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J.H. WILLIAMS

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

Paper Delivered to the Fourth Maxwell
Institute on the United Nations
Bretton Woods - 27 August - September 1,1967

J. H. Williams

February 28, 1968

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

J. H. Williams[1]

INTRODUCTION

When the United Nations Monetary and Financial Conference convened at Bretton Woods in July 1944, the Second World War had yet to be won: in Europe Allied troops were fighting in Normandy and Poland; in the Pacific they were about to land on Guam. A third of the countries represented had been occupied or suffered war damage. It was also true that roughly half of them were in default on public or private debt. The United States, which had done so much of the preparatory work for the Conference, was the only source of capital of any substance and, while not alone, had the widest recent experience of default on foreign loans. American public funds were heavily engaged in financing the war; it was a haunting thought that they might be called on to finance the peace as well.

The need for an international institution to provide or to facilitate long-term financing was not in dispute. The proposals for a World Bank did not on the whole raise issues of such technical complexity as those for an International Monetary Fund, nor issues in such sharp contention. Many questions of organization and management were resolved

1/ Although the author is a member of the Bank's staff, the views expressed in this paper are his own and not necessarily those of the Bank.

first for the Fund and then adopted or adapted for the Bank. The focus of discussion on the Bank was inevitably on restoration and reconstruction; development was perhaps mainly conceived in terms of finance for public works and utilities. The basic assumption behind the majority view was that, if bringing stability to the foreign exchanges had to rely exclusively on government funds, the main burden of financing investment, whether the investment itself was public or private, should and could be borne by private capital, as in the past. The Fund was designed to perform a new function: the Bank to restore an old function. Reconstruction indeed meant first of all clearing the channels and reviving the flow of private capital.

By private capital was meant capital for portfolio investment. The central purpose of the Bank was thus to give portfolio investors convincing assurances that foreign investment could be safe. To restore the international flow was both a positive and a defensive aim. Quite apart from a belief in its virtues or confidence in its capacity, private capital, it was hoped, would greatly reduce, if not remove, the need for government-to-government loans, the history of which had not been uniformly happy for either party. It followed that if the Bank were to encourage and complement the flow of private capital, it should not compete with or displace it. Not only the Articles of Agreement, but also simple prudence, required the Bank to abstain from lending if other funds were available on reasonable terms, for the Bank could not do business with those whose business it was taking away.[1/]

1/ IBRD - Articles of Agreement, III Sec. 4(ii).

Restoration, however, was not enough; whether the Bank made loans from the proceeds of its own bond issues or, as was expected to be its main business, guaranteed private loans, it was crucial that the loans themselves should not again contain the seeds of default. The restrictions imposed by the Articles of Agreement on loans made or guaranteed by the Bank are an implicit analysis of what was believed to have gone wrong in the past, seen both from the side of the creditors and that of the debtors. Loans were not to finance budget deficits or go into monetary reserves to support credit creation; they were to finance the creation of real assets, not paper assets. Real assets were, moreover, to be productive, with priority given to projects that were the most useful and urgent.1/ As a matter of normal practice, loans were to cover only the foreign exchange costs of projects and only exceptionally to finance expenditures in local currency.2/ The Bank was to ensure that the proceeds of loans were applied only to the purposes for which they were made3/ and drawn down only to meet expenses as they occurred.4/ Interest rates and repayment schedules were to be appropriate to the project.5/ More broadly, the Bank was to act prudently, paying due regard to the prospects for repayment.6/ It was required to base its decisions on considerations of economy and efficiency without regard to political or other non-economic influences or considerations.7/

1/ ibid, I (iv)
2/ ibid, IV Sec. 3(b)
3/ ibid, III Sec. 5(b)
4/ ibid, III Sec. 5(c)
5/ ibid, III Sec. 4(iv)
6/ ibid, III Sec. 4(v)
7/ ibid, III Sec. 5(b)

Similarly, the Bank was implicitly enjoined not to make loans to the commercial advantage of a particular member; explicitly, the proceeds of its loans were not to be tied to purchases from any given member country.1/

All these provisions were designed to make the Bank a sound lender and, it was hoped, an acceptable and constructive lender. To make the Bank a solid borrower or guarantor required, certainly in the absence of a lending record, a strong equity base and substantial underwriting of its obligations. These considerations led to a financial structure that provided the Bank with government funds in the form of share capital, part paid in with which to start operations and a much larger part on call to provide intergovernmental guarantees for its own borrowing or guarantee operations. Direct government guarantees to international loans were not unique. What was unique was an international organization in which governments as shareholders, subscribing in rough proportion to their economic strength, underwrote its financial risks up to the limit of the unpaid balance of each of their capital subscriptions.

In the end, the borrowing and lending policies of the Bank are but opposite sides of the same coin. What part a good lending record plays in the judgment of investors in Bank bonds cannot be determined. It must be assumed that adequate coverage by uncalled capital continues to be essential; the Bank has never thought it safe to assume that it is decisive. At no time therefore has the Bank felt free to ignore investor reaction to the way the Bank is making loans. At no time,

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1/ ibid, III Sec. 5(a)

however, has the Bank not worked to convince investors that development lending can still be sound business.

The structure of the Bank, as well as its basic operating policies, were inevitably shaped, in many respects decisively, as much by the preoccupations of its founders with the world through which they had lived as by their view of the world in which they expected the Bank to live. The story of the Bank is in turn much concerned with the fact that it has had to operate in a world that was, in the event, rather different and that some, at least, of these early preoccupations have lost their relevance or been replaced by others.

The hindsight of the Bank's founders ensured that what had happened before would not happen again, at least not in the same way. It can reasonably be argued that the directives and restrictions of the Articles of Agreement, and the lending policies derived from them, have thus far helped to keep the Bank itself out of serious trouble. But what is interesting has been the need to adapt to situations generally not foreseen. And what is challenging to the Bank are the strictures of those who argue that keeping out of trouble is not enough.

The principal factors that were not, or could not have been, foreseen were six in number. First, of only transitory importance, private capital was quite unsuited to the task of reconstruction and what could be mobilized was wholly inadequate. To be fair, no one at Bretton Woods pretended to know how much capital would be required or might be forthcoming. There were, too, considerable differences on the relative importance that reconstruction and development would play in the life of the Bank. So far as the British were concerned, the question was

largely academic, for they were preparing the way for a very large U.S. government loan, which made them consider that they at least would not be an early client of the Bank. Within a few years, the Marshall Plan had left the Bank's role in reconstruction an illuminating but rapidly fading phase in its history.

Secondly, private portfolio investment after the war was concentrated to an unprecedented degree on the operations of institutional lenders and considerable time and effort was to be required not only to overcome legislative obstacles to their lending abroad but also to create in them a willingness to consider doing so.

Thirdly, the view of the Bank as a channel for private portfolio investment was too restrictive. On the supply side, private capital prepared to go abroad was increasingly in the hands of direct investors, rather than of portfolio investors. On the demand side, industrial investment often called for more flexible financing than the straight term loans of the Bank could satisfy. The Bank's statutory requirement for government guarantees for loans to non-governmental borrowers also proved too restrictive for industrial lending, inhibiting either the guarantor governments or private borrowers, or both, from recourse to the Bank. Rather than reopen the argument about its own Articles of Agreement, the Bank's response was the establishment in 1956 of the International Finance Corporation (IFC), to act as a catalyst for direct investment through partnership with private investors and to provide flexible financing that did not require government guarantees and eventually extended to equity participations and underwritings.

Fourthly, the founding fathers enjoined the Bank to pay due regard to the capacity of borrowing countries to repay. While interest rate policy was left to the Bank to work out, there was probably a greater expectation that terms could and would be more adaptable to hard cases than proved to be so. The implicit requirement that the Bank remain solvent necessarily geared the interest rates and terms of its lending to its borrowing and the Bank could borrow in the market only at commercial or "conventional" rates. It is doubtful that anyone at Bretton Woods seriously contemplated the extent to which countries would again build up intolerable levels of debt long before their needs for external capital were met or would have such limited savings capacity and growth potential that they would have no creditworthiness for borrowing in the first place. The Bank's own response to this situation was the establishment in 1960 of the International Development Association (IDA).

Fifthly, the founders did not allow for the fact that even the original membership of the Bank included countries that could not determine, and still less demonstrate, the utility and urgency of projects for which they were seeking loans. Technical assistance finds no place in the Articles of Agreement, yet has proved both an essential adjunct to Bank lending and an important service to its member countries.

Finally, the most powerful impact, both on the Bank as an institution and on the context in which it has to operate, has been the membership explosion, above all since 1960. Like any population explosion, this has sharply affected the average age of its members, the balance of their needs and the urgency of their ambitions. It has put the Bank

more than ever in the business of trying to show countries what they should borrow for and then helping them to borrow. It has raised in acute form the adequacy of earlier estimates of capital requirements. It has raised in equally acute form the question of what part of these needs the Bank and IDA can or should try to meet and how the Bank can cooperate effectively with other sources of development finance.

The irony of Bretton Woods is that, even if the Bank had had funds on the scale required, financing reconstruction, which was most discussed, would have been virtually impossible within the directives and limitations on loans and guarantees laid down in the Articles. Yet these same limitations have underlain the whole of its subsequent lending operations for development, which was least discussed. The Articles established the Bank as a financial institution. Did they thereby limit its effectiveness as a development institution?

The following sections review the financial and organizational structure of the World Bank, the changes that have taken place in its membership, the evolution of its lending operations and how they have been financed. In conclusion there are some comments on the present situation and some of the unresolved issues. The International Finance Corporation is touched on only incidentally as necessary to a discussion of the Bank itself. The International Development Association is dealt with largely as a parallel source of development finance, under the same administration and direction as the Bank, although with a certain number of ground rules of its own. There is a continuing question as to how far the existence and operations of IDA may have affected the Bank itself. This is touched on at a number of points.

II. CAPITAL STRUCTURE, MEMBERSHIP AND ORGANIZATION

The World Bank is a corporation owned wholly by government stockholders; in spirit, perhaps, it is an international cooperative. The authorized capital stock is subscribed by member countries roughly in proportion to their economic strength according to a formula derived from that of the International Monetary Fund. The size of a member's subscription determines the extent of the member's liability for the obligations of the Bank; it does not, as in the IMF, regulate the amount that may be borrowed.

The Articles of Agreement fixed the initial capital stock at $10 billion and divided the subscription of each member into three parts - two percent payable in gold or U.S. dollars, which could be used without restriction for lending, and eighteen percent, also available for lending, but payable in the member's own currency and usable only with the agreement of the member concerned. This agreement has, in the case of a number of important member countries, carried with it the convertibility of the member's currency as required by the Bank in its operations. The remaining eighty percent of the Bank's capital stock is subject to call only as and if required by the Bank to meet its obligations on borrowings and guarantees. As has already been noted, the original expectation was that the guarantees afforded by the shareholders to the Bank would enable the Bank in turn to guarantee private loans, whereas in fact, the Bank's obligations consist almost exclusively of its own borrowings.1/

1/ As of December 31, 1967, $3,440 million equivalent representing the outstanding debt of the Bank itself and $1.5 million being the outstanding amount of borrowers' obligations to the Bank sold out of portfolio with the Bank's guarantee. The last sale out of portfolio with the Bank's guarantee was in 1956.

In the course of 1958, when the total funded debt of the Bank was approaching $2 billion, the Bank's shareholders agreed to double the authorized capital stock and in addition to provide some margin for subscription by new members. In the following year the capital stock was accordingly increased to its present level of $21 billion. Since the object was to enhance the Bank's borrowing capacity, the whole of the increase, that is, both the parts corresponding to the two percent and eighteen percent of initial subscriptions and the eighty percent part, was made subject to call only when required to meet the Bank's obligations. The general increase did not in itself result in any direct addition to the Bank's loanable funds, but the occasion was used to adjust some initial contributions, e.g. that of the Federal Republic of Germany, which was seen in retrospect to have been disproportionately low.

Of the 44 countries represented at Bretton Woods, 41 joined shortly afterwards. Of these, Poland, Czechoslovakia and Cuba have ceased to be members1/, and Indonesia withdrew temporarily in 1966, rejoining in the following year. In the first ten years, the Bank gained 22 additional members, ten of them from Asia. In the following ten years, membership jumped by nearly two-thirds, mainly since 1960, the largest single group consisting of 29 newly independent countries from Africa.

The increase in membership, particularly in recent years, has brought into the Bank a majority in numbers, but not in voting power, of countries newly independent. It is generally true that the most recent members have been among the poorest, the least able to finance any significant part of their own development and, in many cases, the

1/ Poland in 1950, Czechoslovakia in 1954 and Cuba in 1960.

least well endowed with administrative and executive capacity. There has thus been an important, what one might call qualitative, shift in the Bank's membership and with it a marked shift in needs to borrow and ability to borrow, which are being reflected across the whole spectrum of the Bank's activities.

Table 1 gives a snapshot of the Bank's membership by broad geographical areas in each of the years 1947, 1958 and 1967, classifying countries in rough and ready fashion by income groups and showing the relative voting power of the various areas. Voting power is closely related to the size of subscriptions to capital stock. Each member has 250 votes, plus one additional vote for each $100,000 of subscription. The increase in membership, by being concentrated on countries with relatively small subscriptions, has consequently modified, rather than radically changed, the distribution of voting power. In 1947, the European and North American countries cast 74% of total votes; In 1967 they still retained 62% of the total voting power, although they made up 20% of the membership. The addition of 62 members from Asia, Africa and the Middle East between 1947 and 1967, by contrast, increased the voting strength of those continents from just over 15% to 26%. The addition of 34 countries since 1947 from Africa alone resulted in an increase in African voting power by less than 6%.

The Articles of Agreement of the Bank vest all powers in the Board of Governors, which is its general assembly of stockholders, meeting once a year, but available for consultation by mail or telegraph. The Board is composed of one "Governor" from each member country with an official alternate. With certain exceptions, the Board is authorized to

TABLE 1

IBRD - Changes in Membership and Voting Power, 1947-1967

Region	1947 No. of members	1947 No. by estimated per capita income category 0-$250	$250-$750	over $750	1947 Voting power of Region	1958 No. of members	1958 No. by estimated per capita income category 0-$250	$250-$750	over $750	1958 Voting power of Region	1967 No. of members	1967 No. by estimated per capita income category 0-$250	$250-$750	over $750	1967 Voting power of Region
Africa	3	2	1	-	2.34	7	6	1	-	3.64	37	19	15	2	9.17
Asia	3	3	-	-	11.66	13	11	2	-	17.18	16	13	3	-	14.17
Australasia	1	-	-	1	2.41	1	-	-	1	2.03	2	-	-	2	2.94
Central and S. America	18	6	11	1	8.39	20	7	12	1	9.35	22	7	14	1	8.38
Europe	14	1	2	11	35.72	17	1	2	14	33.54	19	1	4	14	39.19
Middle East	4	3	1	-	1.51	7	6	1	-	2.22	9	6	2	1	2.95
N. America	2	-	-	2	37.97	2	-	-	2	32.04	2	-	-	2	28.20
TOTAL	45	15	15	15	100.00	67	31	18	17	100.00	107	46	38	22	100.00

delegate, and has in fact delegated, its powers to the Executive Directors. The principal exceptions are the admission or suspension of members, changes in capital stock and the allocation of the net income.

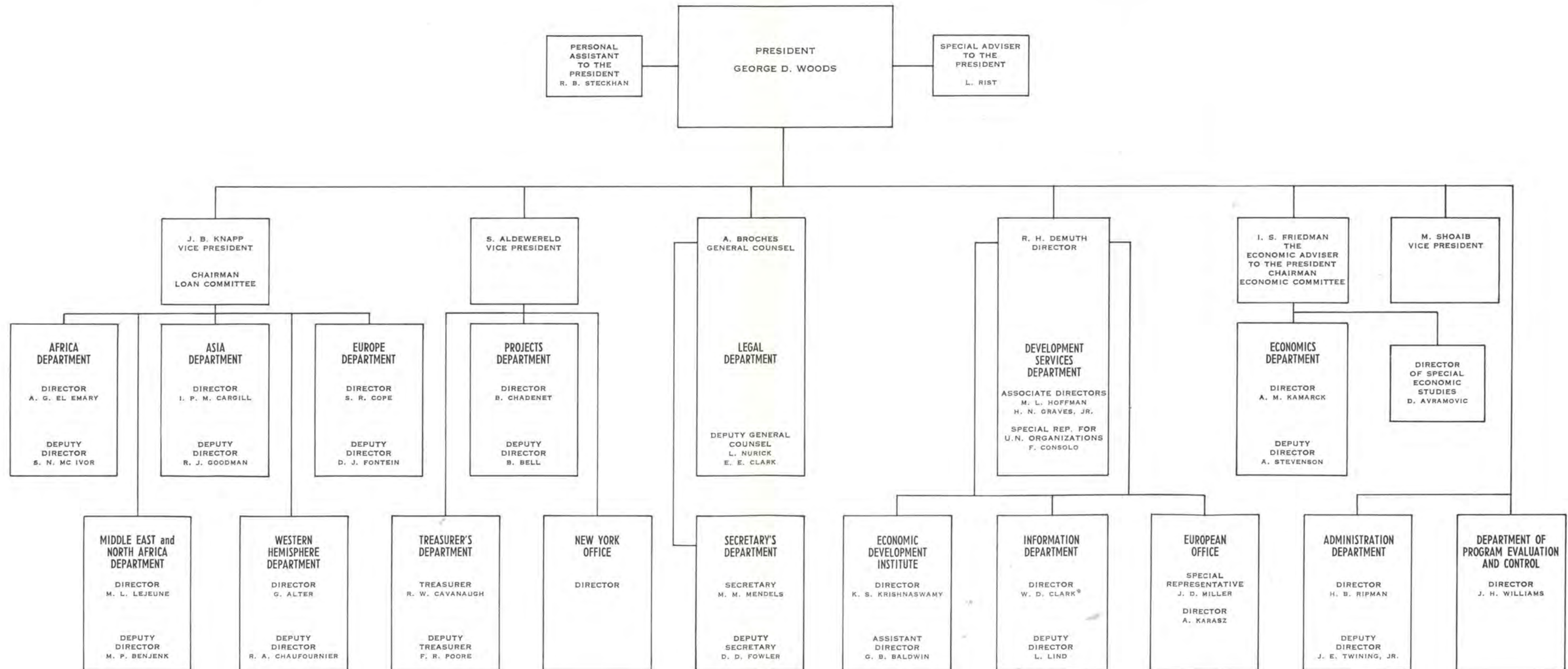
There are at present 20 Executive Directors, of whom five are appointed by the five largest shareholders (United States, United Kingdom, France, Germany and India) and 15 are elected by the remaining members. Each has an alternate. Executive Directors are elected or appointed for terms of two years; they have offices in, and hold their meetings at, the Bank's headquarters in Washington. The Executive Directors elect the President of the Bank, who acts as their chairman.

