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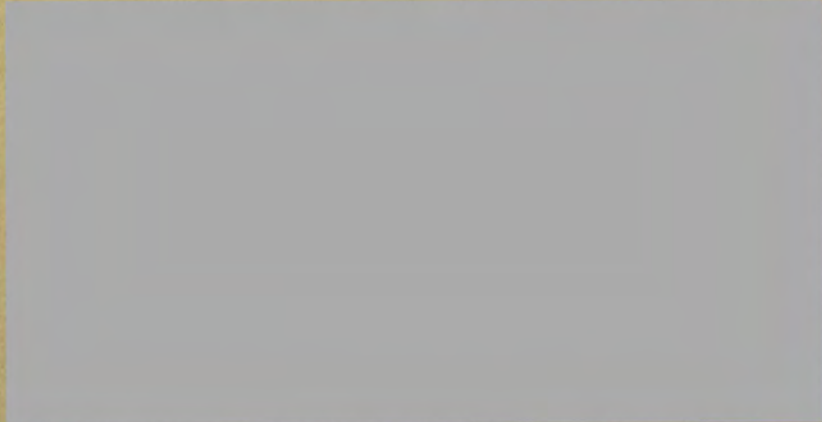


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STEVENSON

Address by Alexander Stevenson

"Loan Procedures of the Bank" Oct. 27, 1955

Information Conference for members of

Méthodes et Modalités d'Octroi des Prêts

French Productivity
Loan Fund Banking
Team

Messieurs, je me propose tout d'abord de parler des dispositions générales gouvernant l'octroi de nos prêts - dispositions prescrites par les Statuts de la Banque d'une part et d'autre part dispositions qui se sont montrées utiles au courant de notre expérience. Ensuite, j'illustrerai notre activité par quelques exemples et, finalement, je vous parlerai de la manière de traiter une demande de prêt. Ceci me permettra de vous donner en même temps quelques idées générales sur l'organisation interne de la Banque.

I. Conditions Générales

En citant les provisions statutaires gouvernant nos opérations de prêt, je ne voudrais pas vous donner l'impression qu'elles limitent rigoureusement le champ d'action de la Banque. Au contraire, nos statuts, bien que fixant le cadre dans lequel nous devons opérer, laissent néanmoins une large marge de flexibilité.

Le premier objectif d'un prêt accordé par la Banque doit être l'augmentation de la capacité productive du pays en question. En effet, le premier paragraphe de l'article premier mentionne comme objectif de la Banque (Art. I, (1)):

"D'aider à la reconstruction et au développement des territoires des Etats-membres, en facilitant l'investissement de capitaux consacrés à des fins productives, - y compris la restauration des économies détruites ou disloquées par la guerre, la réadaptation des moyens de production aux besoins du temps de paix et l'encouragement au développement des ressources et moyens de production des pays les moins avancés."

Plus loin - la Banque est tenue de donner "la priorité aux projets les plus utiles et les plus urgents, quelle qu'en soit l'envergure." (Art. I, (iv)).

Cependant, il est interdit à la Banque de faire concurrence au capital privé. Les Statuts disent (Art. III, 4 (ii)):

"La Banque doit acquérir la conviction que, eu égard à la situation du marché, l'emprunteur ne pourrait autrement obtenir le prêt à des conditions qui, de l'avis de la Banque, seraient raisonnables pour l'emprunteur."

En outre, sauf dans les cas exceptionnels, le prêt doit être destiné à un projet spécifié. Je cite encore (Art. III, 4 (vii)):

"Les prêts accordés ou garantis par la Banque doivent, sauf dans des circonstances spéciales, servir à réaliser des projets individualisés de reconstruction ou de mise en valeur."

Selon ses statuts la Banque ne peut accorder des prêts que pour des projets situés dans le territoire d'un pays-membre ou de ses dépendances.

Enfin, d'une façon générale, les prêts ne couvrent que des dépenses en monnaie étrangère du projet en question; cependant dans des cas exceptionnels, la Banque peut également financer des dépenses locales, c'est-à-dire, services ou achats de fournitures dans le pays ou dans sa zone monétaire. Dans ce cas, la Banque fournit les devises qui servent à l'achat de la monnaie locale.

L'emprunteur peut être soit le gouvernement du pays-membre, soit un établissement public, soit une entreprise privée. Mais, au cas où l'emprunteur n'est pas le gouvernement celui-ci doit être d'accord de garantir le prêt.

En ce qui concerne les taux d'intérêt et les échéances, la Banque est tenue par ses Statuts d'appliquer des taux d'intérêt raisonnables, et de les

fixer, ainsi que les échéances, en accord avec la nature du projet. (Art. III, 4 (iv)).

Les taux utilisés par la Banque se composent des trois éléments suivants:

- 1) Premièrement, le taux doit couvrir le coût de l'argent que la Banque emprunte elle-même.
- 2) La commission statutaire, versée dans une réserve spéciale contre pertes éventuelles, et fixée pour le moment à 1%, est un autre élément du taux.
- 3) Finalement, les taux comprennent une contribution minime aux frais administratifs de la Banque.

En ce moment le taux demandé pour un prêt de 20 ans est de 4-3/4%.

Chaque contrat de prêt contient quelques provisions supplémentaires qui se sont montrées utiles, et qui sont devenues, pour ainsi dire, des clauses-standard. La plus importante, appelée dans le langage de la Banque le "negative pledge clause," est un engagement de la part de l'emprunteur de ne pas contracter dans l'avenir des obligations auxquelles il donnerait priorité sur celles envers la Banque. En effet, la Banque ne peut pas admettre le principe d'un traitement de ses créances inférieur à celui accordé aux créances d'autres créanciers.

La Banque demande également que l'emprunteur couvre une partie des frais résultant du délai entre la conclusion de l'emprunt et l'utilisation des fonds. Cette commission d'engagement est actuellement fixée à 3/4%.

Après la signature de l'accord de prêt, mais précédant sa mise en vigueur, une expertise légale doit être faite par l'emprunteur. Elle doit montrer que l'emprunteur, et en cas échéant, le garant est capable de prendre les engagements du contrat. Egalement précédant la mise en vigueur du contrat, l'emprunteur

doit, dans certains cas, effectuer des changements au projet, jugés nécessaires par la Banque ou ses experts.

II. Exemples

Pour vous donner une idée du rôle de la Banque dans le financement international, j'ai choisi quelques exemples. Ces exemples montreront la politique flexible de la Banque et la manière selon la quelle elle essaye d'adapter ses opérations aux situations particulières.

a. Financement de l'infrastructure

Précisons d'abord que la plus grande partie de nos prêts a été utilisée pour le développement de l'infrastructure, c'est à dire chemins de fer, routes et énergie électrique. Au courant de l'année financière terminée le 30 juin 1955, la Banque a prêté 410 millions de dollars répartis comme suit:

39% pour les transports et communications
27% pour l'énergie électrique
16% pour les services agricoles, et
18% pour les autres secteurs.

Les services de base occupent une position prédominante pour différentes raisons: Ils sont d'une importance capitale pour les pays sous-développés, et dépendent souvent pour leur financement d'emprunts à intérêts fixes du type accordé par la Banque, plutôt que de fonds à rendement variable; en suite, c'est très souvent le gouvernement qui doit veiller à ce que ces installations d'infrastructure soient fournies. Bien que la Banque ait aidé des entreprises privées de temps en temps, comme par exemple les sociétés de navigation néerlandaises et la Brazilian Light, Power and Traction Company, ses prêts ont été plus fréquemment accordés à un gouvernement ou à un établissement public. En effet, d'une part les gouvernements hésitent souvent à choisir entre différentes

sociétés privées, celle à laquelle ils veulent accorder leur garantie, et d'autre part les sociétés privées hésitent quelquefois à accepter une garantie gouvernementale. Il en résulte ainsi une sorte de brèche dans les possibilités de la Banque d'aider l'industrie privée. Pour combler cette brèche, la Société Internationale de Financement est en voie de constitution sous l'égide de la Banque.

b. Mexique - chemins de fer

Un exemple du financement des transports est le prêt accordé en 1954 au Chemin de Fer du Pacifique au Mexique. Ce chemin de fer a souffert pendant des années d'un manque d'entretien, et le matériel ainsi que la voie étaient en mauvais état. Le gouvernement mexicain a entrepris un vaste programme de réhabilitation comprenant le remplacement de la voie, la réparation des ponts, la diésélisation et l'achat de wagons. Le prêt de la Banque finance les importations de locomotives diesels, de wagons, de traverses, de rails, et de matériel de communication et d'atelier. En outre, la Banque a aidé le gouvernement à formuler un programme d'amélioration de la gestion et du fonctionnement du réseau. On en attend des avantages économiques énormes pour toute la côte nord-ouest du Mexique.

