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Twenty-Second North American
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Statement

As Delivered

By

A. W. Clausen, President

The World Bank

and

International Finance Corporation

to the

Twenty-Second North American Invitational

Model United Nations

Washington, D.C.

February 14, 1985

Thank you very much Mr. Kezirian -- excuse me, Mr. Secretary General! Mr. Secretary General, and I thank all of the North American Invitational Model United Nations delegates for this very important award.

It is especially heartwarming for me to be so honored by a group of young Americans. I like to think that The World Bank is working for your future, and to be recognized like this is a very fine moment indeed. Thank you again very much.

It's only appropriate that this Twenty-Second Invitational Model United Nations conference should be held at the Sheraton Washington. It is also here that the Annual Meetings of The World Bank and International Monetary Fund are also held.

Over the next four days, each of you will participate in an unforgettable experience, at the conclusion of which, you will return to your homes with new commitments and new ideas. The ideas and arguments you accept here will live much longer than this conference and will have far reaching impact as you move into positions of responsibility and influence in the years ahead.

Now, I am here to tell you about economic development in the Third World. This is the quiet issue, the issue that won't go away. War and revolutions explode on the front page of our newspapers but they eventually come to a close. In the developing world, people struggle to overcome poverty day after day, year after year, decade after decade without much fanfare, only occasionally receiving the spotlight of attention like now. I hope you will discover -- and truly understand -- that most member states of the U.N. regard this unheralded issue as overwhelmingly their highest priority.

I am from The World Bank and the Bank is in the business of helping developing countries to expand their productive capacities. Now the word "Bank" might suggest to you that we are a world-wide commercial bank. But that is not the case. You won't find bank tellers or mortgage loan officers at our headquarters in downtown Washington, D.C. You will find, however, agronomists, trade experts, highway and port engineers, population experts, economists, environmentalists and many other development specialists. That is because the Bank is a development-finance institution, the largest in the world. We lend money to the governments of developing nations, not to individuals or corporations. And if we are successful in what we do, then people -- poor people -- directly benefit by virtue of enjoying a higher standard of living.

The World Bank is actually a group of three affiliates; the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), and the International Finance Corporation (IFC). Each of these affiliates is designed to help the developing world in a particular way.

The IBRD lends money to the more creditworthy developing countries at near commercial rates. IBRD provided over $11 billion last year to 43 countries in the form of 15- to 20-year loans. Some of our IBRD clients have accomplished what all of you will achieve in a year or two -- and that is graduation. Countries such as Japan, Australia, Norway, Ireland, Italy, and Spain, in years past, once borrowed from IBRD but they have since grown out of eligibility. Their per capita incomes have risen past the cut off point and they have been "graduated." Think about that -- Japan; the second most powerful economy in the world today, was once a developing country and poor enough to qualify for development funds from The World Bank, and that was just 20 years ago. The field of development is full of surprises.

The International Development Association is the Bank's affiliate for less creditworthy borrowers. IDA is funded by contributions from 33 donor countries, including the United States. IDA lends its monies to the poorest of the poor countries, those nations with a per capita GNP of less than $410 per year. IDA loans carry no interest and only a small service charge. As an IDA country's economy grows out of the low-income category and becomes creditworthy, it graduates to IBRD. Twenty-seven countries are now in this category of IDA graduates -- Colombia, Costa Rica, Nigeria, the Ivory Coast, Korea, Tunisia, Jordan, to name just a few.

I want to emphasize to you that loans from IBRD and IDA are for specific projects and programs in developing countries. The projects are designed very carefully by the Bank's professional staff. They must be economically viable, that is yield economic rates of return, of at least 10 percent per annum, or we won't support them. That's a high standard, but it is a standard that is almost always exceeded. We have a reputation, one of which I am very proud, for offering sound economic policy advice and for putting together productive projects which really do contribute to an increase in the standard of living of peoples in developing countries.

