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Washington, D.C.

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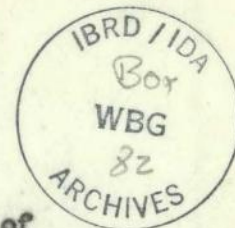


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Remarks by Donald D. Fowler of the Administration
before Washington Semester, American University
Washington, D.C., December 2, 1948

ADMINISTRATIVE PROBLEMS OF INTERNATIONAL ORGANIZATIONS



1. Introduction

Following the First World War, as you will remember, a number of International Organizations were created including the League of Nations, the World Court, the International Labor Office, etc. You will also remember that the U.S. did not throw its full weight into the establishment and operation of these international enterprises. During and following World War II, this policy of non-participation was reversed and the U.S. took a leadership position in the creation and establishment of International Organizations. In fact, a number of the agencies, including U.N., F.A.O., I.B.R.D. and I.M.F. have their Headquarters in this country. Our citizens, and particularly our administrators, are still inexperienced in the field of international cooperation and administering international organization. All countries and their representatives frankly agree that the work is experimental and that all have much to learn. There are those who believe that experimentation in the forms and methods of international administration should be encouraged by allowing each agency to develop with maximum autonomy and independence, while others would suggest the application of uniform standards of administrative conduct to all international organizations as established under U.N. leadership. On the basis of present trends, it is possible to predict that agency experimentation will prevail.

(a) Legal Status of International Organizations

International organizations or agencies, whether they be the

U.N. or one of the specialized agencies such as the International Monetary Fund or the Food and Agriculture Organization, do not possess supreme political power or authority; they do not have the powers of a sovereign entity. Rather all the present international organizations, as the name implies, are based upon the voluntary membership of sovereign states. The absence of sovereignty, as we understand the concept in its application to modern national states, results in the establishment of international agencies having limited powers.

- (1) The agencies are called into existence by the governments of sovereign states—they are the creatures of the modern state.
- (2) They are established under limited charters or constitutions which are drawn up by the representatives of sovereign states, and which provide the agencies with specifically delegated powers.
- (3) Membership in international organizations is determined by and in accordance with their charters. Governments usually may join the organizations as charter members or by petition to the agency and acceptance of the charter. All international agencies do not have the same membership. For example, the U.S.S.R. belongs to the U.N., but is not a member of F.A.O., I.R.O., I.B.R.D. and I.M.F. The U.S. does not belong to the International Bureau of Education, the International Relief Union and several other organizations.

- (4) No international agency, in so far as I am aware, has the power to levy and collect taxes. Most such organizations are dependent upon subscriptions or levies upon national governments - which in turn control the purse strings.
- (5) The international agencies have no law making power - have no control over the territories or peoples of sovereign states except insofar as that power is granted by contract - in the constitutions or charters of the agency.
- (6) The offices or secretariats of international organizations are established in the territories of nations, which in itself creates special administrative problems with which the organizations must deal, such as the application of national laws, privileges and immunities, freedom of ingress and egress, taxes, etc. A number of these we will discuss in more detail.

The concept of sovereignty as first developed in the latter part of the 16th century referred to a centralized power which exercised its law making and law enforcing authority within a certain territory. It was supreme authority which could be overthrown only by force. The rules of international law therefore are effective only (1) by the individual state consenting to them or (2) by invoking force. If the latter, the sovereignty of the state, insofar as the rule is applied, is non-existent. International organizations arise and apply their delegated powers by and with the consent of the member states. By

taking upon itself legal restraints (imposed thereafter by international organizations) the state does not lose or destroy its sovereignty. States become subordinate to international law, but not to one another;^{1/} rather they are equal. The U.N. Charter states: "The organization is based on the principle of the sovereign equality of all its members." The concept of sovereignty and its implications raises important administrative and organizational problems for international organizations.

(b) Inter-relationships of International Organizations

U.N. is popularly and incorrectly considered the parent international organization - the center around which all specialized agencies revolve. The gravitative pull of the U.N. is not sufficiently strong to hold the specialized agencies within its orbit. The U.N. is established as I have said, by national governments and operates under a charter. Only in a few instances are international agencies the children of U.N., i.e. established by U.N. under its charter. Examples of these are UNESCO and the Trusteeship Council. The greater number of international organizations are established in the same manner as U.N. and have charters or constitutions of their own, with the result that for the most part they are autonomous units.

However, Article 63 of the U.N. Charter provides:

1. The Economic and Social Council may enter into agreements with any of the agencies referred to in Article 57, defining the terms on which the agency concerned shall be brought into relationship with the United Nations. Such agreements shall be subject to approval by the General Assembly.

^{1/} Sovereignty Reconsidered, Columbia Law Review - April, 1948.

2. It may coordinate the activities of the specialized agencies through consultation with and recommendation to such agencies and through recommendations to the General Assembly and to the Members of the United Nations.

In accordance therewith, the U.N. has negotiated agreements with the specialized agencies which define the relationships of U.N. with these agencies. The agreements provide for reciprocal representation, proposal of agenda items, consultation, exchange of information, and administrative relationships. The agreements must be ratified by the General Assembly of U.N. and usually by the governing boards or councils of the specialized agencies. These agreements vary as to the extent of the relationship and the degree to which U.N. assumes responsibility for certain of the administrative functions of the specialized agencies. Each specialized agency has had to determine, in concluding an agreement with U.N., the extent of U.N. control, the extent to which it will retain autonomy in all matters. Considerable attention has been given to these agreements, but much remains to be done to make these agreements work in practice.