The President is head of the operating staff of the Bank and is responsible for all appointments to it. A chart setting out the basic organization of the staff is attached. As of December 31,1967, the Bank had about 1518 regular staff members on strength (against an authorized strength of 1610), of which roughly half were classified as "professional". The staff is recruited from 75 different countries. While there has been a steady and deliberate increase in the number of nationalities represented on the staff, there are no national quotas. The increase in staff over time has rather closely followed the increase in the number of lending operations. This is less indicative of a failure to improve staff utilization than might appear at first sight, because operations have grown both more complex and time consuming as the span of the Bank has broadened. The greater number of projects coming forward from less developed countries from one year to the next has called for greater assistance, and at an earlier stage in preparation and execution, than was true in the past.

International Bank for Reconstruction and Development • International Development Association

January 1, 1968

ORGANIZATION CHART



*Appointment effective February 19, 1968

The only basic change in organization over the last twenty years has been concerned with the conduct of lending operations. Up to 1952, a single Loan Department grouped all staff responsible for relations with member countries and for negotiating loans with the technical and financial staff responsible for evaluating projects. All economists, whether those who worked on country studies, on particular branches of economics or those engaged in economic research, were grouped together in the Economics Department with the statistical staff. A loan decision required both a favorable judgment by the Loan Department on the loan and project aspects and a green light from the Economics Department on the creditworthiness of the borrowing country. In 1952, the component parts of the Loan and Economics Department were broken up into a Technical Operations Department (later Projects Department), a number of separate Area Departments and an Economics Department. The Projects Department absorbed the engineers, financial analysts and specialist economists who had been regularly engaged in project evaluation and supervision. Loan officers and country economists went into Area Departments. The Economics Department became responsible essentially for supporting research work and statistical services.

The intent and effect of the reorganization were twofold. In the first place, responsibility for judgments about the merits of individual projects was deliberately divorced from responsibility for judgments about the desirability of lending, or not lending, to particular countries or borrowers. Secondly, responsibility for economic work on countries was brought together with all other elements involved in arriving at lending attitudes towards the countries concerned. Of these two effects, the first has been by far the more crucial. Divorcing

project responsibility from country and borrower responsibility limited the possibility that a defective or inadequately prepared project would be pushed through the Bank organization merely because the Bank's relations with a particular country were felt to be overriding considerations. Conversely, a project could not be pushed through merely because it was fascinating. The Bank thus protected itself simultaneously against the technocrat and the diplomat. This protection has a hidden cost in accentuating problems of coordination at the working level and securing consistency, but at least to the end of 1967 each review of the organization concluded that, on balance, these costs were worth bearing.

The establishment of the International Finance Corporation in 1956 meant, in the first instance, the creation of a separate investment and legal staff alongside the Bank; the Administration and Treasurer's Departments of the Bank served the same functions for IFC. Some years later, the President of the Bank, who was also President of IFC[1], consolidated in the IFC responsibility for the appraisal and supervision of all industrial projects, whether financed by the Bank or IFC. IFC has thus a dual function, to invest its own funds and to perform for the Bank the same function in the industrial sector as the Projects Department of the Bank continues to perform for the Bank in public utility, transport, agriculture and education projects. IFC may perform both roles simultaneously, typically in the case of development finance companies, in which IFC participates in the equity for its own account and cooperates with the appropriate Bank departments in arranging a Bank loan.

The creation of the International Development Association in 1960 had

1/ The President of the Bank is <u>ex officio</u> chairman of the Board of Directors of the Corporation.

no direct impact on the internal organization of the Bank. Although the Articles of Agreement left open the possibility, IDA has no staff distinct from that of the Bank, whose officers and staff, as do the Executive Directors, serve in the same capacity for IDA. By increasing the volume of funds and widening the range of countries with which the Bank Group could do business, the creation of IDA did, however, lead to a marked increase in the number of individual operations, and to a rapid increase in total staff. In particular, the creation of IDA brought about a substantial increase in staff working on agricultural projects and, with a policy decision in 1961 to broaden the range of eligible sectors both for the Bank and for IDA, on education as well. The creation of IDA was also responsible, at least in part, for a decision, taken in 1964, to build up the Economics Department and to strengthen the economic work of the Bank Group more generally.

The feature of IDA (other than the conditions of its lending) that distinguishes it sharply from the Bank is the division of its membership into two classes, Part I and Part II, a division which makes explicit in IDA the de facto division in the Bank between its developed and less developed members. Although the Part I countries are common to the Bank and IDA there is a subtle difference in their attitude towards the two institutions. This perhaps reflects the difference between, on the one hand, the attitude of shareholders whose major financial concern is the size of their contingent liability for the Bank's obligations and, on the other hand, that of governments which have to provide funds directly from their national budgets. The difference has been reflected in a somewhat more direct concern with the policy and administration of IDA than with the

Bank. Since the two institutions are so closely entwined, interest in the policy and administration of the Bank itself has possibly been stimulated in its turn.

III. THE EVOLUTION OF BANK OPERATIONS

The Bank opened for business in mid-1946. In the following twelve months it was faced with applications for reconstruction loans amounting to more than $2 billion and for loans for development projects of about $500 million. Available for lending was $730 million from paid-in capital subscriptions. Even though two bond issues which the Bank was able to float in the U.S. market brought total loanable funds to nearly a billion dollars, it was apparent at an early date that the Bank could not handle the financial needs of reconstruction. Inadequacy of funds posed a troublesome problem of rationing (France, for example, applied for $500 million and received $250 million, with the possibility of a second tranche being left in the air). In the event, only four reconstruction loans were made, totalling just under $500 million. The Bank also found out that as a matter of financing techniques it was not equipped to make reconstruction loans, the essence of which was to provide a rapid injection of foreign exchange to rebuild inventories and replace a wide range of damaged or exhausted plant and equipment. It was of the essence that funds be disbursed quickly. Setting up and administering the loans was difficult because the need for speed ran into statutory requirements for justifications, economic studies, itemizing expenditures and accounting for the use of the loan proceeds. The Bank was equipped, or came to be equipped, to investigate and finance projects: it was not designed to finance international shopping lists.

The volume of the Bank's lending has grown considerably if somewhat unevenly over its twenty-year history. Average annual lending amounted to about $225 million through 1953. It increased to about $380 million during the following four years and increased again to about $670 million for the period ending in 1963. Since 1963 Bank lending has averaged nearly $890 million, reaching a peak of $1,023 million in 1965 and falling back to $877 million in 1967. The average size of a Bank loan has remained just over $20 million throughout the period, ranging from $252,000 (Iceland) to $130 million (Mexico), excluding the $250 million reconstruction loan to France. Lending to Europe has been a relatively constant proportion of total lending throughout the twenty-year period, although there has been a marked shift from the more developed countries to the less developed periphery of the Mediterranean. There was a moderate rise in lending to countries in Africa, beginning in the early 1950's, from an annual average of about $60 million to an average of over $100 million beginning about 1960. Bank lending to Asia experienced a pronounced increase from an average of about $50 million in the early 1950's to about $250 million beginning in the late 1950's. Lending to countries in the Western Hemisphere increased steadily from an average of about $60 million during the period 1948-1950 to an average in recent years of nearly $300 million a year. For the twenty years as a whole, Asia has received over 33% of Bank loans, followed by nearly 28% for the Western Hemisphere, 20% for Europe, 13% for Africa and 5% for Australasia.

By the end of December 1967, the Bank had made 527 individual loans and had committed about $11 billion, of which nearly $8.5 billion had been disbursed and $1,376 million had been repaid. The overall

TABLE 2

IBRD - Loans Signed and Disbursements

Fiscal Year	Number of Loans	No. of countries involved	Amount million $	Disbursements million $
1947	1	1	250.0	92.0
1948	5	4	263.0	378.0
1949	10	4	137.1	56.2
1950	12	9	166.3	87.9
1951	21	11	297.1	77.6
1952	19	16	298.6	184.8
1953	10	9	178.6	226.8
1954	26	16	323.7	302.3
1955	20	14	409.6	274.2
1956	26	20	396.0	283.9
1957	20	15	387.9	332.4
1958	34	18	710.8	498.7
1959	30	19	703.1	582.6
1960	31	21	658.7	543.9
1961	27	20	609.9	398.5
1962	29	19	882.3	485.4
1963	28	19	448.7	620.4
1964	37	28	809.9	558.9
1965	38	27	1,023.3	605.7
1966	37	27	839.2	668.4
1967	47	33	876.7	790.4
1968 (Dec. 31, 1967)	19	~~59~~ 17	341.1	387.1
	527		11,011.7	8,436.1

Note: Totals may not add because of rounding.

December 31, 1967

distribution among broad sectors has remained remarkably constant. Of total commitments, about 35% were for electric power and 35% for transportation, consisting for the most part of highway and railroad projects but including also ports, waterways, air transport, oil and gas pipelines. Half of the remaining 30% has been lent for development of industry and mining. Agriculture has received about 8% of total Bank lending. The remainder went into water supply, education and more general development financing. There is also included in the grand total an intra-Bank Group transaction, a $100 million line of credit from the Bank to IFC to enable IFC to take over increasingly the role of lender to, as well as investor in, private industrial enterprises on behalf of the World Bank Group.

Starting in May, 1961, IDA had committed total credits of just over $1,713 billion in 112 separate operations up to December 31,1967. As emerges from Table 5, both the geographical and sector distribution of IDA credits has tended to differ rather markedly from that of Bank loans. Only 5% and 6% of total credits have gone to Europe and the Western Hemisphere respectively, but 11% to Africa south of the Sahara, 73% to Asia and 4% to North Africa and the Middle East. "Asia" in practice means India (53%) and Pakistan (19.5%). While IDA and the Bank have made credits and loans to the same sectors, and transportation has taken about the same share of both, the distribution among other sectors is rather different. Power and telecommunications have been of relatively minor importance; agriculture and education, not surprisingly, of greater importance than for the Bank, given the balance of need in countries particularly dependent on IDA. In this respect, the category "Industry" in Table 5 is somewhat misleading, for the bulk is

TABLE 3

IBRD - Loans by Purpose

(cumulative totals in millions of dollars)

Purposes	Amounts
Reconstruction	496.8
Electric Power	3,618.7
Transportation	3,497.1
Communications	148.2
Agriculture & Forestry	905.5
Industry	1,710.1
General Development	205.0
Water Supply	60.2
Education	29.1
Project Preparation	1.7
International Finance Corporation	100.0
TOTAL	10,772.4

Note: The figures are rounded and are net of cancellations, refundings and terminations totaling $239,232,573.

December 31, 1967

TABLE 4

IBRD Loans by Region
(total annual amounts in millions of dollars)

Fiscal Year	Europe	Africa	Asia	Middle East	Western Hemisphere	Australasia	Total
1947	250.0	-	-	-	-	-	250.0
1948	247.0	-	-	-	16.0	-	263.0
1949	28.0	-	-	-	109.1	-	137.1
1950	32.5	-	62.5	12.8	58.5	-	166.3
1951	27.9	58.5	25.4	-	85.3	100.0	297.1
1952	91.2	98.0	30.5	-	78.9	-	298.6
1953	34.3	14.0	51.0	-	29.3	50.0	178.6
1954	56.9	60.0	54.2	-	98.6	54.0	323.7
1955	149.0	24.0	59.1	-	123.0	54.5	409.6
1956	40.0	115.2	138.7	27.0	75.1	-	396.0
1957	120.6	19.8	63.1	75.0	50.1	59.2	387.9
1958	99.3	112.0	378.7	-	120.8	-	710.8
1959	102.0	110.6	282.0	82.0	136.5	-	703.1
1960	69.0	182.7	168.9	103.7	134.4	-	658.7
1961	55.0	27.9	351.0	27.5	148.5	-	609.9
1962	32.0	85.3	219.5	25.0	420.5	100.0	882.3
1963	90.0	32.7	157.3	43.0	125.2	-	448.7
1964	129.1	91.3	257.2	18.5	273.5	40.3	809.9
1965	292.5	123.0	355.0	40.5	212.3	-	1,023.3
1966	90.0	141.0	141.0	30.0	374.7	62.5	839.2
1967	40.8	106.3	299.4	48.0	282.3	-	776.8
1968**	60.5	20.0	148.0	37.0	75.6	-	341.1
	2,137.55	1,422.2	3,242.2	570.0	3,028.4	520.5	10,911.7*

*In addition, the Bank made a $100 million loan to the International Finance Corportation in fiscal year 1967

**Up to December 31, 1967.

Note: Totals may not add because of rounding.

December 31, 1967

TABLE 5

IDA Credits by Purpose and Area
(cumulative totals in millions of dollars)

Purpose	Total Credits		Middle East & North Africa		Africa		Asia		Europe		Western Hemisphere	
	million $	% of total	million $	% of total	million $	% of total	million $	% of total	million $	% of total	million $	% of total
Grand Total	1,713.4	100	66.4	4	196.3	11	1,261.7*	73	80.5	5	108.5	6
Electric Power	108.2	6	-	-	-	-	67.5	62	25.7	24	15.0	14
Transportation	583.6	34	8.5	1	113.8	19	383.9	66	-	-	77.4	13
Telecommunications	74.8	4	-	-	-	-	74.8	100	-	-	-	-
Agriculture	286.8	17	25.0	9	25.8	9	202.9	71	20	7	13.1	5
Industry	501.2	29	-	-	-	-	466.4	93	34.8	7	-	-
Of which to DFCs:	39.7	2	-	-	-	-	4.9	12	34.8	88	-	-
Education	113.5	7	28.9	25	55.1	49	29.5	26	-	-	-	-
Water Supply	43.8	3	4.0	9	1.1	3	35.7	81	-	-	3.0	7
Engineering	1.5		-	-	.5	33	1.0	66	-	-	-	-

December 31, 1967

*Of which $889.1 million to India and $329.9 million to Pakistan.

accounted for by credits to India and Pakistan to finance the import of industrial spare parts and semi-finished products for local assembly, operations which have fallen somewhat outside the general pattern of Bank Group lending.

Bank loans are normally medium or long-term (up to thirty and, exceptionally, thirty five years) with principal repayments beginning at the end of the start-up period. In these latter cases, interest is frequently capitalized during the grace period. The full interest rate is charged only on the disbursed portion of the loan, a commitment charge of three-fourths of 1% being made on the undisbursed portion. Interest and principal payments are normally made in equal semi-annual instalments, although in some cases equal principal repayments are employed where there is a case for shortening the average life of a loan. In establishing the length of its loans, the Bank broadly follows commercial practice in relating the term to the estimated useful life of the equipment being financed or to the cash flow of the borrower, with some extension if balance of payments considerations weigh heavily.

At an early date, despite the freedom accorded by the Articles and contrary to the expectation of many founders, the Bank applied a common interest rate policy to all borrowers at any given time. In recent years, the standard rate has varied within the limits of 4% and 6.25%; as of the end of 1967 it was 6%. The general policy is to keep the lending rate as low as is compatible with the Bank's ability to raise in the capital markets of its members,or otherwise borrow,the funds it needs. The factors which enter into the Bank's ability to raise funds are the trend of earnings, interest coverage, the need to maintain a reasonable rate of return on capital and reserves,as well as the need to build up adequate reserves. An effort is made to

keep the lending rate stable in face of what are expected to be short-term fluctuations in market rates and to change only in line with the trend. An exception to the common policy for all borrowers was made between May 1965 and the end of 1967, with the application of higher rates for loans to countries with established international credit which could normally be expected to satisfy the bulk of their capital requirements by issuing their bonds. Charging higher rates to these countries was meant to discourage borrowing from the Bank, because it was cheaper, rather than from the market, making the Bank their preferred lender and not, as it was intended to be, their lender of last resort.

IDA was designed to enable the Bank Group to continue financing countries at the other end of the scale, countries whose low savings potential and weak balance of payments prospects, including heavy debt service, limited their capacity to borrow on conventional terms. In setting terms appropriate to these countries, IDA has pushed equal treatment a step further than the Bank, in that all development credits hitherto have been repayable over 50 years, with a grace period for the first ten years and repayments rising from 1% of principal in each of the second ten years to 3% of principal in each of the remaining 30 years. There is no commitment charge on the undisbursed balance; 3/4% a year is charged on all amounts drawn down.

The Bank Group can "blend" IDA credits with Bank loans to moderate the cost to a country of borrowing from the Bank alone; it can also stretch out IDA funds in appropriate cases by blending in some proportion of Bank loans. In fact the possibility of blending has given the Bank and IDA, when working together, much greater flexibility in arranging appropriate terms for lending than either has when operating alone.

The Bank has consistently preferred to lend whenever possible directly to the entity, be it public or private that is responsible for project execution, taking the member government's guarantee if the borrower is other than the member government. In cases where the operating entity is financially autonomous, but constitutionally unable to borrow from the Bank, the Bank usually agrees with the borrowing member government on the conditions under which the loan proceeds are to be passed on and has frequently established a direct contractual relation with the operating entity on all project matters other than the loan itself.

IDA credits are made only to governments, and deliberately so, since the purpose is to provide cheap capital to the economy as a whole and not, so to speak, to subsidize particular enterprises, be they public or private, within that economy. For all except central government programs, therefore, it is common to find the proceeds of IDA credits being relent by the central government on conditions approximating those at which other funds would be available to the final beneficiary. In the absence of other guidelines, IDA may require that the same conditions be applied as would have obtained for a Bank loan to the beneficiary.

