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Washington, D.C.

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Knapp, J. BURKE - ARTICLES and SPEECHES (1950 - 1981)

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Knapp, J. Burke - Articles and Speeches (1950 - 1981) - 1v



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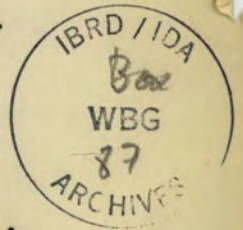
INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

FROM: The Secretary

July 31, 1950

SUPPLEMENTARY REMARKS MADE BY MR. J. BURKE KNAPP,
REPRESENTATIVE OF THE INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT, AT THE THREE HUNDRED AND EIGHTY-FIFTH
MEETING OF THE ECONOMIC AND SOCIAL COUNCIL

Geneva, July 19, 1950



Mr. President, Members of the Council, I am grateful for this further opportunity to address the Council on behalf of the International Bank. In my general statement last week, in accordance with the list of the items on the agenda, I presented the Bank's views with respect to that section of the Experts' Report on full employment which deals with the International Bank. I do not propose to repeat this general statement for the purposes of the present debate, but I should like to offer a few comments on some subjects which have been referred to frequently in the previous discussion.

These subjects are the Bank's policies with respect to "special projects", the matter of "local currency loans" and the question of the commercial nature of the Bank's operations.

Several delegates have expressed the view that the Bank ought to go beyond the financing of "special projects". I must confess, however, that I have not received a very clear idea of

what alternatives are held in mind; perhaps this matter can be further clarified at the committee stage of discussions.

Is it proposed that the Bank should grant general lines of credit for undefined purposes? I have previously commented on the disadvantages of this procedure and I have heard no positive suggestion that this should be done.

Is it that the Bank should finance groups of projects rather than single ones? I have pointed out that we are anxious to do this in appropriate cases, but that we are also anxious to consider priority projects which have reached an advanced stage of preparation, without waiting for associated projects which may come along later.

Is it then only a question of maintaining a broad perspective in considering projects, as has been proposed by the Delegate from India? The Delegate from India called attention to the Bank's recent loan for hydro-electric development in Brazil and expressed some surprise that the Bank had been willing to venture into such a project which would prove economically justifiable only to the extent that it was supplemented by further secondary development. I can assure the Council, however, that this type of loan is characteristic of our operations and that we do not have to justify it as a matter for "exceptional circumstances". In order to illustrate my point, I trust I shall be permitted to read excerpts from the Bank's press releases on the five loans which we have made during the last three months.

(At this point Mr. Knapp read passages from the Bank's press releases, describing the projects financed under the following loans:

The Damodar Valley Project in India;

The long-term loan to Mexlight;

The Paulo Afonso Project in Brazil;

The Flood Control Project in Iraq;

The Port and Grain Storage Projects in Turkey.)

I submit, Mr. President, that these loans, and the language used to describe them, demonstrate that the Bank does not take an unduly narrow view of the economic justification for specific projects.

Is it then the question of whether the Bank should finance, in the case of specific projects, something more than the direct external costs involved—i.e., part of the local currency expenditures on the project, or part of the indirect impact of the project on the balance of payments

of the country concerned? The view has been expressed by several delegates that the Bank ought to engage in such financing, and not only in "exceptional circumstances".

I have previously stated to the Council the reasons why the "exceptional circumstances" clause is justified. My basic argument was that loans from the Bank must be regarded as a scarce resource, and that they should be utilized so far as possible to meet the direct and inescapable foreign exchange requirements of development projects with countries making every possible effort to deal through domestic measures with the local currency financing problem, and with the indirect escapable foreign exchange requirements. Within the limits of available external assistance, this would permit countries to carry out larger development programmes.

But why must loans from the Bank be regarded as a scarce resource? The Delegate from Denmark has attributed me the statement that this was because of the limited total resources of the Bank. I did say that eventually this might prove to be a limitation, but I also emphasized that we do not feel this to be the case today. Rather, I placed primary emphasis upon the limited borrowing capacity of our individual member countries--I also pointed out that this capacity to service external debt was likely to be particularly limited in dollars, as long as currencies remained inconvertible, thus underlining the importance to the Bank and its borrowers of the Bank's obtaining freer access to currencies other than United States dollars.

The Bank believes that it would be no service to a borrower to impose upon him unduly heavy service charges on external debt--at the same time, this would be no service to our other member countries who

assume, under the Bank's articles of agreement, a pro rata share in the risks taken by the Bank on its loans. If any member country should feel that the Bank does not show a sufficient liberality in judging its creditworthiness, we would urge them to consider that the Bank is even-handed in its judgment and is therefore protecting its interest in the judgments which it makes on loans to other countries.

In particular, the interests of a borrowing country would be ill-served if it exhausted its borrowing capacity by incurring external debt to cover expenditures which it might have been able to handle through appropriate domestic measures.

Finally, a word with respect to the "commercial nature" of the Bank's operations. This term has been used frequently in the course of discussions, but to me, at least, it has a certain ambiguity.

If it means that the Bank is engaged in the business of making reimbursable loans, then it is certainly correct. The whole financial structure of the Bank is based upon the assumption that its loans will be repaid with interest.

But, the Bank's lending criteria are not simply commercial, as I have explained in detail. Nor are the financial terms of its loans properly described as "commercial". By definition, the Bank was set up to make loans which the private market could not handle. Our interest rates are, in fact, being brought down as the private investors from whom the Bank obtains the bulk of its funds gain an increasing confidence in our operations. On the basis of our most recent loans, we have reached a pattern of interest rates as follows: 3-3/4 per cent on 15-year loans, 4 per cent on 20-year loans and 4-1/4 per cent on 25-year loans; I desire

to emphasize that these figures include the 1 per cent commission charge which the Bank is requiring by its Articles to make during the first 10 years of its operation in order to build up a reserve against losses. These rates, Mr. President, are very low by comparison with the rates prevailing in the markets of most undeveloped countries. They are very low by comparison with the rates which prevailed in now developed countries during the early period of their economic development; and they are very low by comparison with commercial rates in the United States market on comparable loans. Just by way of illustration, I might say that I recently saw a study on Latin American dollar bonds in the New York market, which shows that the bonds of only three Latin American countries were selling to yield less than 7 per cent; and, of these three, two were rather special cases involving special security provisions.

Mr. President, the Bank is not a commercial institution guided by commercial motives; it is an international cooperative organization dedicated to the welfare of its membership. It is doing the best job it knows how to do, not so much within limitations imposed by particular clauses in its Articles as within limitations imposed by what are frequently stubborn facts in a real world.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

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FINANCING ECONOMIC DEVELOPMENT

Summary of Remarks by J. Burke Knapp
Fourth Annual Conference of
Harvard Business School
and Harvard Business School Club
Washington, D.C., April 8, 1950



The promotion of economic development in foreign countries has been raised to a new level of importance in United States foreign policy as a result of President Truman's Point IV Program. This Program is designed to strike at the roots of political and economic unrest and insecurity throughout the world by making the benefits of American scientific and industrial progress available to the underdeveloped areas. It could become a major instrument for achieving a peaceful and prosperous world community.

One important part of the Point IV Program is the provision of technical assistance to foreign countries in planning and carrying out their economic development programs. It has been recognized, however, that most forms of technical assistance can be put to effective use only if they are accompanied by investment in economic development projects. Hence President Truman also placed emphasis on the need for cooperation by the United States with other nations to foster capital investment in areas needing development.

A program of economic development is essentially a program of investment. The great bulk of the capital investment required for economic development in foreign countries must be provided from the country's own resources. The requirements far surpass what they are likely to receive from abroad. It is, therefore, vitally important to stimulate the flow of savings in these countries into productive investment, through both governmental and private channels. Better tax systems, savings institutions, and capital markets are urgently required in most undeveloped areas.

Most projects for economic development involve the importation of supplies and equipment which must be paid for in foreign currency. The balance of payments situation of most underdeveloped countries is precarious at the present time so that foreign assistance in making such payments may often be required. Here the need for foreign capital investment is obvious. In addition there may be other foreign currency needs stimulated indirectly by economic development programs, and at times these may also be an appropriate subject for foreign financing.

In all cases, of course, foreign investment would expedite the rate of economic development beyond what could have been carried out with domestic resources alone. On the other hand, foreign financing (except as it takes the form of outright grants) imposes a burden of repayment in foreign currency. In view of the present and prospective balance of payments situation in the world, repayment in dollars will rarely be easy. Hence care must be taken to insure that dollar investments make a positive contribution to the capacity of the country concerned to make repayment in that currency.

Mr. Knapp, Harvard
Bus. School, 4/8/50

Foreign financing can be carried out either by private investors, by public lending institutions such as the International Bank for Reconstruction and Development, or through governmental loans. The Point IV Program places special emphasis upon the stimulation of foreign investment by private American investors, and includes measures to give such investors more favorable tax treatment and to provide them with guarantees against certain risks peculiar to the field of foreign investment. This emphasis is based upon the conviction that private investment, carrying with it managerial experience and technical "know-how", can be more productive in stimulating economic development abroad than straight dollar loans. The flow of private foreign investment from the United States has been greatly handicapped, however, by the lack of a solid international understanding as to the privileges and obligations of the foreign investor and of the country in which the investment is being made. In order to provide such an understanding, the United States Department of State is in course of negotiating a series of bilateral treaties with foreign countries dealing with investment matters.

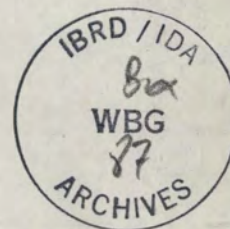
At best, however, no dramatic results in terms of an outflow of private foreign investment can be expected, and the justifiable needs of underdeveloped areas for foreign capital can scarcely be satisfied from this source. Furthermore many types of investment in foreign countries, such as those in public works projects, are not attractive to private investors. Hence there is a broad area suitable for operations by institutions such as the International Bank. The International Bank, which is dependent upon the private capital markets, especially in the United States, for its loan funds, provides a channel through which the private investor can help finance economic development in undeveloped areas under the protection of an inter-governmental institution.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
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25	Supplemental Remarks by J. Burke Knapp before ECOSOC, July 19, 1950 (6 pp.) (in Secretary's Memorandum No. 579/1)



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STATEMENT MADE BY MR. J. BURKE KNAPP, REPRESENTATIVE OF THE INTERNATIONAL BANK
FOR RECONSTRUCTION AND DEVELOPMENT, AT THE THREE HUNDRED AND EIGHTY-FIFTH
MEETING OF THE ECONOMIC AND SOCIAL COUNCIL

Geneva, 12 July, 1950

Mr. President and Members of the Council, it is a great privilege to participate in the discussions of the Council as a representative of the International Bank for Reconstruction and Development. It is especially a privilege to speak upon a subject such as economic development, that great, vexing, and very challenging problem which makes a genuine appeal to both the minds and the hearts of all of us.

This is a subject very close to the centre of the activity of the International Bank. It is one to which we have given a great deal of study and one in which we may claim to have some extensive practical experience. It is also a subject of very great complexity, as I believe the discussion which has preceded here has sufficiently indicated. 'Our successes in this field so far have been modest, but we feel that we have had successes and that the experience we have gained thus far has set our feet upon a path of greater accomplishment in this field.

We have studied carefully the two reports which are before you for consideration at the present time. These reports have been prepared by experts of impressive competence. As a result on many of the subjects of which they treat there is little to add. On some others, the thinking in the Bank has been proceeding along very largely parallel lines. On some of the policy matters I find a slight awkwardness in speaking on behalf of the Bank. The Bank is an inter-governmental co-operative agency. We are responsible to our member governments, broadly the same group as is represented at this table. On some major issues in the reports, therefore, we feel that we must look to our member governments for guidance. However, on some of the general principles

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July 12, 1950

with respect to the financing of economic development, I hope to be able to reflect to you some of the judgments which have been reached in the Bank arising out of our experience in practical operations. I also hope to be able to clarify some of the questions regarding the Bank's policies and procedures which have been referred to by various delegations in the debates thus far.

I should make clear that it is not my purpose to make any formal policy declarations on behalf of the Bank. I have been authorised to come here and speak for the Bank, as I said before, to reflect our thinking on these problems and to attempt to make a constructive contribution to the debate. As for the development of our policies, we prefer rather than having paper pronouncements on policy matters to let those become evident through our actions. Our policies reflect the deliberations of a collective mind, so to speak, in the Bank's management and its Board of Directors. A collective mind, if it is active, is constantly at work and in a state of evolution. It will be my purpose to try to describe the stage of evolution reached thus far in the Bank.

May I first address myself to the question of general development programmes, general development loans, as opposed to loans for specific projects. This is a subject which seems still clouded with a great deal of misunderstanding and perhaps confusion of terms.

One concept which one might have in using the expression "general development loan" would be the extension of loans for undefined purposes, the extension of an open line of credit to be employed by the borrower at some future time for purposes and projects yet to be defined. I am quite aware that that is not what was in the minds of the experts who produced the Full Employment Report, because they say quite clearly that they would have the Bank investigate the programme which was submitted for financing and follow its execution. However, this very broad concept of general development loans seems to have been present in some minds and I should like to say that the Bank doubts very much the wisdom of opening general lines of credit for application to undefined projects yet to be developed in the future. A general development programme is after all only an aggregate of individual projects. We have a common interest with our borrowers in formulating programmes, in advance, in

terms of the concrete uses to which the money is to be put. Our common interest with the borrower is to see that the best use is made of the funds, and in order to judge that best use, we feel that we must have beforehand a reasonably concrete and specific idea of how the funds are to be employed.

I would also like to call the attention of the Council to the very serious loss of interest on borrowed money which might arise if advances were made for general purposes still undefined and a long period of time elapsed before a decision were made as to the specific uses to which those funds would be put.

If when speaking of general development loans, we mean making loans for a group of projects simultaneously, the Bank does that and indeed the Bank would like to do more of it. Our difficulty, as I shall point out at some greater length later on, is that we don't ordinarily have programmes submitted to us in a stage which permit of analysis and investigation. More commonly we are confronted with isolated projects. Actually if we awaited programmes, those projects which are ready for financing and execution would have to wait upon the development of the wider programme. Our aim in fact is to select and take the most urgent and most generally productive projects for prior treatment.

A remaining possible interpretation of the phrase "general development loans" is to cast the definition in terms of the scope of the Bank's financial contribution on a particular project; that is to say, whether the Bank should finance only the direct foreign exchange costs attributable to the project, or whether it should also extend its activities to the financing of foreign exchange impacts upon the balance of payments of the country carrying out the investment which are attributable indirectly to the investment.

I shall have occasion to refer again to this concept of "indirect impact" and I should like to define it even though the concept may be quite clear to you all and is one which is discussed especially in the Report of the Sub-Commission on Economic Development. Investment activity in a country may give rise, in addition to the direct foreign exchange costs involved in the projects, to indirect impacts upon the balance of payments, whether in the direction of

increased imports or diminished exports. Imports may tend to increase because of the diversion of labour and other domestic resources in the country concerned to the project, i.e. to investment away from production for consumption. If consumption levels are to be maintained there may well be need for an increased import programme. On the other hand the same diversion of resources to the investment may cause a loss of productive activity in export industries and thereby give rise again to an indirect impact upon the balance of payments.

This problem of financing the indirect impacts upon the balance of payments is, as I shall explain, largely identical with the local currency financing problem of which we have heard a great deal in the discussions here. Local currency loans by the International Bank would not ordinarily involve the Bank's lending to a member country out of its holdings of the currency of that member country. The Bank does hold a variety of currencies, as you know, through the subscriptions by member governments of all of the member countries. Rarely, if ever, however, would it make economic sense or would it indeed be of advantage to the member country to borrow from the Bank the Bank's holding of its own currency.

Local currency loans usually mean therefore the advance of foreign exchange to be converted into local currency to meet some part of the local currency expenditures on a project.

Now let me explain the relation of that procedure to the indirect impact upon the balance of payments. In terms of financial techniques, there are two ways in which the Bank might make a contribution in this field. Let us assume that a project is being undertaken of which the direct foreign exchange expenditure for capital equipment and supplies is being financed by the Bank. The Bank might then provide an additional loan in foreign exchange in order to cover some of the balance of payments impact on the country concerned arising indirectly as a result of the carrying out of the investment, the borrower devoting the "local currency counterpart" from the sale of that foreign exchange to meeting a portion of the local currency expenditure on the investment. As the delegate from Chile has pointed out, this is the concept embodied in the resolution which the Chilean delegation has presented and bears a family likeness

at least to the ERP counterpart procedure. An alternative way of handling the problem would be to have the Bank finance some portion of the local currency expenditure on the project, acquiring this local currency with foreign exchange and leaving the borrowing country to devote that "foreign exchange counterpart" to meeting the impacts upon its balance of payments arising out of the investment. This is the alternative technique which underlies the resolution presented by the Sub-commission on Economic Development.