2. What is International Administration?

The term "administration" has been variously defined, but for the purpose of this discussion may be considered to mean the organization of men and materiel for the accomplishment of certain established objectives. By this we mean the functions of planning, organizing, commanding, coordinating and controlling the work of an organization to accomplish its purposes. We also mean the job of selling the objectives of the organization

to the public and reporting on progress attained. As Mr. Donald C. Stone has said in an article "The Application of Scientific Management Principles to International Administration," international administration is not fundamentally different in nature from any other kind of administration. It is rather a matter of interpreting administrative experience in the light of different conditions. It is one thing to administer a large organization, another to administer a small one. It is one thing to recruit a staff for an organization from a single cultural environment, and another to recruit it from a multitude of cultural environments. It will be our purpose to delineate those factors in the administration of an international organizations which are more or less peculiar to them by virtue of their international staffs and their relationship to national governments. I am convinced that international organizations must attempt a synthesis of the best administrative practices and management experience from all world cultures. To do this administrators should be aware of the administrative contributions that each country can make. We are learning, but progress is not as rapid as we would wish for.

(a) Allegiance

If an organization is the agent of a single national government and responsible only to it, I think we could agree that the staff of the organization should bear allegiance to that government. In an international organization with the staff recruited from many countries, it is necessary to determine to what extent and in what regard the members of the staff owe their allegiance to the international

agency and to the country of which they are citizens. Can allegiance be divided, can it be limited to the staff members official responsibilities. The Articles of Agreement of the International Bank provide that "The President, officers and staff of the Bank, in the discharge of their offices, owe their duty entirely to the Bank and to no other authority." A number of international organizations, such as U.N., require new staff members reporting for duty to subscribe to the following oath or declaration:

"I solemnly swear to exercise in all loyalty, discretion and conscience the functions entrusted to me as a member of the international service of the United Nations, to discharge those functions and regulate my conduct with the interests of the United Nations only in view, and not to seek or accept instructions in regard to the performance of my duties from any Government or other authority external to the Organization."

Whether such an oath creates a beneficial affect or what the scope and extent of such an oath should be have long been matters for discussion and still are problems which require solution by international organizations.

(b) Organization

In the majority of instances international organizations are composed of (a) a governing legislative body called a Council, Assembly, or Board of Governors; (b) permanent or ad hoc committees or boards which operate in the interim between council or assembly meetings; and (c) a secretariat or permanent staff which services the assemblies and boards and carries out the operating responsibilities of the

agency. A single Executive Officer usually heads the secretariat or operating organization. The establishment of committees, boards or councils continuously in session tends in many cases to limit the powers of the executive officer in the operation of the agency. In this regard, we may review the operations of the FAO, UN, the Bank and the Fund. All of the internal organization problems normal to private or governmental agencies are found in international organizations, accentuated perhaps by international staffs, vagueness of powers and authority, jurisdictional disputes, etc.

(c) Languages

The difficulties created by language differences in international organizations tend to slow up the administrative process. It is understandable, for instance, that U.N. should have more than one official language, where some 50 nations are brought together for deliberation in an international assembly. One of the problems of the administrator is to provide for translators, interpreters and the publication of material into several languages. As you may know, U.N. has adopted a system of simultaneous interpretation for purposes of its conference meetings. This is an elaborate and costly technical device and requires a considerable staff for its performance. Some of the specialized agencies have several official languages. Others have only one official language. Those agencies which are primarily parliamentary sounding boards require more languages and consequently

more interpreters and translators than those agencies which are primarily operating agencies such as the Bank and Fund. Even where the agency has a single official language there are problems. Even when there is normally no language barrier as between the U.S. and England, for example, there are a number of words and phrases used which, until accurately defined, result in confusion. Examples are: "redundant personnel," "compassionate leave," "personnel establishment," "indeterminate appointment," and "table the motion."

(d) Personnel

In the development of personnel policies for international agencies many problems arise by virtue of the peculiarities of international employment. One of the first problems is that of recruitment. Almost all international agencies must, by virtue of their charters or constitutions, recruit personnel with due regard to the importance of wide geographical distribution. At the same time they have the responsibility for recruiting the best qualified persons available for all positions. In other words the merit system predominates but with geographical distribution established as a modifying feature. As a rule it is an exception when an organization appoints a staff member from a country which is not a member of that organization. Certainly international agencies should have on their staff nationals of a wide variety of countries and particularly from all major world regions. Insofar as practicable, some staff should come from each member nation. In fact, some international agencies have worked out

a "quota system" that establishes the number of the staff which should come from each country having membership. A number of factors have been used as criteria, such as population of the country or amount of subscription payment, in determining what the quota should be and there is considerable difference of opinion on this score. Some of the international agencies have developed a very rigid system of quotas, the UN being the prime example, while others operate on a less formalized and less rigid basis. As you must realize it is costly to bring staff to the headquarters of an international organization from all over the world. As a result most international agencies have provided, as has the Bank, that clerical, secretarial, and custodial positions be filled by persons from the area in which they will be employed. The problem of recruiting on a merit basis has all of the implications of any national program based upon the merit principle. International agencies have borrowed from national agencies in this regard but few have established elaborate testing programs such as that of the U.S. Civil Service Commission.

(1) Career Service

There is no unanimity of opinion as to whether international agencies should operate on the career service principle. There are many who believe that the citizens of the various national states merely intend to obtain some experience in international organizations over a short period of time and then return to

positions in their home countries. They argue that on a high turnover basis more persons will become acquainted with international organizations and will in turn by their associations acquaint still more people. There are others who believe that if the agencies are to have stability and continuity of administration and be able to secure qualified personnel there must be a career service and staff members should be encouraged to seek permanent employment. At the present time turnover in international agencies is probably higher than in most national governments. However, most international agencies are in their formative period and this is to be expected, particularly in view of the unsettled conditions of the world. Most international agencies have based their personnel policies on the career service principles insofar as that is practicable. The attitude which is adopted makes a considerable difference in the personnel policies which will be applied.