The reason for lending directly to, or for arranging relending to, the operating entity is to obtain the closest possible association with the project financed. With quite few exceptions, the Bank and IDA have specialized as project lenders. As project lenders, they can lay claim to efficiency, in the sense that the projects financed have been built as intended and that difficulties which arose in the course of their construction or operation have usually been resolved. The quality of project financing has progressively improved as increasing attention

has been paid to actions required beyond the fringes of the project itself in the form of associated investment or policy changes required to assure a satisfactory economic return. The Bank staff continues to question itself about the validity of the criteria and methodologies applied at any given time; there is doubtless still a long way to go.

In response to this questioning, as to a growing awareness by the Bank of the needs of its members, not least of the new needs of its newest members, the sectors considered eligible for Bank loans and IDA credits have been extended in the course of time to include education and domestic water supply, for example. Similarly, the definition of projects has been widened to include both "tranches" of a broad sectoral program and packages of different but mutually supporting activities. The former is typical of the approach to large transport rehabilitation or expansion projects, which may embrace a large number of individual contracts for civil works, plant and material, and may include in addition finance for studies required to define the balance and content of subsequent phases. The latter is typical of the current approach to agricultural projects, which initially tended to concentrate heavily on civil engineering for large scale flood control and irrigation works, but which may now combine in a single operation finance for physical investment, equipment, breeding stock, credit and extension services. The concept of agricultural projects is being extended to include the cost of certain current inputs, notably improved seed and fertilizer, the whole being clothed in a single project description for which there is a common objective and coordinated supervision or control of the whole by the borrower or its agencies.

As the center of its lending operations moved progressively away from Europe, the Bank Group came to recognize with increasing force that effective lending required not only transfer of capital but also the mobilization and transfer of technical and managerial skills required to translate capital into investment. The mirror image, so to speak, of the Bank's endeavor to strengthen the basis of its own lending has been assistance to member governments to identify projects and define priorities among them, by organizing and supervising expert studies of the soundness of projects for which financing is sought, and by advising on the general development context in which they should be placed.

What might be called the classical forms of technical assistance by the Bank have been the planning advisory mission and the project and sector feasibility study. From 1949, starting with Colombia, until 1964 with Morocco, the Bank organized 25 "survey missions," composed of Bank staff and outside experts to make an analysis of economic potential and recommend the main lines, and in varying degree the content, on which governments could base their development programs and devise supporting policies. The survey missions did not attempt to draw up plans themselves. Nor were the missions presenting official Bank recommendations; they were teams sponsored by and organized by the Bank, but not of the Bank. In recent years, the general survey mission technique has been replaced by somewhat more flexible and sometimes more specific economic advisory missions, for example, the 1965 mission to advise on the reorganization of agriculture in Spain, carried out in collaboration with the FAO. To a limited extent the Bank has seconded staff as resident advisers or provided outside consultants on specific matters of technique, policy, or organization. To carry out sector and feasibility

studies outside consultants have invariably been employed, under the overall supervision of Bank technical staff. In some cases these studies are financed in part by Bank grants. To an increasing extent, however, they are financed by the United Nations Development Program (UNDP) which was established specifically to finance "pre-investment" studies.[1] For those sectors in which it has particular competence, the Bank supervises studies on behalf of the UNDP, that is, acts as the "Executing Agency." At the end of 1967, the Bank was supervising 25 studies on behalf of the UNDP; as compared with 12 studies for which the Bank was providing financial assistance directly.

The accession to membership of recently independent African countries led to the establishment in 1965 of two resident groups of transport and agricultural specialists, one based on Abidjan for Western Africa and one on Nairobi for Eastern Africa. These men have no responsibility for current Bank operations and are thus wholly free to help members identify and prepare projects likely to be acceptable for Bank or IDA financing. The assistance is of added importance in the French speaking countries which have both a language problem in working with the Bank and are generally less familiar with its approach and requirements. What might be regarded as the latest extension of the Bank's technical assistance takes it beyond a formerly self-imposed limit into the provision of help in project management. A special instance is the Agricultural Development Service in Eastern Africa, a

1/ As of April 7, 1966, the Bank, in agreement with the UNDP, limited its grants for sector and feasibility studies to $200,000. Studies requiring larger amounts are referred to the UNDP or may in certain cases be financed through Bank loans or IDA credits.

pool of former practising agricultural officers and administrators of substantial local practical experience available for employment for various periods to manage agricultural projects, not necessarily limited to those financed by the Bank or IDA. The Bank's function here is essentially to select and underwrite men with executive and managerial experience by offering them the assurance of employment under contract with the Bank during periods between field assignments.

A basic problem, common to all organizations providing technical assistance, is to find good people. As a long run response and the only satisfactory one, the Bank has over the years operated various training programs, largely concentrated since 1956 in the Bank's Economic Development Institute which offers resident courses in French and Spanish as well as in English for senior officials, and those destined to be senior officials, both on general development planning and administration and on project evaluation. By the end of 1967, about 750 officials from 100 countries had passed through these courses.

The direct cost to the Bank of technical assistance and training activities[1/] is of the order of $6 million a year, a little under a fifth of its total administrative expenses. This, however, considerably understates the total staff and consultant involvement, for often the detailed reshaping or elaboration of projects has been an integral part of the process of making loans and credits.

While technical assistance is commonly thought of in terms of underdeveloped countries, the Bank has, since 1959, engaged in a role that aims to serve both capital exporting and importing countries. This

1/ classified in the published financial statements of the Bank as "Services to Member Countries."

is the coordinating role exerted through the meetings, discussions and other periodic contacts with representatives of donor governments and other international agencies concerned with the provision of development finance to particular countries. The common thread is the attempt to bring about the more effective application of aid from various sources and the provision of aid on terms that take account of the recipients' economic position and prospects. The Bank acts as chairman of the so-called Consortia for India and Pakistan, the consultative groups and less formal aid clubs and provides staff support in the form of presenting an economic analysis of the recipient countries' possibilities, problems and degree of self-help, keeping the scorecard of aid committed and disbursed, and preparing consolidated lists of projects seeking finance or help in the form of studies. Among the various donors and agencies the Bank tries to bring about a broad consensus on the diagnosis of a country's problems and possibilities, in the light of which they can take their individual decisions. In working with the recipient country, the Bank tries to help in its presentation of the case for finance, but at the same time the Bank also tries to bring into the open the policy, organizational or administrative obstacles that may limit the effectiveness both of its own lending and that of the other sources of aid represented in the group.

IV. FINANCING THE BANK AND IDA

From the $726 million which the Bank had in hand in 1947, the cumulative total of resources available for lending had reached $9.7 billion by December 31, 1967. This total was composed of funds from five sources, being, in order of magnitude: borrowings, about

$3.4 billion; sales of loans out of portfolio, about $2 billion; usable capital subscriptions, about $1.9 billion; repayments of principal, about $1.4 billion; and net income from operations,more than $900 million Table 6 gives the figures for each source from fiscal year 1947 through 1967. The Bank had to rely mainly on its own 2% and available 18% of capital until 1951. These funds have increased at an annual rate of somewhat less than 5%, compared with an average increase in total Bank resources of more than 13%. Between 1956 and 1958, sales of the Bank's bonds and notes doubled and since 1958, borrowings have been the single most important component of the Bank's lending resources. From 1948 to 1967 borrowings have increased at an average annual rate of nearly 15%, although this rate has slowed appreciably in recent years. For example, the average annual increase in net borrowings has only been about 6% over the last five years.

The key capital market to break into, certainly initially, was the United States, but in 1947 the United States market was virtually closed to the Bank, either by investor distrust or legislative restrictions which barred institutional investors from acquiring World Bank bonds, or both. Since 1947, the Bank has maintained an intensive program designed to acquaint investors and officials with its activities, to persuade them of the merits of the Bank's bonds, and to obtain legislative changes in all the States required to qualify its bonds for institutional investment. Perhaps the single most important step forward was taken in 1949 when the U.S. Congress enacted legislation which in effect amended the National Bank Act and the Bretton Woods Agreements Act, the first permitting national banks and state member

TABLE 6

IBRD Funds Available for Lending
(cumulative totals in millions of dollars)

Fiscal Year	Net Borrowings	Sales of Loans	Usable Subscriptions	Repayments of Principal	Income from Operations	Gross
1947	-	-	727	-	(0.9)	726
1948	254	-	735	-	4	993
1949	254	28	746	-	15	1,043
1950	261	28	750	-	28	1,067
1951	325	31	761	-	43	1,160
1952	500	56	829	11	62	1,458
1953	556	71	867	13	82	1,589
1954	777	103	901	16	105	1,902
1955	852	200	942	139	130	2,263
1956	850	272	1,072	162	159	2,515
1957*	1,078	329	1,210	187	195	2,999
1958*	1,704	420	1,355	219	236	3,934
1959*	1,937	569	1,498	261	282	4,547
1960*	2,124	811	1,626	338	342	5,241
1961*	2,303	1,013	1,651	438	408	5,813
1962*	2,528	1,332	1,656	543	476	6,535
1963*	2,524	1,605	1,690	655	558	7,032
1964	2,492	1,778	1,705	773	605**	7,353
1965*	2,742	1,885	1,763	909	667**	7,966
1966	2,806	1,967	1,808	1,075	732**	8,388
1967*	3,309	2,035	1,855	1,263	892**	9,354
1968* (Dec.31)	3,440	2,066	1,861	1,376	952	9,695

* Includes delayed deliveries in US dollars and undrawn notes in Deutsche Mark.

** Less transfers to IDA as follows: $50 million in 1964, $75 million in 1965, $75 million in 1966 and $10 million in 1967.

December 31, 1967.

banks of the Federal Reserve System to deal in and underwrite securities issued by the Bank up to 10% of their unimpaired paid-in capital stock and unimpaired surplus, provided the securities are at the time eligible for purchase by national banks for their own account. Pursuant to a ruling by the U.S. Comptroller of the Currency, Bank bonds are eligible for purchase by national banks for their own account up to 10% of their capital and surplus and are also eligible as security for U.S. Government deposits. The amendment to the Bretton Woods Agreements Act affords securities issued or guaranteed by the Bank the same general treatment under the Securities Act of 1933 and the Securities Exchange Act of 1934 as U.S. Government state and municipal bonds. As a result of this legislation, U.S. banks have helped considerably in developing markets for Bank bonds, serving both as underwriters and as distributors. This federal action, in addition to state legislation, has qualified Bank bonds as legal investments for commercial banks, savings banks, life insurance companies, other insurance companies and trust funds nearly everywhere in the United States.

To avoid being unduly dependent on any one source of funds and to broaden its international character, the Bank has consistently sought to develop sources of funds, both dollar and non-dollar, in other capital markets. The sale of Bank bonds denominated in U.S. dollars has been assisted by exemption from U.S. taxes for holders of World Bank dollar bonds who are non-resident aliens or foreign corporations. The Bank has been able to float 61 bond and note issues denominated in U.S. dollars, resulting in original borrowing of over $4.8 billion, of which 32 issues amounting to $2.4 billion were still outstanding at the end

of 1967. Forty-four per cent of the dollar issues currently outstanding at that time were held outside the United States. In addition to dollar bond issues, the Bank had been able to float 50 issues in other currencies, with a total original amount of about $1.17 billion, of which 37 issues amounting to nearly $780 million were still outstanding at the end of 1967. Of these 50 issues, 19 were in Swiss Francs, 15 in Deutsche Mark, 6 in Canadian Dollars, 4 in Netherlands Guilders, 3 in Pounds Sterling and 1 each in Belgian Francs, Italian Lire and Swedish Kronor.

All bonds and notes issued by the Bank are its direct obligations. They are not secured by a pledge of a specific asset and bonds and notes state that they are not an obligation of any government. All bonds contain a provision to the effect that the Bank, with a minor exception, will not pledge any of its assets to secure other debts, unless the bonds share pro-rata in such a pledge. Also, many outstanding bond issues of the Bank contain sinking fund provisions pledging the Bank to purchase or redeem bonds for sinking fund purposes. Holders of Bank obligations do not generally enjoy exemption from tax on interest paid to them. However, with respect to U.S. taxation, as mentioned above, holders of World Bank dollar bonds are exempt from income tax if they are not nationals or residents of the United States or a corporation organized under laws other than U.S.

Sales of portions of loans out of portfolio, generally sales of early maturities to banks, represent in cumulative terms the second most important source of loanable funds. Through 1950, most of these obligations were sold with the Bank's guarantee. However, since then, sales have been made without recourse to the Bank and are thus bought on the credit of the borrower. The decision not to attach the Bank's own

guarantee was motivated not only by the wish to avoid marketing problems for the Bank arising from the simultaneous availability of direct and guaranteed obligations, but also by the belief that non-guaranteed sales would help to build up direct links between borrower and capital market and encourage investor interest in foreign securities.

As can be derived from Table 6, sales out of portfolio reached a peak of $319 million in 1963 and fell to $68 million in fiscal year 1967, reflecting the fact that interest trends were unfavorable to sales of Bank loans bearing the generally lower interest coupons obtaining in prior years.

As shown in Table 2, disbursements on Bank loans are increasing. They reached a high of nearly $800 million in 1967, or a level of nearly 18% above that of 1966. In addition, the number of development projects available for financing is rising. Thus the Bank's ability to raise increasing amounts of funds particularly through its two most important sources - borrowings and sales out of portfolio - was becoming increasingly important at the same time that capital markets had tightened, in terms of volume as well as cost.

Unlike the Bank, IDA is dependent on capital provided by governments, particularly the Part I countries. At the end of 1967 IDA had 98 member countries; 18 Part I and 80 Part II. The 18 Part I countries provided their entire initial subscription, $751 million, in convertible currencies freely available to IDA for its lending operations. The Part II countries provided 10%, or about $25 million, of their initial subscriptions in convertible currencies, for the unrestricted use of IDA. In addition, certain Part II countries, Iceland, Ireland, Israel, Jordan, Mexico, Panama, Spain and Yugoslavia, had made available for lending all or part

of their 90% portion, a total of $18 million. Thus the basic subscriptions provided IDA with a total of $794 million available for lending. This amount was supplemented by a first round of replenishment, beginning in 1964, by Part I countries ($745 million) and by six special supplementary contributions ($28 million) from Sweden. The Board of Governors of the Bank boosted the available resources of IDA further by agreeing to transfers to IDA out of the Bank's net income of $50 million in 1964, $75 million in 1965 and $75 million in 1966, raising IDA's funds by a total of $200 million. Lastly, IDA's own total net income to June 30, 1967, amounted to about $14 million. Thus, by June 30, 1967, the total financial resources available to IDA were $1,781 million, against which $1,694 million had been committed.

IDA was virtually out of uncomitted funds by the end of 1967. Discussions among Part I member governments on the scale and possible conditions of a second replenishment of IDA were still inconclusive. To the $87 million which remained uncommitted as of June 30, 1967,the Bank had added only $10 million by transfer from its net earnings for fiscal year 1967, compared to $75 million in the previous years. The decision to transfer no more than $10 million from the Bank to IDA in turn reflected the judgement of the President and Executive Directors that prudence required the retention in the Bank's own business of virtually the whole of its net earnings. That judgement was all the more striking when set against the fact that 1967 net earnings, at $188 million, had been the highest ever.

V. STOCKTAKING

Over the last twenty years, the Bank's operations have passed through what can now be seen as fairly distinct phases, the volume of lending climbing to a new plateau every four to five years, encouraging, perhaps, belief in the inevitability of progress. In one sense, the establishment of IDA may be identified with one of these phases in that it enabled the Bank to extend the range of its operations by making possible the blending of Bank and IDA funds. And IDA itself extended the range of countries in which the Bank Group as a whole could operate.

During 1967, however, the Bank faced a new and in some respects perplexing situation, while the scale and conditions on which IDA would be replenished remained still unsettled at the year end. The problem for the Bank was how to maintain itself on the plateau already reached, rather than how to reach for higher ground; raising adequate funds at reasonable cost had become a major preoccupation for virtually the first time since the Bank's earliest days. An institution that may have come to assume too readily that its strength lay in unrestricted access to private capital was being sharply reminded of its dependence on market conditions. The Bank was also made sharply aware of the extent to which it was dependent on the benevolence of the governments that controlled access to their national capital markets.

Negotiations to replenish IDA and to arrange bond issues for the Bank had been taking place in what was widely conceded to be a deteriorating climate for foreign aid. For a number of important donor countries, charity again began at home. The gross volume of official aid was stagnating; with a growing share of the total being eaten up by debt

service, the net inflow was in fact declining. And that, to the frustration of the developing countries, was happening at a time when their past homework in project preparation was finally bearing fruit in a lengthening list of loan and credit applications.

Against that background of lost direction, the then President of the World Bank, George D. Woods, had called for a grand assize[1/] to pass in review the whole spectrum of development finance, in the belief that such a review would reaffirm its success, would point to what more could be done, and would lead both to positive attitudes and enlightened support.

To pass the Bank itself in review, to talk in terms of its success or failure, would beg the question of what the Bank should be, and could be. The Articles established the Bank to finance reconstruction, for which it proved unsuited: did the Bank prove any better at financing development, for which it was not specifically designed?

Development financing calls for a wide range of lending, on an equally wide range of terms and conditions. Even as reinforced by IDA and the IFC, the Bank Group covers only part of the financing spectrum. It is moreover, in terms of volume, often little more than marginal.[2/] The range of countries to be covered is, again, very wide. No two of them are quite alike in potential and need, capacity and drive. For no two of them does economic development occupy quite the same position in their scale of values. That diversity in itself poses a particular problem for an institution which, by its international cooperative nature, must try to act equitably and should

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1/ in a speech to The Swedish Bankers Association in Stockholm on October 27, 1967.

2/ See Table 7.