c. Autriche - énergie électrique

En l'Autriche nous avons financé des projets de développement hydroélectrique. Un prêt accordé à des sociétés autrichiennes d'électricité servira à la construction d'une installation hydroélectrique (Reisseck-Kreuzeck). Dans ce cas, la moitié du prêt sera fourni en francs suisses, l'autre en liras italiennes, étant donné que l'Autriche est mieux placée pour rembourser des dettes en monnaies européennes qu'en dollars.

d. Inde - Société de financement

De temps en temps le cas s'est présenté où nous avons voulu financer un assez grand nombre de petits projets que nous n'aurions pas pu examiner en détail nous-mêmes. Là il s'agit de trouver quelqu'un qui peut faire cet examen de détail pour notre compte, comme dans le cas du prêt accordé cette année-ci à la Société Indienne de Crédit Industriel et d'Investissement. Celle-ci est une société privée, établie, après avoir été étudiée par la Banque, en vue d'accorder des prêts et de prendre des participations dans des entreprises industrielles. Son capital social a été souscrit par des intérêts financiers aux Indes, en Angleterre et aux Etats-Unis. Le prêt que nous avons accordé à la Société doit être utilisé pour acheter des biens d'équipement, des matériaux et des services importés qui sont destinés aux projets financés par la Société. C'est elle qui se charge du choix et de l'examen détaillé des projets individuels et tout en opérant pour son propre compte, fonctionne dans un certain sens comme l'agent de la Banque.

Cet dernier exemple montre une des techniques utilisées par la Banque pour encourager l'investissement productif du capital privé étranger. Mise à part la vente de ses propres obligations - méthode suivie dès le début - les méthodes suivantes doivent être mentionnées:

1. La vente du portefeuille de la Banque d'obligations émises par l'emprunteur et rendues à la Banque en contrepartie de l'emprunt. Dans le passé la vente d'obligations du portefeuille de la Banque se faisait surtout avec la garantie de la Banque et après l'octroi d'un prêt. Mais de plus en plus souvent des banques et d'autres institutions financières aux Etats-Unis aussi bien qu'en Europe s'engagent au moment de l'octroi d'un prêt à participer à l'opération

et à prendre les premières échéances sans notre garantie.

2. En deuxième lieu, nous avons les opérations communes soit avec des institutions financières (emprunts d'Afrique du Sud de 1951) soit avec le marché des capitaux (emprunt de la Belgique de 1954, emprunt de la Norvège de 1955).

III. Relations avec la France

Vous aurez naturellement un intérêt particulier à l'égard de nos opérations avec la France. En fait, le premier prêt de la Banque fut celui accordé au Crédit National en 1947. Cet emprunt a aidé la France à passer l'époque difficile située entre les prêts de la Banque Exim et le début de l'aide du Plan Marshall. Récemment la Banque a fait deux opérations avec la France d'Outre-Mer - en l'Afrique Occidentale Française et en Algérie. En Afrique Occidentale Française notre prêt, accordé à l'Office Central des Chemins de Fer de la France d'Outre-Mer, aide le programme de diésélisation du réseau des chemins de fer de l'AOF. Bien que le matériel soit acheté en France, la Banque paye en dollars, estimant que la France, dans son effort pour la mise en valeur de l'Union Française, dépensera un montant de devises bien supérieur au montant du prêt.

Le prêt à la société/^{d'}Electricité et/^{de}Gaz d'Algérie a pour but d'aider cette société à exécuter son programme de modernisation et d'équipement. Dans ce cas également, le prêt sera fait en dollars, bien que l'achat de la plupart du matériel et d'équipement nécessaire soit fait dans la zone franc. Nous espérons que cette coopération avec l'Union Française continuera dans l'avenir.

IV. La Manière de Traiter les Demandes de Prêt

Indiquons finalement comment la Banque traite une demande de prêt. Ceci me donnera également l'occasion de toucher l'organisation interne de la Banque.

En premier lieu, c'est un des trois départements d'opérations - celui de l'Amérique Latine, celui du Moyen et Extrême Orient et celui de l'Europe, Afrique et Australasie - qui s'occupe d'une demande et examine si le projet en question entre dans le cadre des opérations de la Banque ou non.

La prochaine étape dépend quelque peu du progrès des travaux ou des études du projet. Si le projet n'est qu'au stade des études préliminaires, nous envoyons généralement une mission, d'un ou de deux experts, dans le pays pour examiner son économie et son crédit et pour décider à quel secteur il faut donner la priorité de développement. Même dans les cas où l'octroi d'un emprunt prendra encore des mois ou des années, la Banque préfère être approchée au stade préliminaire. Ceci lui donne l'occasion de se former une opinion sur les problèmes et les difficultés du développement du pays et souvent d'aider les autorités responsables à trouver des projets qui se prêteront à un financement par la Banque.

L'examen sur place d'un projet, concernant son aspect technique, financier et économique par les experts de notre département des opérations techniques constitue la troisième étape. Dans le cas où le projet est déjà bien avancé, les experts techniques peuvent accompagner la première mission.

La coordination entre les différents services de la Banque est assurée par les institutions suivantes: des groupes de travail sont formés par des membres des différents départements, un "loan officer," un économiste, un ingénieur, un juriste et un représentant du département de la trésorerie - ce groupe va s'occuper d'un projet d'emprunt du commencement jusqu'à la fin;

à part cela le "Economic Staff Committee" présidé par le directeur du département économique examine les rapports économiques sur les différents pays et veille à ce que les critères économiques appliqués soient uniformes; finalement le "Staff Loan Committee," présidé par le Vice-Président et composé des directeurs des différents départements discute toutes les questions importantes qui se présentent et approuvent toutes les recommandations avant la présentation à la direction.

Lorsque l'examen du rapport économique du pays demandant un prêt ainsi que du projet en question donne des résultats favorables, le projet d'emprunt est soumis au "Staff Loan Committee." Après l'approbation de principe du "Staff Loan Committee" les négociations proprement dites peuvent commencer. Ces négociations ont lieu généralement à Washington, et parfois aussi sur place. A ce moment, on fait appel aux juristes pour préparer un contrat de prêt. Ensemble avec les représentants de l'emprunteur, un "loan officer," le juriste et un ingénieur élaborent les derniers détails du contrat, qui est alors soumis au "Staff Loan Committee." Finalement le projet d'emprunt a atteint le stade où il peut être soumis par le Président aux Administrateurs de la Banque. Après l'approbation du Conseil d'Administration, les contrats sont signés par le Président ou le Vice-Président et un représentant accrédité de l'emprunteur.

Après les dernières formalités légales pour assurer la mise en vigueur les versements de fonds peuvent commencer.

Mr. Stevenson
Colombo meeting
Nov 14 1962

Mr. Chairman,

May I, as an Observer, be allowed to join the distinguished Delegates in offering, on behalf of the International Bank, my heartiest congratulations to you on your election as Chairman of the Consultative Committee, and in expressing my appreciation of the excellent arrangements made for these meetings. I should also like to add my personal congratulations to the drafters of the report, whose excellent work marks them out as the very antithesis of that satirical study of the public servant which I saw in the National Gallery the other night. The picture, ^{in some of} you may recall, contains nothing but an empty coat rack, a silent telephone, and a vacant chair in a drab grey office apparently as bare of ideas as of furniture.

The Colombo Plan Consultative Committee first met in Sydney twelve years ago. Today the Committee is meeting again in Australia to assess the impact of its effort to combat hunger and want, ignorance and disease by accelerating economic ^{growth} development. Throughout this period, the World Bank has taken a keen interest in the Committee's ^{work} ~~role~~ and has participated in the Colombo and later meetings. These meetings have provided us with welcome opportunities to exchange ideas and gain valuable experience.

...../2

As the draft report clearly shows, member countries of the Colombo Plan can take pride in what they have achieved. Output has risen, health has improved, illiteracy has been reduced and technical skills have grown. But as Prime Minister, Menzies, said so eloquently, at our opening meeting, they cannot afford to be satisfied, for the prices of their exports have continued to fall, their numbers have increased faster than was expected and their people's expectations have quite naturally continued to rise. Indeed, their growing awareness of the need for economic development has at times made them understandably disappointed with its very tangible results.