(2) Salaries

The principle of equity, or as it has been sometimes stated, equal pay for equal work, is the established salary policy of most international organizations. In most cases, too, the attempt has been made to pay salaries commensurate with those prevailing in the area of the office of the international organization. A real problem results, as UNESCO has discovered, when salaries are not established in accordance with prevailing rates. A problem

arises however in equating salaries when some members of the organization have income tax immunity and others do not. Citizens of countries other than the U.S. working in the U.S. for an international organization are exempt from the payment of U.S. and state income taxes on their remuneration received from the international agency. Citizens of the U.S. working in an international organization in the U.S. are not exempt from such taxes. In order to meet the principle of equity in view of the tax problem, most international agencies have paid salaries net of national income tax and have paid a reimbursement for taxes to those staff members who must pay the tax. At the present time this problem is being studied by the U.N. which intends to develop a tax structure of its own applicable to its employees. If this goes through, the U.N. will request countries such as the U.S. to grant tax immunity to its citizens working within its boundaries for international organizations.

(3) Position Evaluation and Performance Evaluation

America in both its government and private service has probably gone farther than most other countries of the world in the development of a system of classification or position evaluation and the application of techniques relating thereto. As a result, administrators or supervisors in international organizations who are citizens of other than the U.S. look with

suspicion on any formalized technique for rating positions on the basis of difficulty and responsibility. They tend to rely heavily upon the personal evaluation of the supervisor as to what a job is worth rather than upon any systematized method of appraising job values. While some of their criticisms of American practices are justified, the alternative is less likely to succeed when the principle of equity of treatment is at stake. International organizations, especially those with Headquarters in the U.S., have attempted to follow generally the American government or business practices. It would take more time than is available to us here to spell out the problems involved in arriving at a system of position evaluation for an organization such as the International Bank.

Many similar problems arise in the application of a performance evaluation or service rating plan for international organizations. The detailed rating of personnel to the extent of recording personal characteristics and analyzing qualifications and potentialities is unpopular with the rater and the rated alike. In an international organization we have all the usual problems in the establishment of an equitable rating plan that are found in a private company or in the Government. Where international prejudices are strong, the problems are accentuated. I remember the difficulties we experienced in UNRRA when a performance evaluation plan was adopted. French citizens resented

being rated by Britishers or Americans; Englishmen resented being rated by Frenchmen, etc. It was a source of friction and probably resulted in the lowering rather than the raising of staff morale. Such a system has to be handled very cautiously and with great finesse if it is to succeed.

(4) Installation and Termination Costs

When staff members are recruited from one country to work in another country it is always costly for them to leave their home countries to establish residence in a new one. Most international agencies have worked out a system of "installation allowances" or "resettlement allowances" to cover at least a part of the cost incurred by the staff member and his family in moving to his official station. A multitude of problems have developed concerning dependency, insurance, customs clearance, maximum weights on household equipment, etc. Similarly, when staff members are terminated there is the cost of returning them to their home stations. Whether or not the cost should be borne by the organization usually depends on whether the staff member leaves voluntarily or at the initiative of the organization. There is also the question of the amount of the separation payment which should be made and the period of notice which should be given. These problems are not different in kind from those of national agencies or private institutions but there is a significant difference in degree.

(e) Pension Plans

International organizations that operate on the career principle and particularly those which are permanent in character have given consideration to the development of retirement or pension plans. International organizations of a temporary character such as UNRRA have instead established provident funds. The specialized agencies have had to answer the question as to whether with their small staffs they should have a pension plan of their own or whether they should come under a master plan adopted by the United Nations. One brief look at the file of material developed by the Bank on this subject would convince you that this is no easy problem. Many countries are ahead of the U.S. in establishing employee benefit schemes. Citizens of other countries frequently must give up considerable social insurance benefits when they join an international organization. To recruit well qualified personnel it is necessary to adopt a comprehensive solid benefit scheme. U.N. and a number of the specialized agencies have done this.

(f) Budgets

From the point of view of operating budgets, international agencies are of two types: (a) those dependent upon annual subscriptions of member governments for the payment of operating expenditures, and (b) those that pay their operating expenditures out of operating revenues. The UN, FAO, UNESCO, Pan American Union, etc.

are examples of the former; the Bank and International Monetary Fund are examples of the latter. In the case of those operating on subscriptions, it is necessary for the executive officer of the secretariat to go to the Assembly or Council for appropriations and from there to the member governments for payment of the subscriptions. In the case of those who receive their revenue from operating profits, the budget is largely an executive one, although even in this instance the budget requires ratification by the governing body. It must be said, however, that there is usually a greater degree of independence in the secretariat or administration which must live within the operating income.

(g) Currencies

International agencies today deal at least administratively with the currencies of its member countries. As a result there are all the problems of convertability of currencies, maintenance of depositories throughout the world, computing expenses in various currencies, especially where there is travel in several countries, etc. An understanding of the administrative difficulties encountered may be obtained by considering the problem of an UNRRA employee who being a Yugoslav national working in China wanted salary payments made in China, U.S., Switzerland and Yugoslavia.

Outline for Mr. Fowler - April 10, 1956 -- Speech to be made at New York University -
class in International Administration -
New York City - April 11, 1956.

OUTLINE: THE WORLD BANK

- A. History: Charter drawn up at United Nations Monetary and Financial Conference, held at Bretton Woods, N.H., in July 1944. Bank started operations in June 1946 with 38 members, now has 58.
- B. Purposes: To assist member countries in raising production levels and living standards by -- finance -- technical advice -- by stimulating international investment from other sources (to promote flow of private capital and not compete - bridge over a turbulent stream - natural fears of private capital after war.)