TABLE 7

Total official bilateral[1] and multilateral[2] net capital flows by Region

1960-65 (in millions of dollars)

	EUROPE 1960-64 Annual Average	EUROPE 1965	AFRICA 1960-64 Annual Average	AFRICA 1965	AMERICA 1960-64 Annual Average	AMERICA 1965	ASIA 1960-64 Annual Average	ASIA 1965	OTHER 1960-64 Annual Average	OTHER 1965	TOTAL 1960-64 Annual Average	TOTAL 1965
Bilateral total[3]	437.9	356.2	1523.4	1484.6	673.7	837.1	2330.0	2771.1	275.5	321.1	5240.6	5770.1
Multilateral total[4]	8.1	79.7	144.7	224.4	126.2	157.7	168.1	417.8	19.4	11.9	466.4	891.5
Of which:												
IBRD	4.5	48.2	56.7	47.9	113.5	113.7	71.3	95.1	-	-	246.0	304.9
IFC	0.7	1.3	1.9	4.8	6.7	1.1	1.6	3.4	-	-	10.9	10.7
IDA	- 3.1	10.6	- 5.5	6.0	- 7.2	15.9	22.9	237.5	-	-	7.2	270.0
Bank Group Total	2.1	60.1	53.1	58.7	113.0	130.7	95.8	336.0	-	-	264.1	585.6
GRAND TOTAL	446.0	435.9	1668.0	1708.9	800.0	994.8	2498.1	3188.9	294.8	333.0	5706.9	6661.6
Bank Group Contribution:-												
% of total	0.5%	13.8%	0.3%	0.3%	14.1%	13.1%	3.9%	10.5%	-	-	4.6%	8.9%
% of total multi-lateral	26%	75%	37%	26%	90%	83%	57%	81%	-	-	57%	66%

Totals may not add beacuse of rounding.

1 Net of loan repayments

2 Net of loan repayments, grants and capital subscriptions and net of official purchases of bonds etc. by less developed countries

3 Includes aid from Australia, Austria, Belgium, Canada, Denmark, France, Germany, Italy, Japan, Netherlands, Norway, Portugal, Sweden, Switzerland, Uk and US

4 Includes IBRD/IDA/IFC, IDB, ADB, EEC, UN.

Source: OECD - The flow of financial resources to less developed countries
IBRD

certainly be seen to act so. And what may be the right course in one situation may prove to be an uncomfortable precedent in another.

Discussions of the Bank Group's role in development financing do not always take account of this diversity. There is moreover a practical dilemma: what may be right is not always possible and what may be possible is rarely wholly right. Broadly speaking, there are two possible lines of approach: to lend for projects or to lend for programs, that is, to base financing on the capital needs of a development plan as a whole and not, as in project lending, on some of the pieces.

To the lender obliged to seek ready justification and accountability for his loans, project financing is undeniably a comfortable approach. The results are often tangible. The lender can hope (and in the last analysis can only hope, for too many elements escape appraisal or control) that the tangible will be translated into a sustained improvement in welfare, that when the project is completed and paid for the country will be better off in some sense than before. From the point of view of the borrower, the balance sheet is less attractive. His priorities may have to be adapted to suit the requirements, sometimes conflicting, of the various sources of finance. He is faced with a whole series of individual negotiations, and he has probably too few competent negotiators: he has little control over the timing of his lenders' decisions and may have immense difficulty in gearing them to his own. At no time, or very rarely, can he feel that financing is assured either across a wide enough field or for long enough ahead.

The fundamental limitation on the effectiveness of project lending is that, although investment consists of projects, (in the sense of

discrete decisions that have to be executed within some organizational framework, be it ministry or enterprise), investment does not consist only of projects. It certainly does not consist only of projects considered eligible by outside lenders and donors. There are in addition expenditures which are not identifiable as projects, or may not be readily identifiable at all. Moreover, total capital requirements include one, often crucial, non-project item, namely debt service. Project financing, no matter how well conceived and executed, will thus always be incomplete as a means of financing development.

The rational alternative is to base financing on total capital requirements, to be a program lender, supporting a development plan as a whole for a period of years ahead. Most, if not all of the financing problems then disappear, at least for the borrower. For the World Bank itself to engage in program lending would, moreover, seem to be consistent with the emphasis that it has placed on improving planning techniques and the technical assistance that it has provided in this area. Program lending would also seem the answer to the reproach that picking out the good projects for external financing frees domestic resources for the bad ones. In practice, however, program lending also has to take account of certain limitations. Some of them, at least for the lender with an eye to accountability, are likely to be crippling.

Many countries are, unfortunately, too little in command of their own destinies for any plan, no matter how well conceived, to allow them adequate foresight, still less control, and their attempts to press ahead regardless have been just as frustrating as not looking where they were trying to go. The possibility of reducing uncertainty, through commodity stabilization schemes or proposals to offset fluctuations in

external receipts, certainly demands urgent exploration. But to the extent that measures to reduce uncertainty permit, or depend on, more effective planning, the problems of the planner take on still greater importance.

Medium-term plans and their relevance to development decisions (and hence to development aid decisions) have come under critical review in recent years. For example, a study carried out over the last seven years, under the direction of Albert Waterston of the Bank's staff, of the actual experience of well over 100 countries[1] suggests strongly that plans in practice have only too often had remarkably little impact on the course of development. The reasons have been various. Some plans outran their basic data. Others had methodological weaknesses, or they were too abstract, products of Don Quixotes in a world of Sancho Panzas. Rather commonly the planners and their plans operated in an administrative and budgetary vacuum. In short, few of the plans examined had been, indeed in many cases could have been, translated into effective and coherent action.

Waterston concluded that a great part of the time and effort spent on medium-term planning would have been better spent on preparing specific, relatively short-term, sectoral programs, supported by detailed project preparation and cast in terms that could be related directly to budgetary practice and foreign aid decisions. This might perhaps be a comforting conclusion for the project lender; it is not. For if there are strong arguments for shifting the emphasis to work on sectors and projects, and particularly for stressing the need for solid content, some frame is still required within which sectoral programs can be

1/ See: "Development Planning: Lessons of Experience" John Hopkins Press, 1965.

confronted and brought into some kind of balance with each other. Some rational basis is still needed to help in decisions about what must be cut or deferred to take account of the total of resources, domestic and foreign, likely to be available. But to argue that frames of some kind are highly desirable does not resolve the difficulties of constructing them, nor does it do away with the substance in Waterston's position.

Those engaged in development finance are unavoidably forced back to a pragmatic approach, adapted to each individual situation. Intellectually, basing development finance decisions on a judgement about the merits of a plan or a broadly-based program would be much more satisfying than basing it on pieces only. But all too often it is only the pieces that one can get hold of. The more adequate a country's plan and the more competent its management of the economy, the greater the opportunity for well-integrated project financing and for defining projects sufficiently comprehensively that they at least approximate to sector programs. The greater the possibility, too, of pinning down a plausible order of magnitude for the non-project capital gap. The weaker the plan, and a country's managerial ability, the narrower the project has to be defined for it to be manageable.

Development finance is in fact the art of the possible. Development lenders must urge their economists, whether broad development economists or project and sector specialists, to sharpen still further the tools of their analysis. At the same time, the economists themselves, and those who depend on them, must be constantly alert to the limitations of their art. One is tempted to say that economic development is too important to be left to economists. For if investment is more

than the sum of projects, development is in turn more than the sum of development plans. And in international development finance, as in domestic credit, one cannot push with a piece of string. Governments, regional and international institutions thus have to make the best use of the weapons they have, facing up to the particular set of constraints under which they must operate, whether these be political, parliamentary, commercial or financial.

In the case of the World Bank, the basic constraints are threefold: its Articles of Agreement, the scrutiny of its bondholders, and its responsibility to stockholders not to make actual their contingent liability for its obligations. All conspire to favor maximum accountability in the use of loan proceeds and hence loans for specific purposes. All start from the assumption that a sound project lies at the heart of every sound loan. To argue that the Bank should ignore these constraints in order to be more effective as a lender is to forget that the Bank was established to perform what still remains a vital function, that of promoting the flow of private capital. Its constraints arise basically from that function. However unwelcome investor habits or inhibitions may be regarded, the Bank should not, and cannot ignore them at a time when, as a borrower, its reliance on private institutional investors is greater than ever.

Given its own set of constraints, where does the World Bank find its place in the spectrum of development financing? It is perhaps inevitable that the Bank, seeing itself as the oldest of the international development finance institutions, should sometimes be tempted to assume that it does, or that it could, do anything better than anyone else. Because it has the widest membership among financing institutions,

there is also a danger that it will spread itself too thinly, for its staff resources cannot expand indefinitely and its financial resources, certainly in the immediate future, hold it on a tight rein. The Bank has thus to steer a course between self-satisfaction and diffusion of aim, focussing its efforts on what it does best.

What the Bank can in fact do best is what its constraints require it to do, that is finance projects. The Bank can lay claim to reasonable competence in the league of project lenders. From its early days it has employed and surrounded itself with solid technical and financial talents; its contribution to project financing has been strengthened substantially as increasing emphasis has been laid on building up competent organizations in borrowing countries to construct and manage projects. More attentive economic work has reduced the uncertainty in the selection of priorities and brought better articulation among projects.

As the concept of projects has broadened and the technique of project lending improved, so has the value increased of what is perhaps the Bank's particular contribution to development finance, namely the provision in one package of finance and assistance in applying finance effectively. However, the Bank's comparative advantage as a project lender certainly does not extend to all types of project in all countries. It is greatest in those cases where what is required is to bring into common focus a number of disciplines, technical, financial and economic, and where the arithmetic of these disciplines plays a dominating role in investment decisions. Where social factors, tradition and inter-country relationships must play a major role in decisions, where action is

required on many fronts at the same time, where intuition must stand in for computation, then the comparative advantage passes decisively to regional and national institutions.

Given that even good project lending is incomplete as development financing, the Bank should continually explore the scope for association with others in the development field who operate under different constraints and thus may be able to complement the Bank's own action. Conversely the Bank should examine from time to time where it may be well-equipped to complement the action of others.

In this association with other lenders, the Bank can on occasion play a pivotal role as a result of being the major source of untied, multilateral aid, even when the amount of its own lending is not decisive. That is when Bank participation in financing a project together with bilateral lenders has made it possible for the borrower to award construction and equipment contracts on the basis of full international competitive bidding, despite the fact that the greater part of the financing available was in the form of tied loans. The borrower used the tied loans to finance contracts that had been placed in the lenders' own countries, knowing that the proceeds of the untied Bank loan could be used to finance those contracts to be placed in countries from which no bilateral financing was available.

The consortia and consultative groups offer another opportunity for possible complementarity. In so far as staff work by the Bank enables donor countries to find common ground for their individual decisions, each may take more constructive action, whether on financing or technical assistance, than might have been taken in isolation. In designing its own lending program, the Bank can similarly take account

of what other donors intend. It can moreover urge on them, with varying success, modifications in the terms and applications of aid required to bring total financing by the members of the group as a whole somewhat closer in practice to what would ideally be required.

The principal opportunity for complementing the action of the Bank would, seem, however, to lie within the Bank Group itself, for, whereas IFC has had a distinctive role from the beginning, IDA, at least up to the end of 1967, has been little more than the cheap-money window of the World Bank. Initially, it may well have been essential for IDA to behave in the image of the Bank. Doubting legislatures had to be persuaded that development finance on soft terms and give-away programs were not necessarily synonymous, that support for IDA was, indeed, not charity but hard sense. The Part I governments, which contributed to IDA, had been promised businesslike administration of their money: soft loans, not soft projects, as Eugene R. Black was fond of putting it. The Part II countries, the borrowers from IDA, on the other hand, had been offered finance "on terms which are more flexible and bear less heavily on the balance of payments than those of conventional loans, thereby furthering the developmental objectives of the International Bank for Reconstruction and Development ... and supplementing its activities"1/. Although the stress may have been on the attenuation of debt service burdens, the notion of supplementing was clearly meant to be important, for the Association was authorized to finance "any project of high developmental priority"2/, an appreciably broader charge than was given to the Bank.

1/ Articles of Agreement of the Association, Art. I.
2/ Articles of Agreement of the Association, Art. V, Sec. 1(b).

In the words of the authors, "projects such as water supply, sanitation, pilot housing and the like are eligible for financing, although it is expected that a major part of the Association's financing is likely to be for projects of the type financed by the Bank.1/

At times it has looked as though IDA would strike out on its own. It has, in a sense, pioneered, in school building, water supply and sewage projects, for example. In practice, however, IDA had merely shown the Bank that the ice was thick enough and the Bank followed in due course. The creation of IDA had stimulated a review of what the Bank could properly finance; it had not resulted in a role for IDA distinct from that of the Bank, other than that of operating in countries unable to borrow on conventional terms. To talk of an "IDA project" or a financing operation that might be distinct from a "Bank project", remained heretical. But IDA is not subject to the same constraints as the Bank. The Articles themselves give IDA more latitude than it has taken. The second replenishment exercise, which may enable IDA to operate at up to twice the level of 1965-67, would offer the opportunity to develop IDA as more than merely an additional source of finance. In many situations, it may still be necessary and appropriate for IDA to operate as the poor man's World Bank, To the extent that IDA can in fact supplement the Bank, by reaching into areas where the Bank cannot easily follow, the Bank Group will be able to act over a range and with a flexibility that neither IDA nor the Bank alone can match.

The Bank itself, as foundation piece of the World Bank Group, can reconcile its role as a financial mechanism designed to mobilize private

1/ Report to the Executive Directors on the Articles of Agreement, para. 14.

capital with that of an effective development institution, provided it concentrates its efforts and is constantly alive to its limitations. What is crucial is for the Bank, its friends and critics, to recognize that, at any given time, it has a finite set of functions as an international institution; it should neither try to be, nor be expected to be, the universal development aunt.

TABLE 8

IBRD Membership, Voting Power and Subscriptions

Member	Voting Power (% of total)	Subscription (in millions of dollars)
Afghanistan	.21	30.0
Algeria	.41	80.0
Argentina	1.56	373.3
Australia	2.18	533.0
Austria	.83	186.7
Belgium	1.86	450.0
Bolivia	.18	21.0
Brazil	1.56	373.3
Burma	.25	40.0
Burundi	.16	15.0
Cameroon	.17	20.0
Canada	3.19	792.0
Central African Republic	.14	10.0
Ceylon	.42	82.7
Chad	.14	10.0
Chile	.46	93.3
China	3.03	750.0
Colombia	.46	93.3
Congo (Brazzaville)	.14	10.0
Congo (Democratic Republic of)	.33	60.0
Costa Rica	.14	10.7
Cyprus	.16	15.0
Dahomey	.14	10.0
Denmark	.77	173.3
Dominican Republic	.15	13.3
Ecuador	.16	17.1
El Salvador	.14	10.7
Ethiopia	.14	10.0
Finland	.62	133.3
France	4.20	1,050.0
Gabon	.14	10.0
Gambia, The	.12	5.3
Germany	5.10	1,280.0
Ghana	.28	46.7
Greece	.36	66.7
Guatemala	.14	10.7
Guinea	.17	20.0
Guyana	.16	16.0
Haiti	.16	15.0
Honduras	.13	8.0
Iceland	.16	15.0
India	3.22	800.0
Indonesia	.96	220.0
Iran	.60	128.6
Iraq	.35	64.0
Ireland	.43	85.3
Israel	.47	95.9

/...

IBRD Membership, Voting Power and Subscriptions
(continued)

Member	Voting Power (% of total)	Subscription (in millions of dollars)
Italy	2.70	666.0
Ivory Coast	.17	20.0
Jamaica	.22	32.0
Japan	3.12	772.6
Jordan	.16	16.3
Kenya	.23	33.3
Korea	.19	25.0
Kuwait	.36	66.7
Laos	.14	10.0
Lebanon	.13	9.0
Liberia	.18	21.3
Libya	.17	20.0
Luxembourg	.17	20.0
Malagasy Republic	.17	20.0
Malawi	.16	15.0
Malaysia	.62	133.3
Mali	.16	17.3
Mauritania	.14	10.0
Mexico	.91	208.0
Morocco	.47	96.0
Nepal	.14	10.0
Netherlands	2.25	550.0
New Zealand	.75	166.7
Nicaragua	.13	8.0
Niger	.14	10.0
Nigeria	.36	66.7
Norway	.72	160.0
Pakistan	.88	200.0
Panama	.13	9.0
Paraguay	.12	6.0
Peru	.35	63.5
Philippines	.56	117.3
Portugal	.41	80.0
Rwanda	.16	15.0
Saudi Arabia	.47	96.0
Senegal	.23	33.3
Sierra Leone	.16	15.0
Singapore	.22	32.0
Somalia	.16	15.0
South Africa	.93	213.3
Spain	1.14	266.7
Sudan	.33	60.0
Sweden	1.04	240.0
Syrian Arab Republic	.25	40.0
Tanzania	.23	33.3
Thailand	.49	101.3
Togo	.16	15.0

/...

IBRD Membership, Voting Power and Subscriptions
(continued)

Member	Voting Power (% of total)	Subscription (in millions of dollars)
Trinidad & Tobago	.20	26.7
Tunisia	.21	30.0
Turkey	.55	115.0
Uganda	.23	33.3
United Arab Republic	.65	142.1
United Kingdom	10.26	2,600.0
United States	24.91	6,350.0
Upper Volta	.14	10.0
Uruguay	.21	28.0
Venezuela	.83	186.7
Viet-Nam	.26	42.7
Yugoslavia	.51	106.7
Zambia	.31	53.3
	100.00	22,913.6

107 countries in all

January 15, 1968

TABLE 9

IBRD Debt Outstanding and Interest Expense
(in millions of dollars)

End of Fiscal Year	Dollar Debt	Other Currencies	Total Debt	Annual Interest Cost Amount	Annual Interest Cost Per Cent
1948	250.0	4.0	254.0	6.2	2.4
1949	250.0	4.0	254.0	6.8	2.7
1950	250.0	10.6	260.6	6.8	2.6
1951	300.0	24.6	324.6	7.2	2.2
1952	450.0	49.9	499.9	11.8	2.4
1953	500.0	56.4	556.4	16.2	2.9
1954	665.0	111.7	776.7	20.6	2.7
1955	705.0	46.6	851.6	26.0	3.1
1956	695.0	255.2	850.2	26.5	3.1
1957	832.7	200.8	1,033.6	29.6	2.9
1958	1,458.4	200.0	1,658.4	47.3	2.8
1959	1,591.2	313.9	1,905.2	64.6	3.4
1960	1,689.5	383.5	2,073.0	75.6	3.6
1961	1,699.4	529.0	2,228.5	86.2	3.9
1962	1,900.3	619.9	2,520.8	97.1	3.8
1963	1,899.3	619.9	2,519.2	101.8	4.0
1964	1,884.6	607.2	2,491.8	100.7	4.0
1965	1,996.1	727.9	2,724.0	105.5	3.9
1966	2,070.7	735.3	2,805.9	116.0	4.2
1967	2,308.2	767.0	3,075.2	128.7	4.4
1968 (Dec. 31)	2,424.9	777.9	3,202.8	72.6	4.6

December 31, 1967.