Studies of the obstacles to economic growth in recent years have emphasized how complex a process it is. Capital is important, but by itself it is not enough. It must be directed to the right places and must be employed by people who know how to use it effectively. Indeed, recognition of the fact that trained people are often as important -- and as scarce -- as capital gave to the Colombo Plan its unique emphasis on technical assistance and training. It has also become clear, as the draft report stresses, that while some of the less developed countries can obtain their external capital needs by normal borrowing, some are reaching the limit up to which they can prudently borrow on

conventional repayment terms and at market rates of interest; others, indeed, are practically unable to obtain foreign loans granted on normal terms.

The development of the World Bank and its affiliate organizations in recent years reflects our recognition of the complexity of economic development and our response to its challenge. The desire to find ways of transferring to the underdeveloped areas of the world the capital and know-how of private industry available in the more developed countries led to the creation of the International Finance Corporation in 1956. In the same year the Economic Development Institute -- a staff college in the strategy and tactics of economic development -- was set up to provide training for senior officials from our member countries. And in 1960 the International Development Association was formed to meet the situation of a growing number of countries which could use effectively more external capital than they could prudently borrow on conventional terms.

In this connection it is worth noting that though the terms of I.D.A. credits are "soft", I.D.A. is no "soft touch." It was not intended that the concessionary terms should result in the extension of financial subsidies to the actual projects on

which I.D.A. funds are employed, or that I.D.A. funds should be used to finance projects which could not satisfy normal criteria of economic and financial viability. Hence, a project submitted for I.D.A. financing must meet the same technical, economic, financial and administrative standards as it would have to if the Bank were making the loan.

Since its first development loan in March 1948 the Bank has lent almost \$1,400 million, or about a quarter of all its development lending, to countries in the Colombo Plan region. Even more striking, perhaps, I.D.A. has in its short life made available ^{nearly \$1240} ~~over \$230~~ million, two thirds of its total lending, to these countries. In the financial year ending June 30, 1962 the Bank total was \$188.0 million, and another \$23 million has since been added. I.D.A. extended credits of \$83 million to the area in 1961-62, and has since added another ^{\$90.5} ~~\$10.5~~ million, for projects in India and Pakistan ranging from the provision of irrigation water for peasant farmers to the financing of industrial estates to help small industry improve its methods of production.

I was particularly interested in the section of the Draft Report dealing with the tying of aid, on the one hand to specific projects, and on the other to procurement in specific countries. As you know the International Bank and the

International Development Association must, in normal circumstances, lend for specific projects. Where well worked out development programmes exist for particular sectors of the economy, however, the Bank has made loans to cover part or all the external finance required by these programmes. This has been done in the case of Bank lending for the Indian and Pakistan railways and, quite recently, in an I.D.A. credit to help the Indian telecommunications programme. Such loans, which are used very largely to buy components like rails, axle boxes and copper cable, have many of the attributes of non-project aid.

Furthermore, in the majority of the I.D.A. credits to India and Pakistan, a substantial proportion of the proceeds ^{will} ~~well over~~ ~~\$100,000 million in all~~ ~~is to be used to~~ finance local expenditures, ^{and} ~~[in other words the credits]~~ ^{thus} will ~~in fact~~ make available ^{a corresponding amount of} ~~[over \$100,000 million in]~~ free foreign exchange.

As regards the restriction of aid to purchases in specific countries we, in the International Bank, have come to know the value of procurement on a world-wide basis as a means of ensuring that our borrowers get the best value for their money.

As a matter of practical politics lender countries may sometimes find it necessary to insist on national procurement. As the Report rightly says, the difficulties caused by such restrictions

on the use of funds will be mitigated as the number of donor countries is increased and the range of commodities made available is widened. Indeed, it is not so much loans tied solely to procurement in specific countries, or solely to specific projects, but loans which are tied both to specific projects ~~narrowly defined~~ and to procurement in specific countries which may cause serious trouble.

Ever since the Bank turned from reconstruction to development lending, it has been concerned with the developing countries' need for technical assistance. Last year saw the Bank's technical services extended into what is for us a new field, that of studies of particular sectors of an economy designed to facilitate sound planning in that field, and studies designed to show whether particular projects, which might later be submitted to us for financing, are both technically feasible and economically sound. During the past year, the Bank has organized and helped to finance a variety of such investigations, including studies of a new crossing over the Hooghly River in Calcutta, of an improved water supply system for Manila, and of a highway in Burma.

As was intimated at the Committee's last meeting, the Bank has now established a Development Advisory Service, to

provide a corps of senior advisors who can give economic and financial advice, particularly in development programming. Such advisors are now in the field in Pakistan and in Thailand.

As the years have passed, the Bank has become increasingly aware of the strategic importance of education to economic development. It is now studying the possibility of making grants from its earnings to assist economic, technical or vocational education of a sort closely related to the objectives of its lending activities. In this connection, I would like to mention that in September of this year, I.D.A. extended its first credit for education, five million dollars to Tunisia to help build secondary and technical schools. Others are under consideration.

I mentioned earlier, in connection with the activities of the International Development Association, the importance for some countries, of obtaining external assistance on terms which do not impose a significant additional burden on their balance of payments. Yet, at the present rate of commitment, the Association's initial resources, \$757 million in convertible currencies, may well be fully committed sometime next year. In response to an appeal by our President, Mr. Black, the Board of

Governors has authorized the Executive Directors to study the question of increasing the resources of I.D.A., and to submit their recommendations to member governments by the end of this calendar year. The importance to the Colombo Plan region of the response to this appeal is too obvious to require further comment.

The goal of self-sustaining growth in the less developed countries may not yet be in sight. The problem of economic development is constantly revealing new facets and new difficulties, many of which can only be overcome through mutual cooperation in an atmosphere of goodwill.

Such an atmosphere is perhaps the most striking feature of the Colombo Plan and its meetings should continue to make a significant contribution to our common goal.

Nov 4, 1965 - Stevenson, Alexander
University of Michigan

Mr. William Reid 11/8/65

DRAFT (given with minor changes)
AS/uz
November 2, 1965

Economic Analysis and the Financing of Development

When Professor Eckstein asked me to address you, he suggested that I say something about the role economists play in the World Bank, about the problems they tackle in their day-to-day work, and some of the lessons that might be drawn from their experience. (Where I talk of World Bank I include the International Development Association - IDA - which, though legally and financially separate, has the same staff.)

By way of introduction there is one point I would like to make. Training in economics is obviously important in the working of the Bank. While we employ engineers, agriculturists, financial analysts, lawyers, accountants and so on, there are on our staff more economists than any other professional group. Approximately one quarter of the Bank's professional staff of something over 500 have economic training. This includes two of our three vice presidents, three of the five directors of the operating departments responsible for relations with our member countries and the negotiation of loans, four of their five deputies, and twelve of their twenty senior officers. None of these - including myself - would I regard as a practising economist, but all of them spend some of their time - and sometimes a considerable amount of it - dealing with economic problems.

The Bank is concerned with economic analysis in three main areas, the investigation of the specific projects which it considers for financing, the study of the national economies of our member countries,

and the analysis of those more general problems, such as those associated with international capital movements (or the lack thereof) and the economic outlook for particular commodities which are particularly relevant to the Bank's operations.

It is with some of the problems encountered in the first two of these areas that I want to deal tonight, though I must stress the close interrelationships that exist among all three.

One of the major economic problems arising in connection with the appraisal of projects is how to measure the costs of and benefits to be derived from them. A closely allied problem is the comparison of alternative techniques which are more or less capital-intensive, such as for instance a hydro or a thermal power station. Projects usually give rise to a stream of annual costs, for construction and later for operation and maintenance, and a stream of annual benefits. To derive the net benefits in any one year is simply a matter of subtraction. But we have also to take account of the time factor, for a given net benefit now is worth more than the same amount ten years from now, for if it accrues this year it might be reinvested to secure additional returns in coming years. To make a comparison of costs and benefits one has to discount the cost and benefit streams to their present value, and this procedure involves selecting an appropriate rate of discount. This rate should correspond to the opportunity cost of capital, or in other words, to the highest marginal rate of economic return that could be earned on capital if it were placed in the best alternative investment elsewhere in the economy. But what is that rate? It is easy to define

and its significance is easy to grasp, but ~~many~~ in practice it is very hard to determine. Indeed, a recent Bank study of the subject came to the conclusion that since most developing countries lack a free and competitive capital market, no particular interest rate or rates should be singled out as generally indicative of the economic cost of capital. Only a broad survey of each specific situation could give the basis for an informed judgment - and it could be no more than that - of what the most appropriate rate would be. But the rate chosen will have an appreciable effect on the project's acceptability. Furthermore, the matter is more complicated than that, for the problem has a time dimension. If a country is growing fast, for instance, there is reason for assuming opportunity cost of capital may fall. (There is, of course, an alternative way of proceeding, viz. by seeing at what rate of discount the streams of benefits and the streams of costs would be equated. But this method avoids the problem of estimating the real cost of capital only formally, since the resulting "internal rate of return" must then be compared to the opportunity cost of capital in order to judge the project's acceptability.)