Both of these procedures, in an economic sense, amount to the same thing. They are simply two different financial techniques. In either case, the essential role of the Bank would be to provide additional resources from outside to supplement the country's domestic resources in carrying out its investment programme. In real terms, one may measure this contribution by the additional goods which are imported. In financial terms, one may speak of it as supplementing domestic savings and meeting a portion of the domestic local currency expenditures on the investment project. However, the concept of supplementing local savings can become misleading; it is probably better to think in terms of the Bank's supplementing the real resources available to the country for investment and consumption purposes. The lack of savings, of which we hear so much, simply reflects too great consumption in relation to output, or perhaps it would be fairer to say, in the case of most under-developed countries, a lack of productivity and too small a margin of production over consumption needs.

Now the Bank has the power under its Charter to undertake operations of this sort "in exceptional circumstances". Why did the authors of the Charter make this provision? We believe there is clear justification for the use of that term. The borrowing capacity of any country - its capacity to service foreign debts - is limited, and eventually the total resources of the Bank are a limited quantity. So far as possible, therefore, that borrowing capacity should be reserved by member countries to cover those direct and inescapable foreign exchange costs of their development projects. We think that our member countries should attempt by all means at their disposal, to meet the internal expenditures, and to meet the indirect impacts upon their balance of

payments, through their own domestic measures. They can thus avoid incurring burdensome external debts for those escapable foreign exchange costs. A consequence of reserving funds for the direct expenditures is that within the limits of a country's borrowing capacity it will be able to carry out a larger development programme.

Now these domestic measures are largely a matter of internal fiscal and monetary policies. It means using the weapons of counter-inflation with which we are all familiar in various contexts. As has frequently been pointed out in the debate, inflation is a recurrent and a chronic problem in undeveloped countries. It means appropriate tax policy; it means appropriate expenditure control in the government; it means control over credit and over investment in the private economy. It may also mean, especially in relation to the external problem, direct intervention in the balance of payments. There is a real danger of thinking of balance of payments deficits as something pre-ordained. They are very commonly a reflection of inadequate domestic economic and financial policies. No amount of foreign assistance can remedy lack of resolute action by the government at home to manage its domestic affairs. The Bank frequently has had occasion to co-operate with and advise its member countries on these broad economic and financial policies appropriate to development programmes. These problems are widely understood; what really matters is resolute action by the governments concerned to follow the lines of sound internal monetary management. In the absence of such action, and unless the situation does justify external assistance to help with the problem, the eventual resort is to inflation. I am sure that before this group it is unnecessary to elaborate the harmful effects of inflation, the misdirection of investment, the inequalities of income, the suffering and waste which inflation carries in its train.

The Bank also desires to assist its member countries to create and mobilise sources of local capital for investment purposes, and considers this task one of the major contributions which it can make to the process of economic development. The method does, of course, vary from country to country, but I would like to give you at least two recent examples from the

Bank's activity which will illustrate in this very concrete way the kinds of things which can be done to supplement the Bank's external assistance with the mobilization of internal financial resources.

The Bank made a loan recently to El Salvador for a very large hydro-electro-project which we hope will prove a major landmark in that country's economic development. The external costs amounted to about \$12 million and there was a problem of raising the equivalent of \$6 million in local currency for purposes of covering domestic expenditures on this project. We were told that there was no possibility of raising that money in El Salvador. El Salvador, like most undeveloped countries, has no organized capital market. We suggested the possibility of organising an authority to administer this hydro-electric project, and of having that authority issue bonds. For El Salvador that was unprecedented. There were almost no bonds in the country; people weren't accustomed to hold their money in that form. However, we sent to El Salvador the Director of our Marketing Division, who is concerned with the flotation of our bonds in the United States and who worked very closely over a period of some time with the local people. As a consequence, a bond issue was organised, only within the last few days it has been offered for public subscription, and it was an overwhelming success within 24 hours. El Salvador has found from its local capital market the amount required to supplement the Bank's external assistance.

Another instance which perhaps is even more interesting is a venture with which the Bank is engaged in Turkey. Turkey is a country which has had a considerable industrial development but very largely in the hands of the government. There has been no private enterprise, there has been no capital market, there have been no funds available for carrying out small and general industrial development in the country. At the same time, there has been increasing recognition of the need for promoting industrial development by private enterprise.

We were invited by the Turkish Government to try to formulate some answer to the problem of developing the Turkish capital market, and we sent a representative to Turkey for the purpose. He spent a very considerable time,

(these things don't come easily) working with the private banking people, government representatives, and private business interests in Turkey. As a result of his recommendations, a Turkish Industrial Bank has now been established. The share capital in this Bank has been subscribed by a syndicate of private bankers with the hope that after the institution commences operations these shares can be passed on to the general public. This institution has been assured an advance from the Central Bank of Turkey in an amount matching the funds raised through the issuance of share capital. And finally the International Bank is prepared to provide this institution with external loans to supplement its Turkish lira resources.

The function of this body is primarily to provide capital to new enterprises or expanding enterprises in the small industrial field in Turkey. It is authorised to make loans, to assist by way of equity participation, or in some instances to engage in pilot operations on its own account. It is expected that this bank will be equipped with a technical staff able to advise Turkish entrepreneurs with respect to the technical problems of their business, including not only the industrial problems but also the financial and organisational questions. We shall watch the development of this institution with the greatest interest. It may be regarded itself as a pilot operation to show what can be done to evoke private funds both through subscriptions to the capital of the bank and subsequently through the launching of enterprises which the bank will help to finance.

Well, despite all the measures that can and should be taken to mobilize effectively internal resources (and this is a matter to which the Sub-Commission, rightly attaches very great importance) cases may arise in which it would not be economically inappropriate for the Bank to cover with foreign exchange part of the local currency costs of a project, and incidentally part of the indirect impact of that project upon the country's balance of payments. The Bank has no general policy preventing its engaging in such operations, although its inclination would be to make loans of this sort only in the following circumstances:

- a) If the country is sufficiently creditworthy to be able to undertake a foreign exchange obligation in order to finance local currency costs.
- b) If the project being financed is of such economic urgency that the country's ability to undertake foreign borrowing is better utilized in financing this project rather than in financing the direct foreign exchange costs of alternative projects.
- c) If the local currency costs of the project cannot reasonably be met out of available domestic resources and
- d) If the project demonstrably gives rise to indirect foreign exchange requirements arising from the loss of export potential or the need for increased imports of either raw material or essential consumption goods which are needed to prevent the investment from having an undue inflationary effect upon the economy.

It should also be understood that in all cases the Bank would expect the borrowing country to find out of its own resources some substantial part of the local currency funds required to meet the domestic expenditures.

I would like to call attention to the fact that this statement has been formulated in terms of financing local currency costs, and having the foreign exchange counterpart used to cover the indirect impact on the balance of payments. For a number of practical reasons we are inclined to consider that financial technique more suitable.

I should also like to make clear that this is a procedure which we could follow only under the terms of our Charter, that is to say, in exceptional circumstances. We do not feel that under our Charter, or on the basis of a reasoned analysis of the problem this is a procedure which should be resorted to regularly and generally.

This discussion, you will note, has continued to run in terms of financing specific projects. But the Bank has always taken a broad view of what is a project. We are not committed to the "monument" school of thought, that a project must loom great on the horizon and be a large single construction work. In India, for example, we helped to finance the general rehabilitation

of the Indian railway system; that was a matter of providing additional rolling stock for the whole Indian system. We regarded that as a project. We have made a loan to Colombia for the purchase of agricultural machinery which is being distributed throughout the agricultural economy of Colombia. That was regarded as a project.

More important, in considering the economic justification for projects, we feel the necessity for taking a broad view of the effect of the project upon the country's economy. The report of the Sub-Commission on Economic Development has stressed that the social usefulness or productivity of a project is not to be judged merely from a commercial standpoint, and that there were non-revenue creating investments which had a direct or indirect effect on a country's economy which should be eligible for foreign finance. The Bank agrees with this viewpoint and has had the opportunity so to express itself to the Sub-Commission. The Bank does feel that operations which are commercial in nature should clearly be carried out on commercial lines; that economic administration is essential in any project; and that the organisations which are created to carry out the projects must in the interest of the nation concerned be as efficient as possible. The Bank does not feel, however, that it should limit its financial assistance to a project or programme which by their nature are self-liquidating in the ordinary commercial sense.

Hence, we don't quite accept the categories which were set forth in the report of the Sub-Commission on Economic Development, those categories of projects which they classified according to the suitable source of international finance.

They first list general industrial projects being suitable for private finance. This is no doubt correct as a general statement. Primarily one would look to private enterprise capital to carry out industrial operations. But we do not regard ourselves as precluded from participating in such activities, particularly if jointly with private enterprise. The second category in the Sub Commission's report is the so-called economic overhead projects: power, transportation, communications, agricultural development, land reclamation and irrigation and so on. At some points in the report, they seem to doubt whether these are suitable for the International Bank, although at one point they acknowledge that they are very close to the heart of our present activities. The Bank recognizes that basic resource projects like these must be assessed in terms of their long-range economic productivity, taking into account the contribution they will make to a secondary development of the economy. Within this framework, we regard ourselves as very much at home in the field of economic overhead projects. Then we come to the social overhead projects, health, education, housing, labour training, and so on. Here again we would not like to feel excluded from the field. We can conceive of projects coming up along these lines which would be sufficiently productive to justify resort to the Bank's resources, especially if they are linked to other types of operations having a more clearly economic nature. In fact even if the Bank wholly abstained from financing social overhead projects, the conclusion need not necessarily be drawn that such projects cannot be carried out. The point is simply that if the Bank makes a sufficient contribution in the fields of categories 1 and 2 in the Sub Commission's report, the country concerned may well be able to afford to carry out with its own resources the associated programmes in category 3.

May I add a word regarding the revenue-producing character of projects. The Bank under its Charter must lend either to governments or under the guarantee of national governments. Our eventual security, therefore, on any loan is a pledge of the national credit of the borrowing country. On the other hand, we naturally do not want to set up a loan project under a

government guarantee in which the primary borrower will prove insolvent and we shall have to have resort to the guarantee. Indeed the Bank has sometimes urged member governments to put projects which they have submitted to us on a self-liquidating basis, and I think that has given rise to some misconception. Let me explain why we have done this: If for example we were submitted a project for development of a country's ports - I speak purely hypothetically - and it were proposed that that port development be entrusted to a joint committee of the Ministry of Transportation, the Ministry of Finance and the Ministry of Economics, we might well express our preference for the creation of a Port Authority, our purpose being simply to ensure the effective execution of the project. Having reached that stage, the question of finance might arise; and we might well propose that this Authority should be set up as an autonomous financial agency, deriving revenues from this port development project in the form of port fees. Now, when we make a suggestion like that, it is not because of any general preconception that projects must be self-liquidating. It is rather that, if the country concerned is a characteristic undeveloped country, it is already having a severe budgetary problem, it is seeking new sources of budgetary revenues, and here lies one ready at hand, i.e. charging port fees in accordance with the benefits derived by the users of the port - a conventional form of financing. The question, after all, is simply one of the incidence of taxation; the question is whether the beneficiaries of the project should pay for its use or whether the burden of finance - I am still speaking of internal finance - should fall upon the general budget. If the general budgetary situation permits, and if there are good reasons of a practical or social nature for not imposing the costs of the project upon the ultimate beneficiaries, the Bank does not insist upon a doctrinaire policy that the project must be directly self-liquidating in local currency.

Similarly, in judging the borrowing country's capacity to service external debt, and in assessing the contribution of the project in this direction, the Bank does not take a narrow view. In fact, it must give

consideration not only to the long-term indirect effects of the project upon the country's balance of payments, but also to the more general prospects for the country's external payments position. The Sub Commission on Economic Development has pointed out that if a country's general balance of payments position is well assured, it might not be necessary to require that a project contribute, even indirectly, to the improvement of the external payments position. Unfortunately, the converse is also true. If a country's balance of payments prospects are very poor, the Bank might not be able to entertain a loan application even if the particular project concerned would demonstrably produce exports sufficient to meet the service on the loan. The question which the Bank must always consider is whether the service on its loans, together with other debt service requirements, would put an undue burden upon the prospective total exchange availabilities of the country concerned.

The explicit requirement that the Bank must lend either to member governments or on their guarantee has facilitated our efforts to assure consideration of priorities among different projects, and of the co-ordination among such projects. It should be kept in mind that although a great number of projects in a given country might seem sound enough in terms of their yield in local currency, they may in the aggregate exceed the country's capacity to finance investment, whether from its domestic resources or from the amount of external borrowing which it can reasonably undertake. Hence it is imperative to establish priorities - to commence with the most economically productive projects, measuring productivity in the broad terms which I have mentioned before.

A problem which is technically even more difficult is to develop a pattern of interdependence among the investment projects so that what is carried on in one direction is matched by those necessary complementary investments which alone can ensure the economic effectiveness of the whole. An obvious example is that there is no use in bringing new land under cultivation through an irrigation system unless at the same time transportation facilities are provided to bring the crops to market; or there is no

use in providing power resources for an area without some assurance that there will be an adequate development of agricultural or industrial activity in the area.

All this means that what is needed is an integrated investment programme and (I come now to the final and most difficult stage of all) a programme timed over a space of years in accordance with the available resources. Such a programme must be carried out by stages, whether because of physical or financial limitations. An early start on the most productive projects means building up a national income, a taxable capacity, a balance of payments position, which will sustain further development activity. But to start the programme off on the right foot, it is critically important to have at least a general sense of what the general development programme is to be.

Now this task of developing integrated development programmes is an extremely challenging one. The Bank seeks to provide every assistance along this line, and it is a part of our daily life to do so. To take the simplest case, when we receive a loan application our first thought is to get out into the field and see the problem on the spot, talk to the people there, find out just what stage their thinking has reached. When we do that, one of our first questions is: What stage have you reached in your general thinking as to the lines of economic development along which you wish to proceed? How does this particular project fit into your general programme? We frequently find that not sufficient attention has been given to that problem, and further assistance is requested. We have sent a number of special missions with a few people for a short period of time, just to start the work along these lines within the government departments or agencies in the member country concerned and to stimulate that kind of thinking and the production of that kind of intelligence and information. Or on occasion we have undertaken major technical assistance missions to member countries for working out development programmes. Our principal effort to date in that field has been a mission to Colombia, which was organised something over a year ago, under the chairmanship of Dr. Lauchlin Currie, a well known

economist in the United States. This mission included about twelve or fourteen economists and specialized experts in different fields and of different nationalities. This group spent about six months in Colombia, and when they returned, they spent another six months writing their report. As a matter of fact, they found two or three return visits to Colombia were necessary to fill in gaps which they had failed to cover during their first visit. This effort has been experimental, but we hope it will prove very useful. We expect the report to be published, and when it is, I do commend it to the attention of the members of this group as the kind of effort that we think must be made in a country to assess its total resources position and to develop a logical, integrated, and productive investment programme. The expanded technical assistance programme through the United Nations should provide a substantial impulse for this kind of work, and we expect a great deal from it. But all of this external advice and assistance will be wasted unless the member countries themselves have an effective organization to receive the information, absorb the advice, and to implement it and carry it out. What is needed is a vigorous national organization entrusted to responsible, unified, and objective hands. Too often we have found this element lacking. Through the efforts of the countries themselves, through co-operation and assistance from the International Bank, and through other sources such as the Technical Assistance Programme, we hope to see a greatly improved presentation of programmes and of projects. There is no doubt that the single greatest obstacle to the Bank's advance at the present time is the inadequate character of the preparatory work in our member countries. The solution to this problem will require, in our judgment, long and arduous work by us all.

Now, these views which I have been expressing, the substance of which is to try to give an impression that we do take a broad view of development programmes, is, I urge upon you, nothing new in the Bank. We are accustomed to taking a broad view. And I cannot refrain from commenting that we are also accustomed to borrowers expressing surprise when we evidence interest

in things other than the particular project which is submitted for review. We have had borrowers who felt that we were most unduly inquisitive about their general economic problems, and about their general economic position and policies. But I do feel that within this group there has been indicated strong support for the view that one must consider economic development in the broad, and that in judging any particular operation one must see it in its general context.