The Bank's third affiliate is the International Finance Corporation (IFC). The IFC is our merchant bank -- it works with the private sector in developing countries. The IFC can invest in enterprises, that is it can "take a piece of the action" to use a business expression, or it can lend to them, or it can arrange packages of finance, technical advice, and management to help a firm start up or expand. The developing world is no longer bashful about business -- most governments are actively seeking more trade and private investment from the industrial countries, and are encouraging the promotion and expansion of their indigenous private sectors. IFC is there to help.

So The World Bank is advancing development on three separate fronts -- IBRD market rate loans to creditworthy middle-income developing countries; IDA zero percent credits to the low-income developing nations; and IFC financial services for private sector business enterprises in all developing countries.

Well, who owns The World Bank? Among others, you do. In fact, 148 countries own this institution making us, like the U.N., a multilateral organization. But ownership is not on a one-country/one-vote basis. A country's vote is weighted according to the amount of capital it has subscribed to the Bank. The United States is the largest owner, with a 20 percent voting weight. The developed countries including the U.S. have 58 percent of the votes and the developing countries 42 percent. This is different from the U.N. General Assembly where, as you know, all votes are weighted equally; where the vote of the smallest country can offset the vote of even a much larger country like the U.S., Japan or Germany.

The U.N. and The World Bank, in fact, are old friends. The World Bank is a part of the U.N. system, and we have developed very fruitful working relationships with a number of the U.N.'s specialized agencies. The United Nations Development Program -- UNDP -- for example, provides the funding for an important energy assessment program in The World Bank, and we work together on numerous development projects. The Bank maintains an office at the United Nations headquarters complex in New York City to monitor U.N. activities and to further our cooperation with the U.N.'s fine work in such fields as agriculture, trade, population, refugees, health, and employment.

We have our headquarters here in Washington, where you'll find most of our 6,000 staff members. Seventy-five percent of The World Bank's professional staff -- most of whom have graduate degrees -- are non-U.S. citizens, which shows you just how international we really are.

Across the street from our headquarters is another international financial institution which has been much in the news particularly in recent years -- the International Monetary Fund. Both "the Bank" and "the Fund," as they are known in financial circles, were founded about 40 years ago during the closing days of World War II. They are known as the Bretton Woods institutions -- or the twin sisters.

The International Monetary Fund was created to regulate the international monetary system. The World Bank was established to help in the reconstruction of war-torn Europe and to contribute to development in the Third World. Reconstruction was the first item on our agenda, and The World Bank made its first loan in 1947 to France for $250 million. But we soon shifted our activities to development. Apart from those very early years of our existence, virtually all of our lending has gone for development purposes, with reconstruction loans comprising only a very minor part of our activities.

Our clients today, the nations of the developing world, are a very diverse group. From Bangladesh to Brazil, and from Chad to China, there are wide variations in size, population, rates of growth and levels of development.

Let us put this in very personal terms. If you were going to high school in Bangladesh, instead of in the United States, what sort of situation would you confront? First, you would be looking at an average life expectancy of 49 years, not the 75-year average here in the United States. What about education? Well, in Bangladesh you would be part of a select few -- only 11 percent of your age group attend high school. And once you graduated from high school, you would find out how hard it is to earn a living in a country where the average income per person is only $140 a year. After getting married, the tragic probability of your first child dying in its first year of life would be more than one in 10. In the U.S., the probability is less than one in 100.

Bangladesh is a very poor nation, but economic and social conditions there and elsewhere in the developing world are not fixed. They invariably are either improving or declining. And that is how we measure development, by the direction and rate of economic and social change for the better. At The World Bank, we are concerned with that economic and social change, and how it affects the people of developing countries. We work closely, as a partner with the developing countries to help them improve standards of living of their peoples on a country-by-country basis. This is a very demanding task for the Third World governments who must face these challenges every day. That is why we try to help them. Let's see how this is done in various parts of the developing world.

In East Asia most of the market-oriented countries, Korea, Thailand, Malaysia, and Singapore, for example, are making truly remarkable progress. As a group, the East Asian market economies have grown at an average annual rate of 7.5 percent over the last twenty years, a record far surpassing any other region of the world. It far, far surpasses the growth of the U.S. economy. They have had success in reducing poverty as well -- fewer children are dying, people are better fed, they are living longer, and nearly all children go to primary school now.

