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Digitized: December 20, 2013

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Washington, D.C.

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DEMUTH, Richard H. - ARTICLES and SPEECHES (1949 - 1973)



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Speech delivered by Richard H. Demuth,
Assistant to the Vice President of the
International Bank for Reconstruction and Development,
before the Economic Commission for Latin America
on May 31, 1949



Mr. Chairman and Members of the Commission:

May I state, on behalf of the International Bank, how glad we are to be able to participate in this Second Session of the Economic Commission for Latin America and how very much we hope for fruitful and effective collaboration between this Commission and the Bank.

The principal task before this Commission and the principal task of the Bank are basically one and the same - economic development. With your permission, therefore, I would like to tell you a little about what the Bank has done in the field of development and about some of its plans and its problems.

The Bank has been in operation now for almost exactly three years - three years which I believe have been marked by solid, gradual growth. During that time we have lent some \$650 million to eight countries to finance projects which we believe will make a substantial contribution to the economies of those countries. We are actively discussing many other projects with prospective borrowers and a number of these should result in loans in the very near future. We have assisted several of our member countries to work out and put into effect economic and financial measures and administrative reforms which may well have long-run benefits at least as great as those resulting from the Bank's financial help. We have gained general acceptance of our credit in the public markets to which we must look for the major part of our loanable funds. The Bank's publicly issued bonds, totalling some \$250 million, have had a very satisfactory market record and there is at present a substantial unsatisfied demand for those bonds. Finally, we have established sound, cordial working relationships with the countries to which we have made loans and with which we are currently carrying on negotiations. To us in the Bank, these are satisfying accomplishments. They are not spectacular in any sense but they represent the fruit of much intensive work.

During the past eighteen months the time and attention of the Bank has been devoted primarily to the problems of its less-developed member countries and particularly to its member states in Latin America. The three development loans which we have thus far granted have all been to Latin American countries and several of the additional loans now in a stage of active negotiation are also with Latin American countries. I believe I am correct in saying that members of the Bank's staff have

visited each one of our Latin American members - many of them several times - and we are becoming more and more conversant with both the problems and the needs of this important region. The excellent survey made by the Executive Secretary of this Commission and his staff will help us greatly in this connection.

Our experience to date indicates that the Bank now has or can readily acquire sufficient resources to finance all the sound, productive projects in its member countries that will be ready for financing in the next few years and that can appropriately be financed through foreign loans. This doesn't mean, of course, that the Bank can satisfy all the capital requirements of the world - far from it. I refer only to the financing of sound, productive projects ready for financing and appropriate for financing through foreign loans.

There is a wide gap, both in conception and in time, between the point where a development possibility is recognized and the point where its financing can be undertaken. Let me cite an example. One of our smaller member states desires to divert water from a river in one part of the country to irrigate desert land in another part, and to generate some power in the process. But that concept as such cannot be financed. Before it can be brought to the point where money can usefully be employed, a great deal of detailed engineering work must be undertaken, the market possibilities for the power and the products to be grown on the irrigated land must be explored, the availability and cost of the necessary equipment must be ascertained and the economic validity of the project in the light of estimated cost and anticipated revenue must be demonstrated. Comparison must also be made between the expected economic benefits of this particular project and of other proposed projects which might have to be abandoned or delayed if this one were undertaken. Finally, an organization must be created to carry out the project and competent management must be obtained.

All these steps take time. But expansion of productive facilities in even the most highly industrialized nations is a pains-taking, time-consuming operation, requiring the most careful and detailed planning. In the underdeveloped areas, the difficulties are compounded both because there is less technical and administrative skill available and because there is less economic and statistical data on which to base judgments.

Perhaps the most striking lesson we have learned in the course of our operations is how limited is the ability of our underdeveloped member countries to absorb capital quickly for really productive purposes. I stress this point because I believe that the mistake most frequently made in discussions of development is to contrast the almost unlimited development needs of the world with the limited

amounts of capital available to meet those needs. That contrast is in every large measure irrelevant and in any event is dangerously misleading. For development does not depend upon the amount of money available but upon the amount of productive investment that takes place. And productive investment cannot take place in the absence of sound, practical development projects. Unless and until such projects are adequately worked out, the mere availability of money for development purposes is of little or no use.

The fact that the Bank has not yet been able to invest large sums of money for development purposes is due primarily to the surprisingly few well-conceived and well-planned projects which have been brought to us. We are trying to help our member countries remedy this lack through technical assistance, advice and consultation but it is a time-consuming process. And it is not easy, either, to overcome the other limiting factors which are so frequently present - the lack of education, both general and technical, bad health, unsound finances and poor administration. I think we are making progress, particularly in inducing our member states to appraise their own plans more critically and to take a more realistic approach to their problems, and we certainly intend to press forward vigorously along this line.

But it must be remembered that the Bank's role is at best an auxiliary one - to act as a trail-blazer or catalytic agent. In the long run, development cannot be financed primarily on the basis of debt, much less on the basis of foreign debt. Reliance must obviously be placed in the first instance on local effort and local resources and, so far as foreign financing is concerned, principally upon direct investments made by private capital. The Bank's function is essentially one of stimulating the flow of private capital and of supplementing it in cases where the risks are too large for private investors to assume or for projects not appropriate for private financing.

In all of our future activities, we are most anxious for the understanding and support of this Commission, just as we are anxious to give to the Commission any assistance that is within our power. We want your advice if you see practical means by which the Bank can fulfill its responsibilities more adequately. And we want your help, too, in focusing attention on the realities of the development problem and on the practical limitations as well as on the constructive possibilities of international action. The task which we are jointly tackling is not one where spectacular results can be achieved - it would only invite disillusionment if we were to raise hopes of the spectacular - but it is a task which, if tackled vigorously and practically, can yield substantial constructive results.

Just one word in conclusion. Many of you, I believe, have learned to know Mr. McCloy, the retiring President of the Bank, during the meetings of the Bank's Governors or during his two extensive trips to Latin America. Mr. McCloy is now leaving the Bank, but he is leaving it reluctantly and only because of what he considers an impelling call to other public service. There will be no interruption in the Bank's work due to his retirement, for, as you know, he is to be succeeded by Mr. Black who, for the last two years, has been the United States Executive Director of the Bank. Mr. Black has asked me to tell you that he shares Mr. McCloy's enthusiasm for and deep interest in the development of Latin America and that, to the extent that it lies within his power, he intends to see that the Bank becomes an increasingly effective instrument in promoting that development.

Not to be published

*Prepared by
Mallon*

The International Bank and Development of the World Economy

Address by Richard H. Demuth, Assistant to the Vice President, at the University of Missouri, School of Business and Public Administration, April 14, 1950

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I am always glad to have an opportunity to talk about the International Bank, or, to give it its full name, which is a rather accurate thumb-nail description of our functions, the International Bank for Reconstruction and Development. The Bank is an exciting place to work. The job we are doing is decidedly challenging.

In these days, the language of international economics and finance is apt to be pretty technical. We talk a good deal about productivity of projects, foreign exchange and local capital costs, balance of payments statistics. But behind these technical terms, the realities with which the Bank deals are very tangible and also very human. The Bank is not concerned with theory alone. Its main reason for being is to make a practical contribution to the healthy development of the world economy.

Whether or not the Bank makes a particular loan may determine whether a hydroelectric development is to be undertaken to bring badly needed power for industry, flood control or other benefits to a whole area; whether stretches of waste land are to become fit for cultivation-- or, in fact, cultivated with modern agricultural machinery, thus adding to the world's food supply. The work of the Bank may influence the general pattern of economic development, and thereby the lives of people, in many areas of the world.

But before getting into our actual operations, I should say a few words first about just what the International Bank is and the specific purposes for which it was established. The Bank is an international institution owned by its member governments, who are its stockholders. As you know, its Articles of Agreement, or charter, were drawn up at the United Nations Monetary and Financial Conference which met at Bretton Woods in 1944 during the course of World War II. The Bank officially began operations at its headquarters in Washington in June, 1946. Today it has 47 member governments, and its operations touch all major regions

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of the world.

The Bank's principal purposes, as set forth in its charter, may be summarized as follows:

- 1) To assist in the reconstruction and development of its member countries by facilitating the investment of capital for productive purposes; in this way the Bank serves to promote the long-range growth of international trade and the improvement of standards of living;
- 2) To promote private foreign investment by guaranteeing or participating in loans and other investments made by private investors; and
- 3) When private capital is not available on reasonable terms, to make loans directly, out of its own resources or from funds which it borrows in the investment markets.

The outstanding thing about the Bank's objectives is that they are unique in the history of international lending. In other words, the Bank is not simply another private or governmental financing institution. Its motives are different from those which lie behind either private or inter-governmental lending. The motive for private international investment is, and properly should be, to earn profits on the investment. The motive for inter-governmental lending is, again properly, the furtherance of the political or economic interests of the lending government.

As a cooperative international organization, the International Bank is motivated by neither of these aims. It desires neither to make large profits for its stockholders, nor to gain political influence or prestige. Its only objective is to help its member countries to reconstruct or develop their economies along the most beneficial lines by making economically sound and realistic loans, and by furnishing these countries with other forms of assistance.

There are innumerable aspects of the Bank which I might pick out to talk about-- its capital structure, which is made up of subscriptions by member governments to shares of capital stock; its lending funds, some of which are drawn from parts of these capital subscriptions but most of which must come from

the sale of the Bank's own bonds to private investors; the functions of the Board of Governors and Executive Directors; or the careful system of supervision which the Bank exercises over its loans. But within my time limitations, and perhaps pressing them, I am going to talk about two principal activities of the Bank today which are aimed at assisting business and economic recovery generally throughout the world: 1) The Bank's lending operations; and 2) Those various other forms of aid which it furnishes member countries and which may be grouped under the heading, Technical Assistance.

First, as to lending operations. Under its charter, the Bank is subject to four general limitations on all its lending activity:

1) It can make loans only to member governments, their political subdivisions, or private business or agricultural enterprises located in the territories of members. And if the loan is made to a private concern, the member government in whose territory the project is located, or its central bank or comparable agency, must guarantee the loan;

2) Any loan the Bank makes must be for a productive purpose;

3) The borrower must not be able to obtain the loan elsewhere on reasonable terms-- this means that the Bank does not compete with private investment; and

4) There must be a reasonable prospect that the loan will be repaid.

The standards set for the Bank's lending operations are necessarily high. We are in no sense a relief agency, and if the Bank is to operate at all it must operate along sound economic and financial lines. But in adhering to these standards, we have already been able to make a substantial amount of loans, which, I believe, are having an impact on economies in widely separated areas.

The first loans which the Bank made were for purposes of reconstruction in European countries whose economies were damaged by the war. This was in the period before the advent of the European Recovery Program, when the greatest urgency lay in the field of European reconstruction. Loans totaling about \$500 million were made to France, the Netherlands and Denmark to help these countries obtain the equipment and supplies which they needed for broad reconstruction programs.

At this time, also, the Bank made a smaller loan to Luxembourg to finance equipment for a steel mill in that country and rolling stock for its railroads.

With the coming into operation of the ERP, Europe's emergency requirements-- which, incidentally, are far greater than had been anticipated-- are being met principally through the Economic Cooperation Administration. The reconstruction phase of the Bank's activity is largely over.

This does not mean that the Bank has no further role in Europe. The Bank is designed to meet long-term needs which will remain in Europe when the present emergency has passed. The Bank is always concerned with developing productive facilities which can benefit the world economy wherever the opportunities present themselves-- in Europe, as well as in other areas. Moreover, as the scheduled cut-backs in ECA aid occur, it is logical to assume that the ERP countries will look to private investors and to the Bank as the principal sources of foreign capital for their long-term investment projects.

Let me cite two examples of recent Bank financing in Europe. Last year we made a loan to Belgium for the re-equipment of its steel and power industries; and also a loan to the Herstelbank of the Netherlands for some 24 projects of rehabilitation and modernization of plant which affect virtually every sector of Dutch industry.

Today the emphasis in Bank lending has shifted to development loans-- to the making of loans, that is, which assist in financing projects for developing productive facilities and heretofore untapped resources. The greatest opportunities for this type of lending, of course, lie in the Bank's economically less developed member countries-- in the great underdeveloped areas in Latin America, Africa, the Middle and Far East.

In its development financing, the Bank is focusing its energies on helping to provide these countries with the basic framework of public utilities and key industries-- such things as railroads, port facilities, power, irrigation and reclamation projects. There are two reasons why this type of Bank financing is the most effective. One is that such projects, because of the heavy initial

outlays they require, often are not directly remunerative enough to attract private investment. The other is that they provide the base for further developments in many different sectors of a country's economy.

One interesting example of a development loan which the Bank has made in the Latin American area is the loan of \$75 million granted to the Brazilian Traction, Light and Power Company. This is a Canadian corporation and its Brazilian subsidiaries operate in the Rio de Janeiro and Sao Paulo areas. Because it is a private company, the loan is guaranteed by the Brazilian Government. This loan is being used to finance most of the foreign exchange costs of a four-to-five-year program which the company is undertaking for expansion of hydroelectric power and telephone facilities in this densely populated industrial area of Brazil.

The loan will help to reduce substantially the deficiencies in power supply and communications which have been important obstacles to Brazil's development. The company's program calls for an increase of more than 50% in electric power generated, and most of this will be utilized for a variety of industrial purposes throughout the area. Furthermore, the increase in electric power will reduce Brazil's need for importing coal for industrial purposes, and since Brazil is dependent upon foreign sources for much of her fuel supply, this should result in an additional benefit to her balance of payments position.

To turn to another area. The first loans made by the Bank to a member country in Asia were two development loans granted to the Government of India. These loans are assisting India in tackling two problems basic to its entire economy. One is the transportation problem. India faces an urgent need to move the goods which it produces. The Bank's first loan to India, amounting to \$34 million, is assisting the Indian Government in carrying out a broad program of railway rehabilitation, mainly by financing the purchase of about 650 locomotives. Railways are the most important means of transport in India. Their rehabilitation is the most effective method of speeding the distribution of goods within the country and the movement of India's export products.

The purpose of the Bank's second loan to India is to help to increase

the production of an elemental necessity-- food. Most of this loan, of \$10 million, is being used to purchase heavy agricultural machinery needed for the reclamation of some three million acres of food-producing land infested with a weed known as kans grass. This will be no easy job. Kans grass is somewhat similar to sugarcane in its tenacity. Its mass of deep roots make it an extremely difficult weed to eradicate. Reclamation of this large area involves deep plowing with heavy tractors and special plows-- equipment which the Bank's loan is financing. At present, as you know, India is forced to import large quantities of grain annually, and reduction in the food deficit is essential to her balanced economic development.

The Bank has granted development loans for a variety of other projects in many of its member countries in widely separated areas. To run over the list briefly, these include: electric power development in Chile, Mexico, El Salvador, Belgium and Finland; agricultural machinery in Chile and Colombia; modernization of industrial facilities in the Netherlands and Belgium; shipping in the Netherlands; timber production in Finland and Yugoslavia; and the woodworking industry in Finland.

In three and a half years of operations, the Bank has made a total amount of loans, for purposes of both reconstruction and development, of approximately \$745 million. It is, of course, constantly engaged in discussions concerning the financing of additional productive projects, and at present such discussions are in progress between the Bank and some 23 of its member countries.

The granting of loans is not the only type of aid which the Bank is furnishing its member nations. I am going to turn, now, to the various forms of technical assistance in which the Bank is also engaged.

The matter of technical assistance is, of course, closely related to sound economic development. This whole subject is being given increasing attention not only by the International Bank, but by other international organizations, national governments, and by private businesses.

It is well to remember that economic development is still largely an experimental field. We are beginning to learn something about the scope of this problem. Perhaps the most important thing we have learned is how great and how varied t

the needs for technical assistance are. There is no single formula for "development" which can be drawn up as a blueprint in advance, and then applied to underdeveloped regions generally.

Development is an extremely complex process. It involves such fundamental factors as levels of education, public health, psychological attitudes and habits going far back into history, along with varying skills of the peoples of the regions concerned. Each underdeveloped country-- in fact, each project within a country -- presents its own peculiar problems.

Healthy development can be neither rapid nor uniform. Rather, it must come about as the gradual result of detailed study, planning and completion of an infinite variety of projects in widely differing areas of the world.

From its experience to date, the Bank has found that its potential borrowers often need technical advice from the very outset of planning a project. The Bank may assist them in determining, first of all, that the project will be of sufficient benefit to the economy of the borrowing country to justify it in incurring foreign debt. It also assists its borrowers in ensuring that a project, once undertaken, can be carried through to successful completion. In this connection underdeveloped countries must frequently learn the basic know-how involved in engineering and other aspects of physical construction, sound methods of local financing, or the essentials of good management.

Of course the International Bank cannot itself supply all, or the greater part, of the technical assistance needed in the underdeveloped areas today. But the Bank is, I believe, providing its member countries with practical aid along this line in two main ways:

First, as part of its normal lending procedure, the Bank investigates all conditions which might affect its loans. This investigation covers the general economic situation in a prospective borrowing country, including its ability to meet the foreign exchange costs of servicing the loan; and it also examines with great care the specific project for which a loan is sought. Together with the potential borrower, the Bank studies the economic justification, technical feasibility

and financial soundness of the project. Often surveys are made of such things as the prospective market to be served, the availability of local capital to meet local costs, the labor supply and the availability and quality of management personnel.

Much of this work is handled by Bank field missions. These are composed of qualified technicians, either regularly employed on the Bank's own staff or specially recruited elsewhere, who investigate conditions on the spot. In addition, the Bank may assist its member countries in obtaining independent experts for employment directly by the country concerned.

In the second place, apart from these specific loan investigations, the Bank is sending an increasing number of field missions to underdeveloped areas, upon request, to make general surveys of development possibilities, and to assist in drawing up comprehensive development programs. These missions may also assist member countries in analyzing their economic problems and in designing measures for improving their financial stability and credit standing. One effect of this type of assistance should be to render underdeveloped countries more attractive to private investors.

An outstanding example of the comprehensive survey type of mission is the one which the Bank, at the request of the Colombian Government, sent to study the economy of Colombia and the country's development potentialities. This mission was headed by Dr. Lauchlin Currie, noted economist and former administrative assistant to Presidents Roosevelt and Truman. In addition to members of the Bank's staff, it included a member of the staff of the International Monetary Fund, and experts nominated by the Food and Agriculture Organization of the United Nations and the World Health Organization, as well as technicians specially recruited from the fields of transportation, industry and power.

The mission spent four months in Colombia and undertook the broadest and most intensive study ever made of that country's economic resources and needs. It made some interesting discoveries with respect to the kinds of projects which would have the most beneficial effect on Colombia's general development. And in some cases it was found that the most effective projects would involve relatively
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minor capital investments, or changes in techniques of production. To take one specific example-- The best agricultural land is now largely devoted to the raising of beef cattle on large estates. Any change which would result in this potentially productive land being used more intensively, for crops or dairy products, would mean more to the national welfare at the present time than millions of dollars spent on more ambitious transportation schemes.

The Currie mission also assisted the Colombian Government in obtaining certain basic information which had never before been available. For example, it developed for the first time estimates of Colombia's national income, the amount and source of savings and where they are being spent, and the probable course of production in various fields.

It is hoped that the mission's findings will be of practical aid to the Colombian Government in formulating a balanced development program and in effecting the economic, financial and administrative measures necessary to carry it out. These findings will also serve to indicate the directions, financial and otherwise, in which the Bank can best assist in the further development of Colombia.

Several of the Bank's other member countries have recently requested it to send general survey missions to their territories. One such mission will visit Turkey this summer. It will work closely with the Economic Cooperation Administration's mission in Turkey. The ECA mission will be concerned primarily with the short-term period of the European Recovery Program. The Bank's mission should usefully supplement these activities by making a broad survey of the Turkish economy and assisting the Turkish Government in outlining a general pattern for Turkey's long-term economic development. And at the request of the Government of Guatemala, the Bank is also sending a mission with generally similar functions to that Central American country.

In undertaking these comprehensive surveys of development possibilities in its member countries, the Bank's objectives are essentially the same as those outlined by President Truman in his "Point IV" program of aid for underdeveloped

areas. We must remember, however, that there can be no quick and easy way to raise production levels and living standards. If we are to avoid disillusionment, we can expect no spectacular transformation in the world's underdeveloped regions. It is always the amount of productive investment which takes place-- and not the mere availability of money-- which is the important thing.

I have given some indication, I hope, of the principal ways in which the operations of the Bank are aiding its member countries today. Both by making loans for a variety of productive projects, and by providing some part of the technical assistance needed, the Bank is, I think, contributing in a practical manner to the balanced development of the world economy.

There is one other thought about the Bank which I want to leave with you. In these days of knife-edged political tension, it is popular to think of international organizations as simply forums for blunt and often ill-tempered debate. The Bank's experience over a considerable period of time indicates that this need not be the case. The Governors and Directors of the Bank have throughout acted with a commendable and really helpful display of tolerance and self-restraint. And in the day-to-day work of the staff, nationalities are forgotten and decisions on small and on important matters alike are made without partiality to the interests of any particular country.

It is true, of course, that economic matters traditionally arouse less acrimony than things political. It is also true that one of the two great protagonists in today's political struggles is not a member of the Bank. But there is another, equally fundamental reason for such success as the Bank has achieved in creating an effectively functioning international organization. In the case of the Bank, as distinguished from the United Nations and many other international agencies, the initiative in making recommendations and proposing action has been vested in an international staff, whose loyalty is only to the Bank itself, rather than in a group of national representatives expressing the viewpoints of their respective governments. Responsibility for making final decisions rests, of course, with the national representatives -- the Bank's Executive Directors --

but they base their action and center their debates upon staff recommendations. This means, in practice, that problems are approached and decided primarily on the basis of an objective non-political analysis of the issues involved rather than as a result of political compromises.

I believe that there is a lesson here with broad implications in other fields. It is a basic tenet of our democratic faith that the just and peaceful settlement of international disputes depends largely upon bringing to bear upon them an enlightened world opinion. Public debates in the General Assembly and the Security Council of the United Nations are an important means towards this end. But I suggest that the debates might well be more temperate and illuminating, and solutions to the problems made easier, if the initiative for analyzing the issues and recommending appropriate action was vested in a non-political and objective international secretariat.

I do not suggest this as a panacea -- there is no easy road to international cooperation. The will to cooperate cannot be created by any form of organization, nor can any form of organization succeed without it. But our experience in the International Bank has at least demonstrated that, given both the will to cooperate and an appropriate organization, effective international action can be made a reality.

"END-USE PROCEDURES OF THE INTERNATIONAL BANK"

D. CRENA DE IONGH, *Treasurer*

The Bank selects projects as the basis of its financing because the selected projects have an important place in the economic and financial set-up of the country to which a loan is given. In fact, such projects have priority over other projects because of their usefulness. It is, therefore, important that the projects selected be actually executed, and each country will certainly see to it that the work is well executed and executed on time. On the other hand, the Bank is interested, because it gives credits for specific purposes and has the duty of seeing that its money actually serves the purpose agreed upon in the Loan Contract.

The methods followed by the Bank are in no way rigid. The Bank adapts them to circumstances as long as it is convinced that the main object is being reached, that is, ascertaining that projects are executed well and on time.

From the beginning the Bank has to tie money to goods and it has established a system whereby it makes payments to its borrowers on the basis of proof offered to the Bank, of payments made for goods which the Bank is financing. In other cases the Bank makes advances in order to allow borrowers to make their payments or it guarantees bank credits which they want to open for such payments. The method set up by the Bank is based on reports received from commercial banks which have opened credits for the Bank's borrowers. As these reports are based on normal bank procedure, no extra work is involved for the banks or for the borrowers. Once the tie is established between goods and money, the Bank can follow through quite easily and can check the arrival of goods in the borrowing country as well as their use in the project as envisaged. However, another element enters into the situation. The Bank does not finance the total financial requirements of a project, and the borrower, therefore, has to provide for local financial needs. The execution of the project depends, of course, not only on the arrival on the spot of the goods financed by the Bank, but also on the execution of local construction to receive such goods.

It is clear, for instance, that if in the case of the financing of big waterwheels and dynamos for hydro-electric projects, the dams were not built and the foundations were not there, the goods financed by the Bank could serve no useful purpose.

The Bank is interested, therefore, in the program of the project as a whole and keeps abreast of such progress by receiving progress reports. These progress reports are partly technical, partly administrative. While technical reasons may delay the progress of a project, financial causes may often result in disturbances which would prevent its timely and efficient execution; for example, wages and prices may go up which would cause the amount envisaged in the budget to be insufficient. It is important that, if such a situation should arise, the Bank should know it in due time and thus be able to consult with the borrowers on the necessary measures to be taken.

In setting up, as the Bank does in each case, a system of reporting, it sometimes happens that the authorities which are responsible for the execution of a project have not realized sufficiently the necessity for establishing a good reporting system, which is as important to them as to the Bank. In such cases the advice and requirements of the Bank have proved of great value to its borrowers. Often the deficiencies are mostly in the administrative and financial fields rather than in the technical field. The preparation of the reporting system is the basis of the Bank's end-use supervision and in discussions with borrowers the methods which the Bank uses for that supervision become clear. The Bank's methods are different in each case, and aim at leaving the Bank satisfied that the work is carried out well and on time.

Sept 1950
5th AM - Panel Disc

In the course of the Bank's work it has become clear that in various cases its requirement for the production of progress reports has contributed to the efficiency of the administration of its borrowers. In one case, the Bank suggested to a borrower that reports be submitted once every three months instead of once every month. This suggestion was rejected as the borrower had found that the need for preparing such reports for the Bank proved to be very useful to itself as a means of getting information from the field. This case is an example of the elasticity of the Bank's procedures as well as of the reaction of its borrower.

It is sometimes said that the Bank's requirements cause extra work for its borrowers. The Bank, however, does this work with only two engineers, three auditors, and four administrative staff members. The small size of this staff is an illustration of the way the Bank carries out this work.

It is clear that even with the best supervision, disappointments can occur. However, the Bank hopes that, if things are not going according to schedule, its system enables it to know about it on time in order to discuss with the borrower the remedial measures which have to be taken.

While the Bank's borrowers have on occasion expressed misgivings about the Bank's end-use supervision before they had experience with its methods, there is not a single case in which the experience of the Bank's contacts with them in the field has caused the slightest difficulty. On the contrary, the Bank's relations have always been pleasant, because its procedures are based on the normal principles of good management.