TABLE 10

IBRD - Borrowings

Currency of Issue	Total: No. of Issues	Total: Original Amount	Now outstanding: No. of Issues	Now outstanding: Amount
		million $		million $
US Dollars	61	4,824.2	32	2,424.9
Belgian Francs	1	10.0	1	10.0
Canadian Dollars	6	111.0	4	75.7
German Marks	15	622.7	10	398.5
Italian Lire	1	24.0	1	24.0
Netherlands Guilders	4	47.0	4	32.3
Pounds Sterling	3	48.0	3	35.7
Swedish Kron r	1	14.5	1	14.5
Swiss Francs	19	291.4	13	187.2
	111	5,992.8	69	3,202.8

December 31, 1967

FOURTH MAXWELL INSTITUTE ON
THE UNITED NATIONS
Bretton Woods, New Hampshire
August 27 - Sept. 1, 1967

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

J. H. Williams*

INTRODUCTION

It is not mere sentiment or deference to "founding fathers" that makes one look back to the discussions and decisions here of 23 years ago. Much is made of the foresight of the Bank's founders; it is sometimes useful to reflect on their hindsight. In their twenties and thirties, these men had lived through the economic consequences of the peace. In their thirties and forties, they had lived through the baffling collapse of a venerated system of trade and payments, and with it the disruption of international capital markets. The structure of the World Bank, as well as its basic operating policies, were inevitably shaped, in many respects decisively, as much by the preoccupations of its founders with the world that they had lived through as by their view of the world in which they expected the Bank to live. The story of the Bank is in turn much concerned with the fact that it has had to operate in a world that was, in the event, rather different and that some, at least, of these early preoccupations have lost their relevance or been replaced by others.

When the conference convened at Bretton Woods, the war had yet to be won: Allied troops were fighting in Normandy and were about to land on Guam. A third of the countries represented had been occupied or suffered war damage. It was also true that roughly half of them were in default on public or private debt. The United States, which had done so much of the preparatory work for the conference, was the only source of capital of any substance and, while not alone, had the widest recent experience of default on foreign loans. American public funds were heavily engaged in financing the war; it was a haunting thought that they might be called on to finance the peace as well.

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* Although the author is a member of the Bank's staff, the views expressed in this paper are his own and not necessarily those of the Bank.

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When the conference convened at Bretton Woods, the war had yet to be won: Allied troops were fighting in Normandy and were about to land on Guam. A third of the countries represented had been occupied or suffered war damage. It was also true that roughly half of them were in default on public or private debt. The United States, which had done so much of the preparatory work for the conference, was the only source of capital of any substance and, while not alone, had the widest recent experience of default on foreign loans. American public funds were heavily engaged in financing the war; it was a haunting thought that they might be called on to finance the peace as well.

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The need for an institution to provide or facilitate long-term financing was not in dispute. The proposals for the Bank did not on the whole raise issues of the same level of complexity as the Fund, nor issues in such sharp contention. Many questions of organization and management were resolved first for the Fund and then were adopted or adapted for the Bank. The focus of discussions on the Bank was inevitably on reconstruction; development was perhaps mainly conceived in terms of financing public works and utilities. The basic assumption behind the majority view was that, if the Fund had to rely exclusively on government funds to bring stability to the foreign exchanges, the main burden of financing investment, whether the investment itself was public or private, should and could be borne, as in the past, by private capital. The Fund was designed to perform a new function: the Bank to restore an old function. Reconstruction indeed meant first of all clearing the channels and reviving the flow of private capital.

By private capital was meant capital for portfolio investment. The central purpose of the Bank was thus to give portfolio investors convincing assurances that foreign investment could be safe. To restore the international flow was both a positive and a defensive aim. Quite apart from a belief in its virtues or confidence in its capacity, private capital would, it was hoped, if not remove, at least greatly reduce, the need for government-to-government loans, the history of which had not been uniformly happy for either party. It followed that if the Bank were to encourage and complement the flow of private capital, it should not compete with or displace it. Not only the Articles of Agreement, but also simple prudence, required the Bank to abstain from lending if other funds were available on reasonable terms, for the Bank could not do business with those whose business it was taking away.

Restoration, however, was not enough; whether the Bank made loans from the proceeds of its own bond issues or, as was expected to be its main business, guaranteed private loans, it was crucial that the loans themselves should not again contain the seeds of default. The restrictions imposed by the Articles of Agreement on loans made or guaranteed by the Bank are an implicit analysis of what was believed to have gone wrong, seen both from the side of the creditors and that of the debtors. Loans were not to finance budget deficits or go into monetary reserves to support credit creation; they were to finance the creation of real assets, not paper assets. Real assets were, moreover, to be productive, with priority given to projects that were the most useful and urgent. This meant that, as a matter of normal practice, loans were to cover only the foreign exchange costs of projects and only exceptionally to finance

expenditures in local currency. The Bank was to ensure that the proceeds of loans were applied only to the purposes for which they were made and drawn down only to meet expenses as they occurred. Interest rates and repayment schedules were to be appropriate to the project. More broadly, the Bank was to act prudently, paying due regard to the prospects for repayment. It was required to base its decisions on considerations of economy and efficiency without regard to political or other non-economic influences or considerations. Similarly, the Bank was implicitly enjoined not to make loans to the commercial advantage of a particular member; explicitly, the proceeds of its loans were not to be tied to purchases from any given member country.

All these provisions were designed to make the Bank a sound lender and, it was hoped, an acceptable and constructive lender. They have, by and large, achieved the first. We shall consider later to what extent thay have achieved the second. To make the Bank a solid borrower or guarantor required, certainly in the absence of a satisfactory lending record, a strong equity base and substantial underwriting of its obligations. These considerations led to a financial structure which provided the Bank with government funds in the form of share capital, part paid in with which to start operations and a much larger part on call to provide intergovernmental guarantees for its own borrowing or guarantee operations. Direct government guarantees to international loans were not unique. What was unique was an international organization in which governments as shareholders, subscribing in rough proportion to their economic strength, underwrote its financial risks up to the limit of the unpaid balance of each of their capital subscriptions.

In the end, the borrowing and lending policies of the Bank are but opposite sides of the same coin. What part a good lending record plays in the judgment of investors in Bank bonds has never been determined. It must be assumed that adequate coverage by uncalled capital continues to be essential; the Bank has never thought it safe to assume that it is decisive. At no time therefore has a President of the Bank felt free to ignore investor reaction to the way the Bank is making loans. At no time, on the other hand, has a President of the Bank failed to argue with investors that charity begins abroad.

Hindsight gave assurance to the founders that what had happened before would not happen again, at least not in the same way. It is, I think, fair to argue that the directives and restrictions of the

Articles, and the lending policies derived from them, have thus far helped to keep the Bank itself out of serious trouble. But what is interesting has been the need to adapt to situations generally not foreseen. And what is challenging are the strictures of those who argue that keeping out of trouble is not enough.

The principal factors that were not, or could not have been, foreseen were, I think, six in number. First, of only transitory importance, private capital was quite unsuited to the task of reconstruction and what could be mobilized was wholly inadequate. To be fair, no one at Bretton Woods pretended to know how much capital would be required or might be forthcoming. There were, too, considerable differences on the relative claims of reconstruction and development. So far as the British were concerned, the question was largely academic, for they were preparing the way for a very large U. S. government loan, which made them consider that they at least would not be an early client of the Bank. Within a few years, the Marshall Plan had left the Bank's role in reconstruction an illuminating but rapidly fading phase in its history.

Secondly, private portfolio investment after the war was concentrated to an unprecedented degree on the operations of institutional lenders and considerable time and effort was to be required not only to overcome legislative obstacles to their lending abroad but also to create in them a willingness to consider doing so.

Thirdly, the view of the Bank as a channel for private portfolio investment was too restrictive. On the supply side, private capital prepared to go abroad was increasingly in the hands of direct investors, rather than of portfolio investors. On the demand side, industrial investment often called for more flexible financing than the straight-term loans of the Bank could satisfy. The Bank's statutory requirement for government guarantees for loans to non-governmental borrowers also proved too restrictive for industrial lending, inhibiting either the guarantor governments or private borrowers, or both, from recourse to the Bank. Rather than reopen the argument about its own Articles of Agreement, the Bank's response was the establishment in 1956 of the International Finance Corporation (IFC), to act as a catalyst for direct investment through partnership with private investors and to provide flexible financing that did not require government guarantees and eventually extended to equity participations and underwritings.

Fourthly, the founding fathers enjoined the Bank to pay due regard to the capacity of borrowing countries to repay. While interest rate policy was left to the Bank to work out, there was probably a greater expectation that terms could and would be more adaptable to hard cases than proved to be so. The implicit requirement that the Bank remain solvent necessarily geared the interest rates and terms of its lending to its borrowing and the Bank could borrow in the market only at commercial or "conventional" rates. It is doubtful that anyone seriously contemplated the extent to which countries would again build up intolerable levels of debt

long before their needs for external capital were met or would have such limited savings capacity and growth potential that they would have no creditworthiness in the first place. The Bank's own response to this situation was the establishment in 1960 of the International Development Association (IDA).

Fifthly, the founders did not allow for the fact that even the original membership of the Bank included countries that could not determine, and still less demonstrate, the utility and urgency of projects for which they were seeking loans. Technical assistance finds no place in the Articles of Agreement, yet has proved both an essential adjunct to Bank lending and an important service to its member countries.

Finally, the most powerful impact, both on the Bank as an institution and on the context in which it has to operate, has been the membership explosion, above all since 1960. Like any population explosion, this has sharply affected the average age of its members, the balance of their needs and the urgency of their ambitions. It has put the Bank more than ever in the business of trying to show countries what they should borrow for and then helping them to borrow. It has raised in acute form the adequacy of earlier estimates of capital requirements. It has raised in equally acute form the question of what part of these needs the Bank and IDA can or should try to meet and how the Bank can cooperate effectively with other sources of development finance.

The irony of Bretton Woods is that, even if the Bank had had funds on the scale required, financing reconstruction, which was most discussed, would have been virtually impossible within the directives and limitations on loans and guarantees laid down in the Articles. Yet these same limitations have underlain the whole of its subsequent lending operations for development, which was least discussed. The Articles established the Bank as a financial institution. Did they thereby limit its effectiveness as a development institution?

The following sections review the financial and organizational structure of the Bank, the changes that have taken place in its membership, the evolution of the Bank's operations and how they have been financed. These sections are somewhat summary, for there is much detailed information on most of these matters in the Annual Reports. The Paper concludes with some comments on the present situation and some of the unresolved issues. In this paper IFC is touched on only incidentally as necessary to a discussion of the Bank itself. IDA is dealt with largely as a parallel source of loanable funds, under the same administration and direction as the Bank, although with a certain number of ground rules of its own. There is a continuing question as to how far the existence and operations of IDA may have affected the Bank itself. This is touched on at a number of points.

II. CAPITAL STRUCTURE, MEMBERSHIP AND ORGANIZATION

The World Bank is a corporation owned wholly by government stockholders; in spirit, perhaps, it is an international cooperative. The authorized capital stock is subscribed by member countries roughly in porportion to their economic strength, the formula applied being derived from that of the International Monetary Fund, membership of which is a prior condition of membership in the Bank. Unlike the IMF, the size of a member's subscription has no bearing on the amount that it may borrow; rather, it determines the extent of the member's liability for the obligations of the Bank.

The Articles of Agreement fixed the initial capital stock at $10 billion and divided the subscription of each member into three parts - 2% payable in gold or U. S. dollars, which could be used without restriction for lending, and 18%, also available for lending, but payable in the member's own currency and usable only with the agreement of the member concerned. This agreement has, in a number of important cases, carried with it the convertibility of the member's currency as required by the Bank in its operations. The remaining 80% of the Bank's capital stock is subject to call only as and if required by the Bank to meet its obligations on borrowings and guarantees. As has already been noted, the original expectation was that the guarantees afforded by the shareholders to the Bank would enable the Bank in turn to guarantee private loans, whereas in fact, the Bank's obligations have in ~~part~~ the main consisted of its own borrowings.

In 1958, when the total funded debt of the Bank approached $2 billion, the Bank's shareholders agreed to double the authorized capital stock and in addition to provide some margin for subscription by new members. In the following year the capital stock was accordingly increased to its present level of $21 billion. Since the object was to enhance the Bank's borrowing capacity, the whole of the increase, that is, both the parts corresponding to the 2% and 18% of initial subscriptions and the 80% part, was made subject to call only when required to meet the Bank's obligations. The increase thus did not in itself result in any direct addition to the Bank's loanable funds, although the occasion was used to adjust some initial contributions, e.g. that of the Federal Republic of Germany, which was seen in retrospect to have been disproportionately low.

Of the 44 countries represented at Bretton Woods, 41 joined shortly afterwards. Of these, Poland, Czechoslovakia and Cuba have ceased to be members, and Indonesia withdrew temporarily in

1966. In the first ten years, the Bank gained 22 additional members, ten of them from Asia. In the following ten years, membership jumped by nearly two-thirds, mainly since 1960, the largest single group consisting of 29 newly independent countries from Africa.

The increase in membership, particularly in recent years, has brought into the Bank a majority in numbers, if not in voting power, of countries newly independent. It is generally true that the most recent members have been among the poorest, the least able to finance any significant part of their own development and, in many cases, the least well endowed with administrative and executive capacity. There has thus been an important, what one might call qualitative, shift in the Bank's membership and with it a marked shift in needs to borrow and ability to borrow that are being reflected across the whole spectrum of the Bank's activities.

Table 1 gives a snapshot of the Bank's membership by broad areas in each of the years 1947, 1958 and 1967, classifying countries in rough and ready fashion by income groups and showing the relative voting power of the various areas. Since voting power is closely related to the size of subscriptions to capital stock (each member having 250 votes, plus one additional vote for each $100,000 of subscription), the increase in membership, by being concentrated on countries with relatively small subscriptions, has consequently modified, rather than radically changed, the distribution of voting power. In 1947, the European and North American countries cast 74% of total votes; in 1967, although they made up 20% of the membership, they still retained 62% of the total voting power. The addition of 61 members from Asia, Africa and the Middle East between 1947 and 1967, by contrast, increased the voting strength of those continents from just over 15% to 26%. The addition of 33 countries since 1947 from Africa alone resulted in an increase in African voting power by less than 6%.

When IDA was established in 1960, membership was open only to members of the Bank and initial subscriptions were proportionate to subscriptions to the Bank's capital stock. However, the de facto division within the Bank's membership between developed and less developed countries was made explicit, since two classes of IDA members were distinguished, Part I and Part II, and, again unlike the Bank, there were correspondingly two forms of subscription. Part I countries (initially 15, now 18) were required to make an initial subscription of 23% of their total subscription, with the balance in four equal annual instalments. All funds paid in were to be in convertible currencies and fully available for lending. The Part I countries were not eligible for credits from IDA: they are contributors only. Part

TABLE 1

IBRD - Changes in Membership and Voting Power, 1947-1967

Region	1947					1958					1967				
	No. of members	No. by estimated per capita income category			Voting power of Region	No. of members	No. by estimated per capita income category			Voting power of Region	No. of members	No. by estimated per capita income category			Voting power of Region
		0-$250	$250-$750	over $750			0-$250	$250-$750	over $750			0-$250	$250-$750	over $750	
Africa	3	2	1	-	2.34	7	6	1	-	3.64	36	19	15	2	9.17
Asia	3	3	-	-	11.66	13	11	2	-	17.18	16	13	3	-	14.17
Australasia	1	-	-	1	2.41	1	-	-	1	2.03	2	-	-	2	2.94
Central and S. America	18	6	11	1	8.39	20	7	12	1	9.35	22	7	14	1	8.38
Europe	14	1	2	11	35.72	17	1	2	14	33.54	19	1	4	14	39.19
Middle East	4	3	1	-	1.51	7	6	1	-	2.22	9	6	2	1	2.95
N. America	2	-	-	2	37.97	2	-	-	2	32.04	2	-	-	2	28.20
TOTAL	45	15	15	15	100.00	67	31	18	17	100.00	106	46	38	22	100.00

II countries, to whom IDA may make credits, are limited contributors. Only 10% of their subscriptions is payable in convertible funds, half initially and the balance again spread over four years. The 90% of the Part II members' subscription is paid in the members' own currencies and may not be used without the members' consent.

The Articles of Agreement vest all powers in the Board of Governors, as its general assembly of stockholders, meeting once a year, but available for consultation by mail or telegraph. The Board is composed of one governor from each member with an official alternate. With certain exceptions, the Board is authorized to delegate, and has in fact delegated, its powers to the Executive Directors. The principal exceptions are the admission or suspension of members, changes in capital stock and the allocation of the net income of the Bank.

There are at present 20 Executive Directors, of whom five are appointed by the five largest shareholders (United States, United Kingdom, France, Germany, and India) and 15 elected by the remaining members. Each has an alternate. Executive Directors are elected or appointed for terms of two years; they have offices in, and hold their meetings at the Bank's headquarters in Washington. The Executive Directors elect the President of the Bank who acts as their chairman.