In the world of development, these countries are considered outstanding success stories. And the reasons for this success are not obscure. These are outward-looking economies with an emphasis on export growth and low barriers to imports. Their private industries are competitive, flexible, and innovative. The governments of these nations have acted wisely with judicious investments in agriculture, a careful reliance on market forces to set prices, and consistent policies giving incentives to private investment and the individual entrepreneur. The Bank has worked closely with these countries for many years now, more than three decades.

In South Asia we made our first loan to India thirty-six years ago. In those days the experts said India would never be able to feed its millions of impoverished citizens. The obstacles to development were too imposing, we were told. The caste system, rapid population growth, inefficient industrial assets and poor agricultural performance seemed to be insurmountable barriers to growth. But India has proven its detractors wrong. India is now self-sufficient in food, a major achievement for a country of over 700 million people. And the economy has grown at an annual rate of six percent over the past five years, including the three years of worldwide recession. The industrial countries of the world have done no better than about 1.5 percent in the same five year period.

A new set of challenges is evolving in China where, as you know, a centralized socialist system is in the midst of an historic shift toward a more decentralized, mixed economy. The stakes for development in China are high. When the Bank and China began working together in 1980, growth rates for the economy were about six percent per year. In 1983, in the wake of far reaching reform in the agricultural sector, China grew at a 10.5 percent rate. And this was achieved during a year marked by overall economic decline in the Third World. A truly noteworthy achievement for China!

Perhaps some of you read the Economist, a much respected British newsmagazine. On the cover last week was a question in bold type: "Guess who Doubled Output in Seven Years? An American banker? A British miner? A Tokyo carworker? or a Chinese peasant?" The answer was not the American banker, I can assure you. It was the Chinese peasant, who for the last seven years, inspired by market-style reforms, has increased wheat production by more than 12 percent each year. The standard of living of the Chinese farmer has increased 50 percent in just the last five years. We expect China's impressive record to continue as new reforms unshackle the economy from too much government bureaucracy and introduce more efficiency in the industrial sector.

In Latin America, the path of development has followed its own distinctive direction. In the Seventies many of these nations experienced excellent rates of growth -- Brazil over 7 percent; Mexico over 6 percent; Ecuador around 8 percent, and Colombia 5 percent. Latin America was the second fastest growing region in the world after East Asia. Then in 1980 the region entered a period of growing economic crisis.

How did this happen? It was what you might describe as an unhappy coincidence of economic forces -- a "double whammy," if you will. These countries had been borrowing heavily abroad, and were now caught between a dramatic increase in interest rates on that foreign debt, and a slow-down in world trade coupled with declining prices for their exports, which deprived them of the foreign exchange to service those debts. As the industrial world, including the United States, headed into a recession, these negative economic forces put a severe squeeze on the heavily indebted Latin America countries and the debt crisis was born.

After three years of painful economic adjustment, and blessed by the buoyant U.S. recovery, much of Latin America is emerging, albeit slowly, from the crisis. Countries like Mexico and Brazil are resuming modest economic growth. The legacy of the debt crisis is not just an abstract collection of statistics -- the standard of living in many countries fell to the levels of the mid-Nineteen Seventies, or even earlier. And only now are these economies traveling the long road back.

It is reassuring to know that the developing world is not inert, that many countries are advancing from low incomes to middle incomes and beyond. History has a lot to say about this. The United States was a non-creditworthy developing country in the 1850s, and Japan in the 1860s was still a poor, largely agricultural nation.

The story of development is not well known and not broadly appreciated, and it is this: If Third World governments can find ways to unleash the initiative and energy of their peoples, if policies are put in place to allocate human and financial resources efficiently, if the industrial nations respond with assistance and cooperation, then there can be remarkable progress in advancing the standards of living of people. We are seeing this happen today in Asia and Latin America.

But unfortunately for most of Africa, economic and social progress is a mirage and the promise of development has turned out to be a cruel and harsh dilemma. How did this tragedy come about? Why are the standards of living for most Africans lower now than they were 15 years ago, in 1970?