C. How purposes are achieved:

1. Lending

a. Facts about Bank lending

140 loans, \$2.4 billion, 41 countries, over 500 projects

Loans by area:

Europe	\$ 940
L.A.	640
Africa	267
Australia	260
A & M East	360

b. Making a loan

(1) Statutory requirements:

Lend after other sources exhausted; cannot compete with private capital

Lend to member governments, their agencies, or with government guarantees to private borrowers

Productive projects

(2) Relation of loan project to general development of the country

Basic facilities: related to basic needs of a country

Reconstruction	\$497 million
Electric power	666 "
Trans. & Commun.	615 "
Agric. & Forestry	250 "
Industry	245 "
General Development	140 "

(3) Processing the loan:

Mission
Working Party
Staff Loan Committee
Negotiation
Approval
Signing



c. Following up a loan

- (1) Disbursement procedure
Loans not tied
Disbursed as goods and equipment bought and projects built --
Documentary evidence
\$1.8 billion disbursed; \$1 billion spent in the United States
(approximately 60% of total disbursements) with 5,000 suppliers
- (2) End-use reports and on-the-spot missions

2. Technical Assistance:

Although not specifically outlined in the Bank's charter, T.A. has become an important instrument in the Bank's work.

Four general categories:

- a. T.A. related to loans
In preparation and execution of loan projects

A continuing relation of Bank-borrower
- b. T.A. in planning long-range economic development
The General Survey Mission: 1st to Colombia in 1949
14 General Survey Missions: Colombia, Turkey, Guatemala, Cuba,
Iraq, Ceylon, Surinam, Jamaica, British Guiana, Nigeria,
Malaya, Syria, Jordan and Nicaragua.

Composition: Seven to fifteen specialists -- Bank staff consultants. Fields: general economics, public finance, agriculture, industry, transportation, power, water resources, irrigation, social services, public administration.

Purpose: Comprehensive study, formulate recommendations which government can base a concrete program of long-term development.

- c. T.A. through training programs
 - (1) Bank trainee program
 - (2) Economic Development Institute
- d. Other types of T.A.
As requested, Bank provides wide variety of assistance in all fields. (Over 30 countries provided some type.)

Indus River Conference

3. Source of Lending Funds

- a. Government subscriptions: (2%, 18%)
\$954 million
- b. Sale of portions of loans: \$211 million (\$156 without guarantee)

- c. Sale of Bank's own bonds (\$849 million outstanding)
- d. Principal repayments to Bank (\$147 million)
- e. Profits and exchange adjustments (\$135 million)

D. Results:

1. Operating at a profit: Making development pay for itself.
Reserves: \$200 million (\$127 Supplemental; \$66 Special)

Repayments and Prepayments made by borrowers: \$217 million (over
\$100 prepayments)
2. Effects of loans: Peru, El Salvador, India (Kans and Damodar)

The World Bank Group
and
Its Resources for Development Assistance



By Donald D. Fowler

Deputy Secretary
International Bank for Reconstruction and Development

(Statement prepared for delivery at Seminar at York University, Toronto, Canada,
on November 21, 1969)

I am happy to have an opportunity to take part in this seminar, the very existence of which is testimony to the way in which the world is increasingly recognizing that the widening gap between the developed and developing countries has become a central issue of our time. We at the World Bank are well aware that, in both the analysis and the confrontation of this issue, Canada has played an important part.

As regards the analytical side, in the forefront of our minds at this moment is the distinguished service rendered by Mr. Lester Pearson as Chairman of the Commission on International Development, whose report is now being studied all over the world, not least, I can assure you, at the World Bank, whose President, Mr. Robert McNamara, has promised that every recommendation of the Commission in any way touching the Bank will be carefully studied with a view to the submission to ^{our Executive Directors or} our Board of Governors of reports embodying our conclusions and recommendations.

We were pleased to hear from Canada's Minister of Finance, Mr. Edgar Benson, at our Governors' Meeting last September, that Canada is taking steps to establish an autonomous international development research center "designed to study specific development problems and to assist the developing nations themselves to acquire and increase their own scientific and technological capabilities". This is a matter in which we are especially interested. The President of the Bank has in several speeches emphasized how, as in the case of the new "miracle" wheat

and rice seeds/

and rice seeds, a relatively small investment in research can produce results of startling significance for development. In particular, in his Annual Meeting address he expressed the hope that the Bank and such agencies as UNDP and FAO, the aid institutions in Canada, France, Sweden and the United States, and the Rockefeller and Ford Foundations, could join together with the developing countries in order to launch "a new and sustained effort in applied research in each of these critical areas: protein production, water management, and the reduction of animal and plant diseases".

We in the World Bank have a special link with York University in that Mr. Escott Reid, the Principal of Glendon College, gave us three years of his distinguished career, as Director of our operations in South Asia and the Middle East, the areas embracing our most populous member countries and receiving a high proportion of our lending. As his swan song Mr. Reid wrote an essay entitled "The Future of the World Bank", which I recommend for your reading as presenting, in addition to stimulating vistas for our future, many keen insights into our past and present. In particular, as befits a former Ambassador, he gives us sound advice on the diplomacy to be followed in our contacts with our member countries, e.g. he says, "I know that when Canadian foreign policy came of age in the 1940s, the road to the palace of wisdom was the realization that success in dealing with countries such as the United States, Great Britain and India was measured not by the wisdom of the advice we gave but by how much of our wise advice was accepted."