Now, at the same time, we know we cannot be perfectionists in this field. We are not demanding five-year blue-prints for the economic development of an undeveloped country which is just beginning to make progress on carrying out its ideas. Had we held such views we should never have made a loan to date. Our philosophy is to be practical and pragmatic, to move forward, but not too quickly, not so fast that we shall make wasteful expenditures of funds; and when I say we, I mean that we want to protect our borrowers from making wasteful expenditures of their resources in the absence of a reasonably clear concept as to the nature of their economic development programme.

May I turn now to another subject, which is the question of the currencies in which the Bank loans are made. The Bank is now increasingly encountering the problem of raising adequate non-dollar currencies for its lending purposes. The generally increased supply of goods in Western Europe and, since devaluation, the general tendency for Western European goods to be more competitive in world markets, means that economic development in the undeveloped areas should be able to absorb a greatly increased flow of goods from sources other than the United States. Now this flow can be financed, at least in some part, in dollars; in fact about a quarter of the Bank's dollar loans thus far have actually been spent outside the United States. This has the advantage of enabling the supplying countries, the Western European countries who are selling goods against dollars supplied by the Bank, to find an additional source of dollar earning power. But it also has the disadvantage of imposing a dollar obligation on the borrowing country to finance its procurement requirements in soft currency areas.

We have noted a distinct tendency by borrowers to seek soft currency finance, through the Bank or otherwise, for such procurement, and to reserve their borrowing capacity in dollars for purchases in the United States. Such tying of the Bank's dollar loans, in other words, to purchases in the United States has been much more a reflection of the attitude of borrowers than of that of the Bank. I think it is unnecessary for me to say to this company, that the Bank does not make tied dollar loans and that it is forbidden by its Charter to do so.

Also, as long as currencies are inconvertible, a real problem arises in assessing the credit-worthiness of a borrowing country. Countries may well have exhausted their credit-worthiness in dollars for dollar loans, and yet have soft currency earnings which would clearly establish their credit-worthiness for advances in soft currencies to meet purchases in soft currency areas.

The Bank's supply of lendable soft currencies, is obtained from capital subscriptions by the various member governments, or through funds borrowed in the financial markets of those countries. But both operations require the consent, under our Charter, of the country concerned, and these consents have been given, thus far, rather hesitantly, because countries fear that their balance of payments position will not permit them to undertake the unrequited exports which are involved in exporting against payment in currencies provided by them through the Bank.

Some progress has been made recently, however, in obtaining such consents at least in principle, subject to consultation between the Bank and the member country when specific needs arise. While the balance of payments position of most Western European countries is admittedly difficult, relatively moderate amounts of their currencies would be a great help to the Bank and to its borrowing members. It should also be noted that even if such countries may still have overall balance of payments deficits, they may be able (indeed, some have shown that they are able) to maintain substantial capital exports in the direction of undeveloped areas.

The Bank believes that it has a real role to play, as risk-taker in such capital flows, and is very desirous of expanding the international scope of its operations along the lines which were envisaged for it at Bretton Woods. Furthermore, as a result of the circumstances I have just described, additional progress by the Bank in obtaining access to adequate supplies of non-dollar currencies may be of great importance in establishing the general magnitude of the Bank's lending operations.

Finally, a few words with respect to assuring the continuity of international investment and the proposals of the Committee of Experts on that subject. The Bank's Articles of Agreement prescribe that it should endeavour to "promote the long-run balanced growth of international trade and the maintenance of equilibrium in the balance of payments" and should "conduct its operations with due regard to the effect of international investment on business conditions in the territories of its members." Both by its Charter, therefore, and from its experience, the Bank is sympathetic with the objectives sought by the experts. Avoiding large fluctuations in international investment is clearly in the interest of both capital exporting and capital importing countries. In fact, the idea of continuity is at the basis of the Bank's conceptions. The loans granted by us during the first years are considered as the first step in a relationship with its member countries which will grow with the years, as their capacity to absorb foreign assistance grows, as their internal productivity develops, and as their prospects for attaining international equilibrium improve. The flexible nature of the Bank's resources gives it the means, within limits, to substitute for private investment when this is lacking. In fact, this is really what we have been doing recently in the face of a U.S. capital market which has not been ready to absorb significant amounts of foreign bond issues.

Continuity, however, is not necessarily synonymous with stability or rigidity. The foreign needs of the capital importing countries vary from period to period according to their own trends of development and their capacity to undertake new investments, according to their progressive

adaptation to new market conditions, and according to the variations in the prices of their main export products, which may make for improvement or deterioration in their balance of payments position and for changes in the overall resources currently available to them. Indeed, if loans had to be extended in pre-determined amounts during given periods of time, it would be inevitable, until, perhaps, such time as there could be built up a backlog of suitable investment opportunities, which we certainly do not have today, that the lending agency charged with carrying out this fixed programme of development would be compelled to extend credit without adequate appraisal of the productivity of the investments, or of the capacity of the recipients to make repayment. The volume of capital flow is, of course, important, but it contributes to development only if the capital is productively used. The implication exists in the report that the increase in the capacity to repay will somehow be proportionate to the increase in the amount of investments. At least, the problem of repayment was given very little attention. This would not be the case if the new investments tended to support or consolidate a pattern of production based upon an existing international disequilibrium. In the long-run, it is not enough that, in the aggregate, the real income of the recipient countries should be increased, if their external position has become more and more precarious and if the existing international maladjustments have been perpetuated. It is necessary to direct investment toward new patterns of production, which in the aggregate will moderate the strains upon the international balance of payments. If international investments are to be of real service, they should serve to bring about structural changes in production which will improve both internal productivity and external balance.

For the rest, the report of the experts is concerned very largely with actions and commitments to be undertaken by its Member Governments, both in the national and the international field. These actions imply major policy decisions on the part of the various countries and the Bank accordingly feels that many of the recommendations cannot properly be discussed by it.

Furthermore, the Bank does not feel that it has been limited in the expansion of developmental loans by the inadequacy of its resources. It has ample uncommitted cash on hand and its recent borrowing operations have shown that it will probably encounter no difficulty in raising more funds when the need arises. Hence the Bank's reluctance, at the present stage, to discuss some of the specific proposals made by the experts regarding the organization of the Bank's work, arises not only because it feels it should defer to the Governments of the Bank's member countries, but also because the means of financing which it has at its disposal and which it can reasonably expect to mobilize appear at present adequate for its purposes.

Such, in brief, are the considerations which the Bank keeps in mind in conducting its operations. In short, it can be said that we seek to lend on projects which will make the most effective contribution to the development pattern or programme of the borrowing country. We believe the policies outlined above are sufficiently flexible to impose no real limitation on our activity. The limitations have arisen from different sources. I have already made mention of the fact that the number of concrete and adequately prepared loan proposals has not been what we would have hoped, and also of our hope that the technical assistance activities, to which the Bank hopes to make its contribution will help to remove this obstacle. Reference should also be made to the borrowing capacity of the Bank's member countries as a limiting factor. Foreign indebtedness involves service charges for a period of years and the amount of such service which the prospective balance of payments of any country can bear is limited. This is all the more true when dollar indebtedness is concerned, and this is one of the reasons why the Bank is so anxious that the development programmes or patterns which it assists in financing should contribute to improving within a reasonable period the external payments position of its borrowing countries.

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INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

Summary of Statement by J. Burke Knapp, Assistant Economic
Director of the International Bank for Reconstruction and
Development at the 11th Session of the 385th Meeting of the
Economic and Social Council, Palais des Nations, Geneva,
July 12, 1950



Mr. Knapp said that it was a great privilege for him to participate in the Council's debate in view of the Bank's particular competence and experience in the problem of economic development, which offered the world a serious challenge. The present discussion had already fully revealed the complexity of the issues involved. The Bank had studied them closely and had achieved some successes, modest as they might be. He had carefully studied the two reports before the Council, but before going into detail had to record that it was scarcely possible to make pronouncements on many matters of policy since the Bank was an organization composed of Member Governments to whom it had to look for guidance. He would therefore simply comment on the general principles of economic development evolved by the Bank from its practical experience as well as endeavor to elucidate certain procedures which had been referred to by members of the Council. The Bank's policy was formulated by what he would describe as a collective mind and was carried out in terms of concrete action.

Taking first the question of loans for general development, in regard to which proposals had been put forward by the Group of Experts, he submitted that much misunderstanding could arise from a confusion of concepts. The Bank doubted the wisdom of making loans for undefined purposes. The experts, themselves, had suggested that the Bank should investigate the programmes and follow up their execution. A general development programme was after all merely the aggregate of several projects. The Bank, like the borrower, was interested in elaborating sound concrete programmes and in securing the best

possible use for the funds available. Moreover, a serious loss of interest would be involved on money lent while the borrower worked out the application of a vague programme. If, however, the concept were interpreted as meaning the financing of a group of specific projects, not only would the Bank have no objection, but, on the contrary, would favor such a procedure since it would lead to better co-ordination. One of the Bank's main difficulties was that programmes were not submitted to it at that stage of analysis, and the Bank was too often obliged to consider isolated and limited projects. Certainly the Bank aimed at selecting the most urgent and most productive schemes.

The problem could also be viewed in terms of the scope of the Bank's contribution. Should it only finance direct costs or should it also be financially responsible for the indirect impact of the development programme on the balance of payments position of the receiving country? Such an indirect impact would necessarily be felt owing to the variation in a country's import/export balance and the inevitable changes in the labor market and in consumption levels caused by economic development projects. The logical extension of that problem was the problem of financing in terms of local currency. In that connection he would straightaway point out that a local currency loan did not mean a loan made by the Bank from its holdings of a certain currency. Such a method would rarely, if ever, be of advantage to the borrower. A local currency loan meant advancing cash in foreign exchange convertible into local currency, that procedure being generally equivalent to a loan advanced to meet the indirect impact on the balance of payments position.

In terms of financial technique, the Bank could apply either the procedure envisaged in the Chilean draft resolution (E/1759), namely, one similar to that used for the European Recovery Programme or, alternatively,

the procedure envisaged by the Sub-Commission in its report (E/CN.1/80), whereby the Bank would finance some portion of the local currency expenditure, leaving the borrower to devote the "foreign exchange counterpart" to meet the indirect impact on his balance of payments position. From the economic point of view both procedures implied the provision of outside additional resources by the Bank. In real terms, that contribution was equivalent to additional imports. In financial terms, it provided a source of local currency finance and might therefore be described as a supplement to local savings, although, in his view, that conception was somewhat misleading. He preferred to define the contribution from outside as a supplement to a country's real resources. For lack of savings merely reflected excessive consumption in relation to output or, as in the case of most under-developed countries, a lack of productivity and too narrow a margin of production over consumption.

According to the terms of its Articles of Agreement, the Bank was entitled to undertake operations of that type only in "exceptional circumstances". That provision was a necessary safeguard, since the borrowing capacity of any country was limited and so were the total resources of the Bank. Consequently, insofar as possible, its funds should be used to meet the inescapable and inherent costs of development programmes, internal expenditures and the indirect financial impact being met by the country's domestic measures. That was largely a matter for internal fiscal policy expressed in terms of counter-inflation measures, sound taxation policy and governmental control of expenditure. Indeed, a deficitary balance of payments position should not be conceived as a pre-ordained and inescapable evil. It was a consequence of domestic policy, and no amount of help from outside could put right unsound domestic administration. The Bank frequently had occasion to give advice on broad policies of economic development, and was very clearly aware of the necessity of resolute action and sound monetary policy on the

part of governments. The alternative to such policy was inflation on the harmful effects of which he need not dwell.

The Bank wished to assist countries in creating and utilizing local capital for investment. That indeed was one of the most important ways in which it could assist in furthering their general economic development. The precise methods were bound, of course, to vary from country to country. He would specifically refer to two recent cases. The first was that of a hydro-electric project in El Salvador, where the external contribution of \$12 million had been amplified by an internal contribution equivalent to \$6 million collected through the issue of bonds. That method of finding local capital was wholly new to El Salvador and had met with success. In the case of Turkey, the Bank had assisted in finding a solution to the problem of furthering industrial development by private enterprise. As the result of preliminary study made on the spot by the Bank's experts, it had been decided that the best means of developing a capital market would be by setting up a new industrial development bank under private management with private and central bank funds at its disposal. The Bank had agreed to enter into negotiations with that body in order to supplement its local currency resources with foreign loans. The latter's function was to assist small industrial enterprise. It would have a competent technical advisory staff. The whole operation was carried out as an experiment, which the Bank had followed with the closest interest and attention from the start. He noted that the Sub-Commission rightly attached great importance to such methods of using domestic resources.

Cases might, however, occur where it would not be inappropriate for the Bank to provide foreign exchange to cover part of the local currency costs of a project, thus also in part covering the indirect impact on the country's balance of payments. The Bank was not precluded from engaging in such

operations, but would do so only if the borrowing country could fulfil certain conditions: namely, if it were sufficiently credit-worthy to be able to undertake a foreign exchange obligation in order to finance costs in local currency; if the proposed project were of such urgency as to make it advisable for the country to undertake foreign borrowing for its sake; if the local currency costs of the project could not be reasonably met by available domestic resources; and, finally, if it were clearly demonstrated that the execution of the project involved indirect foreign exchange requirements, arising from the loss of exports or from the need for increased imports in raw materials or in essential consumption goods for the purpose of preventing investment from having inflationary effects on the country's economy. Furthermore, the Bank would expect the borrowing country to find out of its own resources some part of the funds required to cover the domestic share of its investment expenditure.

He would again note that the Bank would not regard such operations as the usual and normal procedure. Not only does the Bank's Charter restrict this activity to "exceptional circumstances"; as explained previously, this restriction is considered to be sound and reasonable.

In general he would point out that the Bank took a broad view of what was meant by a "project". The latter need not necessarily be a large, single and "monumental" work. The Bank had, for instance, assisted the Indian government in acquiring additional rolling stock for its railway system and the Colombian government in purchasing agricultural machinery for use throughout the country. What was most important, from the Bank's point of view, was the economic justification for a project.

The Sub-Commission on Economic Development had in its report (E/CN.1/80) stressed the fact that projects should not necessarily be judged from the purely commercial standpoint but also from their social usefulness and from

their direct or indirect effects on a country's economy. The Bank had already expressed its agreement with that view. It considered that operations of a commercial nature should be carried out on commercial lines and that organizations set up to carry out any given project must be efficient, but that did not mean that it wished to limit its financial assistance solely to "self-liquidating" projects or programmes, in the ordinary commercial sense.

He would like to comment on the three main categories of projects defined by the Sub-Commission in its report (E/CN.1/80). With regard to general, privately financed industrial projects, the Bank felt that in appropriate cases it could share the burden with private enterprise. In dealing with economic overhead projects, the Sub-Commission had expressed the view that such projects would not be suited to the kind of services that the Bank could render. Certainly the Bank accepted the premise that basic resource projects should be assessed in long-range terms and with reference to secondary economic development. Within this framework, the financing of such projects was in fact one of the Bank's principal activities. As for the so-called social overhead projects, the Bank would not necessarily reject consideration of them, provided that they were demonstrably productive and linked to projects of an economic nature. Furthermore, if the Bank made a contribution to the first two types of project, it might well be that the country would itself be able to meet the cost of social overhead projects. It had to be clearly emphasized that the Bank was bound to give credit to governments or under government guarantee, so that national credit was always pledged in any transaction between the Bank and a government. The Bank had had to meet certain criticisms because it had several times suggested that projects should be put on a "self-liquidating" basis. For instance, when requested to finance the improvement of port facilities, the Bank might express its preference for the establishment of an efficient port authority rather than for administration by a mixed ministerial committee. The

advantage of setting up a port authority with financial autonomy was that authority's power to levy fees, by means of which a much-needed new source of revenue could accrue to the borrowing country. But such practical proposals were not in any way governed by a pre-conception limiting the Bank to "self-liquidating" projects only.

In judging the external payments capacity of countries, the Bank had to consider a country's balance of payments position as a whole in order to estimate its ability to service an external debt. The Sub-Commission claimed that if a country's balance of payments position was basically satisfactory, development projects need not be put on a "self-liquidating" basis. Unfortunately the converse was also true. If a country's position was basically unsatisfactory the Bank might have to conclude that the country was not credit-worthy even though the particular project would yield exports in an amount sufficient to service the loan.