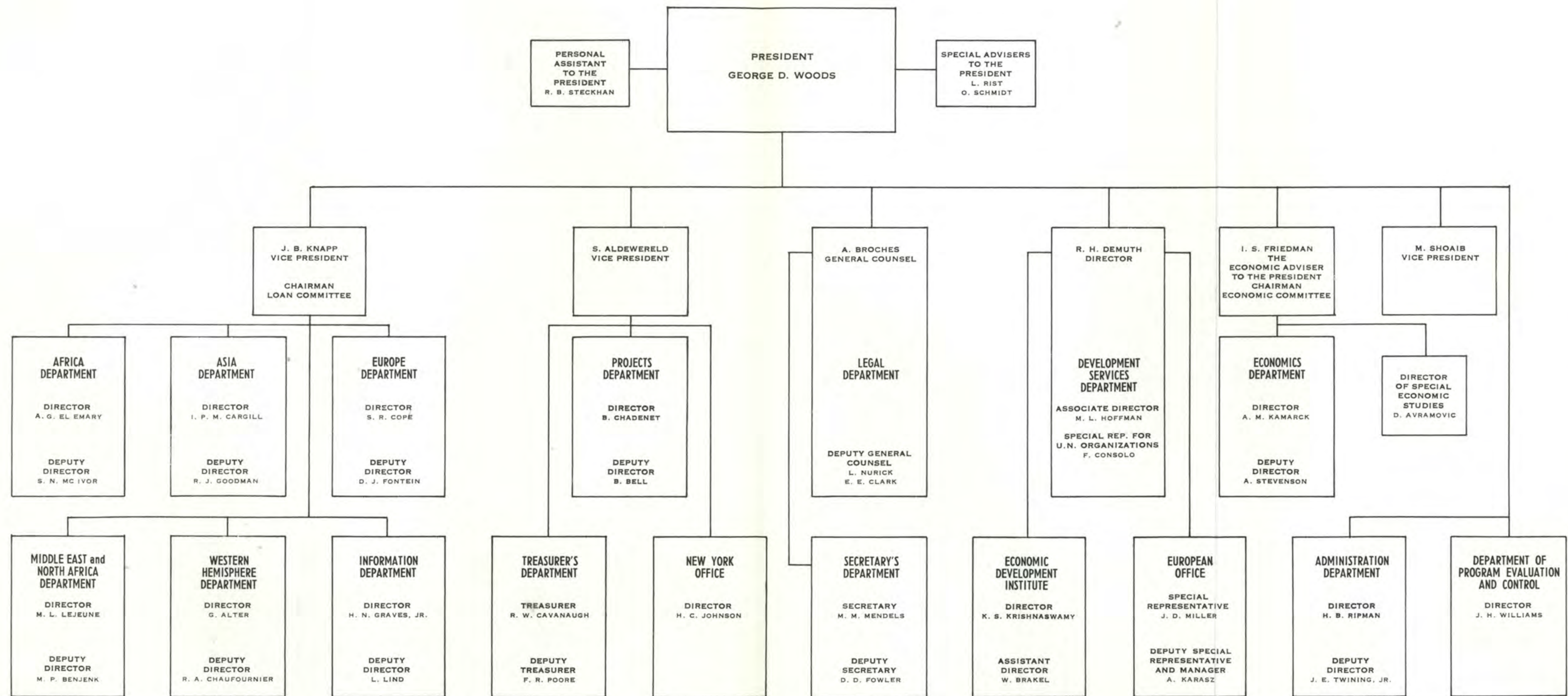
The President is head of the operating staff of the Bank and is responsible for all appointments to it. A chart setting out the basic organization of the staff is attached. The Bank has currently about 1500 regular staff members on strength (against an authorized strength of 1608), of which roughly half are classified as "professional". The staff is recruited from 72 different countries. While there has been a steady and deliberate increase in the number of nationalities represented on the staff, there are no national quotas. The increase in staff over time has rather closely followed the increase in the number of operations. This is less indicative of a failure to improve staff utilization than might appear at first sight, given that operations have not only grown more complex but also more difficult and time consuming. The proportionately greater number of projects coming forward from less developed countries calls for greater assistance at an earlier stage in their preparation and often closer attention to their execution.

The only basic change in organization over the last twenty years has been concerned with the conduct of lending operations. Prior to 1952, a single Loan Department grouped all staff responsible for relations with members and negotiating loans together with the technical and financial staff responsible for evaluating projects ~~and subsequently supervising their execution~~. All economists, whether

International Bank for Reconstruction and Development

International Development Association

ORGANIZATION CHART



JUNE 23, 1967

working on country studies, specialists in particular branches of economics or engaged in research, were grouped with the statistical staff in the Economics Department. A loan decision required a favorable judgment by the Loan Department as to the loan and project and a green light from the Economics Department on the creditworthiness of the borrowing country. In 1952, the component parts of the Loan and Economics Departments were broken up into a Technical Operations (later Projects) Department, a number of separate Area Departments and an Economics Department. The Projects Department absorbed all staff--engineers, financial analysts, and specialist economists--engaged in project evaluation and subsequent supervision. Loan Officers and country economists went into the Area Departments, and the Economics Department became responsible essentially for supporting research work and statistical services.

The effect and intent of the reorganization was twofold. In the first place, responsibility for judgments about the merits of individual projects was deliberately divorced from responsibility for judgments about the desirability of lending, or not lending, to particular countries or borrowers. Secondly, the responsibility for economic work on countries was brought together with all other elements involved in arriving at lending policies and programs for the countries concerned. Of these two effects, the first has been by far the most crucial. Divorcing project responsibility from country and borrower responsibility built into the internal organization of the Bank a limitation on the possibility that a defective or inadequately prepared project would be pushed through because there were felt to be overriding considerations arising out of the Bank's relations with a particular country. Conversely, a project could not be pushed through merely because it was fascinating. The Bank thus protected itself simultaneously against the technocrat and the diplomat.

While the benefits to the Bank itself of this division have a hidden cost in accentuating problems of coordination at the working level and securing consistency, each subsequent review of the organization has concluded that, on balance, the costs were worth bearing. The key coordinating mechanism is the Loan Committee, under the chairmanship of the senior Vice President and reporting to the President, supplemented by an Economic Committee which is responsible for coordinating the economic work of the Bank and recommending on the economic policy issues entering into the Bank's operational decisions.

The establishment of the International Finance Corporation in 1956 meant, in the first instance, the creation of a separate invest-

ment and legal staff alongside the Bank; the Administration and Treasurer's Departments of the Bank serve the same functions for IFC.Some years later, the President of the Bank, who is also President of IFC, consolidated in the IFC responsibility for the appraisal and supervision of all industrial projects, whether financed by the Bank or IFC. IFC has thus a dual function, namely to invest its own funds and to perform the same function in the industrial sector as the Projects Department of the Bank continues to perform for the Bank in public utility, transport, agriculture and education projects. IFC may perform both roles simultaneously, typically in the case of development finance companies, in which IFC participates in the equity for its own account and cooperates with the appropriate Bank departments in arranging a Bank loan.

The creation of the International Development Association had no direct organizational impact on the Bank. Although the Articles of Agreement left open the possibility, IDA has no staff distinct from that of the Bank, whose officers and staff, as do the Executive Directors, serve in the same capacity for IDA. By increasing the volume of funds and widening the range of countries with which the Bank Group could do business, the creation of IDA did, however, lead to a marked increase in the number of individual operations, and to a rapid increase in total staff. In particular, it brought about a substantial increase in staff working on agricultural projects and, with a policy decision in 1961 to broaden the range of eligible sectors both for the Bank and for IDA, on education. The creation of IDA was also responsible, at least in part, for a decision some three years ago to build up the Economics Department and to strengthen the economic work of the Bank Group more generally.

Since IDA has no staff of its own and the President, Executive Directors and officers of the Bank all double in brass, it may be asked what point there was in juridically separating IDA from the Bank. The answer is in essence that there was substantial concern at the time about the possible adverse effect on the Bank's market image of its being seen to make soft loans. IDA was created as a separate institution only to preserve the chastity of the Bank.

Although the Part I countries are common to the Bank and IDA and have virtually the same representation on the Executive Board of both institutions, there is a subtle difference in their attitude towards the Bank and IDA. This perhaps reflects the difference between, on the one hand, the attitude of shareholders whose major financial concern is the size of their contingent liability for the Bank's obligations and, on the other hand, that of governments which have to provide funds directly from their national budgets.

The difference has been reflected in a somewhat more direct concern with the policy and administration of IDA than with the Bank. Since the two institutions are so closely entwined, interest in the policy and administration of the Bank itself has possibly been stimulated in its turn.

III. THE EVOLUTION OF BANK OPERATIONS

The Bank opened for business in mid-1946, and the following twelve months it was faced with applications amounting to more than $2 billion and for loans for development projects of about $500 million. Available for lending was $730 million from paid-in capital subscriptions. Even though two bond issues which the Bank was able to float in the U. S. market brought total loanable funds to nearly a billion dollars, it was apparent at an early date that the Bank could not handle the financial needs of reconstruction. Inadequacy of funds posed a troublesome problem of rationing (France, for example, applied for $500 million and received $250 million, with the possibility of a second tranche being left in the air). In the event, only four reconstruction loans were made, totalling just under $500 million. The Bank also found out that as a matter of financing techniques it was not equipped to make reconstruction loans, the essence of which was to provide an injection of foreign exchange to rebuild inventories and replace a wide range of damaged or exhausted plant and equipment. It was also of the essence that funds be disbursed quickly. Setting up and administering the loans was difficult because the need for speed ran into statutory requirements for justifications, economic studies, itemizing expenditures and accounting for the use of the loan proceeds. The Bank was equipped, or came to be equipped, to investigate and finance projects: it was not designed to finance international shopping lists.

In taking over reconstruction finance with the flexibility and on the scale required, the Marshall Plan resolved the Bank's private dilemma and left it free to concentrate at its own pace on the task of opening up capital markets, securing greater freedom to employ its own paid-in capital and making loans for specific purposes in less developed countries. The Bank also gained time to build up a staff and devise an organization suited to its needs.

The Bank's volume of lending has grown considerably if somewhat unevenly over its twenty-year history. Average annual lending amounted to about $225 million through 1953. It increased to about $380 million during the following four years and increased again to about $670 million for the period ending in 1963. Since 1963 Bank lending has averaged nearly $890 million, reaching a peak of $1,023 million in 1965 and falling back to $877 million in 1967. The decline in regular lending

TABLE 2

IBRD - Loans Signed and Disbursements

Fiscal Year	Number of Loans	No. of countries involved	Amount million $	Disbursements million $
1947	1	1	250.0	92.0
1948	5	4	263.0	378.0
1949	10	4	137.1	56.2
1950	12	9	166.3	87.9
1951	21	11	297.1	77.6
1952	19	16	298.6	184.8
1953	10	9	178.6	226.8
1954	26	16	323.7	302.3
1955	20	14	409.6	274.2
1956	26	20	396.0	283.9
1957	20	15	387.9	332.4
1958	34	18	710.8	498.7
1959	30	19	703.1	582.6
1960	31	21	658.7	543.9
1961	27	20	609.9	398.5
1962	29	19	882.3	485.4
1963	28	19	448.7	620.4
1964	37	28	809.9	558.9
1965	38	27	1,023.3	605.7
1966	37	27	839.2	668.4
1967	47	33	876.7	790.4
	508		10,670.6	8,049.0

Note: Totals may not add because of rounding.

is in fact sharper than this figure suggests since the total includes the $100 million loan to IFC. The average size of a Bank loan has remained just over $20 million throughout the period, ranging from $252,000 (Iceland) to $130 million (Mexico), excluding the $250 million reconstruction loan to France. Lending to Europe has been a relatively constant proportion of total lending throughout the twenty-year period, although there has been a marked shift from the more developed countries to the less developed Mediterranean periphery. There was a moderate rise in lending to countries in Africa, beginning in the early 1950's, from an annual average of about $60 million to an average of over $100 million beginning about 1960. Bank lending to Asia experienced a pronounced increase from an average of about $50 million in the early 1950's to about $250 million beginning in the late 1950's. Lending to countries in the Western Hemisphere increased steadily from an average of about $60 million during the period 1948-1950 to an average in recent years of nearly $300 million a year. For the twenty years as a whole, Asia has received over 33% of Bank loans, followed by nearly 28% for the Western Hemisphere, 20% for Europe, 13% for Africa and 5% for Australasia.

By the end of June 1967, the Bank had made over 500 individual loans and had committed about $10 billion, of which about $8 billion had been disbursed and $1,263 million had been repaid. The overall distribution among broad sectors has remained remarkably constant. Of total commitments, about 35% were for electric power and 35% for transportation, consisting for the most part of highway and railroad projects but including also ports, waterways, air transport, oil and gas pipelines. Half of the remaining 30% has been lent for development of industry and mining. Agriculture has received about 8% of total Bank lending. The remainder went into water supply, education and more general development financing. There is also included in the grand total an intra-Bank Group transaction, a $100 million line of credit to enable IFC to take over increasingly the role of lender to, as well as investor in, industrial enterprises on behalf of the World Bank Group.

Starting in May, 1961, IDA had committed total credits of just over $1,694 billion in 109 separate operations up to June 30, 1967. As emerges from Table 5, both the geographical and sector distribution of IDA credits has tended to differ rather markedly from that of Bank loans. Only 5% and 6% of total credits have gone to Europe (TURKEY) and the Western Hemisphere respectively, but 14% to Africa and 75% to Asia and the Middle East. "Asia and the Middle East" in practice means in very large degree India (53%) and Pakistan (19.5%). While IDA and the Bank have made credits and loans to the same sectors, and

TABLE 3

IBRD - Loans by Purpose
(cumulative totals in millions of dollars)

Purposes	Amounts
Reconstruction	496.8
Electric Power	3,588.9
Transportation	3,445.9
Communications	128.2
Agriculture & Forestry	802.4
Industry	1,596.7
General Development	205.0
Water Supply	52.2
Education	24.3
Project Preparation	1.7
International Finance Corporation	100.0
TOTAL	10,442.1

Note: The figures are rounded and are net of cancellations, refundings and terminations totaling $228,446,486.

June 30, 1967

TABLE 4

IBRD Loans by Region
(total annual amounts in millions of dollars)

Year	Europe	Africa	Asia	Middle East	Western Hemisphere	Australasia	Total
1947	250.0	-	-	-	-	-	250.0
1948	247.0	-	-	-	16.0	-	263.0
1949	28.0	-	-	-	109.1	-	137.1
1950	32.5	-	62.5	12.8	58.5	-	166.3
1951	27.9	58.5	25.4	-	85.3	100.0	297.1
1952	91.2	98.0	30.5	-	78.9	-	298.6
1953	34.3	14.0	51.0	-	29.3	50.0	178.6
1954	56.9	60.0	54.2	-	98.6	54.0	323.7
1955	149.0	24.0	59.1	-	123.0	54.5	409.6
1956	40.0	115.2	138.7	27.0	75.1	-	396.0
1957	120.6	19.8	63.1	75.0	50.1	59.2	387.9
1958	99.3	112.0	378.7	-	120.8	-	710.8
1959	102.0	110.6	282.0	82.0	136.5	-	703.1
1960	69.0	182.7	168.9	103.7	134.4	-	658.7
1961	55.0	27.9	351.0	27.5	148.5	-	609.9
1962	32.0	85.3	219.5	25.0	420.5	100.0	882.3
1963	90.0	32.7	157.3	43.0	125.2	-	448.7
1964	129.1	91.3	257.2	18.5	273.5	40.3	809.9
1965	292.5	123.0	355.0	40.5	212.3	-	1,023.3
1966	90.0	141.0	141.0	30.0	374.7	62.5	839.2
1967	40.8	106.3	299.4	48.0	282.3	-	776.8
	2,077.15	1,402.2	3,094.2	533.0	2,952.8	520.5	10,570.6 *

*In addition, the Bank made a $100 million loan to the International Finance Corportation in fiscal year 1967

Note: Totals may not add because of rounding.

TABLE 5

IDA Credits by Purpose and Area
(cumulative totals in millions of dollars)

Purpose	Total Credits		Africa		Asia and Middle East		Europe		Western Hemisphere	
	million $	% of total	million $	% of total	million $	% of total	million $	% of total	million $	% of total
Grand Total	1,694.2	100	235.7	14	1,269.2*	75	80.6	5	108.7	6
Electric Power	108.2	6	-	-	67.5	62	25.7	24	15.0	14
Transportation	567.7	34	108.8	19	381.4	67	-	-	77.6	14
Telecommunications	74.8	4	-	-	74.8	100	-	-	-	-
Agriculture	283.4	17	41.4	15	208.9	74	20.0	7	13.1	5
Industry	501.3	29	-	-	466.4	93	34.9	7	-	-
Of which to DFCs:	39.8	2	-	-	4.9	12	34.9	88	-	-
Water Supply	43.8	3	1.1	3	39.7	90	-	-	3.0	7
Education	113.5	7	84.0	74	29.5	26	-	-	-	-
Engineering	1.5	-	0.5	33	1.0	67	-	-	-	-

*Of which $889.1 million to India and $331.0 million to Pakistan.
DFCs = Development Finance Companies

June 30, 1967

transportation has taken about the same share of both, the distribution among other sectors is rather different. Power and telecommunications have been of relatively minor importance; agriculture and education, not surprisingly, of greater importance than for the Bank, given the balance of need in countries particularly dependent on IDA. The category "Industry" in Table 5 is in minor part (2%) accounted for by IDA credits in support of development finance companies; the bulk (27%) is accounted for mainly by credits to India and Pakistan to purchase industrial spare parts and semi-finished products for local assembly, operations hitherto falling outside the general pattern of Bank lending and made in the context of Bank Group financing within the Consortia.

Bank loans are normally medium or long term, with principal repayments beginning at the end of a grace period, corresponding to the period of construction or, in the case of revenue-earning projects, to the end of the start-up period. In these latter cases, interest is frequently capitalized during the grace period. The full interest rate is charged only on the disbursed portion of the loan, a commitment charge of three-eighths of 1% being made on the undisbursed portion. Interest and principal payments are normally made in equal semi-annual instalments, although in some cases equal principal repayments are employed where there is a case for shortening the average life of a loan. In establishing the length of its loans, the Bank follows broadly commercial practice in relating the term to the estimated useful life of the equipment being financed or the cash flow of the borrower, with some extension if balance of payments considerations weigh heavily.

At an early date, and despite the freedom accorded to the Bank by the Articles and the expectation of many founders, the Bank applied a common interest rate policy to all borrowers at any given time. In recent years, the standard rate has varied within the limits of 4% and 6¼%; it is currently 6%. The rate is determined from time to time in the light of the cost to the Bank of borrowing, plus a margin to cover administrative expenses and build up reserves. An effort is made to keep the lending rate stable in face of what are expected to be short term fluctuations in market rates and to change only in line with the trend. An exception to the common policy for all borrowers has been made in the last two years with the application of higher rates for loans to countries with established international credit who could normally be expected to satisfy the bulk of their capital requirements by issuing their bonds. Charging higher rates to these countries is meant to avoid a situation in which they might be tempted to borrow from the Bank, because it was cheaper, rather than from the market, making the Bank their preferred lender and not their lender of last resort.