If I lay special stress on Canada's intellectual contribution to development, it is partly because it is particularly appropriate at a seminar which will stimulate further thinking on the subject, and

partly because it/

partly because it is not always so generally recognized as Canada's material contribution. As regards the latter, Mr. Strong is infinitely better qualified to describe it than I. Let it suffice for me to say that we in the Bank are very well aware, not only of Canada's direct support of the World Bank ^{Group} through its capital subscriptions to the Bank, IDA and IFC, and its permitting the Bank to offer bond issues in its capital market, but also of its participation in other multilateral agencies, such as the Inter-American Development Bank, the Asian Development Bank, and its assistance to developing countries through the Colombo Plan and programs for Commonwealth Africa, French-speaking Africa, and the Commonwealth Caribbean. We appreciate, also, Canada's contributions towards the Indus Basin and Mekong Basin programs, and Canadian participation in the joint financing of projects in India, Malaysia, Ghana, Nigeria and Mexico.

In the time allotted to me this afternoon I should like to cover three subjects. First, let me take a few minutes to explain very briefly what these institutions which compose the World Bank Group are, and how they came into being and operate. Second, I want to discuss how the Bank Group raises its funds for lending and the problem of resources which appears to be looming on the horizon. Finally, I will speak informally about the staffing of the Bank Group, and particularly the program for recruiting young professionals for a career in this important area of economic development.

The World Bank was set up in 1946 as the result of the Bretton Woods Conference, in which 44 countries participated and whose 25th anniversary we celebrated last July. Its purpose was to nurse back to health international lending by the private investors of the richer

countries, who had/

countries, who had formerly provided most of the capital for the development of the less developed countries. Their confidence had been shaken by World War II and by defaults during the depression that preceded it, but their capital was needed more than ever because of war damage in European countries and the six-year interruption of the development of others. The idea was that, until private investors recovered sufficient confidence to lend enough themselves, the Bank would borrow their money and lend it to countries in need. The private investor was to feel happy about putting his money in the hands of the Bank for two reasons. First, because the safety of his money was guaranteed by its member governments. Secondly, the Bank's purpose was to avoid the biggest cause of defaults in the old days by making sure that its money was lent only to countries whose financial position was sound enough to give good prospects of repayment, and used only to finance sound development projects which would create new wealth out of which the loans could be repaid.

To jump twenty-five years, all that our founding fathers hoped and planned at Bretton Woods has come true. Today the World Bank has a subscribed capital of about \$23 billion, to which its 112 members have contributed in proportion to their population and wealth. Of this amount, only 10%, i.e. about \$2.3 billion, has actually been paid in, and of this 10%, only 1% has to be paid in gold or convertible currencies; the useability of the remaining 9% for lending depending on the willingness of members to permit its use for this purpose. The remaining \$20.7 billion is at call if needed to meet the Bank's obligations. On the basis of this capital structure, the Bank has altogether borrowed nearly \$8 billion in the capital markets of the richer countries. These borrowings, together with its usable paid-in capital and earnings, repayments, and the proceeds of sales from its portfolio, have enabled the Bank to make 645 loans totaling about \$13

billion in 87 countries since it opened its doors for business in June, 1946. While the first half billion of this lending was to help several European countries with their post-war reconstruction, the rest has been for the development of the less-developed countries by means of projects in such fields as electric power (\$4.2 billion), transportation (\$4 billion), industry (\$2 billion), and agriculture (\$1.2 billion). All these projects have been approved by the Bank's engineers and other technical experts, and the disbursement of the money has been carefully supervised to make sure that it was used in the most economical way for the agreed purposes only.

All Bank loans, if not made directly to member governments, as many are, must be guaranteed by the government of the country where the project is located. A private company is often reluctant to bring the government into its affairs by asking for a guarantee, and governments may find it embarrassing to receive such requests. The International Finance Corporation was therefore set up in 1956 to make investments in private enterprises in member countries without government guarantees. To facilitate its dealings with private businesses, IFC, unlike the Bank, may buy shares as well as make loans. IFC's authorized capital of \$110 million, of which \$106.5 million has been subscribed and paid-in is ^{relatively} small. IFC has therefore concentrated on finding development projects in which its willingness to invest has encouraged other investors from outside the country concerned to come in. It has also been successful in revolving its portfolio by selling portions of its investments. Thus, on the basis of its paid-in capital of \$106.5 million, together with a loan of \$100 million from the Bank, it has been able to make commitments of \$364.7 million for projects with a total cost of \$2.2 billion; much

of the supplementary investment needed to make up this \$2.2 billion would not have taken place if IFC had not taken the lead. IFC is under the same roof, President, Directors and administration as the Bank. It has a small separate operational staff, but relies on the Bank for most services. Essentially, it is the Bank's "window" for dealing with private enterprise.

The terms of the Bank's loans are what we call "conventional", i.e. they do not differ significantly in interest rates and repayment terms, from those of loans from commercial sources for the same purpose, although because of the risk involved a concessional element may be included. While the private investors who buy the Bank's bonds no doubt place much reliance on the guarantee that the Bank's uncalled capital gives them they expect the Bank to conduct its operations in such a business-like way that they do not have to fall back on this guarantee. Thus the Bank charges a rate of interest on its loans- at present 7% - sufficient to enable it, not only to cover its borrowing costs and other expenses, but to make a profit overall as well. These profits are mostly reinvested in the Bank's operations.

