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THE WORLD BANK  
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The World Bank  
1818 H Street NW  
Washington DC 20433  
Telephone: 202-473-1000  
Internet: [www.worldbank.org](http://www.worldbank.org)

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BASS, NEIL - ARTICLES and speeches (1959)



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BASS



ADDRESS BY NEIL BASS

To the Civil Engineering Faculty and Students of the

Case Institute of Technology

Cleveland, Ohio

Friday Evening, November 13th, 1959

I am most appreciative of the invitation to visit Case and of the privilege of meeting this evening with fellow engineers.

My talk is to be about the World Bank. I will endeavor to bring out several points which would generally answer the following questions:

- a) What is the World Bank?
- b) How does it operate?
- c) Is it a drain on the US Government?
- d) Is it a sound institution?
- e) How does it help the free world?
- f) What do people think of it?

In this context I will touch upon the role of the professional engineer and his important contribution to the objectives of the Bank. As I shall describe later, the Bank assists the lesser developed countries of the free world in carrying out projects that will aid their economic expansion. It is a basic concern of the Bank that these projects, for which the Bank lending is committed, should represent the best manner of achieving the desired objectives. This means, in short, that the projects for which the Bank lends money should meet the test of being planned in accordance with the best engineering standards and that their construction should be carried out in accordance with these exacting plans and specifications. Along with its requirements that projects be

sound from an engineering standpoint is the requirement they be financially sound, and that the management responsible for their operation should be experienced and competent.

To provide this assurance the Bank has its Department of Technical Operations which has a total staff of about 100 persons, of which about 30 are engineers, 16 are financial analysts, 11 are economists and 5 are agriculturists. This professional staff of 16 different nationalities works together as a team. The role of the engineer on this team is an important one. The fact that projects financed by the World Bank universally have turned out to be useful and productive, and that the Bank has no "duds", so to speak, is a monumental tribute to how well the engineer has filled his assignment on this technical team.

This success of Bank-financed projects throughout the world is a tribute, too, to the large group of consulting engineers who work with the technical agencies of the various countries in planning and designing projects submitted for Bank loans. The Bank, of course, must be satisfied that these consulting firms appointed to execute projects which it finances have had satisfactory experience on comparable works and that the staff actually assigned to the job are qualified. The Bank requires, too, that the engineers be delegated responsibility for all technical aspects of the project.

Thus the work of the World Bank has provided another opportunity for the professional engineer to contribute his skills for the welfare of mankind. The need for engineers with know-how and vision to work overseas is a constantly expanding one. Many of you no doubt will make your careers in foreign lands. I predict that you will find such a career to be a satisfying one. That depends, of course, on a great many things - and most of all on your attitude. To succeed in it, you will need to approach your

overseas assignment with a great deal of patience and humility. The era of exploitation is certainly in the past and the emphasis is on development - development that needs engineering skills to help improve the standard of living of millions of people who are poor in those things by which is measured a better way of life.

What is the World Bank?

The World Bank (its constitutional name is the International Bank for Reconstruction and Development) is a relatively young institution. It was founded at the Economic Conference held in Bretton Woods in July 1944 and began operations in June 1946.

Perhaps I should digress here to refer to the International Monetary Fund, also created at this same Bretton Woods Conference. The Fund's purpose is to provide assistance to enable member countries to overcome short-term difficulties which threaten the stability of their currencies. The Fund provides both short-term financial assistance and advice on exchange and monetary policies and you will readily understand that a willingness on the part of the would-be borrower to institute measures calculated to restore stability is a prerequisite of assistance by the Fund.

The Bank is an international co-operative organization. Its aim is to assist the economic development of its member countries and to raise the standards of living of the people of the world. The Bank may lend to member governments, government agencies or private enterprises; if the borrower is not a government, the guarantee of the member government is required for the loan.

The World Bank has a relatively small organization considering the scope of its operations. The Bank's total staff is some 600 persons, representing some 40 nationalities. It includes bankers, economists,

accountants, engineers and other experts. The headquarters of the Bank is in Washington. It has small offices in New York, London and Paris.