The explicit provision that the Bank should lend to governments, or on a government guarantee, facilitated the consideration of priorities and the co-ordination of various projects. It should be kept in mind that though a great many projects might seem sound enough in terms of local currency, the country concerned might still not be in a position to service foreign debts on all of them. Consequently, priorities had to be established on the ^{economic} basis of/productivity and a general pattern of development projects had to be worked out which was consistent and well integrated. For example, it would not be economically sound to finance an irrigation project without also providing means of transport for the product. What was required was an integrated investment programme timed over a period of years in accordance with available resources. Such a programme could not be carried out all at once, but if a good start were made in building up national production, the economic position of each country concerned would be so improved as to be

able to sustain further development.

The task of building up an integrated programme was indeed challenging, and the Bank was prepared to assist in a number of different ways. Whenever it received an application, it studied the situation on the spot and endeavored to discover what stage had been reached in the general economic development of the country. Unfortunately, it had been the Bank's experience hitherto that insufficient attention had been paid to general aspects. He would in that connection recall that the Bank had sent an important technical assistance mission to Colombia a year previously. That mission had been composed of a number of experts who had studied the situation for six months and had spent a further six months writing a report which would shortly be published and which would prove of interest to members of the Council. But all the endeavors made under the United Nations expanded programme of technical assistance would prove vain, if they were not closely linked to vigorous national organizations able to heed advice and apply it. That kind of approach had often been lacking in the past. One of the major obstacles to the Bank's work was that programmes were submitted in inadequate form. Borrowers should not express surprise because the Bank, instead of passing judgment at once on a particular project, showed interest in the country's general economic problems and general economic situation. He had, therefore, in the light of the Bank's experience, been gratified to note that the Council deemed it advisable that problems should be viewed within their general context. That did not mean that the Bank would wish to demand five-year blue-prints. Had it done so, it would never yet have advanced any monies. But it must have a reasonably specific idea of what it was financing and how that fitted into the country's general development program.

Another of the Bank's difficulties was to obtain an adequate supply of soft currencies for lending purposes. The ever-increasing supply of goods

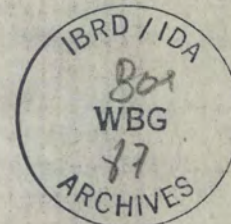
in Western Europe and the competition of those goods in world markets since devaluation meant that the under-developed countries could absorb an increasing flow of them. Part of it could be financed in terms of dollars, thus enabling western suppliers to find additional dollar-earning sources. The disadvantage of that procedure, however, was that it imposed a dollar obligation on the borrowing country to finance procurement in soft currency areas. Consequently, borrowers tended to seek soft currency financing for such procurement, reserving borrowing capacity in dollars for purchases in the United States. As long as currencies remained inconvertible, countries which had exhausted their credit in dollars might have soft currency earnings which would justify an application for loans in that kind of currency. He must note that that situation was due to the attitude of the borrowers and not of the Bank which, in accordance with the terms of its Articles of Agreement, was not allowed to tie loans to specific currencies. The Bank depended for its supply of lendable soft currencies on capital subscriptions or funds borrowed in financial markets. Either operation required the consent of the country concerned, but consent had been given reluctantly because countries were apprehensive of their balance of payments position. Some progress had, however, been made recently, and the Bank hoped to extend progressively the international character of its operations. The Bank had a role to play as a risk-taker in promoting the general international flow of capital. In view of present circumstances, improved access to soft currencies might prove to be an important factor in extending the scale of the Bank's activities.

Both on the basis of its Articles of Agreement and its experience the Bank believed in the importance of ensuring continuity in international investment and wholly agreed with the Group of Experts that serious fluctuations in investment were not desirable. The loans granted so far were only a first step in the Bank's relations with its members and it was to be hoped that

those relations would develop as economic development and internal productivity, the capacity to absorb foreign assistance, and the prospects of achieving a better international equilibrium improved. Continuity, however, should not be interpreted as being synonymous with stability or rigidity. Foreign capital needs varied in the capital-importing countries in accordance with their development trends, variation in the prices of their main export products, adaptation to market conditions and changes in overall resources. It would scarcely be feasible to conduct foreign lending according to rigid pre-determined quotas and yet maintain sound lending standards. It was implied in the Group of Experts' report that repayment capacity would increase proportionately to investment, but that would not necessarily be so if investment were based on the existing international disequilibrium. Investment to be useful must be so directed as to bring about structural changes in production so that both internal productivity and the external balance of countries might be improved. Nor could the Bank agree with the suggestion that its resources were inadequate at the present time. Its recent borrowing operations had encouraged it to believe that it can mobilize such funds as are now needed. Finally, on behalf of the Bank, he had to express a certain reluctance to discuss the proposals made by the Group of Experts with regard to the organization of its work. Such proposals would have to be discussed by the Bank's member governments. In principle, neither the Bank's organization nor its activities were unduly limited in scope, and he had indicated earlier the concrete obstacles which the Bank had met in performing the tasks allotted to it. It was to be hoped that the technical assistance programme would help to remove those obstacles. The fundamental aim of the Bank was to lend monies for such projects as would make the most effective contribution to economic development.

ADDRESS DELIVERED BY MR. J. BURKE KNAPP
before the
ANNUAL CONFERENCE OF THE MASSACHUSETTS ASSOCIATION OF SAVINGS BANK WOMEN
Boston, Mass., March 20, 1953

I. The International Bank is an international cooperative institution engaged mainly in promoting development of economic resources in undeveloped areas. Capital subscriptions gave us original lending funds. We now obtain lending funds through the sale of our own securities; bonds are backed by our assets and stand-by guarantee of 54-member governments, including \$2.5 billion call on U. S. Treasury. We hope never to fall back on guarantees —loans are worked out on sound economic and financial bases— we have loaned to date something over \$1.5 billion —77 loans in 29 countries. My particular experience is in Latin America —would like to illustrate Bank's activities by its work in that area.



II. The Bank has thus far made loans to 9 Latin American countries in the amount of \$375 million. The great bulk of this amount has been for power (\$290 million) with most of the remainder for transportation and agriculture. Brazil has been the largest Latin American borrower from the Bank —loans to Brazil total \$140 million, of which \$130 million has been for power. Loans to Mexico total \$100 million, of which \$90 million has been for power. Loans to Colombia have totaled \$55 million, including some power projects, but over \$40 million in this case for transportation. Tremendous potentialities of

Latin America in terms of supplying food and raw materials to the rest of the world, in terms of markets for more industrialized countries and in terms of the advancing welfare of its population. Latin America shares with other undeveloped areas in the world great aspirations for economic development. This concept has become implanted deeply in the minds of the people and, therefore, has become a principal political objective of Latin American governments. Sound economic development is probably the best antidote for political and social instability in Latin American countries. Should not think of Latin America as merely suppliers of food and raw materials -- is also making rapid strides in industrialization. This is essential ingredient in their efforts of raising living standards, but some danger of exaggeration because of nationalistic "prestige" considerations. The International Bank has made significant contribution to this development although to keep matters in proportion it must be recognized that great bulk of the resources has been provided by the Latin American countries themselves and by private foreign investment. Basic philosophy of International Bank is to finance development of basic facilities, such as power, transportation, food production, etc., in order to expand the opportunities for private economic activity.

III. Have just returned from several weeks in South America and might describe to you in more detail some of the problems which the Bank is helping to deal with in Brazil, Colombia and Perú. Brazil is a country which has been undergoing very rapid industrialization and general economic development. At the same time, it has no significant domestic fuel resources. This combination, as much as anything else, accounts for the severe strains in Brazil's balance of payments. One answer is development of hydroelectric power to which there is a large untapped potential in the country. The

International Bank has financed several important projects of this kind in Brazil and has several others under study. This includes projects being carried out by private companies, by local state enterprises and by the Federal Government. Might cite two examples: (1) there is the so-called Força Cava project near Rio de Janeiro, the mountains rise sharply from the sea near Rio and then slope gradually inland. Water flowing 20 miles West of Rio is drained off into this inland river system which eventually discharges into the sea 2,500 miles to the North. In order to operate the Força Cava project, this water is diverted through tunnels and canals to the Eastern side of the mountains where it then can be dropped 910 feet into the turbines of the new plant. This installation is designed to meet the acute power shortage now being encountered in Rio de Janeiro and the great neighboring industrial center of Sao Paulo. (2) A totally different project is being carried out by the Federal Government with the aid of the International Bank in the desolate and drought-stricken area in the Northeast of the country. Here in the middle of a wilderness, a great dam is being constructed which will divert water into the turbines of the power plant designed to bring new life and energy to the whole surrounding region. This power will serve to stimulate some of the light industry in the coastal cities of the Northeast, but its main future use will be for pumping water unto the parched lands and processing mineral resources which presently lie undeveloped in this region.

Colombia is a country the size of France, Spain, Switzerland and Denmark combined, but due to its extremely mountainous terrain its 11.3 million people are grouped in different parts of the country which remain geographically quite isolated. In recent years air transportation has begun to knit the country together but there are natural limitations on the extent to which trade and commerce can be conducted in this form. It has, therefore, been increasingly

recognized that more satisfactory railway and road communications are a vital necessity for the further economic development of this country. In April 10, 1951 a loan of \$16.5 million was made for highway development, and again in August 26, 1952, the Bank extended a loan of \$25 million to Colombia for railway construction. In both cases, there are extraordinary engineering problems because of the rough country which must be traversed, but there is no doubt in my mind that these facilities will much more than repay themselves in the stimulus which they will give to economic activity.

Although Perú is a country which needs additional power installations and more —at least better-maintained— highways, the central problem in Perú is agriculture. Here is a country undergoing very rapid economic expansion as a result of mineral development. This development largely being carried out by foreign private capital. The very liberal terms offered to such enterprises by the Peruvian Government is giving strong impetus to the whole economy and to the living standards of the Peruvian people. This, together with the natural increase in population, means increased food consumption, and Perú is coming increasingly to recognize the need for introducing better agricultural techniques and for expanding the area under cultivation.

The Bank has made one small loan to Perú for the acquisition of agricultural equipment and is contemplating another. It is also just finishing an intensive study of irrigation schemes designed to bring some of the desert areas in the coastal region into productive use.

JBKnapp:ehb
March, 1953.

Summary of an Address by J. Burke Knapp, Director of Operations for
the Western Hemisphere, International Bank for Reconstruction and Development, before
the Annual Conference of the Massachusetts Association of Savings Bank Women,
Boston, March 20, 1953

Development of the natural resources of Latin America will be of increasing importance to industrialized countries such as the United States, J. Burke Knapp, Director of Western Hemisphere Operations of the World Bank, today told the annual conference of the Massachusetts Association of Savings Bank Women. He said that development of this area will not only advance the welfare of the people of the countries themselves, but will provide industrialized nations with more food, raw materials and markets.

Tremendous opportunities for economic progress exist in the southern part of the hemisphere, Mr. Knapp stated. Latin America, he said, shares with other underdeveloped areas of the world great aspirations for economic development, and this concept has become implanted deeply in the minds of most Latin American peoples. He added that sound economic development is probably the best antidote to political and social instability in the area.

Mr. Knapp pointed out that promoting economic development is the principal business of the World Bank, an international cooperative institution owned by 54 member governments. To date the Bank has made 77 loans in 29 countries on 6 continents, totaling more than \$1-1/2 billion. In Latin America the Bank thus far has lent a total of about \$375 million to governments and private borrowers. These funds are helping to provide basic aids to production, mainly electric power stations, transportation systems, and improved methods of agriculture.

Mr. Knapp emphasized that the World Bank conducts its operations on a strict business-like basis. It makes only productive loans which borrowers can repay through their own efforts.

Mr. Knapp returned early this month from a seven-week trip to five of the Bank's member countries in South America. He gave examples of how Bank assistance is helping Latin American countries to solve some of their economic problems.

Brazil, he said, is undergoing very rapid industrialization despite an almost complete lack of domestic fuel resources. The Bank is helping to develop Brazil's great untapped hydroelectric potential by financing several important electric power projects. In one case, a dramatic feat of engineering is tunneling water from Brazil's inland rivers through the mountains along its coast to turn the turbines of a power plant in the Rio de Janeiro area. In the northeastern hump of Brazil, a large power dam is being built to feed industries in coastal cities, pump water onto parched lands, and process the mineral resources of that undeveloped region.

Mr. Knapp explained how Bank loans for development of railways and highways are helping Colombia to overcome serious transport difficulties, and said he had no doubt that these facilities would more than pay for themselves in the stimulus they will give to economic activity. Rapid development in Peru, he said, is creating a need for increased food production; the Bank has made one loan to Peru for agricultural machinery and is contemplating another.

While the World Bank is making a significant contribution to the economic development of Latin American countries, Mr. Knapp stated, the bulk of the funds is being provided by these countries themselves and through private investment. The basic philosophy of the Bank, Mr. Knapp pointed out, is to help provide key productive facilities in order to enlarge the opportunities for private economic activity.



INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

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

Address by J. Burke Knapp, Vice President,
International Bank for Reconstruction and Development,
before the Economic Conference
of the Organization of American States
Buenos Aires
August 20, 1957



Let me begin by expressing my gratitude that the World Bank has been invited to have a representative present at this Conference. We greatly appreciate, Mr. Chairman, the opportunity to hear and to participate in the discussion of economic matters that are of such great concern throughout the Hemisphere. We are deeply interested in any initiatives that are taken to strengthen, individually or collectively, the economies of the Latin American countries, and we share your hope that the Conference will accomplish important new advances in inter-American cooperation.

Latin America continues to be one of the great hopes on the world scene. With its abundant resources, its expanding population, and its fortunate geographical location, removed from the immediate shadow of the East-West conflict, it is a land of magnificent opportunities. In the period since the last economic conference, at Rio de Janeiro, according to statistics prepared by the Economic Commission for Latin America, production and income have been rising steadily among the American Republics as a whole. Even more encouraging, the Republics have maintained and even improved their capacity to import; a rising volume of exports has overcome the deterioration in the exceptionally favorable terms of trade that prevailed three years ago. At the same time, there is more production for internal consumption than ever before.

This progress has not been achieved without great efforts, however, and the picture has its darker sides. The rapid expansion of previous years has put the economies of some countries under pressures which they have not yet been able to overcome. Advances have certainly been made, but on the whole the pulse of growth is slower than it was. It may well be timely, therefore, for this Conference to give sober reflection to some of the difficulties that have arisen and to some of the factors which have stood in the way of a more rapid realization of the full potentialities of this Continent.

Mr. Chairman, the hours that stretch before the Conference are long; I shall therefore make my remarks brief. Indeed I shall advance only one proposition regarding the manifold subjects which are before you for discussion. My proposition relates to economic development and it is simply that economic development can and will be achieved by those countries who want it enough to channel the necessary domestic savings into productive investment.

Want it enough? Don't all countries obviously want it enough? Well, I am reminded of a remarkable speech delivered at a recent meeting of ECLA by a brilliant Latin American economist, Dr. Roberto Campos of Brazil. As Dr. Campos put it:

"For the Latin American countries there is no more dramatic or more urgent problem than that of economic development. It is more important than defence, since in this modern age defence capacity is a by-product of economic prosperity. It is even more important than social justice, because only by increasing productivity can wealth be increased."

You gentlemen, representing the Ministries of Finance, the Ministries of Economy, and the Central Banks of this Hemisphere know far better than I the harsh competition for budgetary funds which is implied in this statement. How many hopes for economic development have been frustrated by the overriding demands of military programs or by the clamor for higher standards of consumption before the investments which are necessary to sustain these standards have been made?

Productive investment in economic development -- this is the touchstone of economic progress. The fact that the great bulk of this investment must be derived from domestic savings has always been a commonplace in your discussions. It must be even more so today in view of the acute capital shortage which has developed even in the most advanced countries of the world. At its very best, external capital can supply only a small fraction of the total investment required for economic progress in the underdeveloped countries.

What is more, external capital inevitably tends to be drawn toward those countries which are themselves producing the maximum amount of savings for domestic investment. This is not because foreign sources of capital seek to reward the virtuous. It is simply because nothing more effectively reduces the risks of investment and enhances the credit of the country concerned. The flow of domestic savings combined with the foreign investment funds doubly strengthens the capacity of the borrowing country to repay. On the other hand, if there is a serious lack of domestic savings, this is almost always associated, both as cause and as effect, with inflation and monetary instability.