"TECHNICAL ASSISTANCE ACTIVITIES OF THE INTERNATIONAL BANK"

R. H. DEMUTH, Assistant to Vice President

The technical assistance program of the Bank is a relatively new activity; indeed it can fairly be said that the program is still in an experimental stage. But just because it is new, the Bank would greatly welcome any comments on the program and any suggestions as to how it might be modified or adapted so as to be of the greatest help in the development process.

It is perhaps necessary to explain what is meant by the statement that the program is relatively new. Ever since the Bank started operations, it has found itself called upon to give technical aid or advice of one sort or another as part of its consideration of loan applications. It has sent operational missions to most member countries, either to estimate the possibilities of loans, to review specific projects, or to conduct actual loan negotiations. Inevitably, however, as an integral part of those operational activities, the loan officers, economists and engineers who comprise these missions have often been called upon to give technical aid or advice on matters relating to the loan operation. This sometimes consists in helping a member government or other potential borrower in defining priorities among different projects. It may consist of suggestions by Bank engineers as to desirable modifications in the technical plans for a project designed to reduce its cost or to make it more efficient. Sometimes these missions, or the Bank itself, have been able to make suggestions as to administrative or organizational arrangements for a project or as to the plans for its financing, which we hope have been of some assistance in assuring the effective operation of the enterprise financed.

These different kinds of technical aid and advice are an integral part of the Bank's operations and, as has been indicated, have been provided since the early days of the Bank. However, it is only within about the last year and a half that the Bank has been looked to by

its members for technical advice and assistance of various kinds that have not been directly related to any immediate request for financing. At the request of several member countries, the Bank has undertaken to provide the government concerned with help, either in formulating a general development program or in solving specific development problems. It is that type of technical assistance—assistance unrelated to any immediate request for financing—which is the subject of discussion this afternoon.

As the Bank's Annual Report indicates, the major part of its technical assistance program to date has consisted of what may be called for convenience "comprehensive survey missions." The Bank has already organized such missions at the request of four member countries. The first mission was sent to Colombia and its report has recently been transmitted to the Colombian Government. Late last spring and early this summer the Bank sent out three missions of the same general type to Turkey, Guatemala and Cuba. The Guatemalan and Turkish missions have just finished their work in those countries, but the Cuban mission, which started work only at the beginning of August, is still in Cuba.

The terms of reference of each of these missions have varied in accordance with the particular needs of the country to which it was sent, but the basic objectives in each case has been the same. In very general terms, these missions are intended to survey the development potentialities and problems of the country to which they go and then to make recommendations designed to assist the government of the country concerned to formulate a long-term development program. A long-term development program does not mean a detailed blueprint for every aspect of the development process. Rather, the Bank's emphasis has been on two vital points: first to estimate in a rough order of magnitude the amount of investment which a country can appropriately undertake with the resources at its command, because no country advances its development by undertaking at the same time more than it can carry through; and, second, to make recommendations to the government concerning investment priorities as among the important sectors of the economy and among types of undertakings within each sector.

These are the types of questions which must be studied: Will it add most to the strength of the economy as a whole to open up a new area, installing new transportation, communication and power facilities, or is it more advantageous for the country at its present stage of development to encourage more intensive utilization of territories which have already been opened up? Should the emphasis be on railroads or highways, and if on highways should it be on new construction or on repair and maintenance? What kind of agricultural production is most advantageous in view not only of domestic requirements but of world demand, and how can agricultural production of the most advantageous types be encouraged?

In making recommendations as to priorities within the investment program, the Bank's missions do not normally go into the question of the priority of particular projects, but rather emphasize the general principles to be applied in determining which projects should be pushed. However, where the country concerned has under consideration specific projects of such size in relation to its available investment resources that the decision to push or delay them will have a marked effect upon the country's entire development program, the mission is expected to come forward with a recommendation on those projects.

In addition to recommendations as to the rate of investment and as to investment priorities, the missions of this type are also expected to suggest methods and measures, other than investment, which might help to improve productive efficiency in existing enterprises. It is also within their terms of reference to recommend any improvements in economic or financial policies or public administration which they believe to be of major importance in facilitating further development of the country's resources.

The Bank emphasizes to these missions before they go out that it has no interest in an academic essay on development, no matter how good it may be. What is expected of each mission is a set of concrete and practical recommendations which, if accepted by the country concerned, can be put into effect and will accord with the development aims and objectives of that country. The Bank has no interest, in other words, in simply adding to library shelves; what it wants is a report which will actually help in raising the standard of living of the people in the particular country to which the mission is sent.

The composition of each of the missions has varied, depending upon the particular needs of the country and its own particular development problems. In the case of Colombia, the chief of the mission was Dr. Lauchlin Currie, a noted economist and former Administrative Assistant to the President of the United States. It included three experts on transportation because transportation was such an important problem in Colombia, an expert on industry and power, two agricultural technicians, a public health specialist, several economists and a loan officer of the Bank. In recruiting this mission the Bank had the assistance of the World Health Organization and of the United Nations Food and Agriculture Organization, and the Fund attached a member of its staff to the mission.

The Turkish mission was headed by Mr. James M. Barker, an outstanding American business man. It included an agricultural specialist from the staff of the Food and Agriculture Organization, a public health specialist nominated by the World Health Organization, and specialists in transportation, in industry and power and in public administration. It also included several economists both from the Bank's staff and recruited from outside and a member of the Bank's Loan Department.

The Guatemalan mission was headed by Dr. George Britnell, a Canadian who is head of the Department of Economics and Political Science of Saskatchewan University. Again, it included transportation, agricultural, industry and power specialists and two economists. The agricultural part of that mission was undertaken by the Inter-American Institute of Agricultural Sciences at Turrialba, Costa Rica, as a project of that institute.

Finally, there is the Bank's Cuban mission, which is headed by Mr. Francis Truslow, a prominent lawyer and President of the New York Curb Exchange. The composition of that mission is roughly comparable to the composition of the Colombian and Turkish missions. In this case, however, the Bank enlisted the support of three outstanding, non-profit research institutes in the United States: the South-West Research Institute, the Armour Research Foundation, and the Stanford Research Institute. Although the individual technicians assigned to the mission by those institutes will work under the direct supervision of the chief of the mission, who will be responsible for the report of the mission, they will have available to them the laboratory and research facilities and the accumulated know-how of the three organizations from which they come.

The Bank has considered it essential from the standpoint of maintaining continuity that members of the Bank's staff be attached to each mission in order that, after the mission has finished its work, the experience which it has gained may be available in the future operations of the Bank.

In the case of each mission there have been at least three nationalities represented among the personnel; nonetheless, it is true that the greater number of experts employed have been American. In part, this is probably inevitable, due to the location of the Bank in the United States. As will be realized, it is not an easy task to find technicians of the necessary calibre who are willing and able to take a leave of absence from their permanent jobs to accept assignments of three to six months with a mission of this sort. Moreover, almost every time a mission has been organized, it has had to be done under pressure, so there has been a natural tendency for the Bank to gravitate toward those whose availability is most easily determined.

However, the Bank is very anxious to get greater international representation on these missions. Certainly here in Europe there is a great reservoir of skills which the Bank should be able to tap for work of this type. The Bank is hopeful that arrangements can be made in many countries by which, as assignments open up, it will be possible quickly to find the appropriate specialists and to determine their availability.

Regarding the expenses of these missions, it is the Bank's general policy that the costs should be shared by the Bank and the government concerned. The Bank is convinced of the desirability of asking the recipient Government to defray a substantial part of the cost, both in fairness to the other stockholders of the Bank and as an indication of the Government's seriousness of purpose in requesting the Bank's help and of its intention to use the help effectively. As a rule, the Bank has paid the salaries of its own staff attached to the missions, while the sums paid to outside consultants have been paid half by the Bank and half by the governments concerned. All subsistence and transportation expenses within the country have been paid by the Government and all subsistence and transportation and similar costs outside the country have been paid by the Bank.

The Bank has had to face and is still facing rather obviously difficult problems in connection with its responsibility as an institution for the recommendations made by these missions. Certainly the Bank's Executive Directors and Management cannot know as much about the country concerned as the members of the mission after their study, nor do they have the opportunity to review in detail the recommendations that have been made. While the Bank works closely with the missions in the formulation of their reports and makes available to them such information and experience as the Bank has available, the Bank has taken the position that the final responsibility for the content of the report rests with the chief of mission. In transmitting the report to the Government concerned, the Bank does not underwrite each of the recommendations made; rather the Bank confines its responsibility to endorsing the report as a serious piece of work performed by competent technicians which in general it believes to be worthy of the most serious consideration by the government concerned.

Of course, the report of the mission really constitutes only a first step. Such a report has very limited value unless the recommendations it contains are implemented by the government. This matter of implementation is the crux of the whole problem. It may be hoped that, because the Bank is known to be an impartial and objective institution, which seeks no political or material advantage for itself, and whose only purpose is to help in the development process, the recommendations made by the missions which it sponsors will carry considerable weight. In addition, the Bank has advised each country to which it has sent missions that if, after consideration of the report, the country adopts an appropriate development program and takes effective measures to carry it out, the Bank will stand ready to aid in the execution of that program through financing some of the more useful and urgent projects, provided, of course, that the country needs and wants such financing and is in a position to service the loan.

It is this combination of technical and financial aid which is the new aspect of the Bank's program and the one which gives the most promise that the program may be effective. The Bank recognizes that when it sends out such a mission it assumes a moral obligation to help, with its financial resources, in the development of the country concerned, provided that that country does its own part in formulating and carrying forward a properly balanced development program. It may also be hoped that these efforts will lead to productive investment from other sources as well as from the Bank, not only public but private investment, and not only foreign but domestic investment as well.

It may be useful to describe briefly some of the Bank's technical assistance activities in addition to these broad comprehensive missions. Early next month the Bank, acting jointly with the United Nations Food and Agriculture Organization, is sending a technical mission to Uruguay to study the agricultural sector of that country's economy and to make recommendations as to how agricultural production can best be increased. This mission will be headed by Sir Maurice Hutton, who was formerly Alternate Executive Director for the Bank for the United Kingdom and head of the British Food Mission to the United States. The mission will be staffed with agricultural technicians and economists recruited jointly by the Bank and FAO with broad international representation.

In other cases, requests to the Bank for technical assistance have not been for missions at all in the broad sense, but for advice on specific development problems. One or two governments have asked the Bank to recommend to them economic or financial advisers. In the case of one country a member of the Bank's staff has been helping to establish and get into operation a new development bank. Other countries have asked the Bank to send technicians to look at particular industries and to advise on plans for their expansion.

Another interesting type of technical assistance which the Bank has rendered is exemplified by the case of El Salvador. The Bank had made a loan to El Salvador to finance the foreign exchange costs of a hydro-electric project on the Rio Lempa, the local costs of which were to be met out of domestic resources. There was sufficient private capital in El Salvador to finance these local costs but there was no mechanism readily available to mobilize it. The Rio Lempa Commission therefore asked the Bank for technical help in arranging for the sale of an issue of Commission bonds. The Bank acceded to this request by sending its Director of Marketing to El Salvador to assist in these operations, and his efforts were highly successful. This whole field of helping to establish local capital markets is an important one and one in which the Bank hopes to be of increasing assistance.

In conclusion, it should be re-emphasized that this whole program is still new and the Bank is still feeling its way along. It is fair to say, however, that the Bank's experience thus far has indicated that activities of this kind, if they lead to a more effective use of the investment resources available to member countries, may have as profound an effect in accelerating development as the Bank's financial operations. The Bank hopes and believes that it can contribute most effectively through a combination of technical and financial aid: in other words, through attacking the development problem in a coordinated fashion on both fronts at the same time.

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INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

FOR THE INFORMATION OF THE PRESS

May 18, 1951

Attached is a statement made on behalf of the International Bank for Reconstruction and Development by Richard H. Demuth, Assistant to the Vice President, to the United Nations Economic, Employment and Development Commission on May 17, 1951.

The Commission is now holding its sixth session at the United Nations Headquarters in New York. The Report to which Mr. Demuth's statement refers is entitled, "Measures for the Economic Development of Under-Developed Countries" which was prepared by a group of five experts appointed by the Secretary-General of the United Nations in accordance with a resolution adopted by the Economic and Social Council at its meeting last summer in Geneva.

STATEMENT ON BEHALF OF THE
INTERNATIONAL BANK FOR RECONSTRUCTION & DEVELOPMENT BEFORE THE
ECONOMIC, EMPLOYMENT AND DEVELOPMENT COMMISSION

The management of the International Bank has examined with great interest the Report of the Group of Experts entitled "Measures for the Economic Development of Under-Developed Countries".

May I say, at the outset, that we believe that the authors of the Report have made an outstanding contribution through their careful and comprehensive analysis of the problems of economic development. They have pointed out with clarity, and with a commendable sense of proportion, the many different factors involved in the development process and the interrelationship among them.

Often in the past, the concept of development has been thought of too narrowly as synonymous simply with the availability of physical resources, capital and technology. Indispensable as these factors are, they will not, as the Experts have pointed out so forcibly, bring about development by themselves. Rather, the pace of economic progress is determined by a great variety of inter-related elements — among which, in addition to physical resources, capital and technology, perhaps the most important are the energy and effectiveness of the government, the social institutions of the country, the distribution of wealth and opportunity among the various classes of the population, the effectiveness of the educational effort, and the character of the economic and financial policies and institutions governing the allocation of the country's resources. Economic development can proceed rapidly in any nation, as the Experts have emphasized, only if there is a strong national will to develop -- a will to put the long-range interests of the country as a whole ahead of short-term political advantages and ahead, too, of immediate financial advantage to particular interests or groups, however influential they may be.

The Bank welcomes the sense of urgency which pervades the Report. With the permission of the Commission, I would like to repeat in this connection what the President of the Bank stated to the Economic and Social Council at its recent meeting in Santiago. He said, "I want to press on you again the view that development is an urgent task. We cannot build a stable world out of nations whose populations are engaged in a tooth-and-nail struggle merely to keep themselves alive. We can achieve stability only when men are loyal to the social order in which they live, and when that order provides an equitable sharing of rewards, so that men can live as neighbors rather than as rivals for an insufficient share of the world's goods.

"It is imperative for all of us to help provide the means for men to create a better tomorrow for themselves and for their

children. It is imperative to help build a common stake in the future which will lead to new unity and new vigor among the nations which share the same ideals about the dignity of man. This can be a great contribution to peace today. Carried on continuously and constructively, it can be an even greater force for peace and stability in years to come."

We have been glad to note that the Experts did not permit their statement of the urgency of development to obscure their analysis of the very difficult and complex problems which must be faced if the pace of development is to be materially accelerated. The problems they analyze in their Report are the very problems with which the Bank, and most of the other international organizations, have been grappling for the past few years. The Report recognizes that to overcome these difficulties will in most countries involve painful readjustments; in some, major structural readjustments of the economy will be required. Our experience in the Bank amply confirms this analysis.

I don't want to take the time of the Commission to go over each of the many suggestions for domestic action discussed in the Report. There are a few, however, which I would like to single out for special mention.

The first is the need to give high priority to education. In those countries where, as a result of social revolution or otherwise, great efforts have been made to spread education to the people at large, the result has usually been a spurt in economic progress; where education has been neglected, development has rarely achieved much momentum. This is scarcely surprising, for the many steps necessary to achieve dynamic progress -- and particularly the creation of a national will to develop -- depend very largely on the existence of a literate and inquiring population.

Within the general field of education, the Bank is glad to note the emphasis put by the Experts on three fields -- the growth of agricultural extension facilities, the training of skilled workers and the training of executives and administrators able to plan and execute development programs.

It has been our experience that, in practically all of the under-developed member countries of the Bank, extension services are still in their early stages. Knowledge of advanced production techniques, better seed, better methods of fertilization and the like is usually available or can be made available without undue difficulty -- but to disseminate that knowledge to the farmers, and to induce them to apply it, is a major undertaking. It is a task that has not yet been tackled with the energy it deserves; even the importance of the task is not widely enough appreciated. Yet successful execution of a comprehensive extension program, accompanied by an appropriate agricultural credit program, can work

a minor revolution in agricultural production in many countries and can thereby raise the standard of living of a large segment of the population, make more resources available for industrial development, create a broader market for industrial products, and generally stimulate the entire development process.

The lack of trained executives and administrators and of skilled workers at all levels is, as the Experts have stated, a major bottleneck to development -- and it is one that takes a considerable period to break. We are peculiarly aware of this difficulty in the Bank, for the most formidable single barrier to the expansion of our development activities has been the inexperience of the less developed countries in working out programs and projects up to the point where they are ready for financing. They have also frequently encountered difficulty in finding the proper personnel to manage new projects. The Bank has rendered considerable assistance to its members in meeting these difficulties. Our engineers have often helped prospective borrowers on the technical aspects of projects under consideration. Our loan officers and economists have often been able to make suggestions as to administrative or organizational arrangements for a project or as to the plans for its financing. And we have increasingly been asked by our members to recommend foreign executive and technical personnel to be employed by them to assist in the effective operation of enterprises we have financed.

Progress has been made in this matter; it is reflected in the increasing number of loan applications received by the Bank and in the increasing number of development loans we have been able to make. It is our confident hope that the international and bilateral technical assistance programs, as they grow and begin to bear fruit, will help to speed up the proper preparation of projects and thus permit acceleration in the pace of our lending activities.

Another suggestion for domestic action which we believe the Experts properly stressed is the need to mobilize domestic resources more energetically and to channel them into productive investment. The Experts have called particular attention in this connection to the advantages to be derived from the creation of development banks and corporations. The Bank wholeheartedly supports this position, although a warning is perhaps in order that no single type of institutional organization will meet the varying needs of different countries. The particular type of organization required -- how it is to secure its funds, what types of financing it is to do, what its management and control are to be -- must be carefully worked out in the case of each country. The experience of other countries can provide a guide, but not one that should be copied blindly.

As the Commission is doubtless aware, the Bank has been quite active in this field. We encouraged and provided substantial assistance for the creation of the new Industrial Development Bank of Turkey and released one of our former officers so that he could accept the position of first General Manager of that Bank. We also played a leading role in the creation of the new Development Bank of Ethiopia. Both of these institutions have received substantial credits from the Bank. In Mexico we helped to work out a consortium arrangement of private banks, with the participation of Nacional Financiera, the official Mexican financing agency, which serves the same general purpose as the Development Banks, and we have made a line of credit available to the consortium. Similar proposals for Development Banks or consortium arrangements in other countries are under discussion. Furthermore, we assigned a member of our staff to work for a number of months as an adviser to the newly established Development Bank of Honduras -- and another member of our staff has been assisting Iceland, at its request, in investigating the desirability of creating a new investment agency.

The mobilization of domestic resources and the creation of local capital markets depend only in part, however, on institutional arrangements; at least equally important, of course, are the general economic and financial policies adopted by the government. And in this field, too, we have often found ourselves able to be of assistance. Advice on such matters is less spectacular -- less easy to dramatize -- than assistance in the establishment of new institutions, but it is no less important. And I think I can fairly say that, through staff missions and through outside consultants employed by the Bank, we have been able to make a not insignificant contribution to the formulation of economic and financial policy in many of our less developed member countries which, in the long run, should help substantially in their further development.

The final point I want to make on the domestic measures proposed by the Experts concerns programming. Here, again, the Bank's experience supports the analysis contained in the Report about the need, first, for a coordinated approach to development problems, second, for the intelligent determination of priorities for public investment expenditures and the formulation of appropriate policies for the private sector, and, third, for permanent organizations to work out development programs, to keep them under constant review and to modify and adapt them as conditions require.

When the Bank initially undertook development financing, the loan applications filed with it all too often consisted simply of lists of projects which the member government had under consideration -- usually without any indication of the relative priority of the various projects, the relation between them, or their place in the development pattern being worked out for the economy as a whole. A good deal of the time and attention of the Bank's staff has necessarily been devoted, therefore, to helping member countries determine priorities among the different projects they had in mind

and sometimes to suggesting additional projects in fields which may have been overlooked or insufficiently emphasized.

It is a striking fact that practically every mission sent out by the Bank -- and we have had missions in almost all of our under-developed member countries -- has reported back the inadequacy of development programming efforts and has urged the creation of a high-level local development board, economic council or planning agency, of one kind or another, to rectify the situation. Development programming is a complex, inexact discipline at best -- but it is inescapably necessary if resources are not to be wasted or, at best, applied haphazardly.

The Bank has played a significant role in this field. Comprehensive survey missions organized by the Bank at the request of member governments have made recommendations, or are in the process of making recommendations, to Colombia, Cuba, Guatemala, Iraq and Turkey, designed to assist those countries in formulating long-term national development programs. We have provided help not only in the survey stage but in the even more vital implementation stage. In addition to these comprehensive missions, members of the Bank staff have assisted, on a somewhat more limited scale, in the planning of development, or in the study of the methods of programming, in a number of other countries, such as Ethiopia, Chile, Iceland, Pakistan and the Philippines. We have also joined with FAO in sponsoring a mission to survey the agricultural economy of Uruguay -- and FAO and the Bank are sending a similar mission to Chile at the end of this month. Similarly, in response to a request from Nicaragua, we are stationing two members of our staff in that country for a period of from eight months to a year to help the government in formulating an investment program, in arranging for technical experts in various specialized fields, and in coordinating and implementing the recommendations of these other experts.

In other words, to the extent that we can effectively do so, and through various devices to meet the varying desires and needs of our members, we are pushing ahead as fast as we can with assistance in the vital field of development programming.

So much for the domestic measures suggested in the Experts' Report. Let me turn now to the portions of the Report that deal with public loans for development -- and particularly with the discussion of the International Bank.

I wish I could report that we find the same sense of realism in those portions of the Report as in so much of the rest of it. Unfortunately, this is not the case. In dealing with the Bank, the Experts seem not to have realized that the very obstacles to development they high-lighted in earlier sections have been obstacles in the way of Bank development financing. We have moved in various ways, as I have already indicated, to overcome those obstacles, but in the nature of things it has not been an easy job nor one that could be accomplished over-night.

I think a single set of figures will illustrate the direction in which we have been moving, and the measure of success we have achieved. In the fiscal year ended June 30, 1948, we made two loans for development, aggregating \$16 million. In the 1949 fiscal year, we made three development loans aggregating \$109 million. In the 1950 fiscal year, we made eight development loans totalling \$134 million. And in the fiscal year now coming to a close, we have already made 18 development loans, aggregating about \$290 million. This steady progression accurately reflects, I believe, both the progress made within the Bank in achieving an understanding of the economic situation and problems of its less well developed member countries, and also the progress made by those countries, in part with the assistance of the Bank, in preparing their programs and projects to the point where they are susceptible of being financed by the Bank.

I wish it were possible for me to indicate the amount of development lending the Bank will do over the next few years. But any such prognostication on my part would have to be based on so many assumptions as to future eventualities as to make the end result pure guess work. So far as the Bank is concerned, our objective is to increase our rate of lending just as rapidly as we can, subject only to the limitation that we will not lend more than the borrowing country can absorb and effectively utilize, nor more than the country has a reasonable prospect of repaying. We do not have a top limit on the amount of development loans we are willing to make -- neither \$300 million, nor \$400 million, nor any other figure -- and, for the next few years at least, we anticipate that our ability to borrow will remain such as to place no limitation on our capacity to lend.

The plain fact is that the rate of Bank lending for development will depend primarily, not on decisions of the Bank at all, but on decisions over which the Bank has little or no control. It will depend, in the short-run at least, upon the ability and willingness of the industrialized nations to make equipment and materials available. It will depend also upon the ability and willingness of the underdeveloped countries, with such foreign technical assistance as may be made available to them, to push their development programs ahead along the lines the Experts have discussed, and particularly to prepare programs and projects ready for financing. It will depend to some extent, too, on whether the more developed countries, other than the United States, make available for lending purposes a greater part of their 18% capital subscriptions to the Bank -- for many of the less developed countries are in a position to service a greater amount of non-dollar indebtedness than of dollar indebtedness. Finally it depends upon what action may be taken by the more advanced countries on the

various proposals now under consideration for additional developmental assistance in the form of grants -- for obviously grant funds, if available, could be so used as to increase the ability of many countries, particularly some of the Asiatic countries, to service additional foreign debt.

I repeat, then, that in the nature of things, it would be unrealistic for the Bank to set any target for the amount of its development loans other than the target to lend as much money as can be productively used and as the borrowing countries can reasonably be expected to repay. I would be less than frank, however, if I did not add that, in our judgment, there seems no real likelihood that the amount of the Bank's development loans will, under presently foreseeable world conditions, approach the figure of one billion dollars annually suggested by the Experts. It is, I suggest, a disservice to raise hopes which cannot be fulfilled and which, by the very fact of their expression, may serve to obscure the real contribution which the Bank can make.

Another point in the Experts' Report on which I wish to comment is the statement that the Bank "attaches excessive importance to the foreign currency aspects of development". From the very general nature of this statement it is difficult to discover on what factual information it is based.

Actually the brief reference to the emphasis on the foreign exchange aspects of the Bank's policy and operations involves two distinct issues. One is the restriction of the utilization of Bank loans for imports of equipment and materials. The Report itself notes that the Bank has made every effort in this respect to interpret its Articles of Agreement liberally. The Fifth Annual Report of the Bank contains a concise statement of the Bank's policy on this matter. This policy, which the Bank explained at length to the Economic and Social Council at its meeting in Geneva last summer, was noted with approval by the Council. The Bank has now under active consideration loans which are very largely intended, not for direct foreign exchange costs, but for indirect foreign exchange requirements arising out of expenditures in the borrowing country itself.

The second issue involved in the Experts' comment is the transfer problem, or more specifically, the ability of borrowing countries to assume additional foreign debt obligations. The Bank is in full agreement with the Experts' statement that the primary objective of all development expenditures, whether financed by domestic capital or foreign loans or grants, is to build up the capacity of the country concerned to produce goods and services. The Bank is also aware that the expansion of production, particularly of marketable products of manufacturing, mining and agriculture, is likely on the whole to have a favorable

effect on the borrowing country's long-run balance of payments position. We would be reluctant, however, to subscribe to the easy generalization of the Experts that "if development succeeds, the transfer problem of meeting debt charges should take care of itself". An increase in internal production and consumption does not necessarily imply an increase in export availability. Moreover, the addition to the flow of goods and services available to any country as a result of increased output is inevitably associated with an increase in income and this additional income is bound to give rise to an increased demand for imports. Therefore, the Bank feels that it would be derelict in its obligations toward its member countries under its Articles of Agreement if it did not pay close attention to the transfer problem. However, the Bank has at no time looked upon the balance of payments effects of the projects which it finances in isolation; it has been concerned rather with the over-all, long-run balance of payments position of the borrowing country, taking into account all aspects of the country's development.