It is clear that the analysis of some projects is subject to a much greater degree of uncertainty than others. One may feel relatively comfortable about forecasting the speed with which power available from a new station within a national network will be taken up, or new land put to the plough when an established irrigation project is extended. But it is a very different matter when one is dealing with a project to put controlled water for the first time on land cultivated by peasants using century-old

techniques which must be radically changed to grow different crops if the project is to yield an acceptable rate of return within a reasonable time. The uncertainty is of course heightened if the rural credit system is - as is normally the case - far from ideal, and the available agricultural extension officers few and poorly qualified. In her fascinating study of the human factor in Indian agricultural development, so aptly titled "Blossoms in the Dust", Kusum Nair has shown how varied peasants' reactions can be and how much the success of governmental action depends on a sympathetic understanding of them.

The Bank has recently been undertaking some methodological studies which may in time improve our analytical tools in this field. They have been trying, for instance, in power and irrigation projects to shed some light on the comparative significance of different elements on both the cost and demand side, so that people investigating new projects might have a better idea of the likely importance of different factors which they might not be able to ascertain with any degree of precision. How much difference will it make to the economics of a given hydro-electric power plant if instead of taking five years for the system to be fully loaded it should take ten? Would the difference be sufficient to render it desirable to postpone the plant for a year or two?

We have also begun to look at some completed projects to see whether the results have come up to expectations, whether hindsight would indicate that our analysis was deficient in some respect, whether we underestimated indirect benefits, and so on. This work is just beginning - for although

the Bank has been in existence for almost twenty years there are still not very many completed projects which are readily susceptible to analysis of this sort. But over the years I would hope that it would lead to an improvement in our methods of evaluating projects.

If the measurement of a rate of return on such projects is difficult, the concept, at least is fairly clear. When, however, we come to projects for the supply of urban water, or the provision of vocational schools, both fields into which the Bank is now venturing, there are no agreed methods of judging just how good a project is. The benefits of an agricultural school for rural youth, or of a system for supplying clean water to an urban population, are obvious. But their measurement is at this stage of the game impossible. Our judgment about such projects must remain qualitative and we have to rely very heavily on common sense mixed with an awareness of the relation of projects of this type to the progress of whole sectors of any economy. Actually this does not disturb me too much. I sometimes wonder, indeed, if some of us do not occasionally confuse the measurability of economic benefits with the benefits themselves.

I do not wish to leave the impression, however, that the Bank is not careful and thorough in its investigations. As a matter of fact we are constantly being criticised by our understandably impatient clients for taking too long, being too careful, and for asking too much. The fact is that in the less developed countries available data is practically always inadequate and we are constantly being confronted with the need to decide at what point it is not worth spending more time collecting information refining the analysis. Investment decisions have often to be based on

fragmentary information and on estimates that do not permit the application of very sophisticated methods of analysis.

This should not frighten us. One of the lessons - perhaps the most important lesson - that I have drawn from my experience is that development is not merely a matter of maximizing economic returns in a given situation; it is rather a learning process which takes time, and one of our major aims should be to try to speed up the process by which ordinary people in less developed countries become more adaptable, more susceptible to change and more alive to widening economic opportunities. Looked at in this light, some of the projects which have gone best, which have given us little or no trouble while they were being executed, and which have achieved their expected output targets and financial results on time, may not in the end prove to be the most significant. In them we play our part - and it is an essential one - by providing much needed finance to supplement domestic savings, and perhaps in making sure that the project is adequately engineered and competently and economically built. But other projects we have undertaken contain more of a pioneering element. I recall a proposal we had more than ten years ago to improve the natural grasslands in a Latin American country. The proposal looked fairly simple, not to say obvious. It involved the use of techniques which had already proved their worth in fairly similar circumstances in New Zealand. A project was worked out and a loan made. But that project didn't go smoothly at all. There were problems, unending and insoluble ones it seemed, with the organization, and progress was painfully slow. Indeed, there was a time when the mere mention of it in a gathering of loan officers would provoke

a superior smile from some of those who were not handling it and a look of embarrassment from the man who was. Yet gradually the problems connected with it were solved, and just this year a second loan was brought forward to extend the improvement, by then obvious, cumulative, and to a great extent self-generating, to a much larger area. And so the problem project had become part, and a key part, in a success story the last chapter of which can now be fairly clearly seen. The first steps are usually the hardest and yet once they have been taken one is sometimes at a loss to say just why the start was so slow.

The process of learning new techniques and of changing attitudes is, as you all know, not a one-shot affair, but a continuous process going on all the time. And some aspects of our lending reflect this.

Many of our loans are made to borrowers with whom we have been associated for a number of years, perhaps a decade. During those years we and the borrower may have been carrying on a dialogue about a wide variety of topics, ranging from the use of commercial accounting as a tool of management to a public enterprise, to the prices which should be paid for the goods or services that enterprise provides. This continuing exchange of views is, I think, extremely important. The franker it is and the more active participants there are in it, the better, so long as it is an exchange in which no one thinks he has a monopoly of wisdom. Again let me recall a specific example.

In the late fifties we began to lend for power projects in a certain country. There were heated arguments on the question whether

rates should be kept low to encourage the use of energy in developing industry and place a larger share of the burden of payment on future - and richer - generations, or whether the present consumers should provide a larger proportion of the funds required for future expansion. Eventually a mutually acceptable compromise was reached. In subsequent years, as other power loans were made for specific projects in particular parts of the country, the debate continued and evolved. It also moved to other forums. Finally this summer, we made a loan covering facilities spread over the entire country. And this time, when the subject of power rates came up, the discussion started from the findings of a national committee which had looked into the whole subject and made recommendations very much in line with the policies we had been suggesting. In our negotiations we could therefore start on common ground and the undertakings which the borrower gave us were practically a repetition of the committee's recommendations. I do not want to claim for the Bank the credit for what was a significant change in policy. There were others, most of them in the country itself, who played a far more important part. I merely want to cite it as a constructive debate, in which the Bank played a modest role, about an important matter of development policy.

Nor should the learning process be one-sided. Both the Bank and the borrower should benefit. For although the element of the unknown, the uncertain, and the unexpected is considerable in many projects, some must by their nature be pilot operations. For instance, we are engaged in one country in an attempt to provide controlled flooding and irrigation where this has never been done before. This is the sort of project which is likely to run into trouble, for far from involving a set of blueprints and specifications which a

contractor simply has to follow, it resembles - to use Professor Hirschmann's phrase, a "voyage of technical and sociological discovery" - which can be long and arduous and of which the end may not be very clearly seen. But the problems tackled in such projects are fundamental ones, for without a solution to them it is hard to see much hope for any substantial agricultural progress in the area. All the studies and preparatory work possible should be done in advance, of course, but even then much will remain which can be found out only by trial and error as the project progresses.

What kind of crops should be grown can be known in general terms, but precise technical information, not to mention knowledge of how quickly the farmers will take to such changes in techniques or patterns of land-holding as prove necessary, may come only with experience in operating the project.

This brings out a practical question which an institution concerned with financing economic development must constantly ask itself. To what extent should it, insisting on projects which are to be well-managed and give substantial net benefits, confine itself to sectors of the economy which are relatively "safe", where results can be predicted fairly accurately, and where the areas of uncertainty are relatively small? And to what extent should it avoid areas where success would be particularly important to the recipient country although that very success is surrounded by a high degree of uncertainty. My personal answer would be that we and the member country concerned should choose those projects where the Bank's experience is likely to be most helpful, and that from time to time we should deliberately tackle problems which are difficult and new to us but whose solution is crucial to the country's development.