Before this expert and enlightened audience it would be superfluous for me to expand on the evils of inflation. Let me only assert that from the special point of view of us in the World Bank, one of its most deplorable consequences is the barrier which it erects between us and potential borrowers. It is often just during a time of inflation that a country is most anxious to supplement its resources by borrowing from the Bank. Yet the inflationary development itself is likely to prevent the proposed investment from accomplishing its purposes. For this and other reasons, it is also likely to increase the risks of lending beyond those which the Bank can prudently and reasonably incur in the absence of some fundamental reform in the economic and financial policies being pursued by the country concerned.

Inflation is sometimes attributed to over-investment, sometimes to over-consumption, sometimes to abuse of the monetary system. But from the point of

view of those of us dedicated to economic development, I believe it may most properly be attributed to under-saving, or the mis-direction of savings to un-productive purposes. It is true that most of the Latin American countries have achieved impressively high rates of savings in relation to national income. Yet even some of these countries are suffering from inflationary pressures, indicating that their savings are still inadequate in relation to the very high rates of investment which they are trying to maintain.

One thing we have found is that there is no close relation between the level of income and the rate of savings. Figures show that some poor countries, in Latin America and elsewhere, have been able to save proportionately more than relatively more prosperous ones. The rate of savings is not nearly so much a question of national income statistics as it is a question of the determination with which the objective of saving is pursued. Here is the first task of economic leadership in the countries seeking economic development.

The Bank hopes that it will be able to find opportunities for advising its member countries regarding the methods by which they might more effectively mobilize savings for productive investment. To take one example, we believe that, in a great many countries of Latin America today, an important opportunity to mobilize capital is being overlooked. I refer to the possibility of putting public utility services on a financial basis that would enable them to pay their own way and to expand as needs and markets grow.

There are many of these utilities, both public and private: electric power systems, irrigation works, rail services, and the like. It is a common characteristic of these utilities that they provide essential and indeed indispensable services at prices which are closely regulated and almost always far below their real value as measured by what the customer would pay if he had to. Many of these utilities have no earnings at all, but are operated at a loss. Others are permitted limited returns, but often returns calculated on

a rate base that has shrunk to insignificance as a result of currency depreciation.

The argument is sometimes made that it is in the interest of the public, and an aid to economic development, to provide utility services at artificially low prices; it is even argued that these low prices constitute a brake upon inflation. But this is an illusion. The costs of utility services are inescapable. If they are not met from charges to consumers, they usually become a drain upon the national budget. Here they absorb savings which might otherwise be available for productive investment; or when the budgetary deficit is partly covered by borrowing from the central bank -- as is commonly the case -- these supposedly anti-inflationary services in fact become direct contributors to the inflationary process.

For that matter, what good is it to have cheap service if the service is totally inadequate? In practice this is almost universally the result. To take railroads as an example; almost all of them in Latin America lose money; they are not adequately supported by their operating or other revenue; and hence capital is not available for their modernization and expansion. As a result, the transportation service they provide is antiquated, inefficient and even dangerous. Because it is so inadequate, no matter how cheap it may be, it is likely to cost the user more than efficient transportation would.

The case can be repeated through the whole range of public utilities. Whenever we have encountered serious shortages of electric power in Latin America, we have found inadequate power rates and insufficient power financing. Power rationing and power failures take a terrible toll of production, not to mention the cases in which productive enterprises are never launched because a source of power is not available. But production is the source of savings and the enemy of inflation. Again cheap but inadequate service works for inflation, not against it.

A minimum objective of sound economic policy must therefore be to put public utilities, whether public or private, on a financially self-supporting basis, that is, to allow them to charge rates which will cover their costs. This would at least eliminate the subsidies to these services which drain away from the public treasuries sums which might otherwise be available for productive investment. But more than this, I believe that public utilities, particularly in the field of electric power, should be turned into active generators of additional savings. This means that they must be permitted to fix rates which produce a surplus above their operating costs, thus creating net revenues which may be applied directly to investment in the improvement and expansion of their properties or may be utilized as the basis for raising fresh resources in the capital market. By analogy the same principles apply in the field of highway financing, where charges may be imposed upon consumers through gasoline and other user taxes in amounts sufficient to finance not only maintenance but also needed expansion of the highway network.

Please believe, Mr. Chairman, that I do not argue these ideas as matters of dogma or doctrine. I argue them as a matter of unavoidable necessity. The growth of Latin America is vitally dependent on the continuing expansion of public services. Over the next decade, the expenditures required for these services will run into the equivalent of many thousands of millions of dollars. In the field of electric power, for example, the requirements in most Latin American countries are expanding at the rate of at least 10% per annum. This means that installed capacity must be doubled every seven years to keep pace with the demand. I simply do not see any practical way to raise all of the capital that will be necessary for this purpose unless a substantial part of it is generated by the utilities themselves.

I have no desire to embarrass Dr. Campos by giving him too prolonged an "abraco", but I should like to quote once more from his remarks at the recent ECLA meeting. In speaking of what he called the "disequilibrium in the basic

services", he stated that: "This disequilibrium is due to prices and tariffs fixed by the authorities without taking into account the effects of the inflationary process.... It is fair to infer that the adoption of a rate system capable of covering the operating cost of the sectors of economic overhead, and even allowing surplus resources for expansion, produces a doubly favorable effect on the level of savings in the country. On the one hand, the elimination of the burden of subsidies intended to ensure the rendering of these services will increase the saving capacity of the Government; and on the other, the fact that these sectors will be able to finance their own expansion either in whole or in part, thereby ceasing to draw on public resources, will free funds for investment in other economic development projects. The painful experience of bottlenecks in energy and transport has gradually made us appreciate the problem much more realistically....We are now convinced that the erroneous application of subsidy prices to inflationary conditions characterized by bottlenecks has been a grave obstacle to economic development in Brazil and other Latin American countries."

I find this a very convincing analysis of the problem.

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Mr. Chairman, it was just about ten years ago that the Bank made its first development loans in Latin America -- two loans to Chile for power development and agriculture. Since that time, we have made 65 development loans in 15 different Latin American countries totalling in amount more than \$700 million. These funds have made an important contribution to the economic development of the area, particularly because they have been directed toward high priority investment objectives. Perhaps no single sector has been more important in Latin America during the past decade than power development, and here the Bank has been able to play what might be called not only an

important but a decisive role. Power projects which the Bank has helped to finance in Uruguay and Nicaragua have more than doubled the previously installed capacity in those countries. In Mexico and El Salvador the Bank's assistance has raised power capacity by 80-90%; and in Brazil and Chile we have participated in projects adding more than 50% to the previously existing installations.

Loans are only a part of the record. We have, in addition, been carrying out an extensive technical assistance program. That program has consisted in the preparation of comprehensive economic surveys, assistance in development programming, the establishment of resident missions to be available for consultation on matters of economic and financial policy, and the provision of technical advice and guidance on a wide range of particular development problems. In every way open to us, we have tried to help our member countries in Latin America to accelerate their economic progress, and on many occasions we have been told that our technical assistance had been just as valuable as our loan funds in achieving this objective.

The Bank's investment in the Latin American countries, as measured by the net disbursements which we make on loans in that area, has continued to increase year by year at an accelerating rate. In the year ending June 30, 1957, gross disbursements reached nearly \$100 million and since repayments were still quite small, net disbursements amounted to about \$80 million. While it is always hazardous to forecast future loan operations, I have no hesitation in saying that the number and variety of Latin American projects which are presently under consideration in the Bank lead to the expectation that this trend will continue. It also seems likely that in the coming fiscal year fresh loan commitments by the World Bank to the Latin American countries will achieve new high levels.

As you undoubtedly know, the International Finance Corporation, which is closely affiliated with the Bank, has been in operation for a little over a year. The Corporation was established to further economic development by investing -- without government guarantee -- in productive private enterprises in association with private investors who can provide competent management. In its early years the Corporation will invest in projects which are predominantly industrial. While in the nature of venture capital, its investments take the form of loans combined with some of the features of an equity investment. The Corporation now has 50 members and subscribed capital of \$92 million; all but three of the American Republics are members.

In June, the Corporation made its first transaction, a \$2 million investment in Siemens do Brasil, a subsidiary of Siemens of Germany, for expansion of the Brazilian company to manufacture heavy electric generating equipment. This week, the Corporation announced its second investment: the equivalent of \$600,000 (half in dollars and half in pesos) in Engranes y Productos Industriales, S.A., a Mexican company, for an expansion program in the production of automotive parts and other industrial components. In fact, it may be said that so far approximately half of the proposals received by the Corporation have related to projects in Latin America, and it is likely that the Corporation will make more investments there than in any other area, at least during the early years of its operations.

In closing let me recall again that the achievements by the Latin American countries in the last decade have cast into shadow those of any previous generation. The benefits of more production have been shared by more people than ever before; living standards throughout most of the region have advanced faster and farther than ever before. The Bank is privileged to have been associated with this forward movement. The pace at which the movement

continues is dependent on many factors. Undoubtedly the most important will be the efforts made by the developing countries themselves. If these efforts are courageous and determined, there are external collaborators, including I assure you the World Bank, willing and anxious to give further impetus to the development of the Hemisphere.

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INTERNATIONAL BANK FOR
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WORLD BANK



Address by J. Burke Knapp, Vice President,
International Bank for Reconstruction and Development,
before the Economic Conference
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Buenos Aires
August 20, 1957



Let me begin by expressing my gratitude that the World Bank has been invited to have a representative present at this Conference. We greatly appreciate, Mr. Chairman, the opportunity to hear and to participate in the discussion of economic matters that are of such great concern throughout the Hemisphere. We are deeply interested in any initiatives that are taken to strengthen, individually or collectively, the economies of the Latin American countries, and we share your hope that the Conference will accomplish important new advances in inter-American cooperation.

Latin America continues to be one of the great hopes on the world scene. With its abundant resources, its expanding population, and its fortunate geographical location, removed from the immediate shadow of the East-West conflict, it is a land of magnificent opportunities. In the period since the last economic conference, at Rio de Janeiro, according to statistics prepared by the Economic Commission for Latin America, production and income have been rising steadily among the American Republics as a whole. Even more encouraging, the Republics have maintained and even improved their capacity to import: a rising volume of exports has overcome the deterioration in the exceptionally favorable terms of trade that prevailed three years ago. At the same time, there is more production for internal consumption than ever before.

This progress has not been achieved without great efforts, however, and the picture has its darker sides. The rapid expansion of previous years has put the economies of some countries under pressures which they have not yet been able to overcome. Advances have certainly been made, but on the whole the pulse of growth is slower than it was. It may well be timely, therefore, for this Conference to give sober reflection to some of the difficulties that have arisen and to some of the factors which have stood in the way of a more rapid realization of the full potentialities of this Continent.

Mr. Chairman, the hours that stretch before the Conference are long; I shall therefore make my remarks brief. Indeed I shall advance only one proposition regarding the manifold subjects which are before you for discussion. My proposition relates to economic development and it is simply that economic development can and will be achieved by those countries who want it enough to channel the necessary domestic savings into productive investment.

Want it enough? Don't all countries obviously want it enough? Well, I am reminded of a remarkable speech delivered at a recent meeting of ECLA by a brilliant Latin American economist, Dr. Roberto Campos of Brazil. As Dr. Campos put it:

"For the Latin American countries there is no more dramatic or more urgent problem than that of economic development. It is more important than defence, since in this modern age defence capacity is a by-product of economic prosperity. It is even more important than social justice, because only by increasing productivity can wealth be increased."

You gentlemen, representing the Ministries of Finance, the Ministries of Economy, and the Central Banks of this Hemisphere know far better than I the harsh competition for budgetary funds which is implied in this statement. How many hopes for economic development have been frustrated by the overriding demands of military programs or by the clamor for higher standards of consumption before the investments which are necessary to sustain these standards have been made?

Productive investment in economic development -- this is the touchstone of economic progress. The fact that the great bulk of this investment must be derived from domestic savings has always been a commonplace in your discussions. It must be even more so today in view of the acute capital shortage which has developed even in the most advanced countries of the world. At its very best, external capital can supply only a small fraction of the total investment required for economic progress in the underdeveloped countries.

What is more, external capital inevitably tends to be drawn toward those countries which are themselves producing the maximum amount of savings for domestic investment. This is not because foreign sources of capital seek to reward the virtuous. It is simply because nothing more effectively reduces the risks of investment and enhances the credit of the country concerned. The flow of domestic savings combined with the foreign investment funds doubly strengthens the capacity of the borrowing country to repay. On the other hand, if there is a serious lack of domestic savings, this is almost always associated, both as cause and as effect, with inflation and monetary instability.

Before this expert and enlightened audience it would be superfluous for me to expand on the evils of inflation. Let me only assert that from the special point of view of us in the World Bank, one of its most deplorable consequences is the barrier which it erects between us and potential borrowers. It is often just during a time of inflation that a country is most anxious to supplement its resources by borrowing from the Bank. Yet the inflationary development itself is likely to prevent the proposed investment from accomplishing its purposes. For this and other reasons, it is also likely to increase the risks of lending beyond those which the Bank can prudently and reasonably incur in the absence of some fundamental reform in the economic and financial policies being pursued by the country concerned.

Inflation is sometimes attributed to over-investment, sometimes to over-consumption, sometimes to abuse of the monetary system. But from the point of

view of those of us dedicated to economic development, I believe it may most properly be attributed to under-saving, or the mis-direction of savings to un-productive purposes. It is true that most of the Latin American countries have achieved impressively high rates of savings in relation to national income. Yet even some of these countries are suffering from inflationary pressures, indicating that their savings are still inadequate in relation to the very high rates of investment which they are trying to maintain.

One thing we have found is that there is no close relation between the level of income and the rate of savings. Figures show that some poor countries, in Latin America and elsewhere, have been able to save proportionately more than relatively more prosperous ones. The rate of savings is not nearly so much a question of national income statistics as it is a question of the determination with which the objective of saving is pursued. Here is the first task of economic leadership in the countries seeking economic development.

The Bank hopes that it will be able to find opportunities for advising its member countries regarding the methods by which they might more effectively mobilize savings for productive investment. To take one example, we believe that, in a great many countries of Latin America today, an important opportunity to mobilize capital is being overlooked. I refer to the possibility of putting public utility services on a financial basis that would enable them to pay their own way and to expand as needs and markets grow.

There are many of these utilities, both public and private: electric power systems, irrigation works, rail services, and the like. It is a common characteristic of these utilities that they provide essential and indeed indispensable services at prices which are closely regulated and almost always far below their real value as measured by what the customer would pay if he had to. Many of these utilities have no earnings at all, but are operated at a loss. Others are permitted limited returns, but often returns calculated on

a rate base that has shrunk to insignificance as a result of currency depreciation.

The argument is sometimes made that it is in the interest of the public, and an aid to economic development, to provide utility services at artificially low prices; it is even argued that these low prices constitute a brake upon inflation. But this is an illusion. The costs of utility services are inescapable. If they are not met from charges to consumers, they usually become a drain upon the national budget. Here they absorb savings which might otherwise be available for productive investment; or when the budgetary deficit is partly covered by borrowing from the central bank -- as is commonly the case -- these supposedly anti-inflationary services in fact become direct contributors to the inflationary process.

For that matter, what good is it to have cheap service if the service is totally inadequate? In practice this is almost universally the result. To take railroads as an example; almost all of them in Latin America lose money; they are not adequately supported by their operating or other revenue; and hence capital is not available for their modernization and expansion. As a result, the transportation service they provide is antiquated, inefficient and even dangerous. Because it is so inadequate, no matter how cheap it may be, it is likely to cost the user more than efficient transportation would.

The case can be repeated through the whole range of public utilities. Whenever we have encountered serious shortages of electric power in Latin America, we have found inadequate power rates and insufficient power financing. Power rationing and power failures take a terrible toll of production, not to mention the cases in which productive enterprises are never launched because a source of power is not available. But production is the source of savings and the enemy of inflation. Again cheap but inadequate service works for inflation, not against it.

A minimum objective of sound economic policy must therefore be to put public utilities, whether public or private, on a financially self-supporting basis, that is, to allow them to charge rates which will cover their costs. This would at least eliminate the subsidies to these services which drain away from the public treasuries sums which might otherwise be available for productive investment. But more than this, I believe that public utilities, particularly in the field of electric power, should be turned into active generators of additional savings. This means that they must be permitted to fix rates which produce a surplus above their operating costs, thus creating net revenues which may be applied directly to investment in the improvement and expansion of their properties or may be utilized as the basis for raising fresh resources in the capital market. By analogy the same principles apply in the field of highway financing, where charges may be imposed upon consumers through gasoline and other user taxes in amounts sufficient to finance not only maintenance but also needed expansion of the highway network.