There are three other points which I wish to touch on briefly. The first is the encouragement given by the Experts to overseas development financing by national lending agencies in the more advanced countries. National lending agencies have performed a useful role and they have an important role to play today. But the creation of new national institutions would be of practical significance only if it resulted in an expansion of the total amount of financial assistance available for development purposes. To the extent to which new institutions would take over the functions of existing arrangements, including the lending operations of the International Bank, it would make no net addition to the credit facilities of underdeveloped countries; it would, however, create new problems of coordination and might thereby impede rather than enhance the development process.

I do not propose to enter into any prolonged discussion before this Commission of the relative advantages of national and international action in the field of development financing. I do think it worthwhile, however, to quote again in this connection from the statement of the President of the Bank to the Economic and Social Council in Santiago: "International agencies, I have no hesitation in saying, seem to me to offer potentially the most efficient avenue of approach. International action may frequently be more effective than national action in inducing the less developed nations to adopt necessary, but politically difficult domestic measures. International organizations cannot, in truth, be charged with invading national sovereignty, with economic exploitation, or with political discrimination among different countries. Finally, these agencies seem to me to provide the best -- and probably the only -- way of directing the resources of national contributors toward the same common purpose."

The more advanced countries, other than the United States, have not yet found themselves in a position to release, for use in Bank lending, any very large part of the 18% local currency portion of their capital subscriptions to the Bank. To suggest that, even though they have not yet made such releases, they should set up new national lending agencies seems to us to suggest a retreat from the concept of cooperative international action which motivated the establishment of the Bank and which, if we judge properly, has gained increasing support over the intervening years.

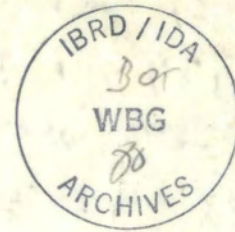
My final two points concern the suggestions for an International Finance Corporation and for an International Development Authority. In the Commission's consideration of the proposed Finance Corporation, the experience of the Bank is, I believe, very relevant. We found, early in our operations, that our contribution to the expansion of private investment in the under-developed countries was limited by two factors. The first is the requirement in our Charter that Bank loans must be guaranteed by the government of the country in which the project is located. It is politically very difficult for any government to guarantee a loan to a private enterprise because, by so doing, it lays itself open to the charge of favoring that particular enterprise over its competitors or over various public projects - and such charges are likely to be made, however important the private project may be. Moreover, many private enterprises are reluctant to ask for a government guarantee for fear it may lead to governmental interference in their business. We have tried to meet this difficulty in some cases by making credits available to private enterprises through the medium of a Development Bank or a banking consortium of the type I have already referred to, but this is only a partial answer to the problem. The second limitation has been the fact that the Bank has not available to it funds for equity investment. There are many private undertakings of a kind which would contribute greatly to development and which could be carried forward with the help of equity financing but which it may not be practicable to finance entirely on a loan basis.

Because of our recognition of these limitations on our financing of private enterprises, the Bank welcomed the suggestion made by the U.S. International Development Advisory Board, headed by Mr. Nelson Rockefeller, that an International Finance Corporation be created as an affiliate of the International Bank, designed to enable the Bank, through the Corporation, to make loans to private enterprise without a governmental guarantee, and to make equity investments in participation with private investors. We believe that such a Corporation would provide a very useful supplement to the Bank's existing lending authority. We have been glad to know, therefore, that the Experts considered this suggestion worthy of further study.

So far as concerns the proposed International Development Authority, the Bank would say only this: We regard the development task as urgent. We believe that, in some countries, the rate of development cannot be accelerated substantially if the only external capital they receive is in the form of loans which have a reasonable prospect of repayment. If additional assistance is to be given to these countries, we believe strongly that it should be in the form of grants, rather than in the form of quasi-loans, and that the grants should preferably be administered through international channels. But the decision whether to make grants available for this purpose is one which only the more advanced countries can make in the light of their own national policies, resources and the totality of their commitments. On that point, therefore, the Bank cannot appropriately express any view.

We would suggest, however, that if the Commission should endorse the recommendation for an International Development Authority, it consider carefully the problem of coordinating the activities of such an Authority with those of the International Bank, so that both loans and grants might be used most effectively to achieve the common development objective. To this end, we call to the attention of the Commission the proposal contained in the Rockefeller Committee Report that such coordination might best be achieved through a management contract between such an Authority and the International Bank.

In conclusion, I want to say a word about the assertion of the Experts in their Report that the International Bank "has not adequately realized that it is an agency charged by the United Nations with the duty of promoting economic development". That is an assertion made without factual demonstration. I do not hesitate to add that it is an assertion contrary to fact. All of us in the Bank regard the promotion of economic development as our primary task. To the achievement of that goal, all the energies of the Bank have been directed. To the achievement of that goal, all the energies of the Bank will continue to be directed.



STATEMENT
of
RICHARD H. DEMUTH
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

THIRD LATIN AMERICAN CONFERENCE

June 18, 1951

STANFORD UNIVERSITY

STANFORD, CALIFORNIA

I am very happy to participate in this Stanford conference, for Latin America has been and is an area of major interest to the International Bank and the subject of technical cooperation goes to the very root of what the Bank has been trying to do to promote development, both in the American Republics and in other so-called underdeveloped areas of the world.

The International Bank is, of course, primarily a financing institution. We have, in the five years of our existence, made loans aggregating over a billion dollars; of this amount, we have invested something more than \$250 million in Latin America. We have financed power projects in Brazil, Mexico, Chile, Colombia, Uruguay and El Salvador; transportation and communications projects in Nicaragua, Colombia, Brazil and Uruguay; agricultural programs in Chile, Colombia and Nicaragua; and we have made credits available to various industrial enterprises in Mexico.

But although the Bank is primarily a financing institution, our objective is not simply to make repayable loans. We do want our loans to be repaid, of course -- but our ultimate goal is the promotion of economic development and we regard the making of loans simply as a means to that end, not as an end in itself.

Development financing is not an easy thing to do -- we found that out very early in our experience. The difficulties are many and varied. A few of them, I think, merit a word of explanation because of their relevance to the matter of technical cooperation. Perhaps the most fundamental difficulty -- although the hardest to document -- is the absence in a number of the underdeveloped countries of a real will to develop. No government would admit to this, of course. The increase of production and the improvement of living standards are pronounced by the government of almost every backward country as paramount objectives -- and failures to achieve these objectives are almost invariably attributed in large part to the absence or inadequacy of

financial assistance from abroad.

In a great many countries, of course, development is a real objective -- and almost all the underdeveloped nations need substantial foreign capital. But in a surprising number of cases, the powerful interests who comprise or support the government have no real interest in changing the status quo. Development almost always involves some sacrifices, sometimes very large sacrifices. It will usually involve some redistribution of wealth; it will almost invariably involve a substantial redistribution of power. Governments representing those who are now wealthy and powerful are not always prepared to accept these consequences of development.

Not very long ago, one of our Bank people told me of a conversation he had had with the Minister of Education of one of the so-called backward countries. Our representative was stressing the importance of mass education as a means of promoting industrialization and urging greater efforts to promote literacy among the peasants. The Minister's response was enlightening. "We don't dare educate the peasants", he said. "If we did, we couldn't control them."

This attitude is important in any consideration of technical cooperation -- for capital and technology cannot, by themselves, bring about development unless the environment is right. The right environment is a component of many things. Among the most important, I think, are an energetic and effective government; social institutions which provide opportunity and incentive for individual initiative on a broad scale; an effective educational effort; and economic and financial policies and institutions which encourage both capital formation and a proper allocation of resources. Above all, the right environment presupposes a strong national will to develop, a will to put the long range interests of the country as a whole ahead of short-term political advantages and ahead, too, of immediate financial advantage to particular interests or groups.

I stress these things, not to deprecate the important contribution which technical cooperation from abroad can make, but to emphasize that foreign technical assistance must always be regarded as supplementary to local efforts. Foreign aid, technical or financial, can never create development; it can only help to make more effective what the country itself is prepared to do.

This is particularly true of the field in which the Bank has concentrated its technical assistance activities -- the field of development programming. A program can be just a library document -- or it can be an immensely effective agent to promote development. Which it is to be depends in part, of course, upon its quality; but to a much greater extent, it depends upon the willingness of the government and people of the country to make difficult decisions and to execute them with vigor.

The Bank got into the business of helping in the formulation of development program by a very natural process. When we initially undertook development financing, the loan applications filed with us all too often consisted simply of lists of projects which the member government had under consideration -- usually without any indication of the relative priority of the various projects, the relation between them or their place in the development pattern being worked out for the country's economy as a whole. A good deal of the time and attention of the Bank's staff was necessarily devoted, therefore, to helping member governments determine priorities among the different projects they had in mind and sometimes to suggesting additional projects in fields which may have been overlooked or insufficiently emphasized.

It has been a striking fact that practically every mission sent out by the Bank -- and we have had missions in almost all of our underdeveloped member countries -- has reported back the inadequacy of development programming efforts, the haphazard manner in which scarce investment resources are being allocated, and the absence of any governmental agency (or at least of any effective governmental agency) charged with taking an over-all look at the economy and

drawing up some kind of long-term investment program. These missions have almost invariably urged the creation of a high-level development board, economic council or planning agency, of one kind or another, to correct this situation.

So that there may be no misunderstanding, let me say right here that we in the Bank are the first to recognize -- indeed to insist -- that development cannot be accurately blueprinted in all its details. The development process is too complicated, the factual data too inadequate and inaccurate, to permit of any such blueprinting, even assuming it were otherwise desirable. But the fact that development programming is necessarily an inexact discipline does not mean that it is without value. Surely it is better, by the application of intelligent judgment to such data as are available to establish a general development pattern by which the priorities of various projects may be tested than to apply investment resources haphazardly to those particular projects which, for good reasons or bad, have received the most popular -- or the most politically powerful -- support. At least our experience in the Bank has convinced us that this is so -- and it has been that conviction which has led us to undertake a fairly ambitious technical assistance program, the primary purpose of which is to help our member governments to establish an investment pattern appropriate to their resources and to the stage of development which they have reached.

Our first endeavor in this field was the Republic of Colombia. That is a country, as you know, with substantial potentialities -- but also with many problems. Because the country is divided into five quite separate regions, every problem was approached with a regional bias, and there existed no national program in accordance with which the claims of the different regions could be judged and reconciled. The Colombian authorities recognized, therefore, the advantages

which could be gained by asking the Bank, as an impartial and objective agency, to organize a general survey mission to study the economy of the country as a whole and to submit recommendations on the basis of which a Colombian national development program could be formulated.

The bank undertook this assignment as an experiment. It organized a mission of twelve or fourteen members, headed by Dr. Lauchlin Currie, and composed of experts in such fields as transportation, power, agriculture, industry and public health, as well as economists familiar with the problems of national income and accounts, resource utilization and monetary and fiscal policy. The mission spent about three months in Colombia, and then drafted a long report -- with which many of you may be familiar -- embodying a series of recommendations in these various fields, and proposing for the consideration of the Colombian authorities a coordinated five-year investment program. Since that time, we have undertaken similar assignments in Guatemala, Cuba, Turkey and Iraq -- and we are now in the process of organizing comparable missions for Ceylon and for Surinam.

In this work we have had the assistance of many other organizations, international and national, public and private. The International Monetary Fund has provided us with help. The Food and Agriculture Organization of the United Nations has furnished agricultural experts for most of the missions. The World Health Organization has helped us secure public health experts, and in one case the UNESCO helped us secure an educational expert. We have also received assistance from the various of our member governments, from the Federal Reserve Board and from the Federal Reserve Bank of New York. And in the case of our mission to Cuba, we utilized, with great advantage, the services of the Stanford Research Institute, as well as of the Southwest Research Institute and the Armour Research Foundation.

We have tried to recruit the members of these missions on an international basis. At least three different nationalities have been represented on each

mission -- and in the case of our most recent mission, -- that to Iraq -- the fourteen experts came from seven different countries. In each case, one or more members of the Bank's Staff participated in order to provide the mission with the experience already gained by the Bank in this type of work and to provide for continuity in our relationships with the particular country concerned. As we have gained more and more experience in the Bank in this field, we have tended to staff the missions more with our own people and to rely on outside consultants primarily in specialized fields in which the Bank has no peculiar competence.

The only published report of these missions generally available is that of the mission to Colombia. The report of the mission to Turkey was presented to the Government of that country just a few weeks ago; a summary of the report is available in printed form and the full report will be available shortly. The reports of the Missions to Guatemala and Cuba are expected to be presented to the Governments of those countries within a matter of weeks.

The reports are all quite different, as might be expected. But there are also striking similarities. Most of them indicate, for example, that agricultural development has been neglected -- partly because of the strong attraction of industrialization, partly, I suspect, because of the tedious and undramatic nature of the efforts necessary to increase agricultural production. Schemes to import agricultural machinery, to clear or reclaim vast tracts of land, or to provide irrigation on a large scale are popular -- they are easy to understand and to dramatize -- but not so the far more fundamental work of agricultural research and extension. In practically all of the underdeveloped countries, extension services are still in their early stages; there is no adequate mechanism to disseminate to the farmers the knowledge which is available concerning advanced production techniques, better seed, better methods of fertilization and the like. Even the importance of this task is not generally appreciated. But

the reports of our Missions all indicate that successful execution of a comprehensive extension program, accompanied by an appropriate agricultural credit program, could work a minor revolution in agricultural production and thereby give tremendous impetus to development in all fields.

Another thing which each of the Missions has found is a tendency to emphasize a few monumental showpieces rather than to seek a more balanced development through investment in a larger number of smaller projects. Here again one can see quite plainly the influence of that most natural urge of the politician everywhere, the desire to win the next election. The construction of a large hydroelectric plant or steel mill is apt to be a more persuasive sign of progress to the electorate than more modest, if perhaps more real, achievement spread over many fields. This tendency is perfectly understandable, but it indicates again the need for coordinated programming.

One other matter which has been stressed in all the mission reports is perhaps worthy of mention, and that is their conviction that more effective utilization of existing productive facilities is at least equally as important to development as an expansion of those facilities.

Through better training of management and workers, better production techniques and more effective governmental administration, frequently as much can be done to increase production and raise living standards as through investment in new plant and equipment. I mention this because we all constantly hear that it is the scarcity of capital that is the root cause of the lack of progress in the backward areas. Capital is important, certainly, but our experience in the Bank has convinced us that it is only one element in the picture, and frequently far from the most important element.

In most of the mission reports recommendations have been made for a five or six year investment program of public expenditure. These programs are quite

general in character and are intended, not as a pattern to be followed rigidly, but simply as a guide to the national authorities in their own programming efforts. No missions report can, of course, serve as a substitute for the creation of a permanent organization within the country itself to work out a national development program, to keep it under constant review, and to modify and adapt it as conditions require. As I indicated earlier, our objective is to stimulate and give assistance to domestic programming efforts, not to try to write detailed prescriptions ourselves.

It is much too early as yet to evaluate the effectiveness of this type of technical assistance provided by the Bank. The test, after all, is not in the survey or report writing stage; it is in the stage of implementation. We all know of many reports, some very good ones, which have remained just that. So far as the Bank is concerned, we are not interested in adding to library shelves; we are interested only in the action which may result from the reports we sponsor. It is our hope that, because the Bank maintains a continuing relationship with its member countries, and because it has not inconsiderable financial resources at its disposal, the recommendations made by Bank Missions may have more chance of adoption than those made by other agencies or under other sponsorship. Our member countries know that, if they do their part in formulating and carrying out an appropriate development program based on the recommendation of a Bank mission, the Bank stands prepared to help them by financing productive projects included within the program, up to the limit of their ability to service foreign debt. They know, too, that if they take no action on the recommendations they are not likely to qualify for as much Bank assistance. It is in this combination of technical and financial assistance that both the novelty and, I believe, the promise of our efforts lie.

The results to date of the only report which was submitted until recently -- the Colombian report -- have been encouraging. That report was literally a best-

in Colombia; the entire Spanish edition of 4000 copies was quickly sold out. And it stimulated a great deal of thinking, discussion and action. The Government, at our suggestion, established a non-partisan Committee on Economic Development, composed of six outstanding citizens to study the report and advise the Government as to what action to take on the various recommendations it contained. This Committee has been meeting, three or four times a week, for about eight months and has just completed its work. It has made a series of reports to the Government, as a result of which a substantial number of constructive measures have been adopted which I think have fully justified all the time and effort that went into the undertaking. The Bank provided the Committee with the help of a number of the experts who were on the original mission who served to explain the report and to work out modifications which appeared to the Committee to be desirable. It is our hope that similar committees will be established to review the reports of the other Bank missions and to help translate them into national programs of action.

We are also experimenting with other techniques to achieve the same objective which we have been trying to attain through the missions. In the case of Nicaragua, for example, we are stationing two Bank representatives in that country for a period of from eight to twelve months to help in the formulation of a development program, to coordinate the work of experts in various specialized fields that we will arrange to have go to Nicaragua during that period, and to help the Government put into effect the recommendations of these other experts. In this case, as you will see, we are dispensing with the long and arduous report-writing stage and playing a more direct and more substantial role in the implementation stage.

At the suggestion of the Government of Mexico, two members of the Bank staff are participating in a joint Mexican-Bank working party to study problems of development in Mexico. The purpose of this group is to examine, on a technical level and on a cooperative basis, the major trends in the Mexican economy, with

special reference to Mexico's ability to absorb additional foreign investment. This technique, again, is experimental, but it is an experiment which we will follow with interest.

In various ways, then, we are pushing ahead as fast as we can with assistance in the vital field of development programming. Not all the recommendations which result from this work will be popular; many of them, indeed, will be exceedingly unpopular. This is inherent in the situation, for, as I indicated earlier, development will, in most countries, involve painful readjustments; in some, major structural readjustments of the economy will be necessary. It is the strength of the bank that, when it recommends such adjustments, no one can truthfully accuse it of seeking either political or pecuniary advantage. As a cooperative of sovereign governments, the Bank has no axe to grind, no objective to serve other than to further what it believes to be the true interests of its member nations. It is because of this position of impartiality that the Bank has, I believe, a unique opportunity to contribute to development. I hope that, as the results of our efforts become apparent with the passage of time, they will indicate that we have availed ourselves of that opportunity to good effect.

ECONOMIC DEVELOPMENT

Statements by Officials of the
International Bank for
Reconstruction and Development
1951



Contents

| | <i>Page</i> |
|---|-------------|
| Address by Eugene R. Black, President Chicago, Illinois, January 10..... | 3 |
| Address by Eugene R. Black, President Santiago, Chile, March 7..... | 13 |
| Statement by Richard H. Demuth, Assistant to the Vice President New York, May 17..... | 21 |

*Address by Eugene R. Black
President of the International Bank
before The Bankers' Club of Chicago*

Chicago, Illinois

January 10, 1951

IN THESE TIMES any subject but defense may seem trivial by comparison. The defense of our country and of the free world will remain the topic uppermost in our minds and the paramount issue in our lives, for how long we cannot tell. And, next in importance to defense, I suppose we would put a fair sharing of the burden. That means many things: a vigorous campaign against inflation; higher taxes; price and wage control; allocations and rationing. But we must not let the weight of this burden and the importance of these issues make us lose sight of our responsibilities; it should only place them in a different perspective. It is one of these other responsibilities about which I wish to speak tonight—the economic development of the underdeveloped areas of the world.

On November 10th, shortly before the Korean war took so grim a turn, Mr. Gordon Gray's report to the President on Foreign Economic Policies was published. This, the first public document to gather together the loosely dangling threads of American foreign economic policy and weave them into a coherent pattern, is a document which deserves attention. Among other things, the report points out the importance of giving the underdeveloped countries a greater opportunity to raise their standard of living. It emphasizes the gradual nature of the development process and describes the obstacles which have to be overcome to accelerate it. And it reaches the conclusion that the United States, in its own self-interest, should make additional financial and technical assistance available to the less developed countries of the world. The order of magnitude of the annual dollar assistance from other than private sources that the report recommends is \$500 million in grants, and \$600 to \$800 million in loans; of the loans, half or more is expected to be provided by the International Bank.

It would be a natural reaction to recommendations of this sort to say that what seemed good on November 10th no longer makes sense on January 10th. So far as the amounts are concerned, there may well be truth in this. But as for the principles involved, they were, in my judgment, never more alive.

Economic development, as a term, has been much in fashion recently. But, as a process, it is nothing new. In the last 150 years development has proceeded very rapidly in certain parts of the world—in Western Europe, in Japan, in the countries of the far south, Argentina and Uruguay, Southern Africa, Australia and New Zealand, and, above all, in North America. In these countries a high standard of living has been achieved and a large store

of capital built up in spite of the great dissipation of assets in war, particularly the two World Wars. In the rest of the world, where three-quarters of its population lives, there has also been some progress. Millions of people have engaged in the production of commodities like tin, rubber, coffee and cocoa for the world market, which, however fickle it may have been, has provided a source of income much above their previous level of primitive subsistence. Ports, railways, power stations, whole new communities, have been built, partly to bring these commodities to market, partly to serve the general economies of these countries.

But progress has really touched only a fringe. As the standard of living of the world has advanced, the gap between the highest and lowest has widened. The bulk of the people in the underdeveloped countries are peasants, for most of whom the horizon is bounded by a small patch of land. And this land, as like as not, they do not even own, but work for another with poor and primitive tools. Or if they do own it, they are likely to be so in debt that it makes little difference. They would have little incentive to improve the land, even if they knew how or had the means; but mostly they are illiterate. They live in small one-room huts, which, often, they share with their few animals. Their diet is deficient, their stamina poor and they are a prey to disease; if medical science has brought them benefits, they are two-edged, because every child that is saved, every old man whose life is prolonged, is another mouth to feed. The villages in which they live are often remote from the few main arteries of transportation; if they are on a road, it is frequently impassable in the wet season. Storage is rudimentary. Local plenty in one district can thus be quite compatible with local famine in another. In many countries the average income is no more, and is often considerably less, than \$100 a year. In many countries, too, the average life expectancy is little over 30.

There is another way in which the difference between the developed and the underdeveloped countries can be illustrated. As an example, I will take one country, India, the second most populous country in the world. A plan for the development of British Commonwealth countries in South and South-East Asia was recently published by the Commonwealth Committee. It gives some interesting figures. On a per capita basis, the United States uses nearly 200 times as much electric power as India and 100 times as much steel; on the same basis, our freight cars can carry 50 times as large a load and, if you take an instrument which is less fundamental, but nevertheless almost an essential with us, the telephone, the ratio is 700. The United States has actually somewhat more land under cultivation than India and, with only a tenth the number of people working on it, produces far more. Nor is this surprising when you consider that we have 250 times the number of tractors

to work it with and use 65 times as much fertilizer. Much the same story, with variation upward or downward, can be repeated from one country to another. They all lack that system of public services on which must be based the great superstructure of a prosperous industrial—or agricultural—society.

Why this disparity should have arisen is disputed. Some on one side would claim superior thrift, industry and initiative; some on the other that the less developed nations have been cruelly exploited. Climate has been judged the villain of the piece. But this is a futile argument. The real question is how to prevent the disparity from widening still further.

AS THE TASK of development is to raise whole regions and sometimes whole countries out of their poverty and backwardness, heavy investment is needed in highways, water supply, storage, power, housing and, equally important, health and education services. All this requires capital, but as the capital available is at best limited, careful planning is necessary to obtain the best results. If development is undertaken haphazardly it stands little chance of success; it is normally necessary to draw up a program for investment for several years ahead. The projects in that program have to be chosen judiciously. Their timing must take account of the interdependence between them; it is no use double-tracking a railroad before the port is ready to receive its freight. There must be the right kind of training for labor and the professions; a surplus of lawyers will not make up for a lack of mechanics. The program has to be drawn with sufficient flexibility to meet unexpected contingencies.

The poorer a country is, the less it can afford waste and the more careful it must be to husband its resources and use them to the best advantage. Idleness, inefficiency and corruption can be tolerated least of all in a poor country. And so the most necessary forerunner of development may well be the kind of domestic action which costs hardly any money at all. Very often the tax system needs overhauling in order that the rich may bear their proper share of the burden. The power of particular labor unions may need curbing. The monetary system may need tighter control to prevent inflation.

Of all the reforms which we have seen to be desirable, reform of land tenure, however difficult to achieve, is probably the most important. The need for land reform is widespread, because the whole basis of development is the land. Its effect on development might be remarkable, for, if people are freed from the deep-rooted conviction that, whatever they do, they cannot prosper by their own efforts, they may show initiative in far greater abundance than we suspect they possess. It is not without significance that land reform is one of the main planks of Communist propaganda.

Unfortunately the influence of special interests in the underdeveloped countries and their resistance to reforms in the general interest are certainly

as strong as they are in the more developed; such vested interests are often very well entrenched. This is another reason for having a well-concerted plan of action. If particular groups are to be ranged on the side of the general interest, it is necessary to show them what the general interest is and to obtain the widest support for it.

In all these matters the governments of underdeveloped countries require tactful but firm support, for the best course is not always the most immediately popular and politics may bedevil the whole conduct of development. The Bank, in its operations, has tried to give this kind of support. We have constantly urged the underdeveloped countries that they draw up a sound program of investment and that they formulate and put into action the economic policies necessary for its fulfilment. We have sent missions to a number of these countries, in some cases to investigate particular sectors of their economies such as agriculture, in other cases to take an inventory, so to speak, of the entire country's resources and needs. It is our hope that the work of these missions will help the countries they have visited to plan their development programs efficiently and to obtain for them widespread and non-partisan public support.