IDA was designed to enable the Bank Group to continue financing countries at the other end of the scale, countries whose low savings potential and weak balance of payments prospects, including heavy debt service, limited their capacity to borrow on conventional terms. In setting terms appropriate to these countries, IDA has pushed equal treatment a step further than the Bank, in that all development credits hitherto have been repayable over 50 years, with a grace period for the first ten years and repayments rising from 1% of principal in each of the second ten years to 3% of principal in each of the remaining 30 years. There is no commitment charge on the undisbursed balance; 3/4% a year is charged on all amounts drawn down.

The Bank Group can "blend" IDA credits in with Bank loans to moderate the cost to a country of borrowing from the Bank alone; it can also stretch out IDA funds in appropriate cases by blending in some proportion of Bank loans. In fact the possibility of blending has given the Bank Group a flexibility in arranging appropriate terms for lending that the Bank and IDA, in determining to treat all borrowers more or less alike, had each ruled out for itself alone.

The Bank has consistently preferred to lend whenever possible directly to the entity, be it public or private, that is responsible for project execution, taking the member government's guarantee if the borrower is other than the member government. In cases where the operating entity is constitutionally unable to borrow from the Bank, although otherwise financially autonomous, the Bank usually agrees with the borrowing member government on the conditions under which the loan proceeds are to be passed on and has frequently established a direct contractual relation with the operating entity on all project matters other than the loan itself.

IDA credits are made only to governments, and deliberately so, since the purpose is to provide cheap capital to the economy as a whole and not, so to speak, to subsidize particular enterprises, be they public or private, within that economy. For all except central government programs, therefore, it is common to find the proceeds of IDA credits relent on conditions approximating those at which other funds are available to the final beneficiary. In the absence of other guidelines, the same conditions as would have obtained for a Bank loan to the beneficiary are often applied.

The reason for lending directly to, or for arranging relending to, the operating entity is, of course, to obtain the closest possible association with the project financed. With quite few exceptions, the Bank and IDA have specialized as project lenders. As project lenders, they can lay claim to efficiency, in the sense that the projects financed have been built as intended and that difficulties which

arose in the course of their construction or operation have usually been resolved. The quality of project financing has progressively improved as increasing attention has been paid to actions required beyond the fringes of the project itself in the form of associated investment or policy changes required to assure a satisfactory economic return; the Bank staff continues to question itself about the validity of the criteria and methodologies applied at any given time. There is doubtless still a long way to go.

In response to this questioning, as to a growing awareness by the Bank of the needs of its members, not least of the new needs of its newest members, the sectors considered eligible have been extended in the course of time, to include education and domestic water supply for example. Similarly, the definition of projects has been widened to include "tranches" of a broad sectoral program and packages of different but mutually supporting activities. The first is typical of the approach to large transport rehabilitation or expansion projects, which may embrace a large number of individual contracts for civil works, plant and material, and may include in addition finance for studies required to define the balance and content of subsequent phases. The second is typical of the current approach to agricultural projects, which initially tended to concentrate heavily on civil engineering for large scale flood control and irrigation works, but which may now combine in a single operation finance for physical investment, equipment, breeding stock, credit and extension services. The concept of agricultural projects is being extended to include the cost of certain current inputs, notably fertilizer, the whole being clothed in a single project description for which there is a common objective and coordinated supervision or control of the whole by the borrower or its agencies.

As its center of operations moved progressively away from Europe, the Bank came to recognize with increasing force that effective lending required not only transfer of capital but also the mobilization and transfer of technical and managerial skills required to translate capital into investment. The mirror image, so to speak, of its endeavor to strengthen the basis of its own lending has been Bank assistance to member governments to identify projects and define priorities among them, by organizing and supervising expert studies of the soundness of projects for which financing is sought, and advising on the general development context in which they should be placed.

What might be called the classical forms of technical assistance by the Bank have been the planning advisory mission and the project and sector feasibility study. From 1949, starting with Colombia, until 1964 with Morocco, the Bank organized 25 survey missions, composed of

Bank staff and outside experts to make an analysis of economic potential and recommend the main lines, and in varying degree the content, on which governments could base their development programs and devise supporting policies. The survey missions did not attempt to draw up plans themselves. Nor were the missions presenting official Bank recommendations; they were teams sponsored by and organized by the Bank, but not of the Bank. In recent years, the general survey mission technique has been replaced by somewhat more flexible and sometimes more specific economic advisory missions, for example, the 1965 mission to advise on the reorganization of agriculture in Spain, carried out in collaboration with the FAO. To a limited extent the Bank has seconded staff as resident advisers or provided outside consultants on specific matters of technique, policy, or organization. Sector and feasibility studies have been uniformly carried out by consultants with the overall supervision of the Bank. Increasingly, the Bank has shifted the financial burden of these studies to the UNDP, for whom it is currently Executing Agency for 27 ~~11~~ studies, limiting its own direct financial contribution to those studies which the UNDP for one reason or another is not able to take up.

The accession to membership of recently independent African countries led to the establishment in 1965 of two resident groups of transport and agricultural specialists, one based on Abidjan for Western Africa and one on Nairobi for Eastern Africa. These men have no responsibility for current Bank operations and are thus wholly free to help members identify and prepare projects likely to be acceptable for Bank or IDA financing. The assistance is of added importance in the French speaking countries which have both a language problem in working with the Bank and are generally less familiar with its approach and requirements. What might be regarded as the latest extension of the Bank's technical assistance takes it beyond a formerly self-imposed limit into the provision of help in project management. A special instance is the Agricultural Development Service in Eastern Africa, a 15-man pool of former practicing agricultural officers and administrators of substantial local practical experience available for employment for various periods to manage agricultural projects, not necessarily limited to those financed by the Bank or IDA. The Bank's function here is essentially to select and underwrite men with executive and managerial experience by offering them the assurance of employment under contract with the Bank during periods between field assignments.

A basic problem, common to all organizations providing technical assistance, is to find good people. As a long run response and the only satisfactory one, the Bank has over the years operated various training programs, largely concentrated since 1956 in the

Bank's Economic Development Institute which offers resident courses in French and Spanish as well as in English for senior officials, and those destined to be senior officials, both on general development planning and administration and on project evaluation. Since 1956, about 750 officials from 100 countries have passed through these courses.

The direct cost to the Bank of what are classified for budgetary purposes as Services to Member Countries is of the order of $6 million a year, a little under a fifth of its total administrative expenses. This, however, considerably understates the total staff and consultant involvement in what is often the detailed reshaping or elaboration of projects that has become an integral part of the process of making loans.

While services to member countries are commonly thought of in terms of underdeveloped countries, the Bank has, since 1959, engaged in a role that aims to serve both capital exporting and importing countries. This is the coordinating role exerted through the Bank's chairmanship of the Consortia for India and Pakistan and the less formal consultative groups and aid clubs. The common thread is the attempt to bring about the more effective application of the aid from various sources committed to the individual countries concerned. The Bank acts as chairman and provides staff support in the form of presenting its own economic analysis, keeping the scorecard of aid committed and disbursed, and preparing consolidated lists of projects seeking finance or help in the form of studies. Through the Group, the Bank tries to bring about a broad consensus among the donors on the diagnosis of a country's problems and possibilities in the light of which they can take their individual decisions. Similarly, turning to face the recipient country, the Bank tries to bring into the open policy, organizational or administrative obstacles which limit the effectiveness both of its own lending and that of the other sources of aid represented in the Group.

IV. FINANCING THE BANK AND IDA

From the $726 million which the Bank had in hand in 1947, the cumulative total of resources available for lending had reached $9.35 billion by June 30, 1967. This total was composed of funds from five sources, being, in order of their current magnitude: borrowings, about $3.3 billion; sales of loans and of portfolio, about $2 billion; usable capital subscriptions, about $1.9 billion; repayments of principal, about $1.3 billion; and net income from operations, nearly $900 million. Table 6 gives the figures for each source from fiscal year 1947 through 1967. The Bank had to rely mainly on its own 2% and available 18% of capital until 1951. They have increased at an

TABLE 6

IBRD Funds Available for Lending
(cumulative totals in millions of dollars)

Year	Net Borrowings	Sales of Loans	Usable Subscriptions	Repayments of Principal	Income from Operations	Gross
1947	-	-	727	-	(0.9)	726
1948	254	-	735	-	4	993
1949	254	28	746	-	15	1,043
1950	261	28	750	-	28	1,067
1951	325	31	761	-	43	1,160
1952	500	56	829	11	62	1,458
1953	556	71	867	13	82	1,589
1954	777	103	901	16	105	1,902
1955	852	200	942	139	130	2,263
1956	850	272	1,072	162	159	2,515
1957*	1,078	329	1,210	187	195	2,999
1958*	1,704	420	1,355	219	236	3,934
1959*	1,937	569	1,498	261	282	4,547
1960*	2,124	811	1,626	338	342	5,241
1961*	2,303	1,013	1,651	438	408	5,813
1962*	2,528	1,332	1,656	543	476	6,535
1963*	2,524	1,605	1,690	655	558	7,032
1964	2,492	1,778	1,705	773	605**	7,353
1965*	2,742	1,885	1,763	909	667**	7,966
1966	2,806	1,967	1,808	1,075	732**	8,388
1967*	3,309	2,035	1,855	1,263	892**	9,354

* Includes delayed deliveries in US dollars and undrawn notes in Deutsche Mark.

** Less transfers to IDA as follows: $50 million in 1964, $75 million in 1965 and $75 million in 1966.

annual rate of somewhat less than 5%, compared with an average increase in total Bank resources of over 13%. Between 1956 and 1958, sales of the Bank's bonds and notes doubled and from 1958 onwards, borrowings have been the single most important of the Bank's resources. From 1948 to 1967 borrowings have increased at an average annual rate of nearly 15%, although this rate has slowed appreciably in recent years. For example, the average annual increase in net borrowings has only been about 6% over the last five years.

The key capital market to break into, certainly initially, was the United States, but in 1947 the United States market was virtually closed to the Bank, either by investor distrust or legislative restrictions which barred institutional investors from acquiring World Bank bonds, or both. Since 1947, the Bank has maintained an intensive program designed to acquaint investors and officials with its activities, to persuade them of the merits of the Bank's bonds, and to obtain legislative changes in all the States required to qualify its bonds for institutional investment. Perhaps the single most important step forward was in 1949 when the U.S. Congress enacted legislation which in fact amended the National Bank Act and the Bretton Woods Agreements Act, the first permitting national banks and state member banks of the Federal Reserve System to deal in and underwrite securities issued by the Bank up to 10% of their unimpaired paid-in capital stock and unimpaired surplus, provided the securities are at the time eligible for purchase by national banks for their own account. Pursuant to a ruling by the U.S. Controller of the Currency, Bank bonds are eligible for purchase by national banks for their own account up to 10% of their capital and surplus and are also eligible as security for U.S. Government deposits. The amendment to the Bretton Woods Agreements Act affords securities issued or guaranteed by the Bank the same general treatment under the Securities Act of 1933 and the Securities Exchange Act of 1934 as U.S. Government state and municipal bonds. As a result of this legislation, U.S. banks have helped considerably in developing markets for Bank bonds, serving both as underwriters and as distributors. This federal action, in addition to state legislation, has qualified Bank bonds as legal investments for commercial banks, savings banks, life insurance companies, other insurance companies and trust funds nearly everywhere in the United States.

To avoid being unduly dependent on any one source of funds and to broaden its international character, the Bank has consistently sought to develop sources of funds, both dollar and non-dollar, in other capital markets. The sale of Bank bonds denominated in U.S. dollars has been assisted by exemption from U.S. taxes for holders of World Bank dollar bonds who are non-resident aliens or foreign corporations. The Bank has been able to float 57 bond and note issues denominated in U.S. dollars, resulting in original borrowing

of over \$4½ billion, of which 31 issues amounting to \$2.3 billion were still outstanding on June 30 of this year. Forty-four per cent of the dollar issues currently outstanding are held outside the United States. In addition to dollar bond issues, the Bank has been able to float 48 issues in other currencies, with a total original amount of about \$1.15 billion, of which 36 issues amounting to nearly \$800 million are still outstanding. Of these 48 issues, 19 were in Swiss Francs, 14 in Deutsche Mark, 6 in Canadian Dollars, 4 in Netherlands Guilders, 3 in Pounds Sterling and 1 each in Belgian Francs and Italian Lire.

All bonds and notes issued by the Bank are its direct obligations. They are not secured by a pledge of a specific asset and bonds and notes state that they are not an obligation of any government. All bonds contain a provision to the effect that the Bank, with a minor exception, will not pledge any of its assets to secure other debts, unless the bonds share pro-rata in such a pledge. Also, many outstanding bond issues of the Bank contain sinking fund provisions pledging the Bank to purchase or redeem bonds for sinking fund purposes. Holders of Bank obligations do not generally enjoy exemption from tax on interest paid to them. However, with respect to U.S. taxation, as mentioned above, holders of World Bank dollar bonds are exempt from income tax if they are not a national or resident of the United States or a corporation organized under laws other than U.S. Sales of portions of loans out of portfolio, generally sales of early maturities to banks, represent in cumulative terms the second most important source of loanable funds. Through 1950, most of these obligations were sold with the Bank's guarantee. However, since then, sales have been made without recourse to the Bank and are thus bought on the credit of the borrower. The decision not to attach the Bank's own guarantee was motivated not only to avoid marketing problems arising from the simultaneous availability of direct and guaranteed obligations, but also by the belief that non-guaranteed sales would help to reacquaint investors with foreign securities.

As can be derived from Table 6, sales out of portfolio reached a peak of \$319 million in 1963 and fell to \$68 million in fiscal year 1967, reflecting the fact that interest trends have been unfavorable to sales of Bank loans. There is little expectation of any increase over present levels in sales, whether at the time a loan is made, or from portfolio in the foreseeable future.

As shown in Table 2, disbursements on Bank loans are increasing, They reached a high of nearly \$800 million in 1967, or a level of nearly 18% above that of 1966. In addition, the number of development projects available for financing is rising. Thus the Bank's ability to raise increasing amounts of financinal resources,

particularly through its two most important sources--borrowings and sales out of portfolio--becomes increasingly important at a time when capital markets have noticeably tightened, both in terms of volume as well as cost.

Unlike the Bank, IDA relies entirely on the capital subscribed and provided by its members, particularly by Part I countries. Its membership is currently composed of 97 countries; 18 Part I and 79 Part II. The 18 Part I countries have provided their entire initial subscription in convertible currency which is freely available to IDA for its lending operations ($751 million). Part II countries have provided 10% of their original subscription in convertible currencies, or about $25 million for the unrestricted use of IDA. In addition, Iceland, Ireland, Israel, Jordan, Mexico, Panama, Spain and Yugoslavia have released all or part of their 90% portion, a total of $18 million. Thus the basic subscription has provided IDA with a total of $794 million available for lending. This amount has been supplemented by a first round of replenishment, beginning in 1964, by Part I countries ($745 million) and by six special supplementary contributions ($28 million) from Sweden. The Board of Governors of the World Bank boosted the available resources of IDA further by agreeing to transfer to IDA out of the Bank's net income $50 million in 1964, $75 million in 1965 and $75 million in 1966, raising IDA's funds by a total of $200 million. Lastly, IDA's own total net income to June 30, 1967, amounted to about $14 million. Thus, by June 30, 1967, the total financial resources available to IDA were $1,781 million. But of this amount, $1,694 million have been committed, leaving a balance of only $87 million against which IDA can make new commitments before replenishment.

V. STOCKTAKING

Over the last twenty years, the Bank's operations have passed through what, in retrospect, can be seen as fairly distinct phases, the volume of lending moving up from one plateau to another, higher one, each four to five years, creating, perhaps, the belief that there must always be some new plateau ahead. The establishment of IDA itself represented a new phase for the Bank, for IDA did not only widen the range of countries that could be financed by the Bank Group but helped to avoid a possible reduction in the number of countries in which the Bank itself could operate. IDA credits provide in effect an equity base to support additional Bank lending on conventional terms.

In 1967, however, the Bank appears to be facing a new and somewhat perplexing situation. There is no immediate prospect of advancing to a new plateau; the problem is rather to stay on the

plateau already reached. The Bank finds itself, virtually for the first time since its earliest days, in acute competition for adequate funds at reasonable rates. An institution which may have come to assume that its strength lay in ready access to private capital has been reminded of its dependence on private capital, as well as on the support of those authorities who control its access to major capital markets. It is highly significant that, in a year in which net earnings are at the highest level yet, the President and Executive Directors have concluded that they should be ploughed back into the business almost entirely, to reduce the substantial sums which the Bank must borrow to refinance maturing obligations and to raise fresh money.

That the Bank should not prove immune to the general tightness of capital markets is a matter of particular concern to the Bank's members. On the one hand, past homework on project preparation is bearing fruit in a steadily lengthening list of loan and credit applications. On the other, the gross volume of official aid is stagnating. With an increasing proportion of total aid being eaten up by debt service, the net inflow is, indeed, shrinking.

It is thus a difficult moment at which to assess the Bank, as, too, it is a difficult moment for the Bank to consider its own course of action. It is virtually impossible at this time to assess IDA; for if the problems for the Bank are how to proceed and at what pace, IDA cannot make any substantial new commitments until its funds are replenished. At the worst, IDA would go out of business; at best, it would find itself able to make new commitments at more than double the previous rate, a change sufficiently large to raise a whole series of questions about its future role.

If the moment for assessment is difficult, so is assessment within a reasonable compass. The problem is to set the Bank in reasonable perspective, yet to talk about success or failure begs the question of what the Bank should be. To stay within bounds, I shall revert to what I might call the Bretton Woods paradox. The Articles established the Bank to finance reconstruction, for which it proved unsuited; has the Bank proved any better suited to finance development, for which it was not designed? This is, of course, to force the issue, but it does serve to focus attention on the nub of the matter, namely, what is the contribution of a project lender, which is essentially what the Bank has been and, I suspect, must remain, to development financing?

Or, to put it another way, does the nature of the Bank as a financial institution, obliged to make loans for specific and identifiable expenditures, limit its effectiveness as a development institution?

The short answer is, of course, yes. But that is not the whole answer. I shall argue that the Bank has to limit its role as a lender and that, at least in one major respect, it is vital that it do so. In short, I think it can be argued, certainly at this stage in the Bank's existence, that if it is urged, or itself tries, to do substantially more, it may in fact only achieve less.