Please believe, Mr. Chairman, that I do not argue these ideas as matters of dogma or doctrine. I argue them as a matter of unavoidable necessity. The growth of Latin America is vitally dependent on the continuing expansion of public services. Over the next decade, the expenditures required for these services will run into the equivalent of many thousands of millions of dollars. In the field of electric power, for example, the requirements in most Latin American countries are expanding at the rate of at least 10% per annum. This means that installed capacity must be doubled every seven years to keep pace with the demand. I simply do not see any practical way to raise all of the capital that will be necessary for this purpose unless a substantial part of it is generated by the utilities themselves.

I have no desire to embarrass Dr. Campos by giving him too prolonged an "abraco", but I should like to quote once more from his remarks at the recent ECLA meeting. In speaking of what he called the "disequilibrium in the basic

services", he stated that: "This disequilibrium is due to prices and tariffs fixed by the authorities without taking into account the effects of the inflationary process.... It is fair to infer that the adoption of a rate system capable of covering the operating cost of the sectors of economic overhead, and even allowing surplus resources for expansion, produces a doubly favorable effect on the level of savings in the country. On the one hand, the elimination of the burden of subsidies intended to ensure the rendering of these services will increase the saving capacity of the Government; and on the other, the fact that these sectors will be able to finance their own expansion either in whole or in part, thereby ceasing to draw on public resources, will free funds for investment in other economic development projects. The painful experience of bottlenecks in energy and transport has gradually made us appreciate the problem much more realistically....We are now convinced that the erroneous application of subsidy prices to inflationary conditions characterized by bottlenecks has been a grave obstacle to economic development in Brazil and other Latin American countries."

I find this a very convincing analysis of the problem.

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Mr. Chairman, it was just about ten years ago that the Bank made its first development loans in Latin America -- two loans to Chile for power development and agriculture. Since that time, we have made 65 development loans in 15 different Latin American countries totalling in amount more than \$700 million. These funds have made an important contribution to the economic development of the area, particularly because they have been directed toward high priority investment objectives. Perhaps no single sector has been more important in Latin America during the past decade than power development, and here the Bank has been able to play what might be called not only an

important but a decisive role. Power projects which the Bank has helped to finance in Uruguay and Nicaragua have more than doubled the previously installed capacity in those countries. In Mexico and El Salvador the Bank's assistance has raised power capacity by 80-90%; and in Brazil and Chile we have participated in projects adding more than 50% to the previously existing installations.

Loans are only a part of the record. We have, in addition, been carrying out an extensive technical assistance program. That program has consisted in the preparation of comprehensive economic surveys, assistance in development programming, the establishment of resident missions to be available for consultation on matters of economic and financial policy, and the provision of technical advice and guidance on a wide range of particular development problems. In every way open to us, we have tried to help our member countries in Latin America to accelerate their economic progress, and on many occasions we have been told that our technical assistance had been just as valuable as our loan funds in achieving this objective.

The Bank's investment in the Latin American countries, as measured by the net disbursements which we make on loans in that area, has continued to increase year by year at an accelerating rate. In the year ending June 30, 1957, gross disbursements reached nearly \$100 million and since repayments were still quite small, net disbursements amounted to about \$80 million. While it is always hazardous to forecast future loan operations, I have no hesitation in saying that the number and variety of Latin American projects which are presently under consideration in the Bank lead to the expectation that this trend will continue. It also seems likely that in the coming fiscal year fresh loan commitments by the World Bank to the Latin American countries will achieve new high levels.

As you undoubtedly know, the International Finance Corporation, which is closely affiliated with the Bank, has been in operation for a little over a year. The Corporation was established to further economic development by investing -- without government guarantee -- in productive private enterprises in association with private investors who can provide competent management. In its early years the Corporation will invest in projects which are predominantly industrial. While in the nature of venture capital, its investments take the form of loans combined with some of the features of an equity investment. The Corporation now has 50 members and subscribed capital of \$92 million; all but three of the American Republics are members.

In June, the Corporation made its first transaction, a \$2 million investment in Siemens do Brasil, a subsidiary of Siemens of Germany, for expansion of the Brazilian company to manufacture heavy electric generating equipment. This week, the Corporation announced its second investment: the equivalent of \$600,000 (half in dollars and half in pesos) in Engranes y Productos Industriales, S.A., a Mexican company, for an expansion program in the production of automotive parts and other industrial components. In fact, it may be said that so far approximately half of the proposals received by the Corporation have related to projects in Latin America, and it is likely that the Corporation will make more investments there than in any other area, at least during the early years of its operations.

In closing let me recall again that the achievements by the Latin American countries in the last decade have cast into shadow those of any previous generation. The benefits of more production have been shared by more people than ever before; living standards throughout most of the region have advanced faster and farther than ever before. The Bank is privileged to have been associated with this forward movement. The pace at which the movement

continues is dependent on many factors. Undoubtedly the most important will be the efforts made by the developing countries themselves. If these efforts are courageous and determined, there are external collaborators, including I assure you the World Bank, willing and anxious to give further impetus to the development of the Hemisphere.

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DISCURSO PRONUNCIADO POR EL SEÑOR J. BURKE KANPP,
VICEPRESIDENTE DEL BANCO INTERNACIONAL DE RECONSTRUCCION
Y FOMENTO, EN LA CUARTA SESION PLENARIA CELEBRADA EL
20 DE AGOSTO DE 1957



1. Permítaseme comenzar con una expresión de gratitud por la invitación extendida al Banco Mundial para que un representante suyo esté presente en esta Conferencia. Agradecemos sinceramente, Sr. Presidente, la oportunidad de oír y participar en la discusión de asuntos económicos que son tema de tanta monta en todo el Hemisferio. Nos interesa profundamente toda iniciativa que se tome para robustecer, individual o colectivamente, las economías de los países latinoamericanos, y en común con todos los presentes, abrigamos la misma esperanza de que esta Conferencia realice notables progresos en la esfera de la cooperación interamericana.

2. La América Latina sigue constituyendo una de las grandes esperanzas de la escena mundial. Sus abundantes recursos, su población creciente y su ubicación geográfica, distante de la amenaza que presenta el conflicto entre el este y el oeste, hacen de ella una tierra de magníficas oportunidades. En el lapso transcurrido desde la Conferencia Económica anterior en Río de Janeiro, y de acuerdo con estadísticas elaboradas por la Comisión Económica para América Latina, la producción y el ingreso, han venido aumentando constantemente en todas las Repúblicas Americanas. Y lo que es más alentador aún es que estas Repúblicas han mantenido y aún mejorado su capacidad para importar: el creciente volumen de las exportaciones ha contrarrestado la deterioración en los términos de intercambio excepcionalmente favorables que prevalecían hace tres años. Al mismo tiempo, la producción para consumo interno es ahora mayor que nunca.

3. Sin embargo, este progreso no ha sido logrado sin grandes esfuerzos, y el cuadro tiene también su lado difícil. La rápida expansión de los años anteriores ha ejercido sobre las economías de algunos países presiones que algunos de ellos no han podido aún superar. Desde luego, ha sido posible lograr ciertos avances, pero, en general, el ritmo de crecimiento es ahora más lento que antes. Puede ser oportuno, por tanto, que esta Conferencia reflexione tranquilamente sobre algunas de las dificultades que han surgido y sobre algunos de los factores que han impedido la realización plena en un lapso más corto de las potencialidades que ofrece este continente.

4.- Aquí he de limitarme, señor Presidente, a presentar sólo breves observaciones. He de sugerir tan sólo una proposición respecto a los múltiples temas de discusión que están sobre la mesa. Ella se refiere al desarrollo económico, y consiste, simplemente, en que tal desarrollo puede y debe lograrse en aquellos países que, por desearlo con suficiente intensidad, estén dispuestos a encauzar hacia inversiones productivas el ahorro interno.

5. ¿Con suficiente intensidad? No es obvio que todos los países así lo desean? A propósito, recuerdo un notable discurso pronunciado en una reunión reciente de la CEPAL por un brillante economista latinoamericano, el Dr. Roberto Campos, del Brasil. Como decía el Dr. Campos:

6. "No hay problema de mayor trascendencia ni más urgente para los países latinoamericanos que el desarrollo económico. Es más importante que el problema de la defensa, puesto que hoy en día la capacidad de defenderse es un subproducto de la prosperidad económica. Es aún más importante que la justicia social, pues sólo a través del incremento de la productividad puede incrementarse la riqueza".

7. Los caballeros aquí presentes que representan a los Ministerios de Hacienda, los Ministerios de Economía y los Bancos Centrales del Hemisferio, saben mejor que yo de la áspera competencia para obtener fondos presupuestarios que esta afirmación implica. Cuántas esperanzas de desarrollo económico se han frustrado ante las demandas arrolladoras de los programas militares o por el clamor de mayores niveles de consumo antes de que hayan sido hechas las inversiones necesarias para mantener esos niveles.

8. Inversiones productivas en el desarrollo económico -he ahí la piedra de toque del progreso económico. El hecho de que la mayor parte de estas inversiones tenga que derivarse del ahorro interno ha sido siempre un lugar común en discusiones como éstas, y lo es aún más hoy, en vista de la grave escasez de capital que se ha producido aún en los países más avanzados del mundo. En el mejor de los casos, el capital extranjero puede suministrar sólo una pequeña fracción del total de la inversión requerida para el progreso económico en los países subdesarrollados.

9. Y lo que es más, el capital extranjero tiende inevitablemente a afluir hacia aquellos países que producen la mayor cantidad de ahorros para inversión interna. Esto no ocurre porque las fuentes extranjeras de capital traten de premiar la virtud. Se debe simplemente a que nada reduce con mayor efectividad los riesgos de una inversión, ni ensancha más el crédito de un determinado país, que el alto volumen de los ahorros internos. El flujo de los ahorros internos combinado con los fondos de inversión extranjera, robustece doblemente la capacidad de pagar del país prestatario. De otra parte, si ocurre una seria escasez de ahorros internos, ésta casi siempre va asociada, simultáneamente como causa y como efecto, a la inflación y la inestabilidad monetaria.

10. Ante una reunión de expertos y de personalidades de tanto prestigio como la presente, sería supérfluo que yo me extendiera a tratar de los peligros de la inflación. Permítaseme tan sólo manifestar que, desde el punto de vista del Banco Mundial, una de las más deplorables consecuencias de la inflación es, precisamente, la barrera que erige entre los presuntos prestatarios y el organismo financiero. Ocurre con frecuencia que precisamente durante una época de inflación es cuando los países se muestran más ansiosos de suplementar sus recursos mediante préstamos del Banco. Y con todo, el desarrollo inflacionario tiende a crear los obstáculos que impiden que la inversión propuesta realice los propósitos deseados. Por ésta y otras razones, también ocurre que la inflación aumente los riesgos del préstamo más de lo que el Banco considere como prudente y razonable en incurrir, a menos que se efectúe alguna reforma fundamental en la política económica y financiera que esté siguiendo el país en cuestión.

11. A veces se atribuye la inflación a un exceso de inversiones, a veces a un exceso de consumo, a veces a abusos en el sistema monetario. Pero desde el punto de vista de quienes estamos dedicados al desarrollo económico, yo creo que, con mayor razón, puede atribuirse al bajo volumen de ahorros o a una equivocada aplicación de ellos, encauzándolos hacia fines improductivos. Es verdad que muchos de los países latinoamericanos han logrado niveles de ahorro notablemente altos en relación al ingreso nacional. Sin embargo, algunos de estos países están sufriendo presiones inflacionarias que indican que su ahorro interno es aún inadecuado en relación con el alto nivel de inversiones que tratan de obtener.

12. La experiencia nos muestra que no hay una estrecha relación entre el nivel del ingreso y la tasa de los ahorros. Las estadísticas muestran que algunos países pobres en la América Latina y en otras partes, han sido capaces de ahorrar proporcionalmente más que otros países relativamente más prósperos. La tasa del ahorro no es tanto una cuestión de estadísticas del ingreso nacional, sino más bien el reflejo del esfuerzo para lograrlo. Esta es la primera tarea para aquéllos que inspiran la política económica en los países que estén buscando el desarrollo económico.

13. El Banco confía en que habrá oportunidades de asesorar a los países miembros acerca de los métodos más efectivos de movilizar los ahorros hacia inversiones productivas. Por ejemplo, creemos que en muchos de los países latinoamericanos se está descuidando una oportunidad importante de movilizar el capital. Me refiero a la posibilidad de colocar a las empresas de servicio público sobre bases financieras que las capaciten para cubrir el costo de sus operaciones y para ampliar sus actividades a medida que aumenten las necesidades y los mercados.

14. Hay muchas de estas empresas de servicio público, tanto del gobierno como particulares: los sistemas de energía eléctrica, las obras de riego, los servicios ferroviarios, y otros semejantes. Es característica común de estas empresas que ellas suministran servicios esenciales y, en verdad indispensables, a precios que están sujetos a una

estricta regulación y que casi siempre están por debajo de su nivel real en relación con lo que el público pagaría si fuera preciso cobrar tal precio. Muchas de estas empresas no perciben utilidades y funcionan con un déficit constante. A otras se les permite un rendimiento limitado, con frecuencia calculado sobre una base de capital que se ha reducido a un monto insignificante como resultado de la depreciación de la moneda.

15. A veces se aduce el argumento de que es de conveniencia para el público, y que ayuda al desarrollo económico, el suministro de servicios públicos a precios artificialmente bajos; y aún se arguye que estas tarifas constituyen un freno a la inflación. Pero ello es mera ilusión. El costo de los servicios públicos es inevitable. Si el costo no sale de las tarifas que pagan los consumidores, con frecuencia se convierte en una carga para el presupuesto nacional. Y así absorbe los ahorros que de otra manera podrían destinarse a inversiones productivas; o cuando el déficit presupuestario es cubierto en parte mediante préstamos del Banco Central - como ocurre con frecuencia - estos servicios supuestamente antiinflacionarios se convierten de hecho en factores directos del proceso de inflación.

16. Así las cosas, ¿de qué sirve tener un servicio barato si es totalmente inadecuado? Y en realidad éste es el resultado casi universal. Para usar los ferrocarriles como un ejemplo, se sabe que casi todos ellos funcionan con déficit en la América Latina; no se puede mantener adecuadamente el servicio con los ingresos derivados de su funcionamiento; y por lo tanto, no hay capital disponible para su modernización y expansión. Como resultado, el servicio de transporte que ofrecen los ferrocarriles es inadecuado, ineficiente y aún peligroso, y, por barato que sea, resulta costándole más al público de lo que le costaría un transporte eficiente.

17. El caso podría repetirse en toda la escala de los servicios públicos. Donde quiera que hemos encontrado una fuerte escasez de fuerza eléctrica en la América Latina, hemos hallado también tarifas inadecuadas e insuficiente financiación de la energía. El racionamiento de la energía eléctrica y las fallas en el servicio producen terribles pérdidas en la producción, para no mencionar los casos de empresas productivas que nunca se iniciaron debido a la carencia de una fuente de energía. La producción es la creadora del ahorro y la enemiga de la inflación. Y así los servicios baratos e inadecuados influyen a favor de la inflación y no contra ella.

18. Objetivo mínimo de una política de sana economía debe ser, por tanto, colocar a las empresas de servicio público, bien sean oficiales o particulares, sobre bases financieras de autosuficiencia, es decir, permitirles fijar tarifas que cubran sus costos de funcionamiento. Esto eliminaría al menos los subsidios a estos servicios, que sustraen de las tesorerías nacionales sumas que en otras circunstancias serían utilizables en inversiones productivas. Pero aún más, yo creo que las empresas de servicio público, particularmente en el campo de la

energía eléctrica, deben convertirse en generadores activos de ahorros adicionales. Esto quiere decir que debe permitírseles fijar tarifas que produzcan un superavit sobre los costos de operación, creando así un ingreso neto que pueda aplicárse directamente a inversiones para mejorar y ampliar las propiedades de las empresas o que pueda ser utilizado como base para obtener nuevos fondos en los mercados de capital. Por analogía, los mismos principios son aplicables a la financiación de carreteras, en que los gastos pueden pasarse al consumidor mediante impuestos a la gasolina o en otra forma, en cantidades suficientes para financiar no sólo el mantenimiento sino también la expansión de la red vial.