A program is not, of course, enough; it has to be financed. With their small stock of capital and their low income, it is clear that the underdeveloped countries could progress only gradually if they had to rely on their own savings alone, however wisely they might be invested; it would take decades to make a sensible impression on their poverty. In fact, in countries where the population is increasing rapidly, it would be all they could do to prevent the standard of living from falling. In order to accelerate the process of development, these countries require capital from abroad. There is hardly a case in the past where the early stages of a country's development have not been carried out with the help of foreign capital; and almost always private investors provided the funds. Some capital was obtained by selling bonds, but there was also a large contingent of equity money for development. Private companies built and operated railroads, ports, waterworks, electricity systems; they developed land. The equity stockholders took risks. Some got quick and lucrative returns; many others never saw a dividend. Today, for reasons which I will not go into here, that kind of equity money is not forthcoming, not at any rate for the public services which are needed as the basis of expansion.

But there is still the same kind of risk in the development of the more backward regions, which sometimes means whole countries. It takes time, usually a long time, for the very large investments which have to be made to bear fruit. During that time the country will receive little additional income and may at the same time be paying interest on borrowed money. In fact,

some investments may never bear fruit. Human planning will always be imperfect, depending as it does on numerous unknown quantities. We sometimes tend to forget that development depends on human beings, whose behavior in very different conditions cannot be forecast. If past experience is any guide, some peoples can become adept in agriculture, commerce or industry in a remarkably short time, while others seem to resist change. That is one kind of risk, perhaps the most important one. Another is the economic risk. Even if people respond to education and opportunity and become proficient, for example, in some branch of agriculture, they may one day find their livelihood menaced. Their crops may be attacked by unanticipated disease. The development of substitute materials may cut off the demand for their product. Or conditions elsewhere in the world may be found to favor production at much lower cost. The history of commercial agriculture is studded with examples of unforeseeable shifts of this kind. And similar considerations apply to mining, industry and even transportation. But all these risks have to be taken because the price of doing nothing may be perpetual stagnation.

IN THE PAST FEW YEARS the Bank has been able to assist a number of the underdeveloped countries by making loans for a variety of purposes. Let me give you a few examples: building new power capacity to overcome shortages in the industrial regions around Sao Paulo in Brazil, around Mexico City and in the Damodar Valley near Calcutta; post-war rehabilitation of the railroads in India and Thailand; dredging and re-equipping the port of Bangkok to save costly lighterage and manual handling of freight; building storage facilities in Turkey to stop the spilling and spoilage of grain. By and large, these projects have had a clear and well-defined objective. They were obviously highly necessary and they should have an almost immediately beneficial effect on the economies of these countries; indeed, some already have had.

But the International Bank is, after all, a bank; the amount it can lend is limited by the prudent regard it must have for the prospects of repayment. For many countries the limit is high enough to permit development to proceed at a reasonable rate. But for others, the limit is very low and there is little prospect of raising it, not at least with any speed, because the kinds of investment they need are the ones that yield slowly and carry a considerable risk. We must frankly face the fact that these countries cannot perceptibly accelerate the rate of their development if the only capital which they receive is in the form of loans which have a reasonable prospect of repayment.

It has sometimes been suggested that this problem should be met by providing capital in the form of very long-term low interest rate loans. Such loans can, of course, only be made by governments. Because such loans, in form, appear to provide for a tangible *quid pro quo* which can be written

down as an asset, it may be easier to secure legislative approval for them than for outright grants. But the very fact that these loans are made on especially easy terms and are still called loans should make us suspicious. Although easier terms reduce the element of risk, they do not come near to eliminating it. And so, in the end, although some loans will turn out well and will be repaid, others will bring in their train, first, severe strain on the economy of the borrower and, finally, default. When this happens, there is likely to be ill will, rational and irrational, on both sides. The lender will resent the default on a loan made in good faith. The borrower will resent the years lost in abortive struggle to maintain payment on a debt, which he probably regarded in the first instance more as a promise of prosperity than as a serious financial obligation. The effect of such defaults is to destroy credit generally and to atrophy the integrity of all orthodox lending. In my opinion, where you have a choice between grants and fuzzy loans of this kind, it pays in the long run to make grants.

I HAVE DESCRIBED to you in somewhat oversimplified terms, what the task of economic development means. It will need the whole armory of the advanced countries to attack it, loans and grants, technical assistance and private investment. And these weapons must be used in combination, not piecemeal, in order to ensure that all the resources of the underdeveloped countries are used as effectively as possible. Their governments need encouragement and support if they are to do their part of the job, which is the main part, with the firmness and boldness that is required. We would invite waste and frustration if loan funds from the Bank, for example, were made available to a country according to one plan, grants or loans from another source according to a different plan, and technical assistance without regard to either. And that, I am afraid, is what is likely to happen if a strong effort is not made to coordinate our forces. Indeed, it is already happening.

But, when all this has been said, there still remains the question whether at this juncture the United States and the other industrial countries of the world can afford the money, which of course means the goods which it would buy. The governments of these countries know the magnitude of the defense effort they are undertaking, what can or cannot be released for other purposes. I shall not be so presumptuous as to argue about that. But I would say that when this has been decided, very serious thought should be given to the disposal of the residue. Our national income is so large that, even after a very large defense effort, the residue would still provide a tolerable living for civilians. We do not know the meaning of austerity—not yet. Compared to this residue, amounts which would make a very great difference to the underdeveloped countries would not affect our standard of living in any serious way, although they might cut into our indulgences a little.

I know that, in comparison with the outset of World War II, there is little slack to be taken up in our industrial machine. There is, however, leeway in agriculture, where output can still be increased considerably. And, although industrial equipment is needed by the underdeveloped countries, they can use food too, because wheat for the workers is one of the raw materials for any kind of construction. Do not mistake my meaning. I do not say this or that item can readily be exported in any particular quantity. All I say is that we should give serious consideration to the possibility. My hunch is that there might be a very useful amount to spare.

There is one thing that I would like to emphasize at this point. If we are going to spare that "useful" amount, we must make sure that it is, in fact, employed usefully. In these times, least of all, there is no excuse for waste. We cannot afford to make gifts as a gesture, which will do no real good to the recipients. In other words, we must be sure that anything we make available is devoted to well conceived productive projects and that these are also well executed.

And if we can afford something, why should we take the trouble and bear the additional sacrifice? To this, I think there is a simple answer. We are bound to do it, because it is in our own self-interest, because it is the only action consistent with the basic principles which the Western World is striving to maintain. Of course, there will be those who will cry "Operation Rat-hole" and will ask how many divisions we are going to get out of it. To this I would say that we may get no divisions. But if we do nothing, we may see an even greater multitude of divisions against us and important sources of raw materials cut off. Certainly the lessons of recent years have emphasized the truth that aggressive Communism breeds on poverty, misery and hopelessness. A relatively small expenditure now to raise standards of living in the less developed countries and to offer the hope of a better future to their peoples may save us much greater sacrifice later on.

THERE IS ANOTHER answer, too, and that is that assistance for development to backward areas is the only action consistent with the basic principles which the Western World is striving to maintain. We speak with pride of the vast industrial machine that the American people have created and the high standard of living we enjoy. But it is not, in the main, the American people living today who created our prosperity. It was our fathers and forefathers. They left us an inheritance and we are in a very real sense the trustees of this inheritance. Our stewardship must be wise and just, for it is not only a material but also a spiritual inheritance. I trust the American way of life that we are fighting for is not just the enjoyment of the material half of the inheritance, because, if it is, it will crumble from within for lack of moral fibre.

What can we offer the people who live in the underdeveloped countries in conditions such as I described earlier, conditions which to us are barely conceivable? Should we merely offer these people, who often achieve a dignity in life which we might envy, a sermon on the benefits of democracy and free enterprise and ourselves as its prime example? To them, democracy and free elections are meaningless; government is the local tax-collector. And the concept of free enterprise is equally unintelligible unless it means giving them a decent plot of free unencumbered land, sufficient tools and working capital to work it, instruction in how to improve it and credit at a reasonable rate to take advantage of that instruction. And to get them this, we have to put as much physical effort and moral force to work as we can.

Eighty-eight years ago, at another time of crisis, Abraham Lincoln said: "The dogmas of the quiet past are inadequate to the stormy present. The occasion is piled high with difficulty, and we must rise with the occasion. As our case is new, so we must think anew and act anew. We must disenthrall ourselves, and then we shall save our country". Today not the Union, but the free world is at stake. If we do not rise with the occasion, we shall fall with it, and we shall fall very hard.

*Address by Eugene R. Black
President of the International Bank*

before the

Economic and Social Council of the United Nations

Santiago, Chile

March 7, 1951

I AM GLAD to be able to say to you here today that the 12 months since we last met together have been an active and successful period for the International Bank. I want to summarize quite briefly our achievements during that period, and then to discuss more fully with you some of the special problems that aggression in Korea now forces us to consider in connection with the task of raising productivity and living standards. It is equally important to describe some of the basic lessons which the Bank has been learning about this task. For these lessons must be widely applied if men are to win that "larger freedom" of which the Charter speaks, and which today more vividly than ever is the goal of the United Nations and your Council.

The documents you have before you—our Fifth Annual Report and a supplemental statement bringing that Report up to date—show what the Bank is doing to enlarge the freedom of men. It is helping to engage them in productive work; to put at their disposal such essentials as more power, better transport, and machinery for developing the land; and in general is providing them with tools which can magnify both the results and the rewards of their labor.

Since I met with you at Lake Success, the Bank has lent a third of a billion dollars for productive projects in its member countries. During the year, we made our first loans in Africa, the Near East, southeast Asia and Australia. Our total commitments now come to more than a billion dollars, of which almost two-thirds has been paid out, for more than two-score undertakings in 20 nations. In short, the Bank has become one of the major sources of investment in economic development all over the world.

The Bank is functioning effectively as a pool of both governmental and private resources. More than half of our member countries, as compared to only five when I last talked to you, have consented to our use of some or all of their local-currency subscriptions to the Bank's capital. While the sums are not yet large, I hope and expect that our progress in this respect will continue.

We have been able to facilitate the participation of risk capital in economic development. In 1950 for the first time, portions of our loans were transferred into private hands without our guarantee, by the sale of bonds we had received from borrowers. A feature of one of our most recent loans was the simultaneous action taken by American banks to provide financing to the borrower for purposes related to that loan.

I want to emphasize here today that the Bank does not now face any difficulty in raising sufficient funds of its own to support its future lending activities. The bonds of the International Bank are well established in the American securities market. They are gaining additional acceptance abroad. Two important European stock exchanges, during the year, have been opened to our American issues: the Paris Bourse to direct trading, the Amsterdam Exchange to trading in certificates issued on the basis of our bonds held by Dutch banks. Banking institutions in a number of Latin American countries have now been authorized to purchase our bonds.

In the past year, we again went outside the United States to raise new money, through a second issue of our securities floated in Switzerland for Swiss francs. At the present time, we are making tentative plans to enter the Canadian market some time this year.

The major market for our bonds, of course, still lies in the United States. As you know, we have just made a highly successful offering of U. S. dollar bonds. The requests of investors for these bonds substantially exceeded the amount offered. American market leaders have cordially received the news that from now on, the International Bank expects to be selling its securities regularly as its lending operations require.

Barring unforeseen eventualities, I think both the Bank and its borrowers may rely on a continuous flow of funds from private investors, in the United States and elsewhere.

EVENTS IN KOREA, however, suddenly confront us with the fact that availability of funds no longer means, as it would have meant a few months ago, that the supplies and equipment needed for development will smoothly be forthcoming as well. The armament efforts now proceeding in many parts of the world are pre-empting materials, machinery and manpower which otherwise could be used to create more wealth and higher standards of living.

This effect, serious in itself, may become still more serious if it is allowed to lead into uncontrolled inflation. Many of the underdeveloped countries today find that their foreign-exchange earnings have increased substantially as a result of the rise in the prices of foodstuffs and raw materials which they produce. But unless these countries undertake appropriate measures such as taxation, their changed international position will cause internal inflation. The result of that inflation would be to dissipate increased earnings without achieving any beneficial investment in development.

Inflation is no less a problem for the industrial countries of the world. In their case, inflation would eat up supplies; it would make it impossible for these countries to satisfy domestic demands for consumption on a reason-

able basis, and would cripple efforts to increase or continue exports of capital and consumer goods to underdeveloped countries.

In industrial nations, I think we need a wise and confident perspective on this process of economic development. Two points here seem to me to be worth underlining. First, continuing support for higher living standards in less developed nations is vital to the preservation of peace. Poverty and despair, we all know, are a continual threat to peace; they both invite and abet aggression. Second, I want to point out that the resources available for economic development, even in the present situation, may still be substantial.

Let us remember that the industrialized nations of the world have tremendous vitality. This quality cannot be measured, but we would do well not to underestimate its effect.

In 1940, who could have foreseen the marvels of production that the United States of America would be accomplishing in 1945? Four short years ago, who would have dared predict that the war-torn countries of western Europe would, today in 1951, be exceeding every significant prewar index of production? Who would have ventured to foretell that the physical volume of international trade, so quickly after the war, would grow to unprecedented size? Yet all these things have happened. We have come close to proving the proposition of the great statesman who said, "There is in fact no limit to the benefit which human beings may bestow upon one another by the highest exercise of their diligence and skill."

Compared to the industrial world's capacity for production, the amounts of materials and equipment that can usefully be employed, for the present, in the basic development of the less developed countries are small. In terms of the volume of goods needed, the heavy demands of armament and the modest requirements of development do not deserve to be mentioned in the same breath.

I WANT TO PRESS on you again, however, the view that development is an urgent task. We cannot build a stable world out of nations whose populations are engaged in a tooth-and-nail struggle merely to keep themselves alive. We can achieve stability only when men are loyal to the social order in which they live, and when that order provides an equitable sharing of rewards, so that men can live as neighbors rather than as rivals for an insufficient share of the world's goods.

It is imperative for all of us to help provide the means for men to create a better tomorrow for themselves and for their children. It is imperative to help build a common stake in the future which will lead to new unity and new vigor among the nations which share the same ideals about the dignity of man. This can be a great contribution to peace today. Carried on

continuously and constructively, it can be an even greater force for peace and stability in years to come.

It follows from what I have said, I think, that the industrialized nations both can and should put support for economic development high among the urgent tasks they now have to perform. Some of this support may be relatively easy to give. There is still room to increase agricultural output considerably, and the underdeveloped countries can use food; wheat for workers is one of the basic fuels of economic progress. I do not mean to belittle the difficulties which certainly will arise in supplying critical industrial items. I do not mean to imply, either, that economic development can proceed without diversion of goods from other purposes in both industrial and underdeveloped countries. But I do, most emphatically, mean that dealing with these difficulties is worth all the diligence and skill we can apply.

The less developed countries, under present circumstances, have more than ever an obligation to select development projects of really fundamental importance to their economies. More than ever, they must forebear from pressing plans which may represent premature ambitions rather than urgent necessities. More than ever these countries should insure that the administration of development projects will bring them at least equivalent value for every unit of money spent. These are standards which should apply in any event; but now they are absolutely indispensable.

I spoke a few moments ago about the basic lessons which the Bank has been learning about economic development. Prominent among them, I think, is the necessity of realizing that development is not merely a supplemental activity in the country which undertakes it. It grows out of and represents a country's whole way of living. To this way of living, a country must first look if it is to achieve economic progress.

Idleness and inefficiency, corruption and unstable government, can be heavier drags on progress than lack of capital; in themselves, they are likely to be among the root causes of a lack of capital. Tax systems that burden the poor more heavily than the prosperous, fiscal policies which encourage inflation, investments which are made for political rather than economic reasons, may all cripple an advance toward a higher standard of living. Indeed, they may cause that standard to fall.

In one way or another, the most necessary requisite for development may be reform. It may be the kind of reform which costs hardly any money at all. Or it may be the kind of reform which, although costly and difficult, can proceed without external assistance.

Of all the reforms which we have seen to be desirable, reform of land tenure is probably the most important, because the whole basis of development is the land. The achievement, throughout the less developed countries,

of a wide system of independent holdings—acreage of efficient size unencumbered by heavy debt—would release energy and initiative on an unprecedented scale. It would be one of the longest steps we possibly could take in the direction of greater production, higher living standards and growing social stability.

However we look at it, we cannot escape the fundamental fact that the economic development of a country is primarily the responsibility of that country itself. Economic development is not something which can be imported from abroad. It must, at bottom, be won internally by acceptance of responsibility, hard work, and sacrifice.

ONCE THESE FACTORS begin to appear, external capital may be used effectively. Without this capital, many of the less developed countries would be unable to accelerate their progress. But with it, they may be able to accomplish feats, in little more than a decade, that otherwise would take a generation to bring about.

Some countries have sufficient resources and credit to enable them to carry out development on the basis of borrowing from abroad. I think we should frankly face the fact that others do not; they cannot adequately accelerate the rate of their development if the only capital which they receive is in the form of loans which they have a reasonable prospect of repaying.

It has sometimes been suggested that this problem should be met by providing capital in the form of very long-term low interest rate loans. Such loans can, of course, only be made by governments. Because such loans, in form, appear to provide for a tangible *quid pro quo* which can be written down as an asset, it may be easier to secure legislative approval for them than for outright grants. But the very fact that these loans are made on especially easy terms and are still called loans should make us suspicious. Although easier terms reduce the element of risk, they do not come near to eliminating it. In the end, although some loans will turn out well and will be repaid, others will bring in their train, first, severe strain on the economy of the borrower and, finally, default. When this happens, there is likely to be ill will, rational and irrational, on both sides. The lender will resent the default on a loan made in good faith. The borrower will resent the years lost in abortive struggle to maintain payment on a debt, which he probably regarded in the first instance more as a promise of prosperity than as a serious financial obligation. The effect of such defaults is to destroy credit generally and to wither the integrity of all orthodox lending. In my opinion, when a country has a choice between making grants or quasi-loans of this kind, it pays in the long run to choose grants.

Let us suppose, now, that both external capital and the proper internal environment are available in an underdeveloped country. There still remains

the need to see that the available resources are efficiently applied to the problem of development. Since these resources will at best be limited, careful planning is necessary to obtain the best results. If development is undertaken haphazardly it stands little chance of success. It is a long-range process, which should rest on investment programs designed for several years ahead. At any given stage in the program, development projects must be chosen judiciously and in a proper relationship to one another; for example, there is no use in increasing production if the necessary facilities for transportation and distribution are not ready at the same time.

The International Bank has constantly urged the underdeveloped countries to draw up sound programs of investment, properly bedded in the right kinds of economic and fiscal policy. We have sent missions to some of these countries, to take inventory, so to speak, of the whole nation's resources and needs. I believe these missions will help our member countries to plan development efficiently, and will help to obtain widespread, non-partisan public support for sound economic advances that would not otherwise occur.

But if there is a need for programming on the inside of an underdeveloped country, there is also a growing need for coordination on the outside. Today, there is a bewildering multiplicity of channels through which the underdeveloped nations are being provided or offered external aid. Some of the assisting countries are proceeding on a purely national basis. Others are acting through a variety of instruments, both national and international, without much integration among them. The very multitude of voices, perhaps urging inconsistent or even contradictory policies, sometimes makes it difficult to induce developing nations to take some of the painful and unpopular decisions that are often essential to their further progress.

INTERNATIONAL AGENCIES, I have no hesitation in saying, seem to me to offer potentially the most efficient avenue of approach. International action may frequently be more effective than national action in inducing the less developed nations to adopt necessary, but politically difficult domestic measures. International organizations cannot, in truth, be charged with invading national sovereignty, with economic exploitation, or with political discrimination among different countries. Finally, these agencies seem to me to provide the best—and probably the only—way of directing the resources of national contributors toward the same common purpose.

It is easy enough to state these advantages as a matter of theory. To put them to work, however, is a different thing. A decision to enlarge the role of international agencies would involve judgments of great importance and difficulty on the part of those assisting nations that now tend to act independently. Yet I think there would be great benefit if these nations were to assign

international organizations the key role in planning and coordination—whatever the sources of financial or other assistance involved.

The problem can be resolved to some degree, I think, if the United Nations and the specialized agencies themselves take a stronger lead in working with member countries on development and related problems. But they will not be given leadership, and their leadership will not be accepted, merely because it is logical for them to lead. They must establish their place through achievement and concrete action. This is the challenge facing the International Bank and other specialized agencies of the United Nations today—to show, by doing, that they deserve to be given key responsibility.

As I hope I indicated to you at the beginning of these remarks, the Bank is taking up this challenge in good spirit and considerable confidence. The charter written for the Bank at Bretton Woods six years ago has proved to be a wise and flexible document. The Bank has been able to operate vigorously under circumstances much more difficult than those originally foreseen for it. Today the Bank and its member countries have much to gain by stoutly pursuing the objectives set forth at Bretton Woods, and that is what the Bank, for its part, proposes to do.

*Statement by Richard H. Demuth
Assistant to the Vice President of the International Bank,
Representing the Views of the Management,*

before the

*United Nations Economic, Employment and Development Commission
United Nations, New York
May 17, 1951*

THE MANAGEMENT of the International Bank has examined with great interest the Report of the Group of Experts entitled "Measures for the Economic Development of Under-Developed Countries".

May I say, at the outset, that we believe that the authors of the Report have made an outstanding contribution through their careful and comprehensive analysis of the problems of economic development. They have pointed out with clarity, and with a commendable sense of proportion, the many different factors involved in the development process and the interrelationship among them.

Often in the past, the concept of development has been thought of too narrowly as synonymous simply with the availability of physical resources, capital and technology. Indispensable as these factors are, they will not, as the Experts have pointed out so forcibly, bring about development by themselves. Rather, the pace of economic progress is determined by a great variety of interrelated elements—among which, in addition to physical resources, capital and technology, perhaps the most important are the energy and effectiveness of the government, the social institutions of the country, the distribution of wealth and opportunity among the various classes of the population, the effectiveness of the educational effort, and the character of the economic and financial policies and institutions governing the allocation of the country's resources. Economic development can proceed rapidly in any nation, as the Experts have emphasized, only if there is a strong national will to develop—a will to put the long-range interests of the country as a whole ahead of short-term political advantages and ahead, too, of immediate financial advantage to particular interests or groups, however influential they may be.

The Bank welcomes the sense of urgency which pervades the Report. With the permission of the Commission, I would like to repeat in this connection what the President of the Bank stated to the Economic and Social Council at its recent meeting in Santiago. He said, "I want to press on you again the view that development is an urgent task. We cannot build a stable world out of nations whose populations are engaged in a tooth-and-nail struggle merely to keep themselves alive. We can achieve stability only when men are loyal to the social order in which they live, and when that order provides an equitable sharing of rewards, so that men can live as neighbors rather than as rivals for an insufficient share of the world's goods."

"It is imperative for all of us to help provide the means for men to create a better tomorrow for themselves and for their children. It is imperative to help build a common stake in the future which will lead to new unity and new vigor among the nations which share the same ideals about the dignity of man. This can be a great contribution to peace today. Carried on continuously and constructively, it can be an even greater force for peace and stability in years to come."

WE HAVE BEEN GLAD to note that the Experts did not permit their statement of the urgency of development to obscure their analysis of the very difficult and complex problems which must be faced if the pace of development is to be materially accelerated. The problems they analyze in their Report are the very problems with which the Bank, and most of the other international organizations, have been grappling for the past few years. The Report recognizes that to overcome these difficulties will in most countries involve painful readjustments; in some, major structural readjustments of the economy will be required. Our experience in the Bank amply confirms this analysis.

I don't want to take the time of the Commission to go over each of the many suggestions for domestic action discussed in the Report. There are a few, however which I would like to single out for special mention.

The first is the need to give high priority to education. In those countries where, as a result of social revolution or otherwise, great efforts have been made to spread education to the people at large, the result has usually been a spurt in economic progress; where education has been neglected, development has rarely achieved much momentum. This is scarcely surprising, for the many steps necessary to achieve dynamic progress—and particularly the creation of a national will to develop—depend very largely on the existence of a literate and inquiring population.

Within the general field of education, the Bank is glad to note the emphasis put by the Experts on three fields—the growth of agricultural extension facilities, the training of skilled workers and the training of executives and administrators able to plan and execute development programs.

It has been our experience that, in practically all of the under-developed member countries of the Bank, extension services are still in their early stages. Knowledge of advanced production techniques, better seed, better methods of fertilization and the like is usually available or can be made available without undue difficulty—but to disseminate that knowledge to the farmers, and to induce them to apply it, is a major undertaking. It is a task that has not yet been tackled with the energy it deserves; even the importance of the task is not widely enough appreciated. Yet successful execution of a

comprehensive extension program, accompanied by an appropriate agricultural credit program, can work a minor revolution in agricultural production in many countries and can thereby raise the standard of living of a large segment of the population, make more resources available for industrial development, create a broader market for industrial products, and generally stimulate the entire development process.

The lack of trained executives and administrators and of skilled workers at all levels is, as the Experts have stated, a major bottleneck to development—and it is one that takes a considerable period to break. We are peculiarly aware of this difficulty in the Bank, for the most formidable single barrier to the expansion of our development activities has been the inexperience of the less developed countries in working out programs and projects up to the point where they are ready for financing. They have also frequently encountered difficulty in finding the proper personnel to manage new projects. The Bank has rendered considerable assistance to its members in meeting these difficulties. Our engineers have often helped prospective borrowers on the technical aspects of projects under consideration. Our loan officers and economists have often been able to make suggestions as to administrative or organizational arrangements for a project or as to the plans for its financing. And we have increasingly been asked by our members to recommend foreign executive and technical personnel to be employed by them to assist in the effective operation of enterprises we have financed.

Progress has been made in this matter; it is reflected in the increasing number of loan applications received by the Bank and in the increasing number of development loans we have been able to make. It is our confident hope that the international and bilateral technical assistance programs, as they grow and begin to bear fruit, will help to speed up the proper preparation of projects and thus permit acceleration in the pace of our lending activities.

Another suggestion for domestic action which we believe the Experts properly stressed is the need to mobilize domestic resources more energetically and to channel them into productive investment. The Experts have called particular attention in this connection to the advantages to be derived from the creation of development banks and corporations. The Bank wholeheartedly supports this position, although a warning is perhaps in order that no single type of institutional organization will meet the varying needs of different countries. The particular type of organization required—how it is to secure its funds, what types of financing it is to do, what its management and control are to be—must be carefully worked out in the case of each country. The experience of other countries can provide a guide, but not one that should be copied blindly.

