realistically be prepared; they must not be easily discouraged or deterred.

The third and immediate change needed is improvement in the amounts and terms of capital transfers. As the members of this assembly are aware, the amount of these transfers, so far from keeping pace with what needs to be done, has tended to stagnate. Moreover, in many cases, capital is being transferred on terms that will eat heavily into the capacity of the receiving countries to finance future growth. The outstanding external public debt of the developing countries as a group is something over $40 billion. The problem is not only to alleviate the terms of future assistance for the ten or so developing countries that owe half this debt to 12 or 14 developed nations. There is equally urgent need to extend terms -- amortization as well as interest -- which will avoid similar problems in the future for the newer countries which are now at the point where they can use large sums for financing their development needs.

At the present time, some of the principal aid-giving countries are in the worst possible position: they are giving amounts of aid sufficiently large to irritate their own national legislatures, but too small to help accomplish real economic progress. No businessman would deliberately make less investment in an enterprise than was necessary for its success or on terms that would cloud its prospects; but that is what the developed countries, as a group, are doing today. If there is anything we should have learned by now, it is that we should make the most of our opportunities: the response to good performance in a developing country should be massive applications of development finance to multiply production and achieve lasting economic momentum.

There is evidence that the attitude of some high-income countries toward development assistance is beginning to change. Recently, the governments of half a dozen countries -- Canada, Denmark, Germany, Japan, the Netherlands and Sweden -- have reached decisions to increase their budgets for development assistance, in some cases by as much as 25% annually over the next few years. Another step now well advanced, I am happy to be able to report, is to increase the resources of the World Bank's affiliate, the International Development Association. This second replenishment is intended to enable IDA operations for a three-year period ending June 30, 1970, and will permit IDA to lift its commitments by an average of 60% annually over the level which the first replenishment was designed to achieve. I expect that negotiations will be completed in a matter of weeks and actions required by various legislative bodies will follow without undue delay.

But these are only thin streaks of light on a grey horizon. It is clear enough that the targets for development assistance often stated by the high-income countries, and thus far achieved only by France, cannot be reached until well after the end of this Development Decade of the 1960s, and then only if the tempo of increase quickens.

It is still my opinion that the developed countries would materially benefit their own interests if they could achieve a unified and consistent perspective of the problems of growth in the less developed countries and of the importance of that growth to their own well-being. For that reason, I have suggested that a group of leaders of intelligence, integrity and prestige be brought together for the purpose of studying -- in consultation with the countries of the Development Assistance Committee and the developing countries -- the consequences of 20 years of development assistance, assessing the results, clarifying the errors and proposing the policies which will work better in the future. This proposal for a "grand assize" has been under consideration by governments. The reaction is generally favorable; and I expect the group will be assembled and this study will be started in the near future.

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Embracing virtually all aspects of the development efforts and virtually all the nations engaged in it are the international organizations. Many of these are specialized agencies associated with the United Nations, but they also include the Organization for Economic Cooperation and Development as well as the regional development banks. These entities have made significant contributions to economic development and the protection of peace. Their continuing participation in the world's everyday work is not the less useful because it is largely unhonored and unsung.

It would be unrealistic, nevertheless, not to recognize that the international organizations are in danger of disappointing the publics which support them. One reason may be that these organizations and their parliamentary bodies sometimes succumb to the risk of contributing more to the already worldwide surplus of oratory than to the stock of new ideas and useful activities. Another reason, unquestionably, is the continuing multiplication of new organizations. In the end, the sight of so many hands outstretched from so many different directions, in gestures either of help or of supplication, must lead to confusion and bewilderment.

It is time, I suggest, for us in the international organizations to take an anti-proliferation pledge: to reserve the creation of new entities for functions that clearly have no possible home among the many rooms offered by the international family; to allow the organizations to concentrate their attention on the improvement of existing efforts; and to permit them to work out a more effective coordination and distribution of labors among themselves. Looking at world and regional organizations directly concerned with development finance, it is easy to see, for instance, that we should go further in coordinating and centralizing functions of research, fact-gathering and reporting. That would reduce demands on the time and patience of our client countries and would increase our own efficiency. I am sure that other important opportunities for a better distribution of effort exist not only among the financial institutions but throughout the structure of international organizations.

I wish also to observe that international organizations, no less than national entities, must be alert to the necessity for new approaches. The tendency of any institution is to develop and apply standard formulas, a tendency from which I may say the World Bank Group is not immune.

Working out new solutions and breaking old habits is not an easy task; but it will always be necessary for progress. In the World Bank Group, for instance, we have been slow to finance state-owned enterprises because of the problem in many countries of ensuring efficient management of undertakings that, for want of private savings, must operate under government sponsorship. We have only scratched the surface of financing projects to promote tourism, even though the results of such financing may be of first importance for economic development in a number of countries. No doubt other international organizations have barriers of thought which it would be equally useful to break down.