Each of the Bank's 68 stockholders subscribed to its capital stock in accordance with its relative economic strength. The Board of Governors is made up of a representative of each of the stockholder countries and meets once each year. The Governors have delegated most of their duties to the Bank's Executive Directors. These meet at least once each month and consist of five members, each representing one of the five largest stockholders, and 12 other members elected by the remaining members, usually on a regional basis.

The day to day operations of the Bank, including the making of recommendations to the Executive Directors on loans and on questions of policy is the responsibility of the Bank's President, Mr. Eugene R. Black, who is also Chairman of the Board of Executive Directors. There are three Vice-Presidents assisting Mr. Black. The management of the Bank is in accordance with traditional business methods.

The Bank organization under the President is set up functionally by Departments, some, whose work relates to specific areas are organized on a geographical basis, others whose work is on a subject matter basis (such as finance and engineering) are organized on a world-wide basis.

#### How the Bank Operates

The Bank normally lends only against specific projects and confines its participation to financing the foreign exchange component, that is, payments for imported equipment and materials and for technical services obtained from outside the particular country.

Before making a loan the Bank must be satisfied that the country's over-all economic situation is such that it can afford to make the

investment being considered. If it is found that the country is "creditworthy" then the project for which the loan is requested must be assessed as having sufficient priority, among others included in a development program, to justify its selection as the basis for the loan.

These conditions having been met the Bank then appraises the project in the field on its merits, to determine whether it is technically sound, financially viable and the management capable of carrying out and operating the enterprise. The appraisal covers such questions as:

1. Whether the project is sound from an engineering point of view;
2. Whether it represents the most economic solution for the results desired;
3. Whether suitable arrangements have been made for experienced consulting engineers to have responsibility for technical aspects of the project;
4. Whether the project, and the enterprise of which the project is a part, is expected to operate in a sound financial manner;
5. Whether the management is adequately qualified and experienced.

It is unusual for all these points to be satisfactory from the outset. Where deficiencies exist, agreement between the prospective borrower and the Bank is arrived at on remedial steps to be taken.

When a loan is agreed upon, a formal loan agreement is signed between the borrower and the Bank, and a formal guarantee agreement signed by the government concerned; this latter document pledges the repayment of the loan by the constitutional government if the borrower defaults. It is a matter of satisfaction that on no Bank loan has there ever been a default of interest or principal payments.

To date the Bank has made some 240 loans, in 50 countries, aggregating



more than  $4\frac{1}{2}$  billion dollars. Last year it made 30 loans in 19 countries amounting to \$703 million. Of this amount \$294 million was lent for electric power; \$257 million for transportation facilities; \$149 million for agriculture and about  $\$3\frac{1}{2}$  million for agricultural development.

The Bank last year disbursed \$583 million on loans. Disbursements are made by the Bank directly to suppliers of goods, hence Bank funds are not turned over to borrowers. All goods bought with proceeds of Bank loans are on the basis of international competition among manufacturers whose equipment meets the specifications for the particular project. The Bank makes no "tied loans" in which the borrower is required to purchase goods in a particular country, but requires (except in unusual circumstances) free competition among all qualified suppliers. United States producers have fared well under this policy, having supplied to date a bit more than half by volume of the value of goods purchased with Bank loans.

Parenthetically, I must explain here that the Export-Import Bank, a branch of the U.S. Government, lends to foreign entrepreneurs for the purchase of American goods. More and more the emphasis in the United States foreign aid program is being shifted from "grants" to "loans". The Development Loan Fund of the U.S. Government is the channel through which the latter type of lending is made, usually on more liberal terms than either the World Bank or the Export-Import Bank extends.

At its last annual meeting in September of this year, the World Bank's Board of Governors approved the establishment by its next annual meeting of a subsidiary, the International Development Association, to provide loans on more liberal terms than those now extended by the World Bank. The resources of the I.D.A. will be limited to the specific amount of currencies made available by member governments. The charter of I.D.A. is now being

written and will be ready for consideration by the United States and other member governments of the Bank early next year.