As the Commission is doubtless aware, the Bank has been quite active in this field. We encouraged and provided substantial assistance for the creation of the new Industrial Development Bank of Turkey and released one of our former officers so that he could accept the position of first General Manager of that Bank. We also played a leading role in the creation of the new Development Bank of Ethiopia. Both of these institutions have received substantial credits from the Bank. In Mexico we helped to work out a consortium arrangement of private banks, with the participation of Nacional Financiera, the official Mexican financing agency, which serves the same general purpose as the Development Banks, and we have made a line of credit available to the consortium. Similar proposals for Development Banks or consortium arrangements in other countries are under discussion. Furthermore, we assigned a member of our staff to work for a number of months as an adviser to the newly established Development Bank of Honduras—and another member of our staff has been assisting Iceland, at its request, in investigating the desirability of creating a new investment agency.

The mobilization of domestic resources and the creation of local capital markets depend only in part, however, on institutional arrangements; at least equally important, of course, are the general economic and financial policies adopted by the government. And in this field, too, we have often found ourselves able to be of assistance. Advice on such matters is less spectacular—less easy to dramatize—than assistance in the establishment of new institutions, but it is no less important. And I think I can fairly say that, through staff missions and through outside consultants employed by the Bank, we have been able to make a not insignificant contribution to the formulation of economic and financial policy in many of our less developed member countries which, in the long run, should help substantially in their further development.

THE FINAL POINT I want to make on the domestic measures proposed by the Experts concerns programming. Here, again, the Bank's experience supports the analysis contained in the Report about the need, *first*, for a coordinated approach to development problems; *second*, for the intelligent determination of priorities for public investment expenditures and the formulation of appropriate policies for the private sector; and, *third*, for permanent organizations to work out development programs, to keep them under constant review and to modify and adapt them as conditions require.

When the Bank initially undertook development financing the loan applications filed with it all too often consisted simply of lists of projects which the member government had under consideration—usually without any indication of the relative priority of the various projects, the relation between them, or their place in the development pattern being worked out for the

economy as a whole. A good deal of the time and attention of the Bank's staff has necessarily been devoted, therefore, to helping member countries determine priorities among the different projects they had in mind and sometimes to suggesting additional projects in fields which may have been overlooked or insufficiently emphasized.

It is a striking fact that practically every mission sent out by the Bank—and we have had missions in almost all of our under-developed member countries—has reported back the inadequacy of development programming efforts and has urged the creation of a high-level local development board, economic council or planning agency, of one kind or another, to rectify the situation. Development programming is a complex, inexact discipline at best—but it is inescapably necessary if resources are not to be wasted or, at best, applied haphazardly.

The Bank has played a significant role in this field. Comprehensive survey missions organized by the Bank at the request of member governments have made recommendations, or are in the process of making recommendations, to Colombia, Cuba, Guatemala, Iraq and Turkey, designed to assist those countries in formulating long-term national development programs. We have provided help not only in the survey stage but in the even more vital implementation stage. In addition to these comprehensive missions, members of the Bank staff have assisted, on a somewhat more limited scale, in the planning of development, or in the study of the methods of programming, in a number of other countries, such as Ethiopia, Chile, Iceland, Pakistan and the Philippines. We have also joined with FAO in sponsoring a mission to survey the agricultural economy of Uruguay—and FAO and the Bank are sending a similar mission to Chile at the end of this month. Similarly, in response to a request from Nicaragua, we are stationing two members of our staff in that country for a period of from eight months to a year to help the government in formulating an investment program, in arranging for technical experts in various specialized fields, and in coordinating and implementing the recommendations of these other experts.

In other words, to the extent that we can effectively do so, and through various devices to meet the varying desires and needs of our members, we are pushing ahead as fast as we can with assistance in the vital field of development programming.

So much for the domestic measures suggested in the Experts' Report. Let me turn now to the portions of the Report that deal with public loans for development—and particularly with the discussion of the International Bank.

I WISH I COULD report that we find the same sense of realism in those portions of the Report as in so much of the rest of it. Unfortunately, this is not the case. In dealing with the Bank, the Experts seem not to have real-

ized that the very obstacles to development they high-lighted in earlier sections have been obstacles in the way of Bank development financing. We have moved in various ways, as I have already indicated, to overcome those obstacles, but in the nature of things it has not been an easy job nor one that could be accomplished over-night.

I think a single set of figures will illustrate the direction in which we have been moving, and the measure of success we have achieved. In the fiscal year ended June 30, 1948, we made two loans for development, aggregating \$16 million. In the 1949 fiscal year, we made three development loans aggregating \$109 million. In the 1950 fiscal year, we made eight development loans totalling \$134 million. And in the fiscal year now coming to a close, we have already made 18 development loans, aggregating about \$290 million. This steady progression accurately reflects, I believe, both the progress made within the Bank in achieving an understanding of the economic situation and problems of its less well developed member countries, and also the progress made by those countries, in part with the assistance of the Bank, in preparing their programs and projects to the point where they are susceptible of being financed by the Bank.

I wish it were possible for me to indicate the amount of development lending the Bank will do over the next few years. But any such prognostication on my part would have to be based on so many assumptions as to future eventualities as to make the end result pure guess work. So far as the Bank is concerned, our objective is to increase our rate of lending just as rapidly as we can, subject only to the limitation that we will not lend more than the borrowing country can absorb and effectively utilize, nor more than the country has a reasonable prospect of repaying. We do not have a top limit on the amount of development loans we are willing to make—neither \$300 million, nor \$400 million, nor any other figure—and, for the next few years at least, we anticipate that our ability to borrow will remain such as to place no limitation on our capacity to lend.

The plain fact is that the rate of Bank lending for development will depend primarily, not on decisions of the Bank at all, but on decisions over which the Bank has little or no control. It will depend, in the short-run at least, upon the ability and willingness of the industrialized nations to make equipment and materials available. It will depend also upon the ability and willingness of the underdeveloped countries, with such foreign technical assistance as may be made available to them, to push their development programs ahead along the lines the Experts have discussed, and particularly to prepare programs and projects ready for financing. It will depend to some extent, too, on whether the more developed countries, other than the United States, make available for lending purposes a greater part of their 18% capi-

tal subscriptions to the Bank—for many of the less developed countries are in a position to service a greater amount of non-dollar indebtedness than of dollar indebtedness. Finally it depends upon what action may be taken by the more advanced countries on the various proposals now under consideration for additional developmental assistance in the form of grants—for obviously grant funds, if available, could be so used as to increase the ability of many countries, particularly some of the Asiatic countries, to service additional foreign debt.

I repeat, then, that in the nature of things, it would be unrealistic for the Bank to set any target for the amount of its development loans other than the target to lend as much money as can be productively used and as the borrowing countries can reasonably be expected to repay. I would be less than frank, however, if I did not add that, in the judgment of the management, there seems no real likelihood that the amount of the Bank's development loans will, under presently foreseeable world conditions, approach the figure of one billion dollars annually suggested by the Experts. It is, I suggest, a disservice to raise hopes which cannot be fulfilled and which, by the very fact of their expression, may serve to obscure the real contribution which the Bank can make.

Another point in the Experts' Report on which I wish to comment is the statement that the Bank "attaches excessive importance to the foreign currency aspects of development". From the very general nature of this statement it is difficult to discover on what factual information it is based.

ACTUALLY THE brief reference to the emphasis on the foreign exchange aspects of the Bank's policy and operations involves two distinct issues. One is the restriction of the utilization of Bank loans for imports of equipment and materials. The Report itself notes that the Bank has made every effort in this respect to interpret its Articles of Agreement liberally. The Fifth Annual Report of the Bank contains a concise statement of the Bank's policy on this matter. This policy, which the Bank explained at length to the Economic and Social Council at its meeting in Geneva last summer, was noted with approval by the Council. The Bank has now under active consideration loans which are very largely intended, not for direct foreign exchange costs, but for indirect foreign exchange requirements arising out of expenditures in the borrowing country itself.

The second issue involved in the Experts' comment is the transfer problem, or more specifically, the ability of borrowing countries to assume additional foreign debt obligations. The Bank is in full agreement with the Experts' statement that the primary objective of all development expenditures, whether financed by domestic capital or foreign loans or grants, is to build

up the capacity of the country concerned to produce goods and services. The Bank is also aware that the expansion of production, particularly of marketable products of manufacturing, mining and agriculture, is likely on the whole to have a favorable effect on the borrowing country's long-run balance of payments position.

We would be reluctant, however, to subscribe to the easy generalization of the Experts that "if development succeeds, the transfer problem of meeting debt charges should take care of itself". An increase in internal production and consumption does not necessarily imply an increase in export availability. Moreover, the addition to the flow of goods and services available to any country as a result of increased output is inevitably associated with an increase in income and this additional income is bound to give rise to an increased demand for imports. Therefore, the Bank feels that it would be derelict in its obligations toward its member countries under its Articles of Agreement if it did not pay close attention to the transfer problem. However, the Bank has at no time looked upon the balance of payments effects of the projects which it finances in isolation; it has been concerned rather with the over-all, long-run balance of payments position of the borrowing country, taking into account all aspects of the country's development.

There are three other points which I wish to touch on briefly. The first is the encouragement given by the Experts to overseas development financing by national lending agencies in the more advanced countries. National lending agencies have performed a useful role and they have an important role to play today. But the creation of new national institutions would be of practical significance only if it resulted in an expansion of the total amount of financial assistance available for development purposes. To the extent to which new institutions would take over the functions of existing arrangements, including the lending operations of the International Bank, it would make no net addition to the credit facilities of underdeveloped countries; it would, however, create new problems of coordination and might thereby impede rather than enhance the development process.

I do not propose to enter into any prolonged discussion before this Commission of the relative advantages of national and international action in the field of development financing. I do think it worthwhile, however, to quote again in this connection from the statement of the President of the Bank to the Economic and Social Council in Santiago: "International agencies, I have no hesitation in saying, seem to me to offer potentially the most efficient avenue of approach. International action may frequently be more effective than national action in inducing the less developed nations to adopt necessary, but politically difficult domestic measures. International organizations cannot, in truth, be charged with invading national sovereignty, with economic

exploitation, or with political discrimination among different countries. Finally, these agencies seem to me to provide the best—and probably the only—way of directing the resources of national contributors toward the same common purpose."

The more advanced countries, other than the United States, have not yet found themselves in a position to release, for use in Bank lending, any very large part of the 18% local currency portion of their capital subscriptions to the Bank. To suggest that, even though they have not yet made such releases, they should set up new national lending agencies seems to us to suggest a retreat from the concept of cooperative international action which motivated the establishment of the Bank and which, if we judge properly, has gained increasing support over the intervening years.

MY FINAL two points concern the suggestions for an International Finance Corporation and for an International Development Authority. In the Commission's consideration of the proposed Finance Corporation, the experience of the Bank is, I believe, very relevant. We found, early in our operations, that our contribution to the expansion of private investment in the underdeveloped countries was limited by two factors. The first is the requirement in our Charter that Bank loans must be guaranteed by the government of the country in which the project is located. It is politically very difficult for any government to guarantee a loan to a private enterprise because, by so doing, it lays itself open to the charge of favoring that particular enterprise over its competitors or over various public projects—and such charges are likely to be made, however important the private project may be. Moreover, many private enterprises are reluctant to ask for a government guarantee for fear it may lead to governmental interference in their business. We have tried to meet this difficulty in some cases by making credits available to private enterprises through the medium of a Development Bank or a banking consortium of the type I have already referred to, but that is only a partial answer to the problem. The second limitation has been the fact that the Bank has not available to it funds for equity investment. There are many private undertakings of a kind which would contribute greatly to development and which could be carried forward with the help of equity financing but which it may not be practicable to finance entirely on a loan basis.

Because of our recognition of these limitations on our financing of private enterprises, the management of the Bank welcomed the suggestion made by the U. S. International Development Advisory Board, headed by Mr. Nelson Rockefeller, that an International Finance Corporation be created as an affiliate of the International Bank, designed to enable the Bank, through the Corporation, to make loans to private enterprise without a governmental

guarantee, and to make equity investments in participation with private investors. We believe that such a Corporation would provide a very useful supplement to the Bank's existing lending authority. We have been glad to know, therefore, that the Experts considered this suggestion worthy of further study.

So far as concerns the proposed International Development Authority, I would say only this: We regard the development task as urgent. We believe that, in some countries, the rate of development cannot be accelerated substantially if the only external capital they receive is in the form of loans which have a reasonable prospect of repayment. If additional assistance is to be given to these countries, we believe strongly that it should be in the form of grants, rather than in the form of quasi-loans, and that the grants should preferably be administered through international channels. But the decision whether to make grants available for this purpose is one which only the more advanced countries can make in the light of their own national policies, resources and the totality of their commitments. On that point, therefore, the Bank cannot appropriately express any view.

We would suggest, however, that if the Commission should endorse the recommendation for an International Development Authority, it consider carefully the problem of coordinating the activities of such an Authority with those of the International Bank, so that both loans and grants might be used most effectively to achieve the common development objective. To this end, we call to the attention of the Commission the proposal contained in the Rockefeller Committee Report that such coordination might best be achieved through a management contract between such an Authority and the International Bank.

In conclusion, I want to say a word about the assertion of the Experts in their Report that the International Bank "has not adequately realized that it is an agency charged by the United Nations with the duty of promoting economic development". That is an assertion made without factual demonstration. I do not hesitate to add that it is an assertion contrary to fact. All of us in the Bank regard the promotion of economic development as our primary task. To the achievement of that goal, all the energies of the Bank have been directed. To the achievement of that goal, all the energies of the Bank will continue to be directed.

9/17/51 - Mr. Graves says not given as such but should be in speech book
Demuth



STATEMENT ON BEHALF OF THE MANAGEMENT OF THE
INTERNATIONAL BANK FOR RECONSTRUCTION AND
DEVELOPMENT BEFORE THE ECONOMIC COMMITTEE OF
ELOSOC (July 23, 1951)

I greatly appreciate the opportunity to participate in the Committee's discussion of the financing of economic development -- for that subject is the main preoccupation of the International Bank and one that goes to the very heart of its activities.

May I make clear at the outset that I am participating in this discussion as a representative of the management of the Bank. Since the Bank's Board of Executive Directors is composed, like this Committee, of governmental representatives, the Directors have felt that it would not be appropriate for the Board, as such, to take any formal position before the Committee.

The views of the Bank's management on the questions here being debated have already been set forth in some detail in the statement which I made before the Economic, Employment and Development Commission during its recent discussion of the report of the UN Experts. Since a copy of that statement has been distributed to the members of this Committee, I will not repeat everything that is there said. With the permission of the Committee, however, I would like to summarize the main points which I made in that statement.

In our opinion, the UN Experts have made an outstanding contribution through the careful and comprehensive analysis of the problems of development contained in their Report. They believe, as we in the Bank believe, that the task of development is urgent. But the sense of urgency which pervades the Report has not obscured the Experts' analysis of the very difficult and complex problems which must be faced if the pace of development is to be accelerated materially.

The Experts have pointed out forcibly that development is not solely a matter of physical resources, capital and technology. Indispensable though these elements are, they will not bring about development by themselves. The energy and effectiveness of the government, the social institutions of the country, the distribution of wealth and opportunity among various groups of the population, the effectiveness of the educational effort and the character of the economic and financial policies and institutions governing the allocation of the country's resources -- these are all factors which bear directly on the rate of development. The Report recognizes that to overcome the obstacles which stand in the way of development will in most countries involve painful readjustments, even, in some cases, major structural changes in the economy. Our experience in the Bank amply confirms this analysis.

Our experience also supports the soundness of many of the suggestions advanced by the Experts for domestic action. A few of these suggestions, I believe, warrant special mention.

The first is the Experts' emphasis on the need to give high priority to education. Development can never proceed very far -- indeed, a national will to develop can scarcely be created -- in the absence of a literate and inquiring population. Within the general field of education, we have been glad to note the emphasis by the Experts on three fields -- the expansion of agricultural extension facilities, the training of skilled workers, and the training of executives and administrators able to plan and execute development programs. It has been our experience that, in practically all the under-developed member countries of the Bank, extension services are still in their early stages; even the importance of such services is not widely appreciated. Yet successful execution of a comprehensive extension program, accompanied by an appropriate agricultural credit program, can work a minor revolution in agricultural production in many countries and can thereby raise the standard of living of a large segment of the population, make more resources available for industrial development, create a broader market for industrial products, and generally stimulate the entire development process.

The lack of trained executives and administrators and of skilled workers at all levels is, as the Experts have stated, a major bottleneck to development -- and it is one that takes a considerable period to break. We are peculiarly aware of this difficulty in the Bank, for the most formidable single barrier to the expansion of our development activities has been the inexperience of the less developed countries in working out programs and projects to the point where they are ready for financing. They have also frequently encountered difficulty in finding the proper personnel to manage new projects. The Bank has rendered considerable assistance to its members in meeting these difficulties. Our engineers have often helped prospective borrowers on the technical aspects of projects under consideration. Our loan officers and economists have often been able to make suggestions as to administrative or organizational arrangements for a project or as to the plans for its financing. And we have increasingly been asked by our members to recommend foreign executive and technical personnel to be employed by them to assist in the effective operation of enterprises we have financed.

Progress has been made in this matter, as the rising tempo of our lending activities shows, and it will accelerate faster, we are confident, as the international and bi-lateral technical assistance programs grow and begin to bear fruit.

The Bank also wholeheartedly supports the Experts' emphasis on the need for more energetic efforts to mobilize domestic resources and to channel them into productive investment. In our opinion, the Experts have properly stressed the advantages to be derived in this regard from the creation of development banks and corporations -- although a warning is perhaps in order that no single type of institutional organization will meet the varying needs of different countries. As the Committee is aware, the Bank has been quite active in this field. We encouraged and

provided substantial assistance, including credits, for the creation of the development banks recently established in Turkey and Ethiopia. In Mexico we helped to work out a consortium arrangement of private banks, with the participation of Nacional Financiera, which serves the same general purposes as the development banks, and we have made a line of credit available to the consortium. Similar proposals for development banks or consortium arrangements in other countries are under consideration.

Frequently, too, the Bank has been able, through staff missions and through outside consultants employed by the Bank, to assist member nations in the formulation of general economic and financial policies which are, of course, equally as important as institutional arrangements in the mobilization of domestic resources and the creation of local capital markets.

Finally, the Bank's experience fully supports the emphasis the Experts have put on the need for programming. It is a striking fact that practically every mission sent out by the Bank — and we have had missions in almost all of our under-developed member countries — has reported back the inadequacy of development programming efforts and has urged the creation of a high-level local development board, economic council or planning agency, of one kind or another, to rectify the situation. Development programming is a complex, inexact discipline at best — but it is inescapably necessary if resources are not to be wasted or, at best, applied haphazardly.

The Bank has played a significant role in this field. Comprehensive survey missions organized by the Bank at the request of member governments have made recommendations, or are in the process of making recommendations, to Colombia, Cuba, Guatemala, Iraq and Turkey, designed to assist those countries in formulating long-term national development programs. Similar survey missions for Ceylon and Surinam are now in the process of organization. We have provided help not only in the survey stage but in the even more vital implementation stage. In addition to these comprehensive missions, members of the Bank staff have assisted, on a somewhat more limited scale, in the planning of development, or in the study of the methods of programming, in a number of other countries, such as Ethiopia, Chile, Iceland, Pakistan and the Philippines. We have also joined with FAO in sponsoring missions to survey the agricultural economies of Uruguay and Chile. Similarly, in response to a request from Nicaragua, we have recently stationed two members of our staff in that country for a period of from eight months to a year to help the government in formulating an investment program, in arranging for technical experts in various specialized fields, and in coordinating and implementing the recommendations of these other experts.

In other words, to the extent that we can effectively do so, and through various devices to meet the varying desires and needs of our members, we are pushing ahead as fast as we can with assistance in the vital field of development programming.

So much for the domestic measures suggested in the Experts' Report. Let us turn now to the portions of the Report that deal with public loans for development — and particularly with the discussion of the International Bank.

I wish I could report that we find the same sense of realism in those portions of the Report as in so much of the rest of it. Unfortunately, this is not the case. In dealing with the Bank, the Experts seem not to have realized that the very obstacles to development they high-lighted in earlier sections have been obstacles in the way of Bank development financing. We have moved in various ways, as I have already indicated, to overcome those obstacles, but in the nature of things it has not been an easy job nor one that could be accomplished over-night.

I think a single set of figures will illustrate the direction in which we have been moving and the measure of success we have achieved. In the fiscal year ended June 30, 1948, we made two loans for development, aggregating \$16 million. In the 1949 fiscal year, we made three development loans aggregating \$109 million. In the 1950 fiscal year, we made eight development loans totalling \$134 million. And in the last fiscal year just come to a close, we made 21 development loans, aggregating over \$297 million. This steady progression accurately reflects, I believe, both the progress made within the Bank in achieving an understanding of the economic situation and problems of its less well developed member countries, and also the progress made by those countries, in part with the assistance of the Bank, in preparing their programs and projects to the point where they are susceptible of being financed by the Bank.

I wish it were possible for me to indicate the amount of development lending the Bank will do over the next few years. But any such prognostication on my part would have to be based on so many assumptions as to future eventualities as to make the end result pure guess work. So far as the Bank is concerned, our objective is to increase our rate of lending just as rapidly as we can, subject only to the limitation that we will not lend more than the borrowing country can absorb and effectively utilize, nor more than the country has a reasonable prospect of repaying. We do not have a top limit on the amount of development loans we are willing to make — neither \$300 million, nor \$400 million, nor any other figure — and, for the next few years at least, we anticipate that our ability to borrow will remain such as to place no limitation on our capacity to lend.

The plain fact is that the rate of Bank lending for development will depend primarily, not on decisions of the Bank at all, but on decisions over which the Bank has little or no control. It will depend, in the short-run at least, upon the ability and willingness of the industrialized nations to make equipment and materials available. It will depend also upon the ability and willingness of the underdeveloped countries, with such foreign technical assistance as may be made available to them, to push their development programs ahead along the lines

the Experts have discussed, and particularly to prepare programs and projects ready for financing. It will depend to some extent, too, on whether the more developed countries, other than the United States, make available for lending purposes a greater part of their 18% capital subscriptions to the Bank — for many of the less developed countries are in a position to service a greater amount of non-dollar indebtedness than of dollar indebtedness. Finally it depends upon what action may be taken by the more advanced countries on the various proposals now under consideration for additional developmental assistance in the form of grants — for obviously grant funds, if available, could be so used as to increase the ability of many countries, particularly some of the Asiatic countries, to service additional foreign debt.

I repeat, then, that in the nature of things, it would be unrealistic for the Bank to set any target for the amount of its development loans other than the target to lend as much money as can be productively used and as the borrowing countries can reasonably be expected to repay. I would be less than frank, however, if I did not add that, in our judgment, there seems no real likelihood that the amount of the Bank's development loans will, under presently foreseeable world conditions, approach the figure of one billion dollars annually suggested by the Experts. It is, I suggest, a disservice to raise hopes which cannot be fulfilled and which, by the very fact of their expression, may serve to obscure the real contribution which the Bank can make.

There are three other aspects of developmental financing mentioned in the Report which I would like to touch on briefly. The first is the encouragement given by the Experts to overseas development financing by national lending agencies in the more advanced countries. National lending agencies have performed a useful role in the past and they have an important role to play today. But the creation of new national institutions would be of practical significance only if it resulted in an expansion of the total amount of financial assistance available for development purposes. To the extent to which new institutions would take over the functions of existing arrangements, including the lending operations of the International Bank, it would make no net addition to the credit facilities of underdeveloped countries; it would, however, create new problems of coordination and might thereby impede rather than enhance the development process.

As the Committee knows, the more advanced countries, other than the United States, have not yet found themselves in a position to release, for use in Bank lending, any very large part of the 18% local currency portion of their capital subscriptions to the Bank. To suggest that, even though they have not yet made such releases, they should set up new national lending agencies seems to us to suggest a retreat from the concept of cooperative international action which motivated the establishment of the Bank and which, if we judge properly, has gained increasing support over the intervening years.

My final two points concern the suggestions for an International Finance Corporation and for an International Development Authority. In the Committee's consideration of the proposed Finance Corporation,

the experience of the Bank is, I believe, very relevant. We found, early in our operations, that our contribution to the expansion of private investment in the under-developed countries was limited by two factors. The first is the requirement in our Charter that Bank loans must be guaranteed by the government of the country in which the project is located. It is politically very difficult for any government to guarantee a loan to a private enterprise because, by so doing, it lays itself open to the charge of favoring that particular enterprise over its competitors or over various public projects — and such charges are likely to be made, however important the private project may be. Moreover, many private enterprises are reluctant to ask for a government guarantee for fear it may lead to governmental interference in their business. We have tried to meet this difficulty in some cases by making credits available to private enterprises through the medium of a Development Bank or a banking consortium of the type I have already referred to, but this is only a partial answer to the problem. The second limitation has been the fact that the Bank has not available to it funds for equity investment. There are many private undertakings of a kind which would contribute greatly to development and which could be carried forward with the help of equity financing but which it may not be practicable to finance entirely on a loan basis.

Because of our recognition of these limitations on our financing of private enterprises, the management of the Bank welcomed the suggestion first made by the U.S. International Development Advisory Board, headed by Mr. Nelson Rockefeller, that an International Finance Corporation be created as an affiliate of the International Bank, designed to enable the Bank, through the Corporation, to make loans to private enterprise without a governmental guarantee, and to make equity investments in participation with private investors. We believe that such a Corporation would provide a very useful supplement to the Bank's existing lending authority. We were pleased, therefore, that the Experts considered this suggestion worthy of further study and that the Commission saw fit to recommend to the Council that it request that such a study be made. I have been authorized to state on behalf of the Bank that, if the Council should adopt the recommendation of the Commission to invite the Bank to undertake this study, the Bank would accept the invitation.

So far as concerns the proposed International Development Authority, I would say only this: The management of the Bank regards the development task as urgent. We believe that, in some countries, the rate of development cannot be accelerated substantially if the only external capital they receive is in the form of loans which have a reasonable prospect of repayment. If additional assistance is to be given to these countries, we believe strongly that it should be in the form of grants, rather than in the form of quasi-loans, that the grants should preferably be administered through international channels, and that, to the fullest extent practicable, the technical facilities of existing international agencies, should be utilized for such administration. But the decision whether to make grants available for development purposes is one which

only the more advanced countries can make in the light of their own national policies, resources and the totality of their commitments. On that point, therefore, the management of the Bank cannot appropriately express any view.