I have dwelt at some length on the project side of the Bank's economic work, let me now turn to the other main area of investigation, studies of the national economies of the member countries to which our funds are directed. All these studies are written for at least two audiences, the Bank and the borrowing country. Their interests are related, but not identical. The nature of our studies on any one country depends on the volume and character of our lending to it. From time to time we may make a rather basic and detailed economic report, say when a country is launching a development

program, and at more frequent intervals we may make more limited investigations to check on the progress being made and try to identify trouble spots. (I should like to interject here that I am not talking here about the so-called general economic surveys/^{with} which some of you may be familiar and which have been published from time to time by Johns Hopkins University Press.) The studies I am concerned with here are for the express purpose of guiding the Bank in its lending operations. They should therefore not only attempt a diagnosis of the critical problems confronting the economy, but should also try to identify areas in which Bank assistance would be particularly helpful. Such a study seeks to analyse the structure of the economy, its rate of growth, the structural changes of the past, and the strategic factors that have been instrumental in accelerating or inhibiting growth. From there it should try to form a judgment about the prospects for future development in the light of the various factors which have conditioned past growth. This entails trying to make judgments about the movement of such relevant magnitudes as savings and investment, exports and imports, the availability of external resources and the factors that might be subsumed under "management" of the economy and that determine the rationality of policy and the speed and efficiency with which capital investment takes place. Where an official development program exists we attempt to reach a conclusion about its size, its composition, and the probability of its being carried out.

Finally, we have to consider the terms on which the country could hope to get external capital assistance - other than foreign private investment - or in other words, how much the country could reasonably borrow on more or

less conventional terms and how much should be obtained in the form of grants or credits on lenient terms like those provided by IDA. This entails an assessment of the service burden on already outstanding debt and of the possibility of adding to that burden in the light of the judgments which have been made about the probable rate of further growth. Experience shows that there is no ready formula for measuring a country's capacity to service debt. Non-economic factors, such as the pride which a government and people take in meeting their external obligations despite the sacrifice involved, are certainly significant.

It is sometimes argued that assessments of creditworthiness are unimportant because countries can and do to a large extent borrow to cover not only their net capital inflow requirements but also the service on their existing debt. Yet it is easy to show that for many countries the rate at which gross borrowing would rise under these conditions would be very fast. And so it is important to have some judgment of the point at which a country's gross capital requirements are likely to become unmanageably large. By the same token it would be important to have an idea of how long it might take for a country to reach the point of self-sustaining growth in the sense that its own savings plus what it can obtain through private investment channels will be sufficient to meet its investment needs. And by varying the terms on which external capital assistance is made available one can hasten or postpone the date when this objective is achieved.

The analysis of these problems has improved a great deal since I was first exposed to them. (In this connection I might draw your attention to a book which the Bank has published on the subject, "Economic Growth and External Debt" by Dragoslav Avramovic and associates.) In the early days of the Bank, when we were engaged in loans for reconstruction in Europe, we were very much preoccupied with the outlook for a country's balance of payments and with the transfer problem - I even remember on one occasion being asked by a rather naive loan officer to produce a balance of payments forecast for twenty-five years! But gradually increased emphasis came to be placed on the economy's prospects for economic growth and on the use likely to be made of the incremental incomes accruing - of the growth in GNP in relation to the claims of investment and consumption; of the growth in government revenues in relation to requirements for current and capital expenditures; and of the growth in exports in relation to the need for imports. Our studies should try to reach a judgment on all these questions.

In recent years the coming of IDA has complicated the picture somewhat. For if we find that a country's capacity to service debt is already overtaxed or likely to become so in the near future we begin to think of assistance on IDA terms (no interest, 3/4 per cent per annum service charge, repayment beginning after 10 years and continuing over the following 40). But if an inability to service additional debt on conventional terms were the only criterion, we would soon find ourselves rewarding mismanagement with easy credit. IDA-worthiness must consequently

in the first instance be attributable to an inadequate savings potential arising from low per capita incomes and the primitive structure of the economy. We have also tried to take into account economic performance in terms, for instance, of the effectiveness in raising domestic revenues for development and in the allocations and use of all available resources.

But here a difficulty arises. Can one use the same standards of performance in judging all countries? The answer is clearly "NO", for one should obviously expect far more from a country which has had decades of experience in governing itself than from one which is just going through the growing pains of nationhood. But if a uniform standard cannot be used, how can comparisons, and a fair distribution of IDA's limited resources, be assured? The only answer I can give is that we do the best we can with the imperfect data at our disposal.

And so with our country studies as a whole. They vary with the author, with the data and the time available, and with the degree of complexity of the economy. We have, I have to confess, sometimes to be content with rather imperfect answers and to hope that these will in any event be good enough to enable us to avoid serious mistakes. And when all is said and done, let us admit that some of the deficiencies are due to the rather imperfect knowledge which economists have of the process of economic growth. This handicap is particularly significant in the analysis of economies which have achieved some degree of complexity, but even in the case of a relatively simple economy undergoing a transition

it is not easy to say with any degree of precision what direction it will take and how fast it will advance. Who would have said fifteen years ago, for example, that Israel or Taiwan would be where they are today? And what economist would have predicted thirty years ago that the rate of growth of Argentina and Australia, which had for the previous generation been quite similar, would take such different paths as they did? And at the time of partition, I think most analysts, including our own, under-estimated the capacity for growth that Pakistan demonstrated in the last few years.

I am not going to attempt in the short time remaining to give the reasons for unexpected developments such as these. But I would like to underline one thing which I think has a bearing on them, namely the importance of "human resources" relative to capital. It is reflected in the attention given to institutional bottlenecks; to the existence or adequacy of initiative and enterprise both in the private and public sector; to the attention paid by government to the creation of a climate in which initiative and enterprise can develop; to the quality and organization of civil service and the decision making process of the government; to the extent to which there exists in the country a sense of national purpose and commitment to economic development; to the importance of execution as against planning and to the attention paid to the careful preparation of projects as against the elaboration of internally consistent macro-economic plans; and to concentration on what is possible rather than on what is optimal.

Before I close I would like to make one rather obvious point. There are occasional cases of spectacular growth and transformation such as Israel, but these are rare, and the conditions in which they have occurred exceptional. Perhaps because it is closely related to the training of people, to improving the "quality" of the country's human resources, economic development is a long-run phenomenon. Japan, perhaps the most striking recent success story in economic development, and which perhaps significantly appears to have devoted a very large share of its resources to education, has taken a hundred years to attain an average income per head equivalent to that of a relatively poor country in Europe.

Unlike the nineteenth century there is no "New World" to conquer today, and it takes time for new ideas and techniques to permeate a tradition-bound society, and even longer for human attitudes to change, for that change is accomplished by the education of the young rather than the retraining of the adults.

This slow pace of economic change gives rise to some sobering thoughts. An annual growth rate of five per cent, the target rate of the U.N. Decade of Development, is a considerable achievement even when, as is usually the case, the concurrent population increase cuts the per capita rate at least to about three. It is a rate comparable to what was achieved in this country in the nineteenth century, I think, and it would mean a doubling of incomes per capita say in a generation. Yet at this rate it would take a country like India, a nation of almost 500 million people already, almost

a generation to reach the average level of income which countries like Egypt or Iran enjoy today. And in the meantime the rest of the world does not stand still. Too much can, of course, be made of the increasing gap between the rich and the poor lands for, I think, people tend to look at their own progress over time rather than to compare their own position to that of others. And if a man can be reasonably confident that his children will be twice as well off as he is I think he will be reasonably satisfied. Nevertheless, the gap is alarmingly wide and it is small wonder that the less developed countries of the world are impatient and often seemingly unreasonable.

No more should we be content with the state of our science - or art as I would prefer to call it. Indeed the economic work of the Bank is constantly changing and, I think, improving, as fresh ideas and techniques come in from academic circles, from the developing countries, or germinate within the Bank. The use of more refined macro-economic models for solving related problems is an example. With all their limitations such as far-fetched assumptions regarding the simplicity with which the economic system works, these models do enable us to see the system as a whole as we could in no other way. But progress is not fast enough and we in the developed countries ought to be spending far more time, thought, energy - not to mention money, - than we are on the problem of accelerating the progress of peaceful economic change.

Redone

Mr Stevenson

Prapankh: Mr. Sankaran:

Nov 1962
Colombo Plan meeting, Melbourne

Thank you

G.R.J.
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Twelve years ago, the call for Asian countries to prepare six year development programs came from Sydney, where the first meeting of the Colombo Plan Consultative Committee was held. We are meeting again today on Australian soil to assess the impact of our continuous effort to combat hunger and want, ignorance and disease through the instrument of economic development. The authors of the Colombo Plan rightly recognized that a fourth part of the world's population cannot indefinitely remain in extreme poverty without jeopardizing the prosperity of the rest of the world. Their initiative in 1950 was linked to the concept of planned development based on local public and private initiative and resources, into which international cooperative assistance could be productively integrated. As a partner in this great human endeavor, the World Bank has maintained close liaison with the Consultative Committee and has participated in the Colombo and later meetings of the Committee. To the Bank, which has the same objective and the same cooperative spirit, these meetings of the Consultative Committee have provided welcome opportunities to exchange valuable experience.