19. Créame, señor Presidente, que yo no defiendo estas ideas como cuestión de dogma o de doctrina. Las presento como un tema de inevitable necesidad. El crecimiento de la América Latina depende vitalmente de la continua expansión de los servicios públicos. En el curso de la próxima década, las erogaciones requeridas para estos servicios han de montar al equivalente de muchos miles de millones de dólares. En el campo de la energía eléctrica, por ejemplo, las necesidades de la mayoría de los países latinoamericanos están aumentando en un 10% anual por lo menos. Esto quiere decir que la capacidad instalada tiene que ser duplicada cada siete años para mantenerse al par de la demanda. Francamente, yo no veo una forma práctica para levantar todo el capital que ha de necesitarse con este objeto, a menos que una parte sustancial de él sea generada por las empresas mismas.

20. No es mi empeño hacer sonrojar al doctor Campos al darle un "aplauso" demasiado prolongado, pero quisiera una vez más citar parte de las observaciones que pronunció en la reciente reunión de la CEPAL. Al hablar de lo que él llama "el desequilibrio de los servicios básicos", afirmó que: "Este desequilibrio se debe a precios y tarifas fijados por las autoridades sin tener en cuenta los efectos del proceso inflacionario....." Bien puede suponerse que la adopción de un sistema de tarifas capaz de cubrir los costos de funcionamiento de los sectores de la infraestructura económica, y aún dejando un margen de recursos para expansión, produce un efecto doblemente favorable en el monto de los ahorros del país. Por una parte, la eliminación de la carga de subsidios destinados a asegurar la prestación de estos servicios, vendrá a aumentar la capacidad de ahorro del gobierno; y por otra parte, el hecho de que estos sectores estén capacitados para financiar su propia expansión en todo o en parte, dejando así de recurrir a los recursos públicos, liberará fondos que podrán invertirse en otros proyectos de desarrollo económico. La dolorosa experiencia experimentada como consecuencia de la escasez de energía y transportes, nos ha hecho comprender el problema cada vez con mayor realismo..... Estamos ya convencidos de que la aplicación errónea de precios de subsidio a condiciones inflacionarias caracterizadas por los "cuellos de botella", ha constituido un grave obstáculo para el desarrollo económico del Brasil y de otros países latinoamericanos".

21. Para mí este es un análisis muy convincente del problema.

22. Señor Presidente, hace aproximadamente diez años que el Banco hizo sus primeros préstamos de fomento en la América Latina: dos préstamos a Chile para el desarrollo de fuentes de energía y para la agricultura. Desde entonces hemos hecho 65 préstamos para fines de desarrollo en 15 países latinoamericanos, que pasan de \$ 700 millones de dólares. Estos fondos han constituido una contribución importante al desarrollo económico de la región, particularmente porque han sido encauzados hacia objetivos de inversión que tienen alta prioridad. Quizá ningún otro sector ha sido más importante en la América Latina durante esta década que el desarrollo de energía eléctrica, y en ese ramo el Banco ha podido desempeñar un papel que podría llamarse no sólo importante sino decisivo. Los proyectos de energía que el Banco ha ayudado a financiar en Uruguay y en Nicaragua han servido para aumentar a más del doble la capacidad previamente instalada. En México y El Salvador, la ayuda del Banco ha incrementado la capacidad de energía de un 80 a un 90% ; y en Brasil y Chile hemos participado en proyectos que aumentan en más del 50% la capacidad de las instalaciones antes existentes.

23. Y los préstamos han sido tan sólo parte de nuestra tarea. Además, hemos llevado adelante un extenso programa de asistencia técnica. Tal programa ha consistido en la preparación de estudios económicos comprensivos, la ayuda en programar el desarrollo, el establecimiento de misiones residentes que sirven de consultoras en política económica y financiera, y la provisión de consejo técnico en un amplio número de problemas específicos de desarrollo económico. En todos los campos posibles hemos tratado de ayudar a los países miembros de la América Latina a acelerar su progreso económico, y en muchas ocasiones se nos ha dicho que nuestra asistencia técnica ha sido tan valiosa como los dineros que hemos prestado.

24. Las inversiones del Banco en los países latinoamericanos a la luz de los desembolsos netos hechos en los préstamos en la región, han continuado en aumento año por año a un ritmo acelerado. En el año que terminó el 30 de junio último, los desembolsos brutos llegaron a cerca de 100 millones de dólares y, puesto que los vencimientos han sido hasta ahora muy pequeños, los desembolsos netos llegaron a unos 80 millones de dólares. Aún cuando siempre es azaroso anunciar operaciones futuras de préstamos, no vacilo en aseverar que el número y la diversidad de los proyectos latinoamericanos que tenemos en consideración actualmente en el Banco, permiten esperar que esta tendencia ha de continuar. También parece que en el próximo año fiscal los nuevos compromisos de préstamo del Banco Mundial a los países latinoamericanos han de llegar a niveles más altos que nunca.

25. Como ustedes sin duda saben la Corporación Financiera Internacional, vinculada muy de cerca al Banco, ha estado funcionando ya por más de un año. La Corporación fué creada para incrementar el desarrollo económico mediante inversiones -sin garantía gubernamental- en empresas privadas productivas, en asocio de inversionistas particulares que puedan aportar una administración competente. En sus primeros años la Corporación invertirá en proyectos que sean preponderantemente industriales. Aún cuando sus inversiones tengan el carácter

de capital de riesgo, toman la forma de préstamos que tienen algunas de las características de la inversión directa de capital. La Corporación cuenta con 50 miembros y un capital pagado de 92 millones de dólares; todas salvo 3 de las repúblicas americanas son miembros de la Corporación.

26. En junio, la Corporación hizo su primera transacción: una inversión de 2 millones de dólares en Siemens do Brasil, subsidiaria de Siemens de Alemania, para la expansión de la empresa brasileña dedicada a la manufactura de equipo pesado para generar electricidad. Esta semana la Corporación anunció su segunda inversión: el equivalente de 600 mil dólares (la mitad en dólares y la mitad en pesos mexicanos) a Engranes y Productos Industriales, S.A., compañía mexicana, para un programa de expansión de la producción de partes de automóviles y otros componentes industriales. En realidad, podría decirse que hasta ahora aproximadamente la mitad de las propuestas recibidas por la Corporación se relacionan con proyectos en América Latina, y al parecer, la Corporación hará más inversiones en esta región que en cualquier otra, al menos durante los primeros años de su funcionamiento.

27. Para terminar, permítaseme reiterar que las conquistas de los países de la América Latina en la última década han superado las de cualquiera de las generaciones anteriores. Los beneficios de una producción mayor han sido disfrutados por más gentes que nunca antes; los niveles de vida de casi toda la región han avanzado más a prisa y han ido más lejos. El Banco ha tenido el privilegio de estar asociado a este movimiento progresivo. El ritmo al cual este movimiento continúe depende de muchos factores. Sin duda el más importante ha de ser el esfuerzo que hagan los propios países en desarrollo. Si estos esfuerzos son valientes y resueltos vendrán los colaboradores externos, inclusive, les aseguro a ustedes, el Banco Mundial, dispuestos y ansiosos de acelerar el ímpetu del desarrollo en el Hemisferio.

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Speech for Delivery by J. Burke Knapp at Panel Discussion of National Industrial Conference Board, to be held in New York on Thursday, May 21, 1959

"Capital for Latin America" - this is a big title and it refers to a vast continent. I can scarcely do it justice in a short talk, so I must rapidly trim it down to size. Hence I'm not going to be historical or statistical - most of the facts and figures you know already or have just heard from Mr. Sammons. Neither am I going to be lyrical - the investment opportunities in Latin America will speak for themselves or through pioneer spirits like Messrs. Balgooyen and Moore. My remarks mainly bear upon the question of how our Latin American friends can best create an economic environment favorable to economic growth and to accumulation of the capital which they so keenly and rightly desire.

Mr. Sammons has given us the benefit of a long-range forecast based on the assumption that there may be an increase in per capita production in Latin America of as much as 2% per annum; on this basis the total gross national product of the area would more than double by 1975. Mr. Sammons suggests that growth in accordance with this pattern might be accompanied and supported by a continuing inflow of capital into Latin America from the United States, reaching by 1975 some 2 to 2½ billion dollars (net) each year.

I am certainly not going to challenge Mr. Sammons' prognostication, which may or may not be too optimistic with regard to the actual growth which will take place in the area. I am perfectly convinced however that the growth potential of Latin America would enable these figures to be fully achieved or indeed exceeded if the Governments of the area were to pursue sound economic and financial policies conducive to these results.

The significant growth which has taken place in Latin America since World War II has been the product of relatively favorable world-wide economic conditions, plus a strong drive by the countries concerned to exploit this opportunity for developing and diversifying their economies. At the same time, many countries of the area have pursued economic and financial policies which have not been sound and which have set up deterrents to economic growth. The damaging effects of some of these policies have recently become more and more apparent both because these effects are sometimes delayed, and also because the deterioration of world economic conditions (especially in world markets for some of the commodities which are extensively produced in Latin America) has tended to lay bare any weaknesses which may have existed.

Perhaps the most serious deficiency in economic management in many of the Latin American countries has been the tendency to resort to inflationary financing of public expenditures. These practices have sometimes been defended and justified on the grounds that they were appropriate or even necessary to accelerate public investment and hence economic development in general. By now, however, it has become almost universally recognized that the consequences are quite the reverse, except possibly for an initial period before inflation has undermined public confidence in the currency. Latin America has had its bout of inflation, and if the plague still runs its course in some parts of the region, it is no longer because doctors have prescribed it but rather because the body politic is too weak to resist it.

How does all this affect the matter of future capital needs? Frequently this subject is approached first by choosing a certain percentage figure (1 or 2 or 3%), representing what is judged to be the desirable annual increase in per capita production in a given country; then assumed ratios between capital and output are used to calculate the investment requirements associated with this expansion in production; next a guess is made as to how much domestic savings may become available to finance this investment; and the residual figure becomes the "need", all too often the scientifically-appraised and morally-justified "need" for foreign capital. The latter figure is obviously the resultant of a number of factors, small changes in which can produce extraordinary swings in the final residual. Often these calculations are merely rationalisations for some pre-selected figure which the author happens to believe is "right" or politically feasible as a measure of foreign capital requirements.

~~I have no desire to compete in this numbers game and I can't believe that you would find it enlightening if I did so. The game too often deteriorates into little more than a political auction, [as illustrated by the latest bid introduced into Inter-American economic discussion by Fidel Castro, who recently spoke out for the round figure of \$30 billion of U.S. aid to Latin America during the coming ten years.]~~ out

Indeed, if it is a question of international grants in aid, there is a great deal of room for the political approach. However, almost all responsible leaders of Latin American opinion have been strong in their insistence that they are not seeking handouts but are quite prepared to render appropriate rewards to the capital which is provided from abroad. Within this sort of framework, I would suggest a very different approach to the calculation of external capital "needs". This approach would start by considering the amount of domestic savings in Latin America which might be mobilized for investment; add the amount of foreign capital which might be attracted, and on which service might be provided without imposing an undue burden on the balance of payments; and then arrive at a rough estimate of the expansion in income and output which might be achieved from the investment of these funds in productive uses. While this latter calculation would remain subject to a wide margin of uncertainty, I would myself have great faith that in most of the Latin American countries - exception would probably have to be made for only two or three - an investment program of this kind would yield a very rewarding and gratifying rate of economic progress.

But this alternative approach assumes that all reasonable measures will be taken to maximize the flow of domestic savings and mobilize them for productive investment. These purposes cannot be effectively accomplished unless there is a sound medium for such savings, i.e., a stable currency. In those countries which in Latin America and elsewhere have fallen victim to chronic inflation, the flow of savings - and even more, the flow of savings into productive investment - has tended to slacken and eventually to dry up. This is abundantly shown by the experience of public utility enterprises in these countries, which find themselves unable to raise funds for expansion of their properties through the sale of bonds or other obligations. One of the consequences is that the task of providing utility services tends to fall more and more into the hands of Governments who are, however, already overburdened with other kinds of public expenditures. Thus

Governments are driven even more deeply into the vicious circle of deficit financing which in turn gives fresh stimulus to inflation.

It is not merely the quantity of investment that counts, but also its quality. Economic growth can only be achieved by productive investment designed to expand the output of useful goods and services. Perhaps one of the worst consequences of currency inflation is that it incites investment in purely speculative ventures (urban real estate for example) which, with their promise of quick and easy profits, divert both money and energies away from productive enterprise. Again, Governments are tempted to redress the balance by launching industrial undertakings which they are ill-equipped to build or administer. In some countries in Latin America the so-called capital-output ratios would have been significantly improved in recent years if Governments had merely abstained from sinking money into ventures of this kind.

The first answer therefore to the question of where Latin America is to find capital for its economic development is that the great bulk of this capital must inevitably be generated internally, and that it is the first task of economic management in Latin American countries to cultivate conditions in which the savings of the people will be harnessed effectively to the financing of productive activities.

But, what about the international aspect? Cannot economic development in Latin America be accelerated by the timely injection of foreign capital? What can recipient countries do to encourage this inflow? And what is the proper distribution as between public and private sources of investment funds?

There are certainly rich opportunities in Latin America for foreign capital, both public and private; capital is scarce throughout the area and the potential returns are correspondingly high. On the other side of the ledger, risks will seem high unless the recipient countries pursue policies carefully designed to promote economic stability and to cultivate investors' confidence. There should be no mystery about these policies; they are very much the same as those required to promote a high level of domestic savings and investment.

In the usual case, the foreign investor will not find it difficult to obtain reasonable assurance that his money will earn a return in the currency of the country where his investment is to be made. His main concern will be whether or not this return can be transferred into foreign exchange. If he is fortunate enough to be engaged in an extractive industry where he exports the product and simply remits back to the country enough to cover his operating expenses and taxes there, the problem of transferability is neatly solved. No doubt this circumstance helps to account for the prominent place which extractive industry plays in United States investment in Latin America as well as in other undeveloped countries. Failing this automatic mechanism for securing the transfer of his return, the investor must rely upon the capacity of the country concerned to earn foreign exchange and its willingness to allocate this exchange for the service of foreign investments. Hence our prospective investor comes to have a deep concern in all aspects of the balance of international payments of the country in which he proposes to invest.

In any appraisal of a country's balance of payments prospects, the central issue again becomes the quality of that country's economic management, especially in fiscal and monetary affairs. Nothing is more damaging to a country's external credit than the threat of internal inflation, characteristically accompanied by an over-valued exchange rate which stimulates artificially large import demands and destroys the country's competitive position in export markets. Some countries have sought an escape from this problem in the direction of "import substitution", meaning the forced-draft development of local industries intended to substitute home production for imported goods. However, the result has often been excessive investment in inefficient plant, thus weakening rather than strengthening the country's basic economic position. The foreign investor will derive far more encouragement from seeing a mounting stream of export earnings than from seeing an artificially restricted flow of import goods.

Lest the foregoing comments seem in a pessimistic vein, I hasten to add that the lessons to be drawn from the case histories of monetary mismanagement have by no means been lost upon the Latin American countries. Many of these countries can exhibit a proud record of currency stability, and in many other countries where excesses have occurred, there has recently been a strong swing in the direction of more sensible monetary policies. Indeed there has been launched a striking series of currency stabilization programs in Latin America which are full of promise for the future. Chile was perhaps the first country to foreswear inflation as an instrument of national economic policy after having passed through an inflationary cycle which has carried the Chilean peso from the equivalent of 32 to the dollar at the end of World War II to more than 1,000 to the dollar today. [(I draw the veil over what has happened to the dollar itself in the same period!)] Now Chile, under President Alessandri, like Colombia, under President Lleras Camargo, and most strikingly Argentina, under President Frondisi, is making a valiant effort to restore its currency to a sound basis. It is perhaps significant to note that currency stabilization programs have attained such supreme political importance in the Latin American countries that they tend to become directly associated with the name of the Chief of State in the country concerned.