Development financing calls for a wide range of lending, an equally wide range of terms and conditions. Even as reinforced by IDA and the IFC, the Bank Group covers only part of the financing spectrum. It is, moreover, in terms of volume, often little more than marginal.[1] The range of countries to be covered is, again, very wide. No two are alike in potential and need, capacity and drive. For no two of them does economic development occupy quite the same position in their scale of values. This diversity in itself poses a particular problem for an institution which, by its international cooperative nature, must be seen to act equitably. And what may be the right course in one situation may constitute an uncomfortable precedent for another.

Discussions of development financing do not always take account of this diversity. There is moreover a practical dilemma: what is right is not always possible and what is possible is never wholly right. Broadly speaking, there are two lines of approach that one can follow: to lend for projects or to lend for programs, that is, to base financing on a development plan as a whole and not on some of the pieces.

To a lender who is obliged to seek ready justification and accountability, project financing is undeniably a comfortable approach. The results are often tangible. The lender can hope (and in the last analysis he can only hope, for too many elements escape his appraisal or his control) that the tangible will be translated into a sustained improvement in welfare, that in some sense the country will be better off when the project is completed and paid for than before. From the point of view of the borrower, the balance sheet is less attractive. His priorities may have to be adapted to suit the requirements, sometimes conflicting, of the various sources of finance. He is faced with a whole series of individual negotiations, and he has probably too few competent negotiators: he has little control over the timing of his lenders' decisions and has immense difficulty in gearing them to his own. At no time, or very rarely, can he feel that financing is assured, either across a wide enough field or for long enough ahead.

1/ See Table 7.

TABLE 7

Total official bilateral[1] and multilateral[2] net capital flows by Region

1960-65 (in millions of dollars)

	EUROPE 1960-64 Annual Average	EUROPE 1965	AFRICA 1960-64 Annual Average	AFRICA 1965	AMERICA 1960-64 Annual Average	AMERICA 1965	ASIA 1960-64 Annual Average	ASIA 1965	OTHER 1960-64 Annual Average	OTHER 1965	TOTAL 1960-64 Annual Average	TOTAL 1965
Bilateral total[3]	437.9 99	356.2	1523.4	1484.6	673.7	837.1	2330.0	2771.1	275.5	321.1	5240.6	5770.1
Multilateral total[4]	8.1	79.7	144.7	224.4	126.2	157.7	168.1	417.8	19.4	11.9	466.4	891.5
Of which:												
IBRD	4.5	48.2	56.7	47.9	113.5	113.7	71.3	95.1	-	-	246.0	304.9
IFC	0.7	1.3	1.9	4.8	6.7	1.1	1.6	3.4	-	-	10.9	10.7
IDA	- 3.1	10.6	- 5.5	6.0	- 7.2	15.9	22.9	237.5	-	-	7.2	270.0
Bank Group Total	2.1	60.1	53.1	58.7	113.0	130.7	95.8	336.0	-	-	264.1	585.6
GRAND TOTAL	446.0	435.9	1668.0	1708.9	800.0	994.8	2498.1	3188.9	294.8	333.0	5706.9	6661.6
Bank Group Contribution:-												
% of total	0.5%	13.8%	0.3%	0.3%	14.1%	13.1%	3.9%	10.5%	-	-	4.6%	8.9%
% of total multilateral	26%	75%	37%	26%	90%	83%	57%	81%	-	-	57%	66%

Totals may not add beacuse of rounding.

1 Net of loan repayments
2 Net of loan repayments, grants and capital subscriptions and net of official purchases of bonds etc. by less developed countries
3 Includes aid from Australia, Austria, Belgium, Canada, Denmark, France, Germany, Italy, Japan, Netherlands, Norway, Portugal, Sweden, Switzerland, UK and US
4 Includes IBRD/IDA/IFC, IDB, ADB, EEC, UN.

Source: OECD - The flow of financial resources to less developed countries
IBRD

The fundamental limitation on the effectiveness of project lending is that although investment consists of projects, in the sense of discreet decisions that have to be executed within some organizational framework, be it ministry or enterprise, investment does not consist only of projects. It certainly does not consist only of projects considered eligible by outside lenders and donors. There are in addition expenditures which are not identifiable as projects, or may not be readily identifiable at all. Total capital requirements moreover include one, often crucial, non-project item, namely debt service. Project financing, no matter how well conceived and executed, will thus always be incomplete as a means of financing development.

The rational alternative is to base financing on total capital requirements, to be a program lender, supporting a development plan as a whole for a period of years ahead. Most, if not all of the financing problems then dispppear, at least for the borrower. For the Bank itself to engage in program lending would, moreover, seem to be consistent with the emphasis that it has placed on improving planning techniques and the technical assistance that it has provided in this area. In practice, however, program lending also has to take account of certain limitations, some of them likely to be crippling.

Many countries are, unfortunately, too little in control of their own destinies for any plan, no matter how well conceived, to allow them adequate foresight, still less control, and attempts to press ahead regardless have been just as frustrating as not looking where they were trying to go. Reducing uncertainty, through commodity stabilization schemes or proposals to offset fluctuations in external receipts, certainly demand urgent attention. But to the extent that they will permit, or depend on, more effective planning, the internal problems of the planner take on still greater importance.

In recent years, medium-term plans and their relevance to development decisions have come under critical review. For example, a study carried out over the last seven years under the direction of Albert Waterston of the Bank's staff of the actual experience of well over 100 countries[1] suggests strongly that plans in practice have only too often had remarkably little impact on the course of development. The reasons have been various. Some plans outran their basic data. Others had methodological weaknesses, or they were too abstract, products of Don Quixotes in a world of Sancho Panzas. Rather commonly the planners and their plan operated in an administrative and budgetary

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1/ See: "Development Planning: Lessons of Experience" Johns Hopkins Press, 1965.

vacuum. In short, few of the plans examined had been, indeed in many cases could have been, translated into effective and coherent action.

Waterston's personal conclusion is that a great part of the time and effort spent on medium-term planning would have been better spent on preparing specific, relatively short-term, sectoral programs supported by detailed project preparation and cast in terms that could be related directly to budgetary practice and aid decisions. This might perhaps be a comforting conclusion for the project lender; it is not. The need for medium-term planning has not been eliminated merely by the demonstration of disconcertingly widespread failure. For if there are strong arguments for shifting the emphasis to work on sectors and projects, and for stressing the need for solid content, Waterston has somewhat overstated his case, I suspect in order to make it clear and emphatic. Some frame is still required within which sectoral programs can be confronted and brought into some kind of balance with each other. Some rational basis is still needed to help in decisions about what must be cut or deferred to take account of the total of resources, domestic and foreign, likely to be available. But to argue that frames of some kind are needed does not resolve the difficulties of constructing them, nor does it do away with the substance in Waterston's position.

Where does this leave us, and where does it leave the Bank? It simultaneously argues for development lenders to urge their economists, whether broad development economists or project and sector specialists, to sharpen still further the tools of their analysis. At the same time, they, and those who depend on them, must be constantly alert to their limitations. For if investment is more than the sum of projects, development is in turn more than the sum of development plans. One is tempted to say that economic development is too important to be left to economists. And in international development finance, as in domestic credit, you still cannot push with a piece of string.

Those engaged in development finance are forced back, however reluctantly, to a pragmatic approach, adapted to each individual situation. Intellectually, basing development finance on a plan or a broadly-based program would be much more satisfying than basing it on pieces only. But all too often, it is only the pieces that one can get hold of. The more adequate a country's plan and management of its economy, the greater the opportunity for well-integrated project financing and for defining projects sufficiently comprehensively that they approximate to programs. The greater the possibility, too, of pinning down a plausible order of magnitude for the non-project gap. The weaker the plan, and a country's managerial ability, the narrower the project has to be defined for it to be manageable.

Development finance is in fact the art of the possible and all engaged in it, whether governments or international institutions, have to make the best use of the weapons they have, facing up to the particular set of constraints under which they must operate. Fortunately, they do not all have the same constraints or constraints of equal obstinacy and, fortunately, they have a variety of talents.

In the case of the Bank, the basic constraints are threefold: its Articles of Agreement, the scrutiny of its bondholders, and responsibility to its major stockholders not to make actual their contingent liability for its obligations. All conspire to favor loans for specific purposes and maximum accountability in the use of the proceeds. All start from the assumption that a sound project lies at the heart of every sound loan. To argue that the Bank should ignore its constraints in order to be more effective is, I think, to overlook a basic fact. In the case of the Bank, the constraints have a positive purpose, for the Bank was established to perform what still remains a vital function, that of promoting the flow of private capital. However unwelcome investor habits or inhibitions might be regarded, the Bank should not ignore them, and cannot ignore them at a time when its reliance on private institutional investors is greater than ever.

The conflict between effectiveness as a development agency and solidity as a financing institution arises in truth only if effectiveness is taken to mean that the Bank cannot perform a useful function unless it broadens its own direct role in development financing beyond the point at which it jeopardizes its financial position. In fact, the effectiveness of the Bank is in direct proportion to its strength as a financial institution. This inevitably limits the Bank's scope for experiment as a lender. IDA, if adequately replenished, could be more adventurous. Its Articles are somewhat less restrictive and it can afford substantially greater risks. If those who subscribe its capital were to allow IDA freedom to provide financing in situations where accountability can only be general and not specific, the effectiveness of the World Bank Group as a whole could be enhanced, for IDA could then take up a role in which it would be to a greater extent complementary to the Bank, rather than a substitute for the Bank in situations in which the Bank itself cannot operate. It will, nevertheless, remain true that the Bank is the foundation stone of the Bank Group, and a weak Bank cannot support a strong IDA.

Given its own set of constraints, where does the World Bank find its place in the spectrum of development financing? It is perhaps inevitable that the Bank, seeing itself as the oldest of the international development finance institutions, should some-

times be tempted to assume that it either can or should do everything better than anyone else. There is also a danger that because it has the widest membership it will spread itself too thinly, for its staff resources cannot expand indefinitely and its financial resources, certainly in the immediate future, hold it on a tight rein. What the Bank can in fact do best is what its constraints require it to do, that is finance projects. The Bank can, I think, lay claim to some competence in the league of project lenders. It has, from its early days, employed and surrounded itself with solid technical and financial talents; its contribution to project financing has been strengthened substantially as increasing emphasis has been laid on building up competent organizations in borrowing countries to construct and manage projects More attentive economic work has reduced the uncertainty in the selection of priorities and brought better articulation among projects.

As the concept of projects has broadened and the technique of project lending improved, so has the value increased of what is perhaps the Bank's special contribution to development finance, namely the provision in one package of finance and assistance in applying it effectively. However, the Bank's comparative advantage as a project lender certainly does not extend to all projects in all countries. It is greatest in those cases where what is required is to bring into clear focus a number of disciplines, technical, financial and economic, where the arithmetic of these disciplines plays a dominating role in investment decisions. Where social factors, tradition and inter-country relationships must play a major role in decisions, where the action required is diffused and requires both intimate local knowledge and supervision, then, I believe, the comparative advantage passes decisively to regional and local institutions. The scope for both greater specialization and greater cooperation between the World Bank and the regional banks is thus considerable.

To the dilemma that even good project financing is not complete investment financing, one answer is that the Bank as a development institution should appraise itself as a lending institution to see clearly both where its own action needs complementing and, less egocentrically, where it is particularly well-equipped to complete the action of others. In the context of the consortia and consultative groups, the Bank can attempt both, first by presenting, within the limitations of economic analysis, a view of the whole scene in the light of which all aid sources can base their individual claims and, secondly, by urging modifications in aid terms and applications to bring total financing in practice somewhat closer to what is ideally required.

Finally, the Bank has in a number of situations one trump card to play. Although its total lending is small in proportion to total official aid, it is the major source of untied multilateral aid. This can mean that even when the Bank's lending may not be decisive in amount, it can be pivotal in importance. There is already enough experience to show that the provision of untied loans in joint financing operations with bilateral sources can effectively multilateralize the whole.

I conclude that by concentrating its efforts and by being alive to its own limitations, the Bank can reconcile its role as a key financial mechanism designed to mobilize private capital with that of an effective development institution. What is crucial is for the Bank, its friends and critics, to recognize that at any given time it has a finite set of functions as an international institution; it should neither try to be, nor be expected to be, a universal development aunt.

TABLE 8

IBRD Membership, Voting Power and Subscriptions

Member	Voting Power (% of total)	Subscription (in thousands of dollars)
Afghanistan	.22	30.0
Algeria	.41	80.0
Argentina	1.56	373.3
Australia	2.19	533.0
Austria	.83	186.7
Belgium	1.86	450.0
Bolivia	.18	21.0
Brazil	1.56	373.3
Burma	.25	40.0
Burundi	.16	15.0
Cameroon	.18	20.0
Canada	3.20	792.0
Central African Republic	.14	10.0
Ceylon	.42	82.7
Chad	.14	10.0
Chile	.46	93.3
China	3.04	750.0
Colombia	.46	93.3
Congo (Brazzaville)	.14	10.0
Congo, Democratic Republic of	.33	60.0
Costa Rica	.14	10.7
Cyprus	.16	15.0
Dahomey	.14	10.0
Denmark	.78	173.3
Dominican Republic	.15	13.3
Ecuador	.16	17.1
El Salvador	.14	10.7
Ethiopia	.14	10.0
Finland	.62	133.3
France	4.22	1,050.0
Gabon	.14	10.0
Germany, Federal Republic of	5.12	1,280.0
Ghana	.28	46.7
Greece	.36	66.7
Guatemala	.14	10.7
Guinea	.18	20.0
Guyana	.16	16.0
Haiti	.16	15.0
Honduras	.13	8.0
Iceland	.16	15.0
India	3.24	800.0
Indonesia	.96	220.0
Iran	.60	128.6
Iraq	.35	64.0
Ireland	.43	85.3
Israel	.47	95.9
Italy	2.71	666.0

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IBRD Membership, Voting Power and Subscriptions
(continued)

Member	Voting Power (% of total)	Subscription (in thousands of dollars)
Ivory Coast	.18	20.0
Jamaica	.22	32.0
Japan	3.13	772.6
Jordan	.16	16.3
Kenya	.23	33.3
Korea	.20	25.0
Kuwait	.36	66.7
Laos	.14	10.0
Lebanon	.13	9.0
Liberia	.18	21.3
Libya	.18	20.0
Luxembourg	.18	20.0
Malagasy Republic	.18	20.0
Malawi	.16	15.0
Malaysia	.62	133.3
Mali	.17	17.3
Mauretania	.14	10.0
Mexico	.91	208.0
Morocco	.47	96.0
Nepal	.14	10.0
Netherlands	2.25	550.0
New Zealand	.75	166.7
Nicaragua	.13	8.0
Niger	.14	10.0
Nigeria	.36	66.7
Norway	.72	160.0
Pakistan	.88	200.0
Panama	.13	9.0
Paraguay	.12	6.0
Peru	.23	35.0
Philippines	.49	100.0
Portugal	.41	80.0
Rwanda	.16	15.0
Saudi Arabia	.47	96.0
Senegal	.23	33.3
Sierra Leone	.16	15.0
Singapore	.22	32.0
Somalia	.16	15.0
South Africa	.93	213.3
Spain	1.14	266.7
Sudan	.33	60.0
Sweden	1.04	240.0
Syrian Arab Republic	.25	40.0
Tanzania	.23	33.3
Thailand	.49	101.3

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IBRD Membership, Voting Power and Subscriptions
(continued)

Member	Voting Power (% of total)	Subscription (in thousands of dollars)
Togo	.16	15.0
Trinidad and Tobago	.20	26.7
Tunisia	.22	30.0
Turkey	.55	115.0
Uganda	.23	33.3
United Arab Republic	.65	142.1
United Kingdom	10.29	2,600.0
United States	25.00	6,350.0
Upper Volta	.14	10.0
Uruguay	.21	28.0
Venezuela	.83	186.7
Viet-Nam	.22	30.0
Yugoslavia	.52	106.7
Zambia	.31	53.3
Totals	100.00	22,849.8

106 Countries in all

June 30, 1967

TABLE 9

IBRD Debt Outstanding and Interest Expense
(in millions of dollars)

End of Fiscal Year	Dollar Debt	Other Currencies	Total Debt	Interest Cost	Per Cent
1948	250.0	4.0	254.0	6.2	2.4
1949	250.0	4.0	254.0	6.8	2.7
1950	250.0	10.6	260.6	6.8	2.6
1951	300.0	24.6	324.6	7.2	2.2
1952	450.0	49.9	499.9	11.8	2.4
1953	500.0	56.4	556.4	16.2	2.9
1954	665.0	111.7	776.7	20.6	2.7
1955	705.0	146.6	851.6	26.0	3.1
1956	695.0	255.2	850.2	26.5	3.1
1957	832.7	200.8	1,033.6	29.6	2.9
1958	1,458.4	200.0	1,658.4	47.3	2.8
1959	1,591.2	313.9	1,905.2	64.6	3.4
1960	1,689.5	383.5	2,073.0	75.6	3.6
1961	1,699.4	529.0	2,228.5	86.2	3.9
1962	1,900.3	619.9	2,520.8	97.1	3.8
1963	1,899.3	619.9	2,519.2	101.8	4.0
1964	1,884.6	607.2	2,491.8	100.7	4.0
1965	1,996.1	727.9	2,724.0	105.5	3.9
1966	2,070.7	735.3	2,805.9	116.0	4.2
1967	2,308.2	767.0	3,075.2	128.7	4.4

June 30, 1967

TABLE 10

IBRD - Borrowings

(cumulative totals)

Currency of Issue	No. of Issues	Original Amount	Outstanding Amount	Outstanding Issues
		million $	million $	
US Dollars	57	4,553.2	2,308.2	31
Belgian Francs	1	10.0	10.0	1
Canadian Dollars	6	111.0	76.0	4
Deutsche Mark	14	606.8	393.6	10
Italian Lire	1	24.0	24.0	1
Netherlands Guilders	4	47.0	32.9	4
Pounds Sterling	3	56.0	42.6	3
Swiss Francs	19	291.4	187.9	13
	105	5,699.3	3,075.2	67

June 30, 1967