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If there is one thing which all of us in the development business should remember, it is that we do live in a world of change. A world in which not only problems but opportunities are multiplying at increasing speed. The new opportunities being opened up by advances in technology, if we take advantage of them, could bring about important breakthroughs on some of the most difficult development problems, and could help bring about a spectacular transformation of the prospects of the developing countries. Let me mention a few possibilities:

One -- Greatly increased yields in agriculture through the availability of large quantities of fertilizers at low cost. This can be achieved on the basis of new processes for producing cheap ammonia. A high degree of international cooperation is required to achieve the chain of primary materials, manufacturing facilities and financing and distribution organizations needed to serve individual countries. The problems which must be solved are formidable, but in my opinion not insoluble. Progress on this front would be of the greatest significance.

Two -- A considerable fortification of nutrition, through the continuing development of plants producing high crop yields and containing high protein and caloric values. Advances already made in this respect are beginning to be widely applied here in India, for instance. Recent successes in the laboratory put us on a biological frontier which considerably increases the possibilities of developing products which will exceed in nutritional values anything now found in nature.

Three -- Overcoming water shortages by making sea water usable for drinking, for industrial use and eventually for agricultural use. Processes for large-scale de-salting of sea water are soon to have their first trials; and the cost of making sea water suitable for drinking and for irrigation may in this generation approach levels which would make possible applications on a wide scale.

Four -- A worldwide slowing in rates of population growth, based on simple, inexpensive and reliable methods of birth control. Here the problem is not only further technical advance but also accelerated social action to see that the technology is used.

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Mr. Chairman, I have spoken to this meeting as a banker, not as a diplomat, and I have not used the guarded phrases which international civil servants often employ. One of the great contributions which this meeting could make to the progress of human affairs would be to bring about a sharper feeling of urgency about the tasks of development. It therefore seemed to me that to indulge in an exercise of mere politeness would be a disservice to the Conference and would scarcely recognize the importance of its deliberations.

I have stated my opinion that up to now, performance in development and in development assistance has fallen short of our aspirations. The prosperous nations have been irresolute and to some extent even irrelevant in their efforts to assist the less developed countries. The underdeveloped world is very far from being in a position to say that it has done all it could to help itself. Among international organizations, a multiplicity sometimes verging on disarray is evident.

Despite this, much progress has been made and much more, I am convinced, is in prospect. Sheer physical achievement in the less developed world -- the tens of millions of kilowatts of electric generating capacity, the hundreds of thousands of miles of highways and railways constructed or reconditioned, the multitude of industrial plants -- has been tremendous.

Throughout many parts of the less developed world, an infrastructure has been put down on the basis of which other kinds of economic growth can and should proceed more rapidly. Even more portentous for the future is the growing number of people who are acquiring the skills and attitudes which will accelerate that growth. A number of countries have acquired the momentum that will carry them to satisfactory standards of living; and I think that in their forward movement, others will join in increasing numbers.

The speed at which development moves forward will depend much on the spirit in which the older and richer countries, the newer and poorer countries, and the international organizations all conduct their common efforts. Imagination will be indispensable to meet the many and almost infinitely diverse challenges of the situation of the developing nations. Patience is a quality which will be needed in plenty, because the way for many nations will be long; pauses and setbacks are bound to happen.

The tasks facing rich and poor countries alike -- of reconciling rival political views, of relaxing social tensions, of refereeing intense competition for budgetary resources, of providing for internal order and external defense -- these common tasks ought to engender mutual respect and tolerance between the countries giving aid and those receiving it. And in the face of the scale and seriousness of these responsibilities which national authorities are carrying, humbly is the way the international agencies, with their armies of initials, ought to conduct their business of trying to act as inspiration and guide to development.

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Savants and scholars, Mr. Chairman, tell us that humanity is now passing through a revolutionary transformation more important than anything since the changes that followed on the invention of agriculture, perhaps ten thousand years ago. Advances in scientific discovery and technical application follow each other with more and more bewildering speed. The technological revolution greatly increases the potential of mankind, but increases it both for good and ill; we stand at a point where humanity literally has the power either to blow itself to bits or to achieve for the whole human race security and comfort of which kings of old never dreamed.

So far the world is only beginning to tap its new potential. The very coming together of this Conference, which provides a crossroads for discussion, is a hopeful sign that no one is satisfied with the present state of affairs. It gives reason to hope that at this particular turning in the road of human history, we will go in the right direction: that just as man turned long ago from savagery to civilization, he will now turn toward an increasingly better life on this planet.