In conclusion, I want to repeat what I said before the Commission about the assertion of the Experts in their Report that the International Bank "has not adequately realized that it is an agency charged by the United Nations with the duty of promoting economic development". That is an assertion made without factual demonstration. I do not hesitate to add that it is an assertion contrary to fact. All of us in the Bank regard the promotion of economic development as our primary task. To the achievement of that goal, all the energies of the Bank have been directed. To the achievement of that goal, all the energies of the Bank will continue to be directed.

The Technical Assistance Activities of the World Bank



By **Richard H. DEMUTH**

*Director, Department of Technical Assistance and Liaison,
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As its name implies, the primary function of the International Bank for Reconstruction and Development, more popularly known as the World Bank, is to lend capital for projects that will contribute to the economic development of its member countries. It was brought home to the Bank, however, rather early in its experience, that this development purpose could not be fulfilled merely by appraising specific projects which its less-developed members brought to it, approving those that were adequately justified on technical, economic, financial and administrative grounds and turning down all that were deficient in these respects. For it was clear that the countries most in need of financing from abroad are often unable, precisely because of their underdevelopment, to do the necessary preparatory work. Hence the Bank found itself, almost from the start, furnishing a good deal of technical advice and help to its members.

Much of this assistance, of course, is closely related to loan operations. For example, before lending to a country, the Bank makes a careful on-the-spot study of its economic situation and prospects, and its development potentialities and problems. These economic reports, although prepared for the Bank's own use, often have considerable value for the government of the country in question, assembling as they do a good deal of essential economic data in readily

usable form, pointing up key issues of policy, and sometimes making suggestions on priorities for investment or other development activity or on means of dealing with certain current problems. In other cases, economists or engineers from the Bank's staff may help member governments to select among alternative projects; or may recommend changes in the project to make it more efficient, less costly or more suitable for the country's special needs; or may make suggestions with regard to the project's administration or financing, including means of raising local capital to complement a Bank loan.

An increasing share of the Bank's technical assistance activity, however, has been of a more general character, not directly associated with its financial operations — although conducive, indeed often essential, to its central purpose of promoting sound development. In general this assistance has emphasized, but is by no means confined to, aid in development programming and in mobilizing local capital.

GENERAL SURVEY MISSIONS

The severe shortage of capital, and of technical and administrative skills, that prevails in most underdeveloped countries underlines the importance of their using the means available to them as efficiently as possible. But the process of determining how best to use these

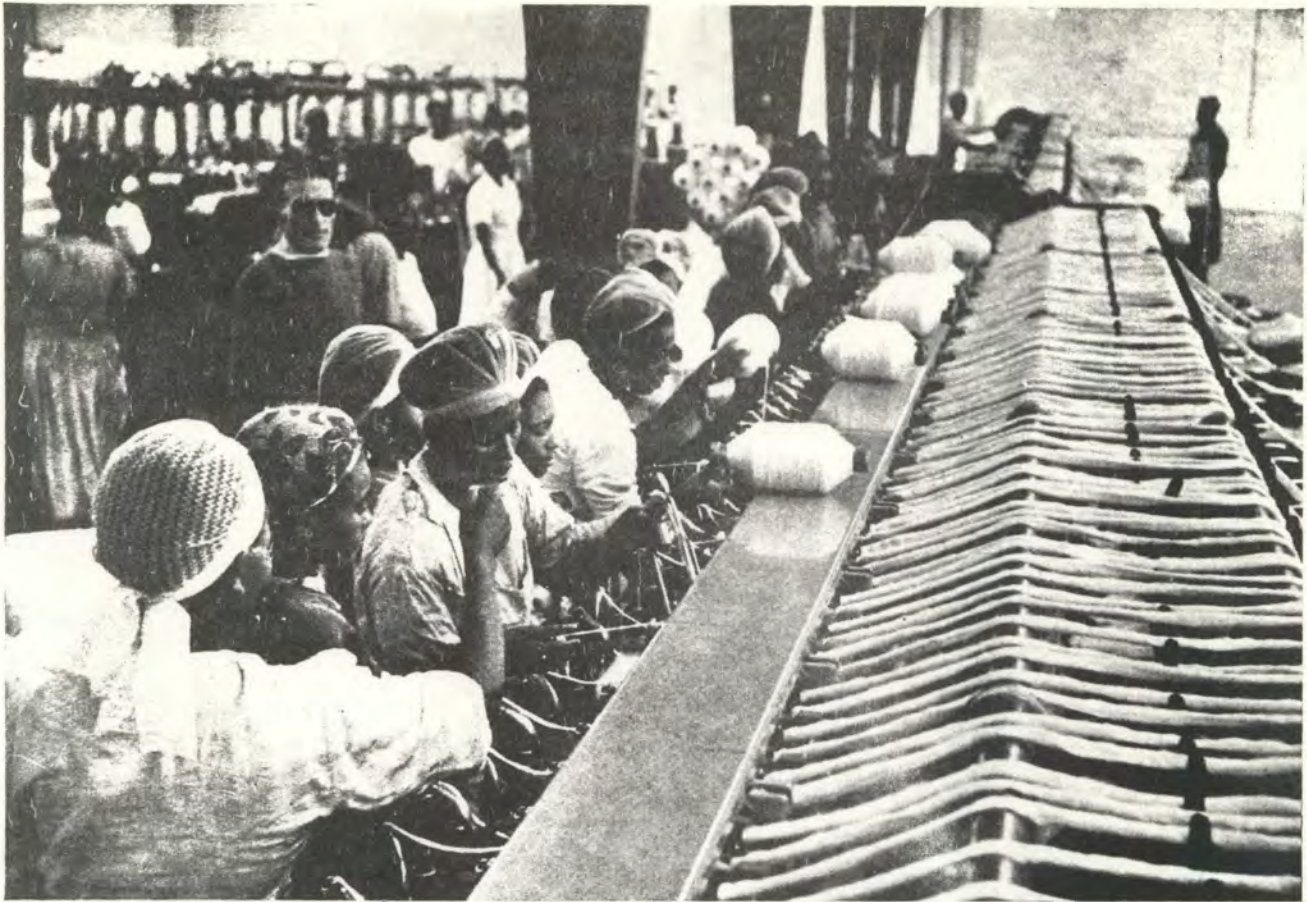


At Kariba Gorge hydroelectric project labourers are instructed in the operation of pneumatic drills.

limited resources is a difficult, highly complex one at best. It calls for extensive technical and economic studies of the country's development potential in various fields, and of the social, educational, legal, institutional and other factors that affect this potential; for a rather sophisticated consideration of policy objectives and alternatives; for analyses of the interrelation and priority of a wide variety of projects and other objects of expenditure; for a judicious appraisal of possible inflationary and balance of payments difficulties, and ways of meeting them; and for politically difficult choices among a host of competing purposes and interests. Even the most advanced nations find it hard to deal with such issues; to countries newly emerging or in the early stages of economic development, the task of development programming is likely to be as dismaying as it is essential.

Recognizing these difficulties, which were

reflected in the inadequate study and presentation of project applications from many member countries, the Bank decided in 1949 to undertake the experiment of a general survey mission to Colombia, in response to a request from that country's Government, to study the Colombian economy in comprehensive fashion and make recommendations on which the Government might base its long-range development plans. The results of this first general survey mission led the Bank to feel that such a device could be useful in other countries where conditions seemed propitious; and in the intervening decade similar missions have been organized, at the request of the governments concerned, to the following countries: Turkey, Guatemala, Cuba, Iraq, Ceylon, Surinam, Jamaica, British Guiana, Nigeria, Malaya, Syria, Jordan, Italian Somaliland (Somalia), Thailand, Libya, Tanganyika and Venezuela.



A textile mill in Adis-Abeba financed by the Ethiopian Development Bank with funds from a World Bank Loan

The work of these missions focuses generally on three points : the general magnitude of the investment that the country can afford over the next several years ; the priorities for public investment among important sectors of the economy and different types of undertakings, taking account of the needs and possibilities for private investment ; and the financial-economic policies and measures required for the success of the development program. Their reports do not attempt to formulate a detailed blueprint for development, which would be both inappropriate and impracticable for a mission of this kind, but rather to suggest feasible targets and general directions for development over the medium term, to indicate major problems that must be dealt with and to suggest approaches to solution of these problems.

The membership of general survey missions has varied considerably ; the average number

has been about 12. Two or three members, usually including the chief economist, are normally assigned from the Bank's staff ; most missions have included special consultants in agriculture, industry, transport, power, education and health ; and experts in other functional fields may be added as the particular circumstances require. They are recruited on an international basis, with as many as 8 nationalities represented in individual missions and 23 different countries in all. The Bank has received the cooperation of many other organizations, especially the Specialized Agencies of the United Nations, in recruitment of experts ; occasionally an expert is seconded without reimbursement from the staff of such an agency. Otherwise the expenses of general survey missions are shared between the Bank and the government concerned — the Bank paying the salaries of its own staff members on these assignments, one-half



Introduction of modern Diesel locomotives has necessitated retraining the drivers for the conversion from steam to Diesel.

the salaries of outside experts, and all the costs incurred outside the country (for living expenses, travel, printing of the report, etc.), and the government meeting the other half of the experts' salaries and expenditures within the country.

The recommendations made by a survey mission are the responsibility of the Mission Chief ; they do not necessarily reflect the views of the Bank as an institution — although the Bank's staff comments on the report in draft, giving the mission the full benefit of its own experience. The mission's report is intended to be used not only by technicians but by all interested elements of the community. Arrangements are made, therefore, for its publication in the language of the country as well as in English, and its wide dissemination is encouraged.

OTHER ASSISTANCE TO DEVELOPMENT PROGRAMMING

The report of a survey mission, however competently prepared, cannot in itself constitute an adequate development program. Such a program must derive from careful study and discussion of issues by the responsible authorities of the country concerned. The mission's recommendations, in order to be useful, 'must become « naturalized », fully acclimated to local conditions, and understood and accepted by the country as its own. Most important, development programming cannot be done once and for all ; to be effective it must become a continuous process of analysis and imaginative adjustment.

In a number of countries, including some for which general survey missions were organized, the Bank has helped to set up governmental machinery to coordinate development policies



In 1950, the International Bank granted a \$4,400,000 loan to Thailand to improve the port of Bangkok. It was to help finance the dredging of a navigation channel through a ten-mile wide sand bar preventing vessels of over 4,000 tons from entering the harbour fully laden, and the purchase of a tug and other port equipment. Now, most of this work is completed. Vessels up to 10,000 tons are accommodated, and the better facilities are a great help to the country's foreign trade. The Bank has just announced the grant of a new \$ 3,400,000 loan to Thailand, to finance the purchase of three new dredges to maintain the depth of the channel and port basins.

The Port Authority of Thailand, which operates Bangkok harbour, wants its personnel to be thoroughly trained in cargo-handling techniques. Here, an instructor explains the use of a fork lift truck.

and investment decisions. At the government's request, staff members have been stationed in several of these countries — including Ecuador, Guatemala, Honduras, Pakistan, Panama, Peru and Thailand — for periods of from one to several years to work closely with the government in drawing up or carrying out its development program.

More limited programming assistance has been provided in several cases. In Mexico, the Government and the Bank established a joint working party, consisting of two economists assigned by each, to assess the major trends in the national economy, especially its ability to absorb additional

foreign investment. In Chile, Uruguay and Peru, the Bank and FAO have cosponsored surveys of agricultural needs and potentialities, and a Bank mission made a similar study for Colombia. Another mission to Colombia advised the newly created Cauca Valley Corporation in launching the first regional development program in Latin America.

It is impossible, in a brief article, to appraise to what extent the Bank's survey missions and other programming assistance have tangibly fostered sound development. No country, of course, has completely adopted and carried out the survey missions's recommendations ; indeed,

for governments to adopt without question the analyses and recommendations of these missions would be contrary to their object. In almost every case, however, the missions have exerted an important influence in favor of a coordinated long-range approach to development problems, and have helped considerably to inform both students of these problems and national leaders of opinion about the possibilities and requisites of a sound economic program in their country. Certainly the over-all response and results have been more than sufficiently encouraging to persuade the Bank it is worth devoting substantial time and effort to this work.

MOBILIZATION OF DOMESTIC CAPITAL

Financing by the Bank may be expected to cover, at best, only a minor part of the capital requirements of a developing country. Most of the remainder must be generated within that country's own economy. Thus the Bank has given major attention to the problem of encouraging the accumulation of savings and their better organization for productive investment. This has been a central concern, in most cases, of the Bank's survey missions and its advisers to member governments; and on occasion, at the government's request, the Bank has sent members of its staff to advise on means of mobilizing public investment resources by creating a market for government securities, on the one hand, and of encouraging and channeling private investment on the other.

Among the more valuable instruments for promoting development in industry and agriculture, and for bringing together the technical, entrepreneurial, managerial and financial requisites to carry out projects in these sectors, are the development banks and corporations that have been established in many countries. A number of such institutions have been set up or reorganized with the advice of the Bank, and its services are increasingly in demand to help form new institutions of this kind, to find qualified managers or staff for them, or to advise them on their financial structure, programs or operating policies. In 1957, the Bank published a basic text entitled **Development Banks**, written by William Diamond, a senior member of its

staff; it has been widely distributed and translated into several languages. Another book, **Problems and Practices of Development Banks**, which has just come from the press, discusses practical problems of establishing and operating development banks in the light of the experience of a wide cross section of such institutions; its author is Shirley Boskey, also a senior staff member of the Bank.

TRAINING PROGRAMS

In 1956 the Bank, with support from the Ford and Rockefeller Foundations, organized the Economic Development Institute, as a staff college for senior officials responsible for preparing and carrying through development programs and projects in less-developed member countries. There have been 101 participants in the five annual courses since that date, representing 42 countries. The EDI course provides an opportunity for these officials, generally having upwards of a decade of responsible experience, to broaden their knowledge of the theory, problems and techniques of economic development, to gain a new perspective on the issues of policy and administration involved, and to exchange experience and viewpoints with officials from other countries having similar problems and interests. In 1959 the EDI organized a short course, along similar lines, for development officials in the Caribbean region, at the University College of the West Indies in Jamaica.

The Bank also conducts a General Training Program annually, for about six months, designed to acquaint more junior career officials with its policies and methods, and to broaden their understanding of economic problems and techniques and of various phases of financial administration. Individual specialized training is sometimes provided for officials of member countries, who are invited to spend various periods in the Bank for this purpose. A total of 129 persons, from 59 countries, have participated in the general and special training courses.

OTHER TECHNICAL ASSISTANCE

The Bank keeps in close touch with other agencies engaged in providing technical assis-

tance for economic development, especially with the United Nations and its several Specialized Agencies. As was mentioned earlier, a number of these agencies have given valuable cooperation in the organization of general survey missions. Although the Bank takes part in the work of the United Nations Technical Assistance Board, it finances its technical assistance activities from its own income and so does not share in the annual contributions made by governments to finance the Expanded Program.

A particularly close relationship exists between the Bank and the United Nations Special Fund, a primary purpose of which is to assist the complex pre-investment studies that are often necessary before the financing of major projects can be arranged, or even properly considered. Some of these projects may later be deemed suitable for Bank financing. The President of the Bank sits on the Consultative Board of the Special Fund, and the Bank has agreed to act as its Executing Agency for four of the Special Fund projects approved to date.

Finally, the Bank is frequently called upon to recommend or help recruit experts to be employed directly by member governments

— for key staff or advisory posts in development programming agencies, financial secretariats, development banks or other economic institutions — and maintains a roster of potential candidates in various fields related to its work to enable it to meet such requests.

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The experience of the World Bank, since it started operations in 1946, has amply confirmed the conviction of its Management that technical and financial help to economic development are closely interdependent, and that the Bank is able to make a peculiarly valuable contribution to the development process by bringing these two essential components together. Its lending and technical assistance activities will continue to go forward hand-in-hand. The prospective establishment of the International Development Association as an affiliate of the Bank — designed to increase the financial resources available and especially the flexibility with which they can be used — may also be expected to extend substantially the scope and effectiveness of the Bank's technical help.



Les Activités de la Banque Mondiale dans le domaine de l'Assistance Technique

par Richard H. DEMUTH

*Directeur du Département d'Assistance Technique
et des Liaisons de la Banque Internationale
pour la Reconstruction et le Développement*



Ainsi que son nom l'indique, le rôle principal de la Banque Internationale pour la Reconstruction et le Développement, mieux connue sous le nom de Banque Mondiale, est de prêter des capitaux aux pays membres afin de leur permettre de réaliser des projets qui contribueront à leur développement économique. Cependant, la Banque se rendit rapidement à l'évidence que la simple étude des projets qui lui étaient présentés par les pays sous-développés ne lui permettrait pas d'atteindre cet objectif par la seule approbation des projets qui lui semblaient être valables sur le plan technique, économique, financier et administratif et le rejet de ceux qu'elle estimait insuffisants. Il s'est avéré, en effet, que les pays qui ont le plus besoin d'une aide financière sont souvent incapables, en raison même de leur sous-développement, d'élaborer les travaux préparatoires indispensables. Pour cette raison, la Banque fut donc amenée, presque depuis sa fondation, à aider et à conseiller ses membres sur le plan technique et ce dans une proportion importante.

Une grande partie de cette assistance est naturellement liée étroitement aux opérations de prêt. Ainsi, avant d'accorder un prêt à un pays, la Banque étudie très attentivement sur place sa situation économique et ses possibilités, son potentiel et ses difficultés de développement. Ces rapports économiques, bien que préparés à l'usage de la Banque, présentent souvent un intérêt considérable pour les gouvernements intéressés. Ils fournissent des renseignements économiques très importants sous une forme pratique, soulignent les grandes lignes de la politique à suivre et suggèrent parfois quelles priorités donner aux investissements ou autres moyens

de développement ainsi que sur la façon de résoudre certains problèmes courants.

Il arrive également que des économistes et des techniciens de la Banque aident les gouvernements membres à choisir entre divers projets ou préconisent des modifications à apporter à tel ou tel projet afin qu'il soit plus efficace, moins onéreux ou mieux adapté aux besoins particuliers du pays. Ils donnent des avis quant à la gestion ou le financement du projet, et comment mobiliser le capital local pour compléter un prêt de la Banque.

Mais, de plus en plus, les activités de la Banque dans le domaine de l'assistance technique ont pris un caractère plus général sans rapport avec ses opérations financières — encore que contribuant, et souvent d'une façon décisive, à atteindre son but final, c'est-à-dire promouvoir un développement judicieux. Cette nouvelle forme d'intervention — tout en ne se bornant pas à ce qui suit — s'est attachée surtout à favoriser les programmes de développement et à rendre disponibles les capitaux locaux.

MISSIONS D'ETUDES GÉNÉRALES

La carence de capital et de compétences techniques et administratives qui règne dans la plupart des pays sous-développés souligne l'importance pour eux d'utiliser aussi efficacement que possible les moyens dont ils disposent. Le moins qu'on puisse en dire, est que le processus pour déterminer comment utiliser au mieux ces ressources limitées est extrêmement difficile et complexe. Ce problème requiert des études techniques et économiques approfondies sur la capacité de développement du pays dans différents



Travailleurs indigènes, au projet hydroélectrique de Kariba Gorge sur le Zambèze, recevant une instruction sur le marteau pneumatique.

domaines, ainsi que sur les facteurs sociaux, pédagogiques, juridiques, constitutionnels ou autres éléments susceptibles d'affecter ce potentiel. Cela demande aussi un examen averti des objectifs à atteindre et des solutions possibles ; il faut aussi étudier le rapport existant entre une grande diversité de projets et autres sources de dépenses, et les priorités à leur accorder ; il faut encore examiner avec soin les risques éventuels d'inflation et les difficultés de la balance des paiements et les moyens de les prévenir ; cela implique enfin des options politiquement délicates parmi une multitude d'intentions et d'intérêts opposés. Si l'on considère que les nations les plus évoluées éprouvent de grandes difficultés pour surmonter de tels problèmes, on comprendra combien la tâche d'établir un programme de développement peut être décourageante mais indispensable pour ceux qui accèdent à la civilisation ou qui accomplissent leurs premiers pas dans le développement économique.

Consciente de ces difficultés que l'on rencontre dans des études insuffisantes et dans les projets présentés par de nombreux pays membres,

la Banque décida, en 1949, de faire une expérience. En réponse à une demande du gouvernement de Colombie, elle envoya dans ce pays une mission chargée d'étudier l'économie colombienne dans son ensemble, puis de formuler des avis dont le gouvernement local pourrait tenir compte pour établir ses plans de développement à long terme. Les résultats de cette première mission amenèrent la Banque à penser que cette expérience pourrait être utile à d'autres contrées dont les conditions sembleraient propices. Dans les dix dernières années des missions identiques ont été organisées à la requête des gouvernements des pays suivants : Turquie, Guatemala, Cuba, Irak, Ceylan, Surinam, Jamaïque, Guyane britannique, Nigéria, Malaisie, Syrie, Jordanie, Somalie italienne, Thaïlande, Lybie, Tanganyka et Vénézuéla.

Les activités de ces missions sont généralement centrées sur trois points : l'importance des investissements que le pays pourrait absorber dans les années à venir ; la priorité à accorder, dans le cadre des investissements publics, à des secteurs importants de l'économie et à d'autres



Une usine de textile à Addis-Abéba financée par la Banque Ethioienne de Développement avec un prêt de la Banque Mondiale.

catégories d'entreprises, compte tenu des besoins et des possibilités de l'investissement privé ; la politique et les mesures économiques et financières requises pour mener à bien un programme de développement. Il n'est pas question, dans leurs rapports, de dresser un plan détaillé de développement ce qui serait incompatible et impossible pour de telles missions, mais plutôt d'indiquer les objectifs susceptibles d'être atteints, de donner des directives générales pour un développement à moyen terme, d'insister sur les problèmes majeurs et la façon de les aborder pour les résoudre.

Le nombre des experts dans ce genre de missions d'études générales varie ; il est en moyenne de douze. Deux ou trois membres, dont l'économiste en chef, sont normalement recrutés parmi les hauts fonctionnaires de la Banque. La plupart des missions sont composées d'experts spécialisés dans l'agriculture, l'industrie, les transports, l'énergie, l'éducation et la santé, mais d'autres experts peuvent se joindre à eux si des circonstances particulières l'exigent. Le recrutement se fait sur le plan international et une seu-

le mission a pu compter jusqu'à huit membres de nationalités différentes. Jusqu'à ce jour, 23 pays ont fourni de tels experts.

En ce qui concerne le recrutement des experts, la Banque fait appel à de nombreuses organisations, notamment aux agences spécialisées des Nations-Unies. Il arrive même qu'un expert peut être détaché d'une de ces agences sans que ses frais soient remboursés. En général, les dépenses des missions d'études générales sont partagées entre la Banque et le gouvernement local. La Banque réglant son propre personnel, la moitié des salaires des experts extérieurs ainsi que les frais d'hôtels, de voyages, d'impression, etc..., le gouvernement local prenant à sa charge l'autre moitié des salaires des experts et les dépenses locales.

Le chef de mission est responsable des recommandations établies par la mission d'études. Ces recommandations ne reflètent pas nécessairement les vues de la Banque en tant qu'institution — bien que les fonctionnaires de la Banque examinent et commentent l'avant-projet et fassent profiter la mission de son expérience.



L'introduction de locomotives Diesel modernes au Pakistan a nécessité une nouvelle formation des conducteurs en raison du passage de la vapeur au Diesel.

Les travaux de la mission ne sont pas destinés uniquement aux techniciens, mais aussi à tous les membres intéressés de la communauté. Des dispositions sont prises pour qu'ils soient publiés dans la langue locale, en anglais, et leur diffusion est particulièrement encouragée.

AUTRE FORME D'AIDE A L'ETABLISSEMENT DE PROGRAMMES DE DEVELOPPEMENT

Le rapport d'une mission d'études, quelle que soit la compétence avec laquelle il a été préparé, ne peut pas constituer en lui-même un programme adéquat de développement. Un tel programme doit être le résultat d'études approfondies et discutées par les responsables du pays concerné. Pour présenter un intérêt quelconque les recommandations de la mission doivent être « naturalisées » et pleinement adaptées aux conditions locales, comprises et adoptées par le pays qui les fait siennes. Mais le point le plus important est de comprendre qu'un programme de développement ne peut être établi dans sa forme définitive. Son efficacité relève

d'une analyse permanente et de réajustements constants.

Dans de nombreux pays, dont certains ont accueilli des missions d'études générales, la Banque a collaboré à la mise sur pied d'organismes gouvernementaux destinés à coordonner les politiques de développement et les programmes d'investissements. A la demande de certains gouvernements, des membres de la Banque ont été détachés dans plusieurs de ces pays — y compris : l'Equateur, le Guatemala, le Honduras, le Pakistan, Panama, le Pérou et la Thaïlande — pour des périodes variant entre une et plusieurs années afin de travailler en relation étroite avec le gouvernement local pour établir ou réaliser son programme de développement.

En plusieurs occasions, une assistance technique moindre a été fournie. Au Mexique, par exemple, le gouvernement et la Banque ont constitué une commission mixte de travail, chacune des parties nommant deux économistes afin d'examiner la tendance de l'économie nationale et en particulier sa capacité d'absor-



En 1950, la Banque Internationale a fait un prêt de 4 400 000 dollars à la Thaïlande pour l'aménagement du port de Bangkok. Ce prêt a permis d'aménager le chenal pour permettre aux navires de 4 000 tonnes de franchir la barre de sable et d'accéder au port, l'achat d'un remorqueur et d'un équipement portuaire. Actuellement, une grande partie de ces travaux est terminée. Des navires de 10 000 tonnes sont aménagés pour augmenter le commerce extérieur. La Banque a annoncé qu'elle accordait un nouveau prêt de 3 400 000 dollars pour financer l'achat de trois nouvelles dragues pour approfondir le chenal et le bassin portuaire. Les autorités portuaires thaïlandaises initient le personnel aux techniques de chargement et déchargement des navires. Sur la photo un instructeur explique le fonctionnement d'un chariot-élévateur à fourche.

ber des investissements supplémentaires en provenance de l'étranger. Au Chili, en Uruguay et au Pérou, la Banque a coopéré avec l'O.A.A. pour déterminer les besoins de l'agriculture et ses possibilités. Une mission de la Banque a fait une étude semblable en Colombie, tandis que, toujours dans ce même pays, une autre mission conseillait un nouvel organisme, le « Cauca Valley Corporation », pour le lancement du premier programme de développement régional en Amérique Latine.