Member countries of the Colombo Plan, many of which are members of the Bank, can take pride in what has been done by cooperative effort to stimulate economic progress. Indicators of economic and social development for the region show substantial advances over the past ten years. National incomes and technical skills have grown; illiteracy is being reduced and improvements have taken place in the fields of health and education. Practically all member countries raised their levels of total output. The rise was, of course, uneven between countries and it had to be spread over larger populations. In many cases, the rapid increases in population tended to diminish the measurement of gains on a per capita basis.

But if one dominant fact is to be singled out as the achievement of the decade it could well be the awareness, growing throughout the area and among the countries outside, of the urgent need for more rapid development and for efforts to be directed toward that end. We realize, however, that the performance during the past ten years did not adequately meet the challenge and the results were somewhat below the expectations raised by the continued emphasis on economic growth in the policies pursued by the countries.

An objective assessment of this performance in the context of the overriding emphasis given to economic growth by member countries in their policies and plans will bring to light the full complexity of the growth process and its myriad determinants. It is not my intention to embark on a dissertation on the difficulties of defining economic growth in less developed countries. But this aspect of the problem should be borne in mind when we discuss the complexities of the problems in development financing. It is generally recognized that the foreign aid requirements of the underdeveloped countries will continue to be very large, larger than provided at present. However, it will not be correct to assume that mere provision of capital, in enormous quantities, can by itself ensure rapid economic progress. To be effective, financial assistance will have to be accompanied by a major program of technical assistance and training. Equally important is the qualitative aspect of lending for development. Many of the less developed countries have now reached or are reaching, the limit up to which they can prudently borrow on conventional repayment terms and at conventional rates of interest. A substantial proportion of their export earnings now and over the years will have to be devoted to meet annual debt service payments. Some of the developing nations fall into a different category. They are unable to borrow on conventional terms all the development funds that they need. The complexities of the situation call for the use of the great range of techniques lying in the financial spectrum.

The World Bank and its two affiliates -- the International Finance Corporation and the International Development Association -- represent responses to the complex needs of less developed countries. Our desire to adopt a more direct approach toward private industrial development led to the creation of IFC in 1956. IDA was created in 1960 to help to meet the situation of a growing number of countries whose need for, and ability to make use of outside capital is greater than their present ability to service conventional loans. These two institutions were created specifically to tackle some problems in development financing which the Bank's constitution had not equipped it to solve. The Bank has also been expanding its activities in the technical assistance field.

Since its inception, the Bank has lent \$2,290 million to countries in the Colombo Plan region. Since most Bank loans cover only the foreign exchange costs of projects, the recipient countries have mobilized amounts equivalent to at least another \$2,000 million to match the Bank loans. Thus a grand total mobilization of amounts equivalent to \$4,000 million in this region was made possible by Bank assistance. During the financial year to June 30, 1962, the Bank made nine loans totaling \$328 million to Colombo Plan countries, including a loan of \$100 million for the Snowy Mountains project in Australia and a loan of \$40 million to Japan to help finance the completion of the express highway being built between Kobe and Nagoya. Bank efforts in the region have been supplemented by credits from IDA. Up to September 1962, IDA had extended credits equivalent to \$348 million to 14 countries. Of this, \$233 million had gone to finance productive projects in India and Pakistan -- the former receiving \$212 million and the latter \$21 million.

The lending amounting to a third of the Bank's total lending and nearly two-thirds of all development credits extended by IDA, has been concentrated on the development of basic services in this region. Loans for transportation by road, rail, sea and air amount to over two-fifths of the total. Electric

power and industrial development each account for a little more than a fifth, and most of the remainder has been lent for agriculture. Agriculture's share is actually larger than the figures suggest, as the purpose of transportation loans has often been to open up new farming areas associated with irrigation and flood control works. It is pertinent to mention, that Bank loans and IDA credits will help to add three million kilowatts to the total generating capacity of seven member countries of the Colombo Plan region.

Beside assisting specific projects, the Bank showed keen interest in the progress of the development plans of India and Pakistan as a whole. The Consortium on Aid to Pakistan met in January 1962, with the purpose of agreeing upon additional programs of aid for the second and third years of the Second Five Year Plan, covering the period July 1961 to June 1963. The estimated aid required for the period was \$945 million, of which \$320 million was committed earlier. The January meeting was successful in covering the full requirements.

The sixth meeting of the Consortium on Aid to India, held in July, indicated additional commitments for the second year of India's Third Plan. These additional commitments bring the total amount of aid to India indicated by the Consortium for the two years to \$2,365 million.

Ever since 1948, when the Bank turned from reconstruction to development lending, it has been alive to the need for technical assistance to the developing countries. In the early years of its operation, the Bank's assistance was primarily directed toward helping member governments to define priorities among different projects. Later in response to requests from governments, the Bank sent teams of experts to many countries and territories to analyze their economies and to make recommendations designed to form the basis of long-term development programs. Other technical assistance services of the Bank have also been steadily extended, and range from special missions on regional

development to the day-to-day work of the Bank's engineers, analysts and economists visiting member countries to help them with specific projects. A staff college in economic development -- the Economic Development Institute -- has been operated by the Bank since 1956. Over the past seven years 58 officials from 12 Asian member countries, as well as from Sarawak and Singapore, have attended the six-month courses of the Institute. Six officials from Colombo Plan countries are now attending the eighth course of the Institute, which commenced in October. Various other training programs are organized for officials from the less developed countries.

Last year saw further extension of Bank services in the technical assistance field. The Bank launched an expanded program of project and sector studies. These pre-investment studies are expensive and often involve the employment of foreign consultants, but they are essential to enable recipient countries to prepare suitable projects for Bank financing. During the past year, the Bank has organized and helped to finance a variety of project and sector studies in six countries at a total estimated cost to the Bank of \$8 million. Included in the list of sector studies are a study for a new bridge over the Hooghly River in Calcutta, the investigation of a water supply project in Manila and a project study of 110-mile west-east highway between Prome and Tounghoo in Central Burma. The study for a new bridge over the Hooghly River is an essential part of the planning for the redevelopment of Calcutta, being undertaken by the Calcutta Metropolitan Organization with the help of the Ford Foundation. A new crossing is urgently needed to relieve congestion on the famous Howrah bridge, at present the chief link for motor vehicles between Calcutta and the highly industrialized areas to the west. The Bank-financed study in the Philippines is directed toward the improvement and expansion of the water supply system in the Manila metropolitan area. Details about the highway study in Burma are still being worked out. In November last, the Bank established the Development Advisory Service.

This service provides a corps of experts to give economic and financial advice, particularly in development programming. The Bank has retained the services of Professor Jacques L. Rueff, one of Europe's leading economists and jurists, to head a mission to study the economic implications of the merger of the Federation of Malaya, Singapore and the Borneo Territories to form Malaysia.

The Bank has in mind making grants to assist in member countries, economic, technical or vocational education of a sort closely related to the objectives of the lending activities of the Bank and IDA. A distinguished American educator, Dr. Harvie Branscomb, Chancellor of Vanderbilt University, has become consultant to the Bank on educational policy and will advise us on the formulation of an educational program. In this connection, I would like to mention that in September this year, IDA extended its first credit for education, \$5 million to Tunisia for secondary and technical school construction.

As I mentioned earlier, the IFC was established as an investment institution designed to supplement the activities of the Bank by encouraging the growth of productive private enterprise in member countries. With its relatively modest resources -- \$98 million paid in by 71 member countries -- IFC has so far made 52 investments totaling \$68.8 million in 21 countries. Of this, nine investments were made in Colombo Plan countries. The Bank and the Corporation are now working on plans for establishing an industrial development bank in the Philippines. The IFC has established a Development Bank Services Department, which is responsible for planning financial and technical assistance to help in establishing or expanding privately-owned and managed industrial development banks.