Many of the poorer countries find that the amount of debt they can afford to incur on these "conventional" terms is strictly limited. To prevent development from coming to a standstill in such countries when they reach the safe limit of debt on conventional terms, but not the limit of capital they can use effectively for development, a second affiliate of the Bank, the International Development Association, was set up in 1960, with the power to lend on much easier terms than the Bank. Hitherto IDA's loans (now totaling some \$2.2 billion) - development credits as they are called - have been for a term of 50 years, with a grace period of 10 years before repayments begin. There is a service charge of 3/4% per annum, but no interest charge. These terms do not permit funds to be raised by borrowing from private

investors, and IDA/

investors, and IDA therefore relies primarily on the governments of its richer member countries for its resources. The original capital subscriptions of these governments have provided IDA with about \$800 million of usable funds. In addition, the 18 richer members, known as the IDA "Part I" countries, have replenished IDA's funds by two rounds (1964 and 1968) of additional contributions of \$750 million and \$1200 million respectively, and over the past six years the Bank has transferred to IDA \$385 million of its net earnings after adequate amounts have been allocated to reserves. Total resources to date thus aggregate about \$3.1 billion. Steps are being taken to organize a third round of additional contributions to permit IDA to continue in business after June 30, 1971, when the resources presently available for commitment will be exhausted.

IDA has no staff of its own separate from that of the Bank. It is often called the Bank's "soft loan window". This is a little misleading, however. Only IDA's easy terms of repayment can be called soft; in its insistence that the projects for which it lends must be viable and of high priority it is as strict as the Bank.

Let me say a word about the relation of the Bank Group to the United Nations. The Bank and its affiliates fall under the heading of "Specialized Agencies of the United Nations", along with its sister institution, the International Monetary Fund, and organizations like the Food and Agriculture Organization (FAO) and the United Nations Educational, Scientific and Cultural ^{/Organization} (Unesco). This term "Specialized Agencies" is misleading insofar as it suggests that the Bank is a subordinate organization taking orders from the United Nations General Assembly. This is not the case. An agreement between the UN and the Bank recognizes that the latter,

in virtue of its/

in virtue of its responsibilities and the terms of its charter, is required to function as an independent organization.

The supreme governing body of the Bank is its own Board of Governors, consisting of one Governor and ^{(one Alternate Governor} from each member country, usually the Finance Minister; voting in this Board, is, however, weighted according to capital subscriptions, so that, for example, the U.S. has 27.57% of total voting power, the U.K. 11.29%, and Canada 3.16%. Japan (3.08) and India (3.19) compare closely with Canada in voting strength. The Board of Governors meets only once a year, and delegates most of its powers to a Board of Executive Directors. Each of the five largest stockholders appoints its own Executive Director, while the others combine in groups to elect another 15 Executive Directors. Each Director casts the votes (in a unit) of the country or countries by which he is appointed or elected. The Governors and Executive Directors of the Bank serve in the same capacities for IDA and IFC.

Although the Bank Group is quite independent of the UN, it cooperates closely with the other specialized agencies whose functions are closely related to its own. Thus it has working agreements with FAO and Unesco whereby these agencies help the Bank to identify and appraise projects in the agricultural and educational fields, and the Bank lends the services of its technical staff to organize the execution of studies of development possibilities in member countries - pre-investment or feasibility studies as they are called - which are paid for by United Nations Development Programme grants.

In his first public speech as President of the World Bank, in September 1968, Mr. McNamara forecast that in the next five years the Bank

Group would lend twice as much as during the past five years. This meant that between 1968 and 1973, it would lend in total nearly as much as it had lent since it began operations 22 years before.

In September, 1969, a year later, Mr. McNamara reported that the World Bank Group had increased their financing of development projects by 87% over the previous year, to a total of \$1,877 million as compared with a total of about \$1,000 million in FY 1968; thus showing that the Group was well on its way towards its five-year objective.

The Bank Group receives much advice and criticism on its lending, mostly to the effect that it does not lend enough, either globally, or to some particular area, or for some particular form of development. The critics usually take for granted that the Group will have sufficient funds to do what they recommend. It is therefore important to bear in mind that fund-raising does present a problem for each component of the Group and, even more important, that the ways in which the Group uses its funds may influence the amount that the sources of those funds are willing to provide.

My second objective then this afternoon is to discuss with you the need for resources to make possible the projected expanded operations of the Bank Group in the years immediately ahead.

Hitherto, the Bank has replenished its lendable funds by bond issues in the United States, Canada and Western European countries. These bond issues require the consent of the governments concerned. In its earlier years the Bank's need for lendable funds was limited by its smaller number of member countries and by the lack of experience of many of them in preparing sound development plans and projects. On the other hand, the United States Government readily granted the Bank permission to borrow large sums in the New York market. Thus, when

Mr. Eugene Black was/

Mr. Eugene Black was President of the Bank, he was able to tell developing countries that the Bank would have no trouble financing all the sound projects that creditworthy countries could put forward.

In the last few years, the position has changed. Bank membership has increased from the 38 who were represented at the inaugural meeting of the Board of Governors in Savannah in March, 1946 to 112, and the flow of "bankable" projects has increased, not only by reason of membership, but also because the ability of developing countries to prepare sound programs and projects has, with the aid of technical assistance from many sources, greatly increased. The United States has encountered balance of payments problems which have set limits to the amounts the U.S. Treasury will permit the Bank to borrow in the U.S. market; at the same time, a much higher interest rate has to be paid on what it borrows. Resort to other capital markets notably in the past year, the German market, has substantially eased the situation, but the Bank is now aware, as it was not in the past, that it cannot borrow as much as it pleases whenever it wants to do so.

The Bank's bonds are backed in part by its uncalled capital. Of this uncalled capital, investors naturally pay most attention to the amount payable in convertible currencies and, to investors in North America at least, it is the uncalled portion payable in dollars which really matters; this for the United States is \$5.7 billion, and, for Canada \$712.8 million. This amount considerably exceeds the total of the Bank's funded debt, which at the moment is a little over \$4 billion. For your information through July 31, 1969, the Bank had borrowed the equivalent of U.S.\$124,875,000 in Canada, of which U.S.\$73,538,000 is still outstanding. On one view, therefore, the Bank's bonds will continue to enjoy a triple A rating as long as its outstanding borrowings do not exceed about \$6.5 billion,

for up to this point they are as good as U.S. or Canadian Government bonds.