Un article aussi court ne permet pas d'apprécier à quel point les missions d'études et l'assistance technique fournie par la Banque ont encouragé d'une façon tangible le développement sur des bases solides. Evidemment, au-

cun pays n'a adopté systématiquement et appliqué leurs recommandations. Ce serait, d'ailleurs, contraire à l'objet de ces missions qu'un gouvernement acceptât ces travaux et ces recommandations sans les discuter. Ce qui est certain, c'est que, en général, les missions ont exercé une grande influence dans le sens de la coordination et de la continuité des problèmes de développement. Elles ont aidé considérablement à éclairer à la fois ceux qui étudient ces problèmes et les leaders politiques quant aux possibilités et aux exigences d'un programme économique stable dans leur pays respectif. Il faut surtout retenir de ces expériences que les réactions générales et les résultats obtenus sont suffisamment encourageants pour persuader la Banque que ces travaux valent la peine

qu'on leur consacre un temps substantiel et tous ses efforts.

MOBILISATION DU CAPITAL LOCAL

Toutefois, on ne peut attendre de la Banque qu'elle finance, au mieux, plus qu'une partie réduite des capitaux nécessaires à un pays en développement. Le complément dépend en grande partie de l'économie locale. La Banque a donc dû se pencher tout particulièrement sur ce problème qui consiste à encourager l'épargne et à la canaliser vers des investissements productifs. C'est pourquoi, dans la plupart des cas, les missions d'études et les conseillers auprès des gouvernements membres ont mis l'accent sur ce problème capital. D'ailleurs, la Banque, dans certaines occasions et à la demande d'un gouvernement, a délégué auprès de celui-ci des experts chargés de le conseiller sur les moyens de mobiliser les ressources locales en créant d'une part un marché des fonds d'Etat et d'autre part en encourageant les investissements privés et en les orientant.

Une mention spéciale doit être accordée aux banques et aux sociétés de développement établies dans beaucoup de pays, pour le rôle essentiel qu'elles ont joué dans le développement de l'industrie et de l'agriculture en réunissant les éléments techniques, financiers, de direction et d'exécution indispensables à la réalisation des projets inhérents à ces secteurs. Un grand nombre de ces institutions ont été créées ou réorganisées avec les conseils de la Banque et on lui demande de faciliter l'accroissement de ce genre d'organismes, de leur fournir des directeurs et du personnel qualifié, de les conseiller sur leur structure financière, leurs programmes et leur fonctionnement.

En 1957, la Banque a publié un texte de base, rédigé par William Diamond, haut fonctionnaire de la Banque, intitulé « *Les Banques de Développement* », qui a été largement diffusé et traduit en plusieurs langues. Un autre ouvrage, « *Problèmes et Pratiques des Banques de Développement* », vient de paraître et traite des solutions pratiques pour créer et faire fonctionner des banques de développement à la lumière des expériences réalisées par ces institutions de tout genre. Son auteur est Shirley Boskey, elle aussi haut fonctionnaire de la Banque.

PROGRAMME DE FORMATION

En 1956, la Banque, avec l'aide des Fondations Ford et Rockefeller, a fondé l'*Institut de Développement Economique* afin de former les hauts fonctionnaires responsables de la prépa-

ration et de l'exécution des programmes de développement dans les pays membres. Depuis sa création, l'Institut a réuni en cinq cours annuels cent un participants de quarante-deux Etats. Les cours donnent l'occasion à ces fonctionnaires qui ont généralement plus de dix ans d'expérience, d'élargir leurs connaissances de la théorie, des problèmes et des techniques du développement économique ; d'acquérir une nouvelle optique des questions politiques et administratives y afférentes. Ils peuvent également échanger leur point de vue avec des cadres des autres pays ayant les mêmes problèmes et les mêmes préoccupations et les faire profiter de leur expérience. En 1959, l'Institut a organisé des cours accélérés identiques pour les fonctionnaires responsables du développement dans les Caraïbes à l'Université des Indes Occidentales, à la Jamaïque.

Chaque année, la Banque établit un programme de formation générale afin de familiariser des cadres subalternes avec sa politique, ses méthodes et parfaire leurs connaissances des problèmes et techniques économiques ainsi que de l'administration financière à ses différents stades.

Des cours spéciaux de formation sont également organisés à titre individuel pour des fonctionnaires des pays membres qui sont, alors, invités à passer quelque temps à la Banque. Un total de 129 personnes provenant de 59 Etats ont suivi jusqu'à ce jour ces programmes spéciaux et généraux.

AUTRE FORME D'ASSISTANCE TECHNIQUE

La Banque se tient en étroit contact avec les organismes qui se préoccupent d'apporter une assistance technique pour le développement économique et notamment avec les *Nations Unies* et ses différentes agences spécialisées.

Comme il a déjà été mentionné, la plupart de ces agences ont apporté une coopération fructueuse dans l'organisation des missions générales d'études. Bien que la Banque participe aux travaux du Bureau d'Assistance Technique des Nations Unies, elle finance ses activités d'assistance technique sur ses propres ressources et ne reçoit aucune part des contributions annuelles versées par les gouvernements pour le *Programme Général d'Assistance Technique*.

Des rapports étroits existent entre la Banque et le Fonds Spécial des Nations Unies dont le but principal est de participer aux délicates études précédant les investissements qui sont souvent nécessaires avant que le financement de projets importants puisse être décidé ou même simplement pris en considération.

Certains de ces projets peuvent d'ailleurs, par la suite, être financés par la Banque.

Le Président de la Banque siège au Comité consultatif du Fonds Spécial et la Banque a accepté d'être l'agent d'exécution pour quatre projets du Fonds Spécial.

Enfin, il est souvent fait appel aux services de la Banque pour désigner ou recruter des experts pour le compte des gouvernements membres — pour le recrutement des cadres supérieurs ou de conseillers des institutions chargées des programmes de développement, pour les secrétariats financiers, les banques de développement ou autres organismes économiques — et dans ce but, la Banque tient à jour une liste de candidats spécialisés dans les différentes disciplines en rapport avec ses activités et dont elle peut disposer à la demande.

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Depuis le début de ses opérations, en 1946, l'expérience de la Banque Mondiale a grandement renforcé la conviction de ses directeurs que l'aide technique et l'aide financière apportées au développement économique sont étroitement interdépendantes et que la Banque peut contribuer efficacement au processus de développement en associant ces deux composantes indispensables.

Les activités de prêt et d'assistance technique de la Banque continueront de progresser ensemble. La création envisagée de l'Association Internationale de Développement en tant que filiale de la Banque — destinée à augmenter les ressources financières et à donner plus de souplesse dans leur utilisation — peut aussi permettre d'envisager que le champ d'action et l'efficacité de l'aide technique de la Banque Mondiale soient considérablement accrus.





INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

1818 H STREET, N.W., WASHINGTON 25, D. C. TELEPHONE: EXECUTIVE 3-6360

Review 7/11/62-50c.

8/14/62-225c.

Remarks of Richard H. Demuth
Director of the Development Services Department
of the World Bank
before the Economic and Social Council of the
United Nations, July 11, 1962
Geneva



Mr. President and Members of the Council:

In his annual address to the Council at its meeting last April, Mr. Black, as President of the International Bank, the International Development Association and the International Finance Corporation, pledged the support of those institutions for the objectives of the United Nations Decade of Development. Although unfortunately Mr. Black is not able to be present today, he has specifically asked me to reaffirm here that promise of support.

The General Assembly resolution designating the 1960s as the Decade of Development is timely and welcome. It provides us with an important opportunity to plan for the future, and the Secretary-General's report will serve as a useful guide for that planning. No one can predict with assurance how nearly, when the Decade of Development closes, we shall have come to achieving the goals suggested in the Secretary-General's report, but the experience of the '50s indicates that if we act with reason, determination, good will and, above all, in concert, it is possible, even in the relatively brief span of a decade, to make substantial progress.

A little more than a decade ago, the industrialized members of the international community had not yet come to recognize the necessity of furthering the economic and social advancement of the less developed countries, very little

existed by way of an organized development assistance effort, and the resources mobilized for development aid were very limited indeed. Certainly at the start of the 1950s, a report such as the Secretary-General's would have been inconceivable. Yet today we read that report against the background of a common acceptance of the imperatives of economic development.

The evolution of this change in attitude coincides roughly with the period of the Bank's existence. Indeed the evolution is dramatically illustrated by changes in the Bank itself, for the Bank is a cooperative institution which responds to and necessarily reflects the views and philosophies of its members.

In 1946, when the Bank opened for business, attention was focused on rebuilding war-damaged economies and the initial emphasis of the Bank's financing was necessarily on reconstruction. Few voices were then lifted in the more developed countries to urge the necessity, in the interests of the world community as a whole, of raising living standards in the less fortunate parts of that community, and scant attention was paid to those who did speak in this strain. And even when, in 1948, the advent of the European Recovery Program occasioned a shift of Bank emphasis from reconstruction to development financing, progress was at first disappointing. By the end of the following fiscal year the Bank had made only three development loans, aggregating slightly more than \$100 million. In large part, of course, this was due to circumstances prevailing in the less developed countries: lack of projects which could meet the Bank's standards, limited administrative and technical skills, limited resources of domestic capital, unsatisfactory economic and fiscal policies, political insecurity, and so on. But to some extent at least, the slow pace of initial activity reflected the attitude of the industrialized countries toward economic development. They had no feeling of urgency, only the most limited awareness of the difficulties and ramifications of the

problems involved, and small disposition to tackle them.

But during the decade which followed, great strides forward were taken. The apathy of the industrialized countries disappeared as they came to recognize their own direct involvement in the economic well-being of the rest of the world. Concurrently, the less developed countries came to a greater realization of the need that they themselves take the economic and financial measures, build the institutional foundations and accept the disciplines required to make economic development a reality. In the course of the decade the proposition that economic development was in the national interests of every country ceased to be viewed as unsound and extreme. The question whether the capital-exporting countries had a responsibility to foster that development ceased to be a subject of popular debate. The responsibility was accepted, and vigorous action was taken to discharge it. Development assistance was increased enormously in volume and broadened enormously in scope. And more and more emphasis was placed on international agencies and international cooperation as the means of fostering development.

Since we are speaking here in terms of decades, it may be of interest to look at the Bank ten years ago and to compare it with the Bank today. In the fiscal year ended on June 30, 1952, Bank loans amounted to something less than \$300 million. In contrast, the fiscal year just ended saw the Bank and IDA provide financing in excess of \$1,000 million -- more in a single year than the total of all development loans which the Bank had made ten years before. Total Bank and IDA lending today aggregates almost \$6,800 million, representing 343 loans and credits in 63 countries.

In 1952, the Bank had 51 members with subscriptions totaling \$8,500 million; now it has 75 members whose subscriptions aggregate over \$20,000 million.

Whereas a decade ago the Bank had sold its bonds only in the United States, Switzerland and Canada, now its securities are well established in the markets of Belgium, Germany, the Netherlands and the United Kingdom, too.

But these statistics tell only part of the story of the Bank's growth and evolution. Early in the decade of the '50s, it became apparent that, however important Bank lending might be, other financial tools were also necessary to meet the varied capital needs of the developing countries. First, and in good part as a result of the deliberations of this Council, the International Finance Corporation was created in 1956. Recently the IFC investment authority has been broadened to include the purchase of equities and underwriting, and both the scope and scale of IFC's investments are now steadily increasing. Then two years ago, the young but promising International Development Association joined our family, again with a lineage of which at least one strain traces back through many early sessions of this body.

Growth in the volume and variety of our financing has been accompanied by growth in many other directions. Economic development, as the Council well knows, depends upon more than capital. It cannot be achieved unless those who provide the funds and those who spend them are concerned no less with the quality than with the quantity of expenditures. The Bank has accordingly devoted considerable effort to enhancing the ability of its members to make the most effective use not only of development assistance, of whatever origin, but also of their own resources. The emphasis in this aspect of our work has been on assistance in project selection, preparation and execution, help in development programming, and advice on economic and financial policy and management. The techniques used have varied according to the circumstances; they have included such devices as survey missions, resident advisers, resident representatives, training programs, and the fostering of development banks. In addition,

as you know, the Bank has created a staff college for senior development officials, the Economic Development Institute, and has established the Development Advisory Service, a corps of experts available to provide economic and financial advice, especially concerning the preparation and execution of development programs, on a long-term and resident basis. It has used its good offices, upon request, to facilitate the settlement of disputes both as between governments and as between governments and private parties, and is at present considering the possible desirability of the creation of some type of arbitral machinery. It has made and published a study of proposals for multilateral investment insurance.

Thus the Bank, which began as a purely financial institution concerned initially with postwar reconstruction needs, is today the keystone of an integrated complex of development assistance agencies, able to offer to their members financial and technical help over a broad front. Together with the United Nations, the Special Fund and the other specialized agencies operating in economic and social fields, they provide within the United Nations system a variety of instruments, tested and prepared by experience, which are ready to play a major role in fostering the objectives of the Development Decade.

But two important qualifications must be noted. In the first place, the world-wide shortage of development experts places severe practical restrictions upon the plans of all development assistance agencies, national and international; certainly in the case of the Bank, it is one of the major limitations upon the further expansion of our activities. Through many different training programs, efforts are being made to increase the numbers of skilled and experienced personnel, but it is evident that for years to come there will be an imbalance between demand and supply. This is not to suggest that we should be inhospitable to new ideas for the solution of development problems; indeed,

as professionals in this field, we have an obligation to put forward new proposals ourselves. But equally, we must always remember, as the Secretary-General's report cautions us, that every new program, every new institution, further stretches and strains the already limited supply of trained manpower. There is the risk, if not the likelihood, not only that the new programs or institutions, being inadequately staffed, will fail to be fully effective but that at the same time the effectiveness of existing programs may be impaired as a consequence of the additional obligations imposed upon available personnel. Under these circumstances, it will generally give a greater developmental return to concentrate on making more effective and more imaginative use of existing development assistance agencies than to put emphasis on constantly striving for new approaches and new institutional arrangements.

The second limitation is one of capital. The Bank and IDA can be expected to be the principal channels for the financing of multilateral programs proposed for the Development Decade. The Bank has had no difficulty in recent years in raising, through sales of its bonds and of portions of its loans, the funds needed even for its greatly expanded and accelerated lending operations. But the opportunities for Bank lending are necessarily circumscribed by the creditworthiness of its members -- that is, their ability prudently to incur additional foreign exchange debt on conventional terms -- and, to some extent, by the types of projects which the Bank is designed to finance. Accordingly, while the Bank will seek to maintain its present high level of lending, it seems to us very likely that the bulk of any increased financing needed to achieve the objectives of the Development Decade will have to come, not from the Bank, but from IDA.

IDA, as the Secretary-General's report points out, is well designed to play just such a role. Not only can it provide financing on the lenient terms

which balance of payments considerations now make necessary in so many countries, but it is authorized to finance any type of project so long as it is of high developmental priority. This includes not only all kinds of directly productive projects but also technical training programs, education, water supply and other projects and programs of the kinds stressed in the Secretary-General's report.

However, if IDA is indeed to play a key role in the Development Decade, its resources must be promptly and substantially increased. The President of IDA has recently called to the attention of its Executive Directors that, on the basis of commitments already made and projects now in view, the \$760 million of convertible currencies included within IDA's initial resources are likely to be fully committed by mid-1963. Accordingly, if there is not to be a serious interruption in IDA operations, its member governments will soon have to decide upon the amount of new commitment authority to be given to IDA and the period for which the additional resources are intended to suffice. To a considerable extent, the measure of support thereby given to IDA will be a measure of the earnestness of governments' intentions to make the Decade of Development truly a period of notable advancement, and of their faith in the effectiveness of multilateral channels to achieve this objective. Without substantial additions to IDA's resources, the United Nations Decade of Development may well remain a felicitous but somewhat hollow slogan.

* * *

Over the years, harmonious and productive cooperation has been developed between the United Nations and the Special Fund, on the one hand, and the Bank group of institutions, on the other. We have also enjoyed close and fruitful relationships with the other specialized agencies, particularly in connection

with our advisory missions. Now, with the advent of IDA, permitting us to finance a wider range of projects, including many falling within the fields of interest of our sister agencies, our cooperation has intensified and the relationships between us have become closer. From our standpoint at least, the satisfactory way in which these common efforts are proceeding augurs well for our work together in the many programs of the Development Decade in which we share mutual responsibility.

* * *

In closing, I want to express the appreciation of the Bank group of agencies for this opportunity to participate in what will surely prove to be an important debate -- important not so much because it initiates new programs and institutions, although no doubt some of these may be necessary in the years to come, but because it will, hopefully, lead to efforts on the part of governments to increase the effectiveness of existing machinery by making available increased resources of funds and personnel. Given those resources, I believe we can all share the Secretary-General's confidence that the challenges to our ingenuity implicit in the great goals of the Development Decade will be successfully met.

Mr. Demuth wants this to be attributed to him
Conference attended by Messrs. Rivkin & Samii; paper delivered by Mr. Rivkin 9/23/63

Copy to Paris

June 1, 1963

PLANNING, PROJECTS AND PEOPLE

Paper prepared for African Conference at Cambridge University,
September 22-October 5, 1963,
on "Some Aspects of Development"

by
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In this gathering of persons whose association with Africa is intimate and immediate, I feel that I should promptly disclaim any expertise on Africa as such; indeed, my direct contact with the continent thus far has, to my regret, been limited to one short visit some years ago. But assistance in planning and programming for development has been a major activity of the International Bank from the time it embarked upon development lending, and I have been associated with that aspect of the Bank's work, in one way or another, since it began. Moreover, it has been my experience that, while the Bank's member countries around the world are in many respects extremely diverse--in their history and geography, social structure, culture and religion--there is considerable similarity in the manifestations and root causes of their development problems. And so, while the inherent difficulty of handling the problems of development may be greater in the African context than in some other areas, the problems themselves are not unfamiliar.

The invitation extended to me to address this Conference gave me broad discretion as to which of these problems I should discuss; I shall exercise that discretion by concentrating on three subjects which, in my judgment, are central to all the issues we are likely to

be examining over the next two weeks: first, the value and limitations of development planning; second, the role of projects in such planning; and third, the contribution of individual initiative--or, in other words, the role of the people themselves--in fueling the whole development process.

I.

There was a time, not so long ago, when, at least in free enterprise societies, the associations of the word "plan" were almost invariably disparaging. To advocate or engage in planning was, at best, to invite dismissal as an idealist; at worst, to be accused of favoring regimentation and the stifling of initiative. The word can still spark a controversy, but today it is of a different kind. Now we argue the merits of alternative approaches to planning. And there has developed a planners' jargon--dynamic projections, accounting prices, aggregate models--testifying to the emergence of planning as a profession, if not precisely an art or a science. We are comfortably past the stage of viewing planning activities as inherently undesirable or suspect. Indeed--and this is the first of the points I wish to stress--the danger now is rather that, in the less developed world at least, the pendulum may be swinging to the other extreme.

Production of a "Five-Year Plan" or a "Ten-Year Program" has in many countries, including African ones, come to be considered as evidence of economic maturity and thus as an end in itself; indeed, some development assistance agencies have made the existence of such a plan or program both a prerequisite and a passport to international assistance. Often these plans are embodied in impressive-looking documents

containing masses of statistics and the most modern of macro-economic analyses. Yet all too frequently one finds, upon investigation, that the statistics have little or no basis in fact, and that the economic analyses have not been preceded by, or have not taken account of, a realistic evaluation of the physical resources available to give form to the paper outline, of the skilled manpower available to exploit those resources, or of the adequacy of governmental or other institutions necessary to enable that exploitation to take place.

Planning for development is still a relatively new concept. Probably no country, industrialized or less developed, can justifiably claim that its planning efforts have been wholly successful; indeed, the record indicates that the plans which have failed of achievement exceed by far the number of successes. A principal reason for this, I suggest, is that, although few of the developing nations have available the kind of factual data necessary for comprehensive planning and most of them lack enough trained people either to make the difficult judgments which such planning requires, or to carry out such plans after they have been formulated, it is the exceptional case where the scope of the planning effort is realistically adjusted to these limitations.

Let me expand a little on this. We would all agree, I am sure, that the first step in the planning process is to gather together, in a central spot, strands of intelligence about the totality of the country's resources. The data thus compiled are the raw material of a series of subsequent judgments--judgments about the respective priorities of the various fields of investment and about which projects within

a given field are likely to have the greatest developmental impact; judgments about what are feasible development targets and about what changes or innovations, in policy and in the institutional framework, are necessary to achieve the projected goals.

The factual element in the planning process must be accurate in detail and comprehensive in scope if the judgments founded upon it are to be realistic and practicable. Yet the developing nations typically have only fragmentary information about their resources and much of that is unreliable: this is noted in the report of virtually every Bank mission, and African countries are no exception. The deficiency in data is, regrettably, widespread and is not confined to the realm of detailed and complex economic information. Take, as an example, population figures. The stated primary object of most development plans is to achieve a rate of economic growth which exceeds by a stipulated percentage the rate of population increase. Obviously this calls for reasonably accurate estimates of the current population and of the rate at which it is likely to grow. Yet the East African Statistical Office says that its first census, taken several years ago, showed that the population had previously been underestimated by some 25 percent. Similarly, estimates of the current population of a certain West African country have ranged all the way from 800,000 to over three million. These are, of course, extreme examples, but they illustrate the problem.

Economic statistics, too, are hard to come by and inspire no greater confidence. To turn again to Africa for an example (although documentation can be found in any part of the less developed world), a

very large educational investment program was formulated for an African country based on an estimate of the existing pool of skilled personnel and of the addition to that pool which would be needed by the end of the decade to achieve a projected rate of economic growth. Preliminary indications of a subsequent more detailed (although not necessarily more accurate) manpower survey are that in many fields the current supply of skilled persons may already exceed the need which had been projected for some 10 years ahead.

Even if data were available and accurate, less developed countries suffer from a shortage of technicians trained to use the raw material. The shortage is especially severe and especially noticeable in those countries, which again include many in Africa, where planning was formerly the responsibility of expatriate civil servants, who departed after or even in anticipation of the country's political independence. It takes time to develop the requisite skills among the local population, and the less developed countries are understandably impatient to progress. The suggestion that the difficulty may be overcome by importing foreign technicians is not really practical, even for the short term. For one thing, newly independent countries--proud, understandably anxious to stand on their own feet and to demonstrate their ability to run their own affairs--do not find it easy to accept foreign experts, particularly in executive or administrative positions. For another, persons with the requisite technical skills, suitable temperament and personal situations accommodating a short period of residence in a less developed country are hard to find, as the Bank has learned to its sorrow.

Shortages of trained talent similarly threaten the implementation of development plans. And quite apart from the operation of Parkinson's Law, the more detailed and pretentious the plan, the larger the number of administrators and technicians required to carry it out.

Where these limitations exist, two principal choices are presented. One alternative is to ignore the limitations or pretend that they do not exist. For the absent or insufficient data, assumptions may be substituted --assumptions concerning a desirable growth rate, and further assumptions concerning the magnitude and availability of the capital and manpower required to produce that rate of growth. Notwithstanding the limited supply of technicians, the planning apparatus of other countries, perhaps that of the former metropole, may be uncritically transplanted, with little if any adaptation to local conditions and competence. The resulting plan is likely to be an impressive but essentially fanciful document, with a misleading appearance of precision, which may have regrettable, even disastrous, consequences for the economy if taken seriously. An individual would hesitate knowingly to live or work in a structure with so unsteady and flimsy a foundation. Surely governments should be no less prudent.

The second of the alternatives is to devise a much more modest plan which takes account of the practical limitations of the data, managerial capacities and skilled manpower available and which, rather than prescribing an aggregate over-all model for the entire economy, focuses on a general strategy of development and on an investment program for the public sector based on a series of specific projects. Having seen the

planning process from the Bank's side, I would without hesitation urge this second course for most countries with whose economies I am familiar.

Let me make clear that even this relatively unsophisticated type of planning involves important and difficult judgments. For comprehended within the concept of a broad strategy of development are such basic issues as the place of agriculture in the economy--for example, whether emphasis should be put on improving existing agricultural practices or on agricultural transformation schemes or both; the appropriate roles of government and of the private sector; policies towards foreign industrial investment; the amount of resources which the country is willing and able to provide for investment purposes at the expense of current consumption; the relative emphasis to be given, within the public investment program, to directly productive investment as contrasted with investment in the so-called social services; and many similar matters. Included, too, within any proper strategy of development are plans for accumulating more and better data upon which to base development decisions in future years--through improvement of the statistical services, through inauguration or expansion of soil, mineral and other types of natural resource surveys, and through feasibility studies of important specific projects.

Such a general strategy of development provides a useful framework within which investment decisions may be made, but if actual investment is to follow promptly, the general strategy must be accompanied by a program for the public sector based, to the extent that existing data permit, on a series of specific projects. You will note that I have stressed investment in the public sector. This is because planning for the private

sector, at least in the absence of an elaborate mechanism of government controls, is apt to be nothing more than a statement of hoped-for targets. Every consideration of realism suggests, therefore, that the government should initially concentrate its investment planning on development of the public sector, within which it can act directly, with the one important qualification that the public investment program should not absorb so large a share of the economy's savings that the private sector will be starved for funds.

I have suggested moderation and realism as two of the elements essential to the success of a development plan. There are many others. For one thing, provision must be made for periodic review and revision of the plan in the light of changing circumstances. This is particularly important in the African context, because of the sharp fluctuations in the prices of the principal exports, and therefore of the income level and balance of payments, of so many African countries.

For another thing, it is of major importance that the agency responsible for formulating and revising the plan operate at a central place within the governmental structure. Since planning involves coordination, the planning organization must have access to, or authority to command, information from the various ministries. Its effectiveness will be impaired if it is placed so low or so peripherally in the governmental hierarchy that it necessarily functions in virtual isolation from the ministries. Ideally, those responsible for preparing the plan should have an effective voice in the formulation of economic policy and in the design of administrative measures required to implement the plan. At

the least, the planning organization should operate in close correspondence with the center of political power, so that the plan may take account of policies and measures worked out elsewhere.