#### Planning

At the national level the Bank has always laid stress on its unwillingness to consider a project in isolation from the pattern of national development into which it is designed to fit. It has encouraged its member countries to prepare comprehensive investment plans so as to make sure that each Bank financed scheme will fit into a consistent and systematic program of action. One of the significant contributions made by the World Bank in under-developed countries is through the preparation of economic surveys, undertaken at the request of the Government concerned. These "general survey missions" include a variety of experts who usually spend from a few months to more than a year in the country, assembling, checking and analyzing facts on which proposals for developmental projects are then based.

#### Where the Bank gets its money

When one considers the volume of the World Bank's operations it becomes obvious that it needs access to large capital resources.

To raise needed funds, (beyond that in its treasury from receipts from loan repayments) the Bank makes offerings of its bonds in the financial markets. Last year it marketed about \$400 million of such bonds, of which about half were sold inside the United States and half in other countries.

In the United States about half of the purchases are by pension and trust funds; about one third are life insurance companies; and about one fifth are bought by savings banks; a minor fraction are bought by commercial banks and others.

### Interest Rates

Interest and commissions charged by the Bank are uniform without distinction among projects or borrowers. The Bank's interest rates are not negotiable and are automatically arrived at by the sum of three components - the estimated rate at which the Bank borrows, plus 1% commission which goes into a reserve against losses plus a fraction (now  $\frac{1}{4}$  of 1%) to cover the Bank's cost of doing business. This yields a rate which, in recent years, has never been lower than 4 per cent and never higher than 6. The full interest rate is charged only on that part of the loan which has been disbursed - on the undisbursed portion a commitment charge of  $\frac{3}{4}$  of 1% is charged.

### Bank is not a U.S. Government Agency

It is thus clear that the World Bank is not an agency of the U.S. Government. Members of the Bank's staff travel on international passports and visit countries as representatives of an international agency. The United States is the largest stockholder, holding as it does about 30% of the total subscribed stock and the U.S. Government is, of course, represented on the Bank's Board of Governors and the Executive Directors. Its president and two of its three vice presidents are Americans. The Bank management maintains the closest cooperative liaison with the U.S. Agencies concerned with international credit; such as the Ex-Im Bank and the Development Loan Fund. Thus, the three agencies, through administrative arrangements, are in no wise competitive.

### The Bank and the Free World Nations

No one in his right mind will any longer question the policy whereunder nations that are economically strong assist nations that are economically weak. International policy has come a long way to arrive at that conclusion.

The administration of foreign aid policies is a difficult and complicated task. Certainly we can start from a basic fact that the seeds of communism find fertile ground among people who are poorly fed, poorly clad, poorly housed and most basic of all, lacking the opportunity of gainful employment.

The challenge to the developed nations is to help the less fortunate to engage in productive enterprises that will improve their standard of living. It has not been my objective here this evening to present the World Bank as the answer to all problems in foreign aid. What I've tried to show is that the World Bank is useful, is successful, and indeed is necessary. If it didn't exist, something to take its place would have to be created.

The confidence nations of the world have in the Bank has caused it to have an additional rôle. The Bank is frequently called upon to arbitrate international disputes or to use its good offices in helping the disputing parties reach an agreement. A case in point was the financial settlement for the Suez incident in which Britain, France and Egypt were involved. Another relates to the very complex group of issues created concerning the use of the waters of the huge Indus river system in India and Pakistan. The Bank's offices have dealt with such problems as an unbiased, yet concerned party, and has had a remarkable degree of success in bringing about international agreements.

Conclusion:

In my talk I have endeavoured:

- to describe the World Bank and how it operates;
- to bring out that it is a sound institution, paying its own way and established as a tremendous asset to its member countries in the free world;
- that it enjoys (deservedly) a position of highest confidence and prestige throughout the world.