/as I suggested earlier,

On another view, however, while a lender may be greatly comforted to know that a safe guarantor stands behind his debtor, he prefers the debtor to conduct his affairs in such a way that there will be no need to call on the guarantor, a step which he fears will take time and legal formalities. On this view, the readiness with which investors have bought the Bank's bonds is partly due to its careful appraisal of borrowers and their projects, its supervision of the disbursement and use of its funds, and its record of profitable operation and the building up of substantial reserves. The Bank cannot afford to disregard this view. Whenever it contemplates any change in policy, it must consider whether the change will materially affect the amount of its bonds investors will buy.

The Bank is unlikely to make dramatic departures from orthodoxy. It does, however, sometimes have to consider just how far it is prudent, from the point of view of the possible effect on investors in its bonds, to go in some particular direction. One example is the question how far, in setting its lending rate, the Bank should be guided by the average cost of its funds, which assumes importance at a time like the present when the cost of current borrowing is high while, taking into account its cost free equity capital in the form of paid-in subscriptions, the average cost of its funds as a whole is somewhat lower. While the strictest financial orthodoxy would require the Bank to try as far as possible to earn at least the going rate on all its funds, both equity and debt, many of its borrowers would prefer it to charge a rate no more than sufficient to cover the average cost of its funds, plus a margin for expenses, reserves and net earnings. The Bank has kept fairly close to the marginal cost principle. This has been done at the current 7% basis in the comforting

knowledge that,/

knowledge that, on the more than \$1.8 billion it currently holds in the liquid forms of time deposits and U.S. and other government securities it is obtaining an average return of about 8%.

Another example is the question of the merits of project versus program lending. The Bank's Articles of Agreement require that, unless exceptional circumstances are present, its loans should be made for specific projects like the construction of a hydroelectric station or a road, and most of the Bank's loans have in fact been for specific projects. In some cases, however, a good case can be made, if the Bank is satisfied that a country is following a sound development program, and is competent in the execution of the individual projects included in the program, for making a loan towards the costs of the program as a whole, rather than a number of smaller loans for projects selected from it, and in some cases the Bank has made such loans. If, however, the Bank were in future to go further in this direction than it has in the past, even though it believed it had convincing reasons for doing so, would investors take the view that it was relaxing its standards of project appraisal and supervision?

To take a further example of another possible step away from orthodoxy, the Bank Group, in response to a resolution adopted at its 1967 Annual Meeting at the instance of several countries each largely dependent on exports of a single primary product like coffee, sugar or cocoa, undertook a study of what it could do to help to stabilize the prices of such products. The final report submitted to the Board of Governors last June was based on the view that the Group could be most helpful in this direction

by financing/

by financing, in accordance with its established policies, projects for the increased production in the countries concerned of commodities other than those of the so-called surplus type. For legal and administrative reasons, it concluded that it would not be feasible to make direct loans or credits to international commodity authorities to finance their holdings of commodity stocks, or to member countries for the direct financing of nationally or internationally held commodity stocks. This came as a disappointment to some of the primary commodity producing countries.

I may mention at this point another method of dealing with the problems of primary producing countries which has received a good deal of attention. These countries find it difficult to keep to a development program because unexpected falls in the prices of their products cause severe reductions of their export earnings and thus greatly reduce the funds available to them for investment. It has therefore been proposed that agencies like the Bank and IDA should take compensatory action by increasing their lending to such countries when their export earnings are unexpectedly low. Obviously the detailed working-out of such a proposal involves difficult technical problems, such as what are expected or unexpected fluctuations of prices or export earnings, and in 1965, at the request of UNCTAD, the Bank prepared a study of the subject. After study and much discussion in UNCTAD, the matter was recently referred back to the Bank with a request that it should consider arrangements for discretionary supplementary financial measures and, if appropriate, consider introducing them. It is to be noted that any scheme of supplementary finance would be intended to provide funds in addition to those which would otherwise be provided, and so would require an increase in Bank/IDA resources.

As I have suggested, as long as the buyers of Bank bonds feel that

they are substantially

they are substantially covered by its uncalled capital in the hard currency form, they may not react very sensitively to policy changes of the kind I have mentioned. However, if the Bank's borrowings were to reach the limit of this hard currency backing, investors could be expected to look much harder at its policies and financial statements. Borrowing substantially beyond this limit would take the Bank into uncharted waters.

An alternative to increased borrowing is an increase in the Bank's paid-in equity capital. There has not been a substantial increase in the Bank's equity in the form of paid-in capital since it began business in 1946, so there has tended to be a steady increase in the ratio of borrowed funds to equity capital used in its operations. The total amount of lendable funds in the form of usable paid-in capital and reserves made available to the Bank is about \$3 billion. This compares with more than \$8 billion (of which more than \$4 billion is outstanding) in the form of borrowed funds. Thus, on ordinary business principles, there is a case for some strengthening of the Bank's debt-equity ratio.

The present is an appropriate time to review the Bank's capital structure. There is to be in the near future an increase of member countries' quotas - corresponding to the Bank's subscriptions - in our sister Bretton Woods institution, the International Monetary Fund, in the form of a general increase of perhaps as much as 25% coupled with special increases in the quotas of certain members.

The Bank has in general - I will not go into details - tried to maintain some relationship between what its members contribute to the Fund and the capital they subscribe to the Bank, so that, at a time when these

members are obtaining/

members are obtaining special increases in their Fund quotas, it seems appropriate to consider proportionate increases in Bank subscriptions.