It is perhaps even more important that a development plan have behind it the influence and prestige of the government, and that it be endorsed by the country's political leaders. The role of technicians in the planning process has been described as the illumination of choices. This must, of course, be done as thoroughly as available tools and materials permit. But once done, it is up to the political leaders to make the actual decisions, to choose one or more of the alternatives offered and to reject the others. Whatever the course of action decided upon, if it actually contemplates economic progress it is likely to call for measures which no government interested in popular support likes to take--for example, a more stringent enforcement of the tax laws, the withdrawal of subsidies, or a temporary curtailment of imports. If the government and the political leaders pay only lip service to the desirability of planning, and are not really convinced of its importance or committed to it, they are likely to be unwilling to face up to these hard political decisions. The plan, whatever its intrinsic merits, will then prove to have been no more than a theoretical exercise. The time, the talent, the energy and the capital which went into it will be yet one more example of wasted investment.

Moreover, the new attitudes and disciplines called for by development plans are not easily instilled or readily accepted by the people. No plan, I am convinced, can fully succeed which does not engage the popular

imagination and attract popular cooperation--and this is impossible without the steadfast, wholehearted and continuing support of the government and the political leaders.

II.

I want to turn now to the second major subject of this paper--a subject to which I have already referred briefly--namely, the role of projects in development planning. If I may use a physiological analogy, projects provide the bone structure without which any plan is likely to be formless flesh. There is little realism in any over-all program which calls for a certain level of public investment, or which indicates target levels of investment in different sectors of the economy, if effective opportunities for such investment do not exist, or have not been sufficiently identified so that probable costs and benefits may be analyzed and compared, or have not reached and are not likely to reach the stage of readiness for financing on the schedule envisaged by the plan.

In the Bank's experience, it is the weakness of many so-called development plans that this element of realism is lacking. At least one African country has both a medium-term plan based on macro-economic considerations and a number of investment projects in various stages of readiness for execution. But the two are not related. Accordingly, it is unlikely that resources will be allocated in accordance with the forecasts of the plan, and at the same time there is no assurance that the investments actually made--that is, the order in which projects are carried out--will accord with the priorities implied in the plan.

At the other extreme, there are many countries, in Africa and

elsewhere, which have only a list of projects and no plan. If a plan were to be drawn up, no doubt many of these projects would, and properly so, be components of it. But at the moment these countries have no yardstick by which to measure the economic priority of any given project and to establish which ones are both sound and most urgent. To proceed with a project, particularly one with an uncertain yield, simply because it is there--identified and apparently feasible--could be positively mischievous in the long run, if to do so diverted resources from other more critical sectors of the economy or implied excessive demands on future budgets.

Thus, while I hope I have made the case against over-all planning which is not solidly based on specific projects, I would also warn against a development policy which considers only the specific projects ready for investment, without regard to their relation to any over-all plan. To be sure, a country which has projects ready to proceed, but no plan, is generally better off than a country which has a plan but no identified and prepared projects. But the proper goal, I suggest, is neither of these extremes: it is to have a realistic over-all plan within which attention is focused on a manageable number of high-priority projects, properly prepared and evaluated, and worked up to the point where they can be considered for investment.

You may think that I am overstressing the importance of project preparation in the planning process--but the Bank's experience over many years stands as convincing testimony to the contrary. The lack of well-prepared projects was the single most important obstacle to World Bank financing in the Bank's early days--and still today it is the factor which,

more than any other, hinders investment by the International Development Association and other development financing agencies, both national and international. Indeed, the lack of projects is so acute in many underdeveloped countries, including particularly the African nations, that "project-snatching" by one aid agency from another has come to be a common form of international gamesmanship.

There are many, I know, who are impatient with the project approach. They point to the vast needs of the underdeveloped world in almost all fields--in industry, agriculture, infrastructure, education and public health--and argue that, given those needs, only a banker wearing blinders would confine his help to those relatively few specific projects which are ready for capital investment. There is substance to this argument in one kind of situation--namely, where, as in India, shortages of foreign exchange with which to purchase raw materials, spare parts and components threaten effective use of existing productive facilities. In a situation such as that, to concentrate foreign assistance on the creation of new or expanded productive facilities, while leaving the import demands of existing producers unsatisfied, is likely to be highly uneconomic.

But in most underdeveloped countries, in most African countries, the problem is not that of India but rather to find ways in which money--and in particular foreign exchange--can usefully promote development over the long term. One cannot obtain increased industrial or agricultural production, or more education, or more adequate power, by simply willing it and then earmarking sufficient money to buy it. Money cannot buy production; it can only buy productive facilities. And productive facilities will bring the

desired return in the form of new or increased production only when and to the extent that they are employed effectively and economically--in other words, as part of a project which is soundly planned. This in turn implies careful preparation and analysis of the project from every angle--technical, financial, economic, managerial, and the like.

Let me take industrial production as an example. Before a new manufacturing enterprise can be launched with any assurance that the money invested in the plant will strengthen rather than weaken the economy, there must be an investigation of market demand, of the availability of raw materials, of the transportation situation, of the availability of skilled and unskilled labor, and of many other factors. Even in the industrialized countries, preparation of plans for such a plant is likely to be a matter involving many skilled consultants working for several years. Planning industry in the less developed world certainly requires--and deserves--at least as much time and effort. For if a manufacturing enterprise is established whose costs are not and cannot be made competitive--and I have seen all too many examples of this in many parts of the world--it is the economy as a whole which suffers. In the industrialized countries, the result of establishing a non-economic plant is usually simply the bankruptcy of its promoters, with little or no real impact on the economy. In the less developed world, on the other hand, political, prestige, or other considerations usually impel the government to ensure that new manufacturing enterprises, even if uneconomic, keep going; this often requires import restrictions or a high protective tariff, with the result that consumers must in the end pay, through higher prices, for the original

mistakes of ill-conceived or hasty project planning. What is even more important, the economy loses the benefits which would have flowed from sound alternative investment of the resources going into the uneconomic plant.

One could pick examples of poor project planning from almost every sector. Large irrigation projects, for example, which are not accompanied by workable schemes for resettling and retraining the farmers to use the water which the project is designed to make available; in cases such as this, the engineering may be unexceptionable and the water may be delivered on time and at the estimated cost--but until the newly irrigated land is effectively worked the capital investment in the project will remain largely wasted. There have been cases, too, where large modern hospitals have been financed, only to stand largely unoccupied because there were not enough doctors within the country to staff them. And cases where roads have been built to advanced specifications at very large cost--only to find that the traffic could have been handled readily by far less expensive roads which would also have required far smaller annual maintenance expenditures.

I have used examples which are perhaps overly dramatic--but the problem they dramatize is common to almost all development planning and investment. Project preparation is admittedly a difficult, time-consuming and expensive operation; yet without it, money will not be invested wisely and the developmental return from the investment will at best be disappointing.

Because of the great importance which we in the World Bank attach

to proper project planning, we have embarked on a far-reaching program of technical assistance to our members in this field. For many years now, through general survey missions, resident advisory missions and, more recently, through the Bank's Development Advisory Service, we have been providing help to a number of less developed countries in the formulation of over-all development plans. This has included several nations in Africa--Nigeria, Somalia, Libya, and the three East African countries among them. More recently, however, we have added a new dimension to these technical assistance activities by giving help specifically in the field of project preparation. In part, we have done this through organizing and paying the foreign exchange cost of feasibility studies of various projects and sector programs. In part, we have done it by assigning staff members to work with the governments of various countries in bringing projects up to the point where they can properly be considered for financing. And in part we are providing assistance through special project appraisal courses given at our Economic Development Institute for senior officials of our member countries.

III.

But--and here I come to the third and last major point I want to present for your consideration--outside help, however useful, can never be of more than secondary importance. In the last analysis, I am convinced, the pace of development in any country depends, not so much on its physical resources or on the efficacy of its planning efforts or on how much and what kind of foreign assistance it gets, but basically on the initiative, intelligence and vigor of its citizenry and on the extent to

which their energies are effectively enlisted in the development effort. The history of many countries here on the European continent bears eloquent testimony to the truth of this.

The importance of people, not only as the ultimate beneficiaries but also as the mainspring of the whole process of economic growth, obviously implies that education and training must have a prominent place in every development program. The development of human skills, of the right categories and on the right scale, is not only a goal in itself; it is essential to promote increased production in almost every field. The peasant who cannot read the directions on a can of insecticide is likely to waste the insecticide, kill his plants and may even poison himself. The small business which cannot find anyone to keep its accounts will remain a small business. A rural society will not become a technological one without the entrepreneurs, the managers, the supervisors, the skilled workers which only an adequate educational system, supplemented by appropriate technical training, can provide.

But when I stress the importance of people, I have other things in mind beyond education and training. I have in mind that governmental policies must be designed to stimulate, not stifle, individual initiative; that decision-making must be decentralized and not concentrated in a few hands; and that the venturesome must be encouraged by the knowledge that appropriate profit will be the reward if their ventures succeed. These are, in my judgment, policies essential to any sound development strategy --and if the over-eager planner neglects them in his enthusiasm to assure that everything goes according to plan, the cost to the economy is likely to be high.

I find all the current talk about "human resources" somewhat distasteful--as though people were just another factor of production comparable to the physical endowments of an economy. One can measure, however roughly, the potentialities of physical resources--but there has still to be devised any real measure of the developmental potentialities of the human mind and spirit when given full opportunity to be productive. In the very immensity of those potentialities, I suggest, lies the great challenge, and the great hope, of the whole development effort.

Prebisch



Need for Development-Related Projects as Distinct from "Shopping Lists"

Towards the end of last year Dr. Raúl Prebisch, in his capacity as Secretary-General of the U.N. Conference on Trade and Development, asked the World Bank authorities to advise him of, and to comment on any difficulties the Bank had experienced in the aid-giving process. The following is the text of the Bank's reply transmitted to Dr. Prebisch by the head of the World Bank Department concerned (Development Services Department).

I am replying to your letter of November 21, 1966 (TDO 280) to Mr. Woods, inviting the comments of the International Bank for Reconstruction and Development (the Bank) concerning difficulties which it may have experienced at one or another stage of the aid-giving process. Our comments are solicited for purposes of the contemplated exploration, by the Committee on Invisibles and Financing Related to Trade, of administrative and operational difficulties encountered by international aid agencies and governments of donor and recipient countries.

You will agree, I am sure, that it would not be appropriate for the Bank to respond to your inquiry in terms of specific lending operations. I can, however, describe certain broad areas in which the Bank and various of its borrowers have felt that conditions could be improved. I may add that efforts to this end have been and continue to be made on both sides.

Your letter mentions, among other stages of the aid-giving process, the preparation of requests by the recipient country. This is an area which has caused concern from the Bank's earliest years. I refer here rather to the substance of the application for assistance than to the provision of information, although the latter is sometimes also the source of some difficulty, as indicated below.

At the very outset of operations, we found that requests for assistance, although framed in terms of projects, were frequently little more than shopping lists, with no indication of the relative developmental priority of the projects listed. Sometimes we were presented with what amounted to merely a notion of a possible project, not one prepared so that the need for funds, manpower and equipment could be foreseen, or so that it could proceed promptly once the necessary financing was assured.

The first problem was therefore to convince governments that it was neither in their interest nor consistent with the Bank's obligations under its Articles of Agreement to commit scarce resources to projects bearing no relation to a reasonable set of national priorities and unsupported by any evidence of feasibility.

A second problem, which of course had to be tackled simultaneously, was how to provide governments with objective advice to assist them in making the necessary

determinations of priority and in identifying, preparing and carrying out development projects.

The range of the Bank's technical assistance activities over the years has been largely determined by our efforts to cooperate in solving these two broad types of problems. For example, the economic survey mission was designed to help the government of the host country analyze the national economy and formulate a development program. There continues to be a need for development program and planning assistance, but the capacity of most of the Bank's developing country members to formulate such a program has greatly improved, and technical assistance in this field is now forthcoming from a wide variety of sources other than the Bank. The Bank does, however, maintain a specialized unit to provide expert advice to governments on the organization of planning, planning procedures and the requirements for effective implementation of development plans.

At the present stage in the Bank's history a much more acute need is for the development of techniques and training in identifying projects and bringing them to the point of readiness for financing and execution. Among the Bank's technical assistance activities designed to attack this range of problems are the financing and organization of project and sector studies, including those carried out as Executing Agency for the UN Development Programme; the institution of cooperative programs with FAO and Unesco; the establishment of regional missions in Western and Eastern Africa; the creation of an Agricultural Development Service in Eastern Africa; and the addition of courses on project evaluation to the curriculum of the Economic Development Institute.

Problems or difficulties often arise at later stages of the lending process. As you know, Bank loans and International Development Association (IDA) credits are made for projects of high economic priority which will make a significant contribution to the economy of the borrowing country and will increase the borrower's repayment capacity. In addition, the Bank must be satisfied that the project itself is well conceived and well engineered, and that it will be well managed and appropriately financed. This means that, before a decision to lend can be taken, the Bank must familiarize itself with the prospective borrower's economy and prospects,

in particular the extent to which additional foreign indebtedness can prudently be incurred, whether on Bank or IDA terms. This inquiry may lead the Bank to conclude that the developmental objective cannot be achieved unless certain changes are made, or innovations instituted, in the country's economic or fiscal policies. Assuming that the Bank concludes, in principle, that assistance should be extended and that the proposed project is appropriate for Bank or IDA financing, it directs its attention to the specific project. This examination may in turn lead to proposals for modification of certain technical aspects of the project, for changes in the projected financial or administrative arrangements, or to other revisions of the original plan.

The breadth and depth of our inquiries sometimes disconcert new borrowers. Some of the proposed conditions may appear to them to have little or too remote a connection with the project for which financing is sought and are resisted because they would postpone the start of the project. Over time, borrowers become better acquainted with the reasons for the Bank's requirements and in most cases a close relationship with the Bank develops. This is probably largely because the Bank, having no interest or purpose other than the orderly development of its member countries, has no reason to request information other than information that the borrower itself needs to have in order to carry out the project, and has no reason to impose pre-conditions for financing other than those which it believes that the borrower, in its own interest, should endeavor to meet.

But quite apart from the matter of understanding and appreciating the purpose of the Bank's investigations and the reasons for such conditions as the Bank considers to be necessary, it is not always easy for borrowers to comply with the conditions, or to satisfy them promptly. Sometimes the conditions call for action which is politically difficult. For example, they may require a change in the tax laws, a revision of power rates, the establishment of an autonomous authority to administer the project, or the employment of a foreign manager because no national with the requisite qualifications is available. Even when the conditions are accepted by the executive branch of the government, it may be hard to persuade the legislature to take the steps essential on its side.

There are sometimes difficulties of a different character. Sometimes the funds required for that part of the

project which should appropriately be financed locally are not readily available. Not infrequently a borrower is reluctant to make use of technical services where this means engaging foreign consultants or, having engaged such services, does not make the best use of them. Sometimes there are administrative difficulties in the borrowing countries, where shortages of personnel, complex and outmoded administrative practices and similar hindrances may cause delay. The President of the Bank, Mr. Woods, in an Annual Meeting address, once cautioned that external assistance could not be effective unless governments were committed to simplifying administrative practices and giving project work appropriate priority in the allocation of admittedly scarce personnel resources. The sheer difficulty of communications with some areas imposes delays which are probably inevitable in any institution operating on a world scale, but which we may hope, in time, to find less burdensome. All of these considerations add to the time which elapses between the start and the completion of a loan operation.

Spokesmen for developing member countries from time to time, notably at the Bank's Annual Meeting, suggest that the Bank's own procedures are a source of difficulty, that they are bureaucratic and involved and that they slow the tempo of development. They urge that the procedures be simplified and that disposition of loan applications be accelerated. To the extent that these criticisms reflect the view that the Bank should speed up its procedures at the cost of a significant reduction in the quality of financing done by the Bank and IDA, we believe that they must be firmly rejected. The Bank has had a good deal to do with establishing internationally accepted standards of soundness in the field of development finance, and it would be a disservice to all its members, developing as well as developed countries, were it to contribute to undermining these standards. Subject to this overriding consideration, however, the Bank is constantly at pains to streamline its own procedures, as Mr. Woods noted in the Annual Meeting address referred to above. For instance, a system has recently been instituted under which a target date for the completion of each stage in a loan operation is fixed at the outset of that operation; these forecasts are periodically reviewed with the object of assuring as close compliance as possible with the original schedule. A few months ago, a staff committee completed a comprehensive review of the Bank's disbursement procedures to consider what changes might be advisable to accommodate operations which have expanded in scope and which have changed in nature over the years. Certain revisions were proposed and are being given effect.

I hope that these necessarily generalized comments will prove useful to the Committee in its undertaking. As you requested, I am sending this reply to the New York Liaison Office of UNCTAD.

Sincerely yours,

RICHARD H. DEMUTH

Director

Development Services Department
WORLD BANK

January 23, 1967

THE REVIEW OF THE RIVER PLATE, March 21, 1967
Buenos Aires, Argentina

Extract of Verbatim Record of
Afternoon Session (10/17/72) of
Development Assistance Committee
High-Level Meeting held at
Chateau de la Muette, Paris

(Change made in statement is one
Mr. Demuth agreed to for purpose
of OECD broadcasts.)



Mr. R.H. DEWITT (I.B.R.D.)

Thank you, Mr. Chairman. Twenty-one of the 25 least-developed countries on the U.N. list are members of the World Bank group. While we have not formally adopted any set of special measures for those twenty-one hard-core countries, we have been giving increasing attention both in technical assistance and in financial assistance to the poorer countries within our membership in the broad sense of that term, and since we have tried to tailor our assistance to each country to fit the particular needs of that country we have, in effect, adopted very much the same kind of approach to the twenty-one least-developed countries which is suggested in the excellent paper before us. I think our particular contribution has been mostly in the field of helping these countries to identify and prepare development projects, and in reorienting our own project approach to emphasise projects which fit the needs of those countries. We are making a real effort, for example, to develop multi-sector projects for rural development, and we have established a rural development unit for that purpose. We are expanding our efforts in the transport sector which is particularly important for the land-locked countries, and we are financing education and training. And we are receiving, and responding to, an increasing number of requests from these countries for assistance in creating and operating planning machinery to develop and help carry out their development programmes.

As far as the volume of our financing is concerned, these are all IDA countries, and IDA credits to the twenty-one countries increased from a level of \$55 million in fiscal 1970 to over \$125 million in fiscal 1972. More than half the IDA credits included a local cost component, and the least-developed countries among the IDA borrowers received the largest percentage contribution towards those local costs. We have, as you know, established regional missions in Eastern Africa and Western Africa which cover some 15 of the least-developed countries and are responsible for most of our work in connection with project preparation for those countries in the fields of transport, agriculture and education. We have established in Eastern Africa an Agricultural Development Service to help countries that wish such help to manage some of their agricultural projects.

As far as the problem of coordination is concerned, which has been mentioned by so many people, I share Mr. Michanek's perplexity about a solution to this problem. Four of these countries are countries for which the World Bank has established consultative groups: Ethiopia, Sudan, Tanzania and Uganda. On six countries the UNDP has selected for a particularly intensive experimentation - we are cooperating with UNDP to see what special measures may arise out of that kind of investigation. The fact of the matter is, however, in our experience, that some of these countries don't want local

Mr. R.H. DEWITT (I.B.R.D.) (Cont'd.)

coordination, which they feel frequently is ~~a ganging up by~~ ^{an interference in their own affairs.} the donor countries. It does require an input of technical expertise by the recipient countries and by donor agencies trying to help the countries, which frequently just isn't available in the country, because these coordinating exercises are difficult and personnel-consuming exercises.

I don't mean to be defeatist about this because we are thoroughly in agreement with the Resolution on local coordination which was adopted by the DAC a year ago. Despite fairly strenuous efforts on our part, we have seen very little progress on that front in the year since and I think it is something that we are going to have to struggle with for a long time to come.

Sept 1973 - F + D
F - Dermuth speech

Developing agricultural technology in the LDCs

Excerpts from a speech by Richard H. Dermuth, Chairman of the Consultative Group on International Agricultural Research, to the Association of Directors of International Agriculture Programs in Raleigh, N.C., U.S.A., June 14, 1973.

"In the early days of the postwar development assistance effort, it was the conventional wisdom that what the developing countries needed to modernize their agriculture was not so much additional research as the organization of adequate extension services which could deliver to the farmers of the Third World the scientific expertise already available in the developed world. It was assumed that appropriate technology already existed that could be readily transferred from north to south. Experience has shown that, to a large extent, this was a false assumption—in other words, that appropriate agricultural production technologies for the poorer countries must for the most part be developed within and not outside the ecological zones in which those countries lie.

"This meant emphasizing research and training within the Third World. A good deal of effort was then put, and is still being put, into the development of strong national research programs—and in a few countries notable progress has been made: Mexico, Colombia, Chile, India, and Thailand are outstanding examples. But moving on a country-by-country basis, particularly with the limited human and financial resources available, promised to be a slow procedure, wholly inadequate to the urgency of the world's food production needs.

"So, under the leadership of the Rockefeller and Ford Foundations, an alternative strategy was developed: namely, to assemble a critical mass of scientific talent in a few places within the Third World to launch a multidisciplinary attack sharply focused upon the most urgent technological problems facing agricultural production in the developing countries. The international agricultural research and training center was the means devised to implement this alternative strategy.

"The family of international centers now numbers six, with one associate member. The full members of the family are the International Rice Research Institute (IRRI) in the Philippines; the International Maize and Wheat Improvement Center (CIMMYT) in Mexico; the International Institute of Tropical Agriculture (IITA), for the lowland tropics of Africa, in Nigeria; the International Center of Tropical Agriculture (CIAT), for the lowland tropics of Latin America, in Colombia; the International Potato Center (CIP) in Peru; and the International Crops Research Institute for the Semi-Arid Tropics (ICRISAT), with special responsibility for sorghums, millets, chick peas, and pigeon peas, in India. The "as-

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sociate" member of the family is the Asian Vegetable Research Center located in Taiwan.

"The Consultative Group on International Agricultural Research was formed in 1971, when it became clear that the base of both financial and technical support for the centers need to be broadened beyond the Rockefeller and Ford Foundations and the U.S. and Canadian Governments which, up to then, had provided almost all the finance and backstopping. The basic purpose of the Consultative Group, which is co-sponsored by the FAO, IBRD, and UNDP, is to mobilize such broadened support. Essentially, it seeks agreement among its members as to what agricultural research programs should be considered as having priority in the allocation of scarce development assistance funds, on the extent of the funds which should be provided each year, and on how the burden of financing might be shared. As a result of invitations issued by the three co-sponsors, some 13 donor governments, 7 international and regional development assistance agencies, and 4 private and public foundations have become members of the Group. The Group also has as members 10 developing countries, representing the 5 major developing regions of the world; these 10 LDC's among them occupy 5 seats at the Consultative Group table. In its mixed composition of public and private organizations, of donor and recipient countries, and of regional and international agencies, the Consultative Group is a unique institution.

"The Consultative Group has no funds of its own nor has it any authority to make decisions binding on its members. Yet, despite these limitations and despite the size and diversity of its membership, the Group has thus far succeeded in reaching very general agreement on the issues with which it has grappled. Perhaps the best indication of this is that funding for the international centers rose from \$9 million for 1971 to \$15 million for 1972 and to about \$24 million for 1973. In addition, ICRISAT was created in 1972 under the aegis of the Consultative Group and this year is likely to see the addition of a seventh member of the family—ILRAD—an International Laboratory for Research on Animal Diseases, to be located near Nairobi in Kenya.

"To the extent that the Consultative Group has been successful thus far, it is due, in my judgment, principally to two factors. The first is the existence of an excellent Technical Advisory Committee, popularly known as TAC, composed of six scientists from the developed countries and six from the developing countries, who meet under the chairmanship of Sir John Crawford of Australia. The TAC, the Secretariat for which is provided by FAO, considers the technical merits and priority of all proposals put forward for Consultative Group financing, and advises the Group on the principal research gaps which it believes need to be filled. The second factor is more elusive to define—but essentially it is

that almost all the members of the Group are enthusiastic about the international center approach. The Group's meetings are therefore singularly free of debate for the sake of debate, and are instead devoted to a common effort to find practical and constructive solutions. Agreement has been reached on such matters as having a single review conducted on behalf of the donors by the Consultative Group staff of the progress of each center in carrying out its approved program and in living within its budget; arranging for each center to have its program of research reviewed periodically by external panels of outstanding scientists; helping the centers to present their budgets in a more or less uniform manner, so that meaningful comparisons can be made; and arranging for an appropriate division of labor as among the centers, so that there will be no unnecessary or undesirable duplication of work.

Most importantly, of course, the Consultative Group, with the assistance of TAC, must seek agreement on what new or expanded programs should be supported. In addition to the agreement to set up an animal disease laboratory (ILRAD) in Kenya, there is near-agreement on setting up an overall International Livestock Center for Africa (ILCA), probably to be headquartered in Ethiopia, which, if established, would eventually absorb ILRAD as an integral part of its operations. The problems of the Middle East are also receiving attention; a mission organized by TAC has just returned from an investigation of the major constraints on agricultural production in that area and will shortly be reporting to TAC its view on whether an international research center would be an effective way of seeking to remove those constraints. The TAC also has under review, among other things, the desirability of promoting additional research on upland (rainfed) rice, probably as an extension of IRRI'S activities; of establishing relay stations for ICRISAT in the semi-arid zones of Africa; of expanding the research work now being done on food legumes; and of the possible utility of an international research center on aquaculture.

Let me conclude with a few words of speculation as to the future. My firm belief is that we are only at the beginning of a very considerable effort. The Chairman of TAC made an informed estimate in 1972 that, by the late 1970's, total financial requirements for programs which should be supported by the Group might well reach a level of about \$70 million a year: \$50 million for the core and capital requirements of the centers themselves and another \$20 million for outreach. (Outreach is primarily working with national research programs in adapting to local conditions the research findings of a center.) This estimate envisages an international effort about twice its present size. I am inclined to think that, if anything, the estimate may be on the low side, particularly for outreach.