In the first place we must all keep in mind that Africa presents an inhospitable environment for human habitation. Irregular rainfall, chronic disease outbreaks, poor soils, temperature extremes, sparse natural resources, and insufficient human resource development are fundamental constraints. Add to these obstacles such recent setbacks as widespread drought, an exploding population growth rate, depressed markets for African exports, and inappropriate government policies -- particularly for agriculture, and you have a bitter recipe for economic decay.

Sub-Saharan Africa's population of 385 million people is growing at the alarming annual rate of 3.1 percent, the fastest of any region in the world. If nothing is done to slow that rate of growth, by the year 2000, just 15 years from today, that population will have doubled. GNP per capita per annum is only $491 -- about $1.35 a day per person. And what is most alarming to all of us, is that per capita GNP is currently declining by three percent per year, and agricultural output per capita has been declining since 1982.

You have all seen on television the ravages of hunger and drought in Ethiopia. The cameras don't show it all, of course. There are many millions more in West, East, and Southern Africa who are falling into the same cycle of drought crop failure, hunger, and famine. And that means starvation and death for literally thousands and thousands of our fellow human beings there.

But the food crisis in Africa is <u>not</u> just a product of bad weather. African agriculture has endured years and years of neglect and decline. Small scale farmers, a great resource in Africa, have seen their needs for better roads, for better seeds, fertilizers, and marketing facilities go either unmet or ignored. Price incentives for higher food production have been either absent or inadequate in country after country. Let me ask you: Would you go out in the fields and work hard to plant and harvest a crop if the prices paid for your crop were so low that you would operate at a loss? I don't think so. So it is not so hard to understand that when the rains fail to fall on African farms, the impact can ascend from crop failure to famine all too quickly.

Thankfully the worldwide response to the famine has been generous and food relief is now reaching most of those in need, not all but most. But you know as well as I that food relief is not, indeed cannot be, a long-term solution. That would leave people hungry tomorrow. Only economic development can restore agricultural production and build a nation back toward food self-sufficiency. And that cannot happen overnight! A crisis this deep and this long in the making has no quick fix. We must face that.

The crisis demands urgent attention. Africa is the number one regional priority for The World Bank. We are putting more staff and resources to work on Africa. We are working closely with the United Nations Development Program (UNDP) to better coordinate development strategies with other donors and the African governments.

Just two weeks ago, the Bank convened a meeting of potential donors to commit funds toward a Special Africa Facility. They have pledged commitments now totalling $1.2 billion, and that total is growing. Many African states are having to choose between the path of economic reform -- indeed economic restructuring -- or continuing decline. Some have already chosen the politically courageous course of economic reform. Others in Africa will soon join them. But they need more resources <u>now</u>, more than they will already be getting from traditional assistance sources such as IDA to help them put these adjustment programs in place. Hence, the special facility for Sub-Saharan Africa, which will operate on much the same terms as our IDA affiliate, offers financial assistance on very concessional terms. We are very encouraged by the response of donors and the enthusiastic cooperation of African governments.

The consensus developing on the African crisis is very much in evidence at the U.N. The 1984 General Assembly adopted unanimously an Africa Declaration setting out the causes of the crisis and recommending a consensus program of action. It included praise for The World Bank's recommendations for Africa and called upon the Bank to pursue the possibility of the Special Facility which is now a reality.

From the debt burdened countries of Latin America to the food crisis countries in Sub-Saharan Africa, we all face a formidable development challenge. Can the Bank, working with other agencies, donors, and the developing countries themselves, change the odds on this economic race against the forces of poverty? I truly believe we can. After all, we must.

But several preconditions need to be in place.

- First, development requires global economic growth. Developing countries will prosper if their partners in the industrial countries prosper as well. So the industrial countries must place their own economic houses in order. That means reduction of budget deficits, a firm hand on interest rates, and effective restraints on inflation. In other words they have to secure non-inflationary but sustained growth.