Our future efforts would have to be directed toward providing external assistance on terms which will not impose any significant additional burden on the balance of payments position of less developed countries. This approach is necessary to protect existing investments in the less developed countries and to allow them to maintain the momentum of their economic growth. The

desire to make IDA a principal instrument for the development of poorer countries and the certain knowledge that the Association's initial resources, \$757 million in convertible currencies, to be made available in five annual installments, might be committed by mid-1963 made the President of the Bank, Mr. Black, appeal for increasing the resources of IDA. The Board of Governors have authorized the Executive Directors to study this question and to submit their recommendations to member governments by the end of the calendar year. Though the terms of IDA credit are "soft", the Association is no "soft" lender. It was not intended that the concessionary terms of IDA financing should result in the extension of financial subsidies to the actual projects on which IDA funds are employed, or that IDA funds should be used to finance a project which could not satisfy normal criteria of economic and financial viability. Hence, a project submitted for IDA financing should meet the same technical, economic, financial and administrative standards as the World Bank itself would look for if the Bank were making a loan for that project on conventional terms.

Our common goal of ushering in self-sustaining growth in less developed countries may not yet be in sight. The problem of economic development is revealing new facets and new difficulties. There cannot be any simple solution to these difficulties and they will have to be tackled in a continued spirit of goodwill and cooperation. Meetings of the Colombo Plan Consultative Committee have made a significant contribution in this regard. Let this process continue, till we achieve our goal of improving the lot of the peoples of the less developed world.

ROUTING SLIP

Date

DEC 20 1965

NAME

ROOM NO.

~~Mrs. Elison~~

1) Mr. Hend

2) Mrs. Elison

JCT

To Handle

Note and File

Appropriate Disposition

Note and Return

Approval

Prepare Reply

Comment

Per Our Conversation

Full Report

Recommendation

Information

Signature

Initial

Send On

REMARKS

Think this is same or very similar to his previous speech.

From

A. Stevenson

Text of Speech to be given by Mr. Stevenson on December 22, 1965
at International Relations and Economics Sections of Town Hall,
Los Angeles.

ECONOMIC ANALYSIS AND THE FINANCING OF DEVELOPMENT

The World Bank and the International Development Association (IDA) share the common purpose of providing capital for productive projects in the less developed countries. Both are cooperatives in the strict sense of the word. They derive their resources from some of their members - including borrowings from capital markets - and they operate for the benefit of other members.

The senior organization is, of course, the Bank itself, now nearly twenty years old. The Bank makes long-term loans at conventional interest rates and has now lent approximately 8.8 billion dollars in seventy member countries or territories. This lending has been spread fairly evenly about the world. Asia - the most heavily populated region - has taken the largest share, followed by the Western Hemisphere, Europe and Africa. India is the largest individual borrower, with Japan in second place, and Mexico in third.

Most of the loans have been for basic utilities which, in the less developed world at least, generally do not attract private investors. About a third of the total has gone into the development of electric power, another third into transportation - especially railways, roads and ports - and most of the rest into industry and agriculture. The industrial loans have been for heavy industry, such as steel, or to private finance companies in the borrowing countries which relend the proceeds to establish or expand domestic industries. The agricultural loans have generally been for flood

control or irrigation projects, but in the last few years the Bank has been paying more attention to the needs of agricultural credit. And recently we have begun lending for buildings and equipment in the field of education, for one of the most acute shortages in the less developed countries is of skilled personnel.

A large number of the Bank's loans are made to its member governments directly. Where this is not the case the Bank's charter requires that a loan be guaranteed by the member country in which the project is located.

The International Development Association (IDA) was created in 1960 to help deal with the situation confronting those countries whose capacity to use capital is greater than their ability to assume and repay debt on conventional terms. A country may be able to manage quite a high rate of investment reasonably efficient, but may be unlucky enough to depend on one or two major exports the demand for which can be expected to expand only very slowly, so that it will have to try to develop alternative lines. But this is often a slow process and requires investment. While it is going on the country is likely to have persistent difficulty in paying for the imports it needs and meeting the increased debt service if it covers its foreign investment needs by borrowing on conventional terms.

The funds which IDA can lend come from contributions made by the industrialized member countries of the Bank. The credits made by IDA up to now are repayable over fifty years, are free of interest, and carry only an annual service charge of $3/4$ of 1 per cent. When IDA was formed there was a suspicion in some circles that she might be a lady of easy virtue. (Industriekurier cartoon.) But the suspicion was ill-founded. The projects submitted for IDA financing are

expected to meet the same technical, economic, financial and administrative standards as if they were being financed by Bank loans. In a word, IDA makes soft loans for hard projects. So far these credits total about 1.2 billion dollars in some twenty nine countries of the world. IDA has the same staff as the Bank. But unlike the Bank she is obviously in no position to borrow in the market. She can continue to lend only if she receives periodic contributions by the developed countries.

In their lending operations the Bank and IDA have to answer two main questions: first, should we lend in Ruritania? And second, is a particular development project proposed suitable for a loan - bankable?

In connection with the first question, various considerations have to be taken into account. Not all are economic. If a country is not living up to the canons of international behavior, for instance if it has nationalized foreign-owned properties without making adequate compensation, we would not lend. Again, if a country is politically so unstable that orderly economic growth is frustrated, we could hardly lend. But a major part of the problem deals with economics. And economic analysis is not made easier by the fact that the available data are almost always inadequate.

We start with an attempt to analyse the structure of the economy, its rate of growth, the structural changes of the past, and the strategic factors which have been instrumental in accelerating or inhibiting growth. From there we try to form a judgment about the country's prospects for development in the future. We have to consider such things as the likely

movement of savings and investment, of exports and imports, the probable availability of external resources, and those factors that might be subsumed under "management of the economy" and that determine the rationality of policy and the speed and efficiency with which capital investment takes place. Where an official development program exists we attempt to reach a conclusion about its size, its composition, and the probability of its being carried out.

Finally, we have to consider the terms on which the country could hope to get external capital assistance - other than foreign private investment - or in other words, how much the country could reasonably borrow on conventional terms, and in appropriate cases how much should be obtained in the form of grants or credits on lenient terms like those provided by IDA. This entails an assessment of the service burden on already outstanding debt and of the possibility of adding to that burden. Experience shows that there is no ready formula for measuring a country's capacity to service debt. Some countries manage successfully a debt service high in relation to export earnings; others have difficulty in servicing quite a modest debt. But a country's capacity to service debt is not just a matter of economics. Non-economic factors, such as the pride which a government and people take in meeting their external obligations despite the sacrifice involved, are certainly significant.

The analysis of these problems has improved a great deal since I was first exposed to them. In the early days of the Bank, when we were engaged in loans for reconstruction in Europe, our main preoccupation was with the outlook for a country's balance of payments. I even remember on

one occasion being asked to produce a balance of payments forecast for twenty-five years! But gradually emphasis has come to be placed on the economy's prospects for growth and on the use likely to be made of the added income; of the increase in GNP in relation to the claims of investment and consumption; of the growth in government revenues in relation to requirements for current and capital expenditures; and of the rise in exports in relation to the need for imports. Sometimes the export of services is more important than is realized. The growth of the tourist industry in Mexico and its contribution to the country's earnings is much greater and has grown much faster than most people thought it would when the Bank was making its early loans to Mexico more than fifteen years ago.

In recent years the coming of IDA has complicated the picture somewhat. For if a country's capacity to service debt appears already overtaxed or likely to become so in the near future we begin to think of assistance on IDA terms. But if an inability to service additional debt on conventional terms were the only criterion for such assistance, IDA would soon be rewarding mismanagement with easy credit, and the suspicion of the German cartoonist would be borne out. IDA-worthiness must consequently be attributable in the first instance to an inadequate ability to save arising from low per capita incomes and from the primitive structure of the economy. In judging whether a country should get aid on IDA terms economic performance must be taken into account, performance in terms of the effectiveness in mobilizing domestic savings and in allocating and using all available resources.

Here a difficulty arises. Can one use the same standards of performance in judging all countries? The answer can hardly be "yes" for one should obviously expect far more from a country which has had decades of experience in governing itself than from one which is just going through the growing pains of nationhood. But if standards cannot be quite uniform, how can comparisons be made, and a fair distribution of IDA's limited resources be assured? To this question there is no precise answer. We do the best we can with the imperfect data at our disposal.

So it is with our country studies as a whole. What is required above all on the part of the investigator is, I think, sound judgment, a sense of historical perspective, and a dash of humility. For we often have to be content with rather imperfect answers and to hope that these will in any event be good enough to enable us to avoid serious mistakes. So far we have been fortunate.

When all is said and done, we have to recognize that some of the deficiencies are due not to lack of precise data but to the rather imperfect knowledge which we have of the process of economic growth. Who would have said fifteen years ago, for example, that Israel or Taiwan would be where they are today? And who would have predicted thirty years ago that the rates of growth of Argentina and Australia, which had for the previous generation been quite similar, would take such different paths as they did? And at the time of the partition of the Indian subcontinent, most analysts under-estimated the capacity for growth that Pakistan demonstrated in the last few years.