Furthermore, as you are no doubt aware, the Fund is about to take the first steps in activating the new Special Drawing Rights which it has been empowered to create as an addition to its members' liquid reserves. At the beginning of 1970, \$3.5 billion of these SDRs will be allocated. Many developing countries and at least one developed country suggested that the rules governing the creation and allocation of these SDRs contain some provision to ensure that part of this new liquidity would be channelled into development through such multilateral agencies as the Bank and IDA. It remains open whether action will be taken at some future date to implement this suggestion; even if this is not done, the richer countries could voluntarily, either individually or in concert, take action accordingly.

④ IDA's resource position is even more difficult than that of the Bank.

Its easy lending terms give it no possibility of borrowing in the market.

Thus, while the Bank has only called upon its members to provide it with cash when they joined, i.e. once in 23 years, IDA has to make periodic appeals to the governments of its Part I countries to replenish its resources.

The second replenishment ran into the obstacle created by the U.S.

balance of payments problem of recent years; a provision to enable countries in balance of payments difficulties to defer their contributions was therefore included in the replenishment agreement, which took a long time to negotiate and to be approved, so that it came into effect a year later than had been expected. During this year of delay, IDA was only able to keep operating, at a much reduced rate, through the willingness of a number of Part I countries, including Canada, to make contributions in advance of the coming into effect of the second

replenishment/

replenishment.

IDA is thus at the mercy of whatever economic or political winds happen to be blowing when its periodical replenishments come up for negotiation and when legislatures are asked to approve the necessary contributions. We hope that, for the time being, these winds may be blowing favorably. Those who have advocated the replenishment of IDA see a need for far more lending on "soft" terms. This trend of opinion has recently been powerfully reinforced by the Pearson Commission's emphasis on IDA's role and its recommendation that contributions to its resources, running at the rate of \$400 million a year over the three years of the second replenishment, should increase to \$1 billion annually by 1972 and \$1.5 billion by 1975.

It is difficult to see how, if IDA is to play the part envisaged by the Pearson Commission, the provision of its funds can remain on its present uncertain and short-term basis. One way of giving IDA access to larger resources was suggested by Mr. David Horowitz, Governor of the Bank of Israel, some years ago, and attracted considerable attention at the time. Governor Horowitz proposed that the Bank should borrow in the capital market, not only enough to cover its own needs, but those of IDA. The difference between the low service charge on IDA credits and the market rate which the Bank would have to pay would be subsidized by the Part I countries. On this basis, it is contended, their annual contributions to IDA would be only a fraction of what they would be if they were, as at present, providing IDA with capital. Thus, if the Bank borrowed \$1 billion a year on behalf of IDA at a rate 5% above IDA's own lending rate, the contributions of Part I governments would aggregate about \$50 million a year only.

This proposal was made before the balance of payments problems

of the richer countries, /

of the richer countries, especially of the United States, became as acute as they are today, when it is doubtful whether governments in capital-exporting countries would permit the Bank to increase its borrowings by more than the amount which they would contribute directly to IDA in the absence of the Horowitz Plan. In any case, to borrow for IDA as well as itself would cause the Bank's debt to exceed the critical figure of its uncalled capital in terms of hard currency much sooner than it otherwise would.

A Part I country called upon to contribute more to IDA and to increase the paid-in portion of its subscription to the Bank is faced by the need to increase its total aid commitment or to choose between multilateral and bilateral aid. Bilateral aid has the attraction that it can be tied to purchases from the donor country and that it can be directed towards countries from which the donor may also expect to receive political and strategic as well as economic responses. It is, of course, precisely for these reasons that it is likely, from the developmental point of view, to have defects in quality. Because purchases are not based on international competitive bidding, the recipient of bilateral aid may pay more for his purchases than he would otherwise need. Because the donor country is more concerned with short-term commercial or political advantage, the funds may be directed towards ill-prepared or low-priority projects. Both parties may be disappointed because the aid provided has not produced the intended results. The Pearson Commission believes that disillusion of this kind has been a factor weakening the will to aid in recent years. The Commission's recommendation that aid providers increase the proportion of aid they provide in the form of grants and capital subscriptions for multilateral development agencies may therefore fall on receptive soil.

When IFC was brought into existence in 1956, it was not planned as a source of capital on a massive scale like the Bank and IDA. It was

thought of more/

thought of more as a pioneering and catalytic agency which would put together deals in which private investors would participate on a much larger scale than itself, and this is the way in which it has so far operated. Thus, as I stated earlier, it has entered into commitments of \$365 million which, in partnership with \$1.8 billion from other sources, have permitted the financing of projects with a total cost of \$2.1 billion. Even on this principle of making a little go a long way, however, IFC would already have run out of power to make commitments (which, of course, usually precede disbursements by many months) if, in 1965, the Articles of Agreement of both IFC and Bank had not been amended to permit the Bank to make loans to IFC up to a limit which, at present, is about \$425 million. IFC has so far only utilized this authority to the extent of \$100 million. It is important to note, however, that IFC may only use such Bank loans for its own lending, and not for equity investment. IFC will therefore within the next two or three years may

face the problem of replenishing its funds to invest in equity. There are various ways in which this could be done - for example, a further change of the Bank's Articles might authorize the use of Bank loans for equity as well as loans, members might increase their capital subscriptions, or IFC could borrow in the market. It is too early to say which course will be chosen.

The problems of Bank Group resources will occupy it for years to come. I suggest that your institution, and others like it, might give further thought and research to these questions.

Finally, I should like to take a few minutes of your time to describe the Bank Group's program of career recruitment.

(Here I will describe the basic internal organization of the Bank, the qualifications of several categories of staff members, and particularly the program for selecting Young Professionals).