- Secondly, we must have in place an open international trading system. Barriers to imports, whether in the form of tariffs or in other forms, may seem attractive in the short term as a way to keep failing industries alive, but the end result will be a contraction of trade, higher prices and inflation, inefficient non-competitive industries, and a real blow to economic recovery in the developing world.

- Third, we will need better economic management by the developing countries themselves. Principles of efficiency, price incentives, and private initiative must guide policy making more than before. What this means is that "help begins at home," like the government and citizens of one of our states here in America pulling together and making short term sacrifices in order to reap the long term gains that can come from those adjustments.

- And the final requirement is an adequate flow of capital, public and private, to the developing countries so that economies undergoing reform will have the needed resources to resume and maintain growth.

These four requirements are a tall order. The last two, policy reforms and capital flows, are especially in need of more attention, and The World Bank family is committed to doing all it can to help.

But more than just money is flowing from the Bank to the developing world -- there is a constant exchange of ideas and advice between the Bank and its borrowers. We call this exchange policy dialogue. Its aim is to devise and agree on workable, pragmatic solutions to development problems. As part of our lending in health or education, for example, we reach agreements with governments on budget priorities and reforms of existing programs. The same is true for our more strictly economic lending. In energy, for example, our project loans often carry agreements on pricing matters and management reform so that a hydroelectric facility will operate more efficiently and through appropriate tariffs allow for an adequate financial return from the investment.

We are encouraged by the results we see in the field. Countries in Asia are making great strides. So are many nations in Latin America. And although the African crisis has reached massive proportions, there are pockets of success even in Africa. Several countries such as Malawi and Cameroon have performed well with the support and cooperation from the Bank and others in the international assistance community. But the progress we see in the developing world is not always matched by the needed awareness and concern for development here in the United States.

I would not expect the delegates to this Model United Nations to be unaware of interdependence. Indeed, the U.N. is one institution which has taught all of us much about the ways in which the nations of the world community are linked together by trade, investment, language, culture, science, migration, and capital flows. So I need not remind this audience, and I won't, of our responsibilities in America toward the developing world. But we do need a much more general awareness among Americans that the economic well-being of developing nations has a very direct and very positive impact on all of us living in the United States. Forty percent of all U.S. exports of goods and services go to the developing countries. That's up from just 29 percent in 1970. The developing countries represent a huge market for our exports. That means hundreds of thousands of jobs for us here at home. Therefore, it is very much in our own self interest that the developing countries continue to expand and grow. And that's the role that The World Bank plays so well.

Now let me tell you very frankly: a healthy future for multilateral institutions such as The World Bank is not guaranteed. We will have to work very hard -- harder than ever before -- to insure continued support of vital international multilateral organizations. The multilateral character of The World Bank, as with many of the United Nations family gives us unique capabilities. For example, when the Bank and other donors come to agreement on what sort of policies need to be adopted in Africa, the weight and impact of that advice is very persuasive. That's because we speak for many countries, not just one. And that advice is respected because The World Bank is not a political institution. We have no political ideology. Rather our guiding principle is economic efficiency and economic pragmatism, and that's the only basis used to evaluate the development projects and programs we finance.

Bilateral assistance is very important too. But we must keep in view how bilateral and multilateral assistance can complement one another and how both can help to raise the living standards of the world's poor. The developing world needs them both.

And support from the United States is absolutely essential. The U.S. has more than its self-interest to consider. We are the most generous nation in the world. We were the moving force behind establishing the Bank in 1944 and IDA in 1960. As mentioned earlier, it was not so very long ago that the United States itself was a developing country. We have been through this cycle of development. And now the present poor nations of the world are looking for ways to improve <u>their</u> people's lot, and are seeking help and assistance in restructuring, expanding and strengthening their economies. It is clearly a process we must all support to the best of our abilities.

I think that all of you understand the idea of interdependence, and you see how important the United States' contribution is to the developing world. Your generation will soon rise to the responsibilities of leadership, and I ask you now to carry the message on to other Americans who must also learn how crucial development is to the welfare of all of us here in our great country. I have great confidence in you. And the developing world has great hopes of you.

Thank you for listening to me.

And now I look forward to your comments and questions.