I am not going to try to give the reasons for unexpected developments such as these. But I would like to underline one thing which I think has a bearing on them, the importance of the human factor. It is reflected in the existence of initiative and enterprise both in the private and public sector; in the attention paid by government to the creation of a climate in which initiative and enterprise can develop; in the quality of the civil service and of decision-making in government; in the extent to which there exists in the country a sense of national purpose and commitment to economic development; in the importance given to the careful preparation and execution of projects as well as to the preparation of a general economic plan; and in the concentration on what is possible rather than on what is optimal.

Let me now turn to the second main question which comes up in our lending operations. Is a particular project "bankable"? The problem has several facets. Is the project well designed and engineered? Will it be well managed? Will it be financially sound? And perhaps underlying all these, will it be economically viable? It is with this last question that I would like to deal.

One of the major problems arising in connection with the economic analysis of projects is how to measure the costs of and benefits to be derived from them. Projects usually give rise to a stream of annual costs, for construction and later for operation and maintenance, and a stream of annual benefits. To derive the net benefits in any one year is simply a

matter of subtraction. But we have also to take account of time, for a given net benefit now is worth more than the same amount ten years from now, for if it accrues this year it might be reinvested to secure additional returns in years to come. To make a comparison of costs and benefits one has to discount the cost and benefit streams to their present value, and this procedure involves selecting an appropriate rate of discount. In theory this rate should correspond to the economic cost of capital, the highest rate of economic return that could be earned on capital invested elsewhere in the economy. But what is that rate? It is easy to define and its significance is easy to grasp, but in practice it is very hard to determine. It is almost certainly not the rate at which the Government borrows. Indeed, one is forced to the conclusion that only an informed judgment or guess - no more than that - can be made of what the most appropriate rate is. But the rate chosen will have an appreciable effect on the project's acceptability.

A second difficulty is that some projects are subject to a much greater degree of uncertainty than others. One may feel relatively comfortable about forecasting the speed with which power available from a new station within an established national network will be taken up, or new land put to the plough when an existing irrigation project is extended. But it is a very different matter when the project is to put controlled water for the first time on land cultivated by peasants using century-old techniques which must be radically changed to grow different crops if the project is to yield an acceptable rate of return within a reasonable time. The uncertainty is of course heightened if the rural credit system is - as is normally the case - far from ideal, and the available agricultural extension officers few and poorly qualified.

If the measurement of a rate of return on agricultural or industrial projects is difficult, the concept, at least, is fairly clear. When, however, we come to projects for the supply of urban water, or the provision of vocational schools, both fields into which the Bank is now venturing, there are no agreed methods of judging just how good a project is. The benefits of an agricultural school for rural youth, or of a system for supplying clean water to an urban population, are obvious. But their measurement is at this stage of the game impossible. Our judgment about such projects must remain qualitative and we have to rely very heavily on common sense mixed with an awareness of the relation of projects of this type to the progress of whole sectors of any economy. Actually this does not disturb me too much. I sometimes wonder, indeed, if some economists do not occasionally confuse the measurability of economic benefits with the benefits themselves.

I do not wish to leave the impression, however, that the Bank is not careful and thorough in its investigations. As a matter of fact, we are constantly being criticized by our understandably impatient clients for taking too long, for being too cautious, and for asking too much. The fact is that in the developing countries available data are practically always inadequate and we are constantly being confronted with the need to decide at what point it is not worth spending more time collecting information or refining the analysis. Investment decisions have often to be based on fragmentary information and on estimates that do not permit the application of very sophisticated methods of analysis.

This should not frighten us. For economic development is not merely a matter of maximizing economic returns in a given situation; it is rather a learning process which takes time, and one of our major aims should be to try to speed up the process by which ordinary people in less developed countries become more adaptable, more susceptible to change and more alive to widening economic opportunities. Looked at in this light, some of the projects which have gone best, which have given us little or no trouble while they were being executed, and which have achieved their expected output targets and financial results on time, may not in the end prove to be the most significant. In them we play our part - and it is an essential one - by providing much needed finance to supplement domestic savings, and perhaps in making sure that the project is adequately engineered and competently and economically built. But other projects we have undertaken contain more of a pioneering element. I recall a proposal we began looking at more than fifteen years ago to improve the natural grasslands in a Latin American country. The proposal looked fairly simple, not to say obvious. It involved the use of techniques which had already proved their worth in fairly similar circumstances in New Zealand. It took about five years to work out a project and a loan was eventually made. But that project didn't go smoothly at all. There were problems, unending and insoluble ones it seemed, with the organization, and progress was painfully slow. Indeed, there was a time when the mere mention of it in a gathering of loan officers would provoke a superior smile from some of those who were not handling it and a look of embarrassment from the man who was. Yet gradually the problems connected with it were solved, and just this year a second loan was brought forward to extend the improvement, by then obvious

cumulative, and to a great extent self-generating, to a much larger area. And so the problem project had become part, and a key part, in a success story the last chapter of which can now be fairly clearly seen. The first steps are usually the hardest and yet once they have been taken one is sometimes at a loss to say just why the start was so slow.

The process of learning new techniques and of changing attitudes is, as you all know, not a one-shot affair, but a continuous process going on all the time. And some aspects of our lending reflect this.

Many of our loans are made to borrowers with whom we have been associated for a number of years, perhaps a decade. During those years we and the borrower may have been carrying on a dialogue about a wide variety of topics, ranging from the use of commercial accounting as a tool of management to a public enterprise, to the prices which should be paid for the goods or services that enterprise provides and to the framework of policy within which it operates. This continuing exchange of views is, I think, extremely important. The franker it is and the more active participants there are in it, the better, so long as it is an exchange in which no one thinks he has a monopoly of wisdom. Again let me recall a specific example.

In the late fifties we began to lend for power projects in a certain country. There were heated arguments on the question whether rates should be kept low to encourage the use of energy in developing industry and place a larger share of the burden of payment on future - and richer - generations, or whether rates should be raised and whether the present consumers should

provide a larger proportion of the funds required for future expansion. Eventually a mutually acceptable compromise was reached. In subsequent years, as other power loans were made for specific projects in particular parts of the country and as we continued to write economic reports about the country in question the debate continued and evolved. It also moved to other forums. Finally this summer, we made a loan covering facilities spread over the entire country. And this time, when the subject of power rates came up, the discussion started from the findings of a national committee which had looked into the whole subject and made recommendations very much in line with the policies we had been suggesting. In our negotiations we could therefore start on common ground and the undertakings which the borrower gave us were practically a repetition of the committee's recommendations. I do not want to claim for the Bank the credit for what was a significant change in policy. There were others, most of them in the country itself, who played a far more important part. I merely want to cite it as a constructive debate, in which the Bank played a modest role, about an important matter of development policy.

Neither should the learning process be one-sided. Both the Bank and the borrower should benefit. For although the element of the unknown, the uncertain, and the unexpected is considerable in many projects, some must by their nature be pilot operations. For instance, we are engaged in one country in an attempt to provide controlled flooding and irrigation where this has never been done before. This is the sort of project which is likely to run into trouble, for far from involving a set of blueprints and

specifications which a contractor simply has to follow, it is more like a voyage of technical and sociological discovery - which can be long and arduous and of which the end may not be very clearly seen. But the problems tackled in this project are fundamental, for without a solution to them it is hard to see much hope for any substantial agricultural progress in the area. All the studies and preparatory work possible should be done in advance, of course, but even then much will remain which can be found out only by trial and error as the project progresses. What kind of crops should be grown can be known in general terms, but precise technical information, not to mention knowledge of how quickly the farmers will take to such changes in techniques or patterns of land-holding as prove necessary, may come only with experience in operating the project.

This brings out a practical question which an institution concerned with financing economic development must constantly ask itself. To what extent should it, insisting on projects which are to be well-managed and give substantial net benefits, confine itself to sectors of the economy which are relatively "safe", where results can be predicted fairly accurately, and where the areas of uncertainty are relatively small? And to what extent should it avoid areas where success would be particularly important to the recipient country because that very success is surrounded by a high degree of uncertainty. My own answer would be that we and the member country concerned should choose those projects where the Bank's experience is likely to be most helpful, and that from time to time we should tackle problems which are difficult and new to us but whose solution is crucial to the country's development. I think it was Bernard Shaw who said that experience was the name given by people to their mistakes. Even mistakes may be worth making if we can learn from them.