Turning more specifically to the sources of external capital for Latin America, it may first be noted that these stabilization programs themselves require very substantial external financial support, either in order to fund accumulated commercial obligations on a longer-term basis or to buttress the gold and dollar reserves of the country involved. This is particularly true in countries where declining commodity prices have reduced foreign exchange earnings, and where debt service on obligations incurred during the period of inflation is proving a heavy burden. The International Monetary Fund is taking a leading role in arranging and financing these stabilization programs, aided by simultaneous credits from the Eximbank, the United States Treasury, and commercial banks in this country. Agreement has recently been reached on a substantial increase in the resources of the International Monetary Fund (the United States alone would contribute a further \$1.4 billion); one of the main purposes of this action is to give the Fund more freedom of action in handling currency stabilization problems. It is impossible to estimate what amount of stabilization loans to Latin

American countries may be considered appropriate over the coming years. It is abundantly clear, however, that the holdings of liquid gold and dollar reserves are entirely inadequate in many of these countries and that prudent economic management would call for their giving the reconstitution of these reserves a very high priority in their investment programs.

Long-term development loans repayable in hard currency are available to the Latin American countries from the World Bank and the Export-Import Bank, both of whom have recently obtained substantial increases in the resources available to them for their world-wide lending activities. In addition, a proposal has just been submitted to the United States Congress for a United States subscription to a new \$1 billion institution, the Inter-American Development Bank, which would provide a new source, organized on a regional basis, for development loans in Latin America. It remains to be seen how far this institution will provide additional loans to the area or merely replace to some extent the functions of the two existing Banks. Most of the funds of the Inter-American Development Bank will be available only for loans repayable in hard currency, and there is naturally a limit to the aggregate amount of such obligations which can prudently be assumed by any borrowing country from the different sources available to it. Indeed, the Latin American countries as a whole have already accumulated relatively heavy debts repayable in foreign exchange; a recent compilation indicates that some 15% of their export earnings in the years just ahead have already been mortgaged for this purpose. A figure such as this, while not necessarily alarming, lends fresh emphasis to the need for countries in Latin America to expand their export earnings in order to create the basis for further foreign borrowing.

Facilities are also available to the Latin American countries on a limited scale for dollar loans repayable in their own local currencies. These loans are normally reserved only for countries whose credit position is so weak that they cannot qualify for loans from the "hard loan" institutions. The two agencies dispensing "soft loans" are the Development Loan Fund of the United States Government and now the new Inter-American Development Bank, which will have a small "soft loan" department. Quantitatively, however, these operations are not likely to be large. Indeed, they may well be exceeded by the continued disposal of agricultural surpluses by the United States in Latin America which has averaged some \$100 million a year in recent years. The United States Government sells these agricultural surpluses in the recipient country against payment in local currency; the bulk of these local currency funds are then lent by the United States to help finance economic development projects in the country concerned, thus providing a supplementary source of capital to meet local investment needs.

Without going further into the mechanics of public lending activities - indeed I daresay my brief summary has left you sufficiently confused - I should emphasize that the principal function of the public lending institutions in Latin America has been, and will probably continue to be, the financing of basic development projects in fields such as

transportation, electric power, agricultural development, etc. In general the philosophy of the public institutions is that their proper role is to help provide the underpinning for economic development in the form of basic public services, leaving to private initiative and private capital the task of organizing and administering productive activity in industry and agriculture. Their resources are also available, however, to provide loan assistance, either directly or through intermediary institutions in the different Latin American countries, to industrial and agricultural enterprises. The World Bank has a special affiliate, the International Finance Corporation, which is especially devoted to this phase of the work. The IFC, as it is called, has so far extended its investment activities on only a modest scale, but it has found its principal outlet in Latin America as distinguished from other areas of the world.

I am deliberately avoiding any attempt to estimate the amount of capital exports to Latin America which may become available from public lending institutions during the coming years. I firmly believe, however, that there will be no lack of facilities to meet the legitimate needs of the Latin American countries for financing of this kind. It seems to me reasonable to expect the Latin American countries themselves to define their needs, to present investment projects that are appropriate vehicles for development financing, and to direct their economic and financial policies in such a way as to inspire the confidence ~~of the lending institutions~~. Certainly this kind of approach will continue to receive the most sympathetic response from the institutions concerned.

While there is a real need for public funds to help break the path for economic development, the main opportunities for developing productive activity in industry, agriculture, and mining are open and should be left open to private initiative and private capital. Private investors, both in the United States and in Europe, are becoming increasingly aware of the wide horizons for economic growth in Latin America and are making a major contribution to the development of the region. Direct investments in Latin America by United States interests alone now total more than \$9 billion, about half in mineral and petroleum ventures and the other half in a very wide variety of productive activities. The aggregate amount of these investments has doubled since 1950. This growth slackened in 1958, due in large part to a slow-down in the phenomenal flow of capital into the exploitation of Venezuelan petroleum deposits, but there is every reason to believe that the momentum of its advance will be resumed.

Quite aside from the traditional extractive industries, the explosive population growth in the area is creating both the need and the justification for a much broader industrialization movement. Here lies the opportunity for a marriage between the managerial and technical experience of the more mature countries and the interests and talents of the local business groups which are more and more emerging in the Latin American countries as domestic capital accumulates and domestic markets expand. Here also lies a problem (which I have mentioned above), namely how to assure the transfer across the exchanges of profits and other

remittances from investments which do not - like the extractive industries - generate their own export proceeds. Inevitably these remittances must make a claim upon other export earnings of the country concerned, and in some Latin American countries where severe exchange shortages still persist, this circumstance has given rise to demagogic criticism of private foreign investors and to demands for restrictive ^{laws} measures upon their profit remittances. Those who voice these criticisms are usually profoundly unaware of the vital contributions which are being made by foreign investors to the economic development of the country, and even more unaware that these benefits cannot be expected to continue unless foreign capital is allowed a living wage. At the same time, there is enough substance in the remittance problem to make it incumbent on every foreign investor in Latin America not only to assure that his investment is lending the maximum possible strength to the economy of the host country, but also to carry the story of his enterprise to the people of the country so that they may be fortified against these demagogic attacks.

Again I am going to deny myself the pleasure of speculating regarding the amount of U.S. direct investment which may flow to Latin America during the coming years. However, I believe that this flow serves the deep mutual interests of this country and of the Latin American Republics, and I would willingly predict that in the long run joint business ventures between this country and Latin America will have more to contribute to the expansion of production, incomes and living standards in that area than inter-governmental loans.

FRAGMENTOS DEL DISCURSO PRONUNCIADO POR EL SEÑOR J. BURKE KNAPP,
VICEPRESIDENTE DEL BANCO INTERNACIONAL DE RECONSTRUCCION Y FOMENTO
ANTE EL NATIONAL INDUSTRIAL CONFERENCE BOARD, EN LA CIUDAD DE
NUEVA YORK, el 21 de mayo de 1959



Lo decisivo no es exclusivamente la cantidad de la inversión sino su calidad. El crecimiento económico solamente se podrá asegurar a través de la inversión productiva apta para expandir la producción de bienes y servicios. Quizás una de las peores consecuencias de la inflación monetaria es que provoca la inversión puramente especulativa (la propiedad inmobiliaria urbana, por ejemplo) la que, mediante promesas rápidas y fáciles de utilidades, distrae el dinero y las energías de la empresa productiva. A su vez los gobiernos caen en la tentación de restaurar el equilibrio mediante iniciativas industriales para cuya construcción o administración están mal equipados. En algunos países de la América Latina la ecuación capital-rendimiento hubiera mejorado significativamente en los últimos años si los gobiernos se hubieran abstenido de enterrar dinero en aventuras de esta clase.

Por lo tanto, la primera respuesta a la pregunta relativa a dónde la América Latina tiene que encontrar capital para su desarrollo económico es que, primordial e inevitablemente, tiene que generarlo ella misma, y que la primera tarea de la política económica de los países de la América Latina está en cultivar condiciones tales que el ahorro de las gentes se articule efectivamente hacia el financiamiento de sus actividades productivas.

Pero, ¿qué hay del aspecto internacional? ¿No es posible acelerar el desarrollo económico de la América Latina mediante una oportuna inyección de capital extranjero? ¿Qué pueden hacer los países beneficiarios para estimular esta corriente? Y ¿cuál sería la distribución acertada entre las fuentes públicas y privadas que alimentan los fondos de inversión?

Ciertamente la América Latina brinda ricas oportunidades para el capital extranjero tanto público como privado; el capital es escaso a lo largo del área y, en consecuencia, su rendimiento potencial es alto. El balance indica, por otra parte, que los riesgos han de parecer elevados a menos que los países recipiendarios persigan políticas orientadas cuidadosamente hacia la promoción de la estabilidad económica y el cultivo de la confianza del inversionista. En esto no hay misterios; en gran medida se trata de las mismas políticas requeridas para promover un alto nivel doméstico de ahorro e inversiones.

...Evito deliberadamente el compromiso de estimar el monto de las exportaciones de capital de las instituciones públicas de préstamo a la América Latina que han de estar disponibles en los próximos años. Creo firmemente, sin embargo, que no habrá traba alguna para satisfacer las necesidades legítimas de los países latinoamericanos para los financiamientos correspondientes. Considero que es razonable esperar que los países latinoamericanos mismos definan sus necesidades, presenten proyectos de inversión que sirvan como vehículos apropiados para el financiamiento de su desarrollo y que orienten sus políticas económicas y financieras de manera que inspire confianza. Ciertamente esta actitud ha de continuar recibiendo la más simpática acogida por parte de las instituciones afectadas.

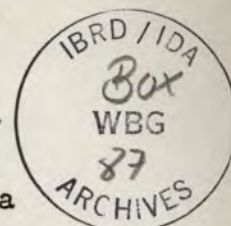
Si bien es verdad que existe la necesidad real de que los fondos públicos franqueen el camino del desarrollo económico, las principales oportunidades para el desarrollo de la actividad productiva en la industria, la agricultura y la minería deben estar abiertas, ahora y luego, para la iniciativa y capital privados. Inversionistas privados, tanto en los

Estados Unidos como en Europa, descubren cada vez más los amplios horizontes del desarrollo económico en la América Latina y hacen una mayúscula contribución al mismo. Solamente las inversiones directas en la América Latina por intereses americanos, suman en la actualidad más de \$9,000 millones, alrededor de la mitad de los cuales se han dedicado a iniciativas de minería y de petróleo y la otra mitad a una variada gama de actividades productivas. Estas inversiones, en su conjunto, se han duplicado desde 1950. Su ritmo ha disminuído en 1958 debido en gran medida a la reducción de la corriente fenomenal de capital hacia la explotación de los depósitos venezolanos de petróleo, pero hay razón para suponer que la inercia de esta corriente ha de recurrir dejando de lado las tradicionales industrias extractivas.

El explosivo crecimiento de la población de la América Latina crea al par la necesidad y la justificación para un más amplio movimiento de industrialización. Aquí reside la oportunidad para la unión entre la experiencia organizatoria y técnica de los países más maduros y los intereses y talentos de los grupos de hombres de negocios locales que cada vez despuntan más en los países latinoamericanos, en igual medida en que el capital doméstico se acumula y el mercado doméstico se expande. Aquí topamos también con el problema de asegurar la transferencia a través de la exportación de utilidades y otras remisiones de inversiones que no generan por sí mismas, como las industrias extractivas, sus saldos de exportación. Inevitablemente estas remisiones pesan también sobre los otros ingresos de exportación de los países afectados. En aquellos países latinoamericanos en los que todavía persisten severas escaseces cambiarias, esta circunstancia ha dado origen a críticas demagógicas contra los inversionistas privados extranjeros y a demandas para la restricción de sus remisiones de utilidades. Usualmente

los que manifiestan estas críticas pasan por alto la vital contribución de los inversionistas extranjeros al desarrollo económico del país y más todavía olvidan que estos beneficios no podrán continuar si el capital extranjero deja de percibir la adecuada remuneración. Por otra parte, el problema de las remisiones obliga a todo inversionista extranjero en la América Latina no solamente a asegurar su inversión en el sentido de que produzca el máximo posible de fuerza a la economía del país anfitrión, sino también a que proclame públicamente la ética de su empresa de manera de inmunizar al pueblo contra los ataques demagógicos.

DISCURSO PRONUNCIADO POR EL SEÑOR J. BURKE KNAPP, VICEPRESIDENTE DEL
BANCO INTERNACIONAL DE RECONSTRUCCION Y FOMENTO, ANTE EL NATIONAL
INDUSTRIAL CONFERENCE BOARD, EN LA CIUDAD DE NUEVA YORK, el
21 de mayo de 1959



El significativo crecimiento que ha tenido lugar en la América Latina después de la Segunda Guerra Mundial ha sido el resultado de condiciones económicas mundiales relativamente favorables pero, además, del fuerte impulso que ha animado a estos países para explotar la oportunidad de su desarrollo y promover la diversificación de sus economías. Al mismo tiempo muchos países del área han seguido políticas económicas y financieras que no han sido precisamente sanas y que han provocado obstáculos para su desarrollo económico. Los efectos nocivos de algunas de estas políticas se han manifestado más y más en fechas recientes, tanto porque se trata de efectos algunas veces demorados como también porque el deterioro de las condiciones económicas mundiales (especialmente en los mercados de ciertas mercancías que se producen extensamente en la América Latina) ha tendido a evidenciar cualesquiera debilidades que hubieran podido existir.

Quizás la más seria deficiencia en la administración económica de muchos de los países latinoamericanos ha sido la tendencia a apelar al financiamiento inflacionario de los gastos públicos. Algunas veces estas prácticas han sido defendidas y justificadas alegando que eran apropiadas o inclusive necesarias para acelerar la inversión pública y, por lo tanto, el desarrollo económico en general. A estas alturas, sin embargo, se reconoce casi universalmente que las consecuencias son precisamente las contrarias, excepción hecha posiblemente de aquel período inicial anterior a que la inflación mine la confianza pública en la moneda. La América Latina ha hecho su tanda de inflación y si la plaga persiste en algunas partes de la región no se debe a prescripción facultativa alguna sino a la debilidad del organismo político.

Pero ¿cómo influye todo esto sobre la cuestión de las necesidades futuras de capital? Frecuentemente la cuestión se plantea, primero, mediante la selección de un cierto porcentaje (1 ó 2 ó 3 por ciento), correspondiente al incremento anual en producción per capita que se considera deseable dentro de un país dado; a continuación, supuestas proporciones entre el capital y el rendimiento se utilizan para calcular la inversión requerida con vista a la expansión procurada de la producción; seguidamente se presume el volumen de los ahorros domésticos eventualmente disponibles para financiar la inversión; y la cifra residual se concibe como la "necesidad" de capital extranjero científicamente justipreciada y moralmente justificada. Evidentemente esta cifra es el resultado de un número de factores, dentro de los que inclusive pequeños cambios pueden producir en fin de cuentas extraordinarias alteraciones. Con frecuencia estos cálculos son meramente racionalizaciones de alguna cantidad preseleccionada que el autor consideró "justa" o políticamente viable como medida de los requerimientos de capital extranjero.

Casi todos los líderes responsables de la opinión latinoamericana insisten con vehemencia en que lo que ellos pretenden no son mercedes y que están preparados para recompensar suficientemente al capital extranjero que se les suministre. Dentro de este enfoque me permitiría sugerir un planteamiento para el cálculo de las "necesidades" de esta clase de capital. Este

planteamiento comenzaría por considerar el volumen de ahorro doméstico latinoamericano que se puede movilizar para ser invertido; habría que agregarle el volumen de capital extranjero que se puede atraer y cuyos servicios pueden ser pagados sin imponer una carga excesiva sobre el balance de pagos y, entonces, llegar a un estimado siquiera general de la expansión en el ingreso y en la producción que se puede alcanzar mediante la inversión de tales fondos en usos productivos. Si bien es verdad que este cálculo encierra un ancho margen de imprecisión, abrigo gran fe que en la mayoría de los países latinoamericanos, con la sola probable excepción de dos o tres, un programa de inversiones de esta clase determinaría una tasa reconfortante y gratificadora de progreso económico.

Pero este planteamiento implica que se tomen todas las medidas razonables orientadas hacia la maximación de la corriente de inversiones domésticas y su movilización hacia la inversión productiva. Estos propósitos no se pueden lograr efectivamente a menos de que exista un medio adecuado para tales ahorros, o sea, una moneda estable. En aquellos países de la América Latina y de otras regiones que han caído víctimas de la inflación crónica, la corriente del ahorro y, especialmente, su orientación hacia la inversión productiva, ha tendido a disminuir y eventualmente a secarse. Esto queda demostrado abundantemente con la experiencia de las empresas de servicio público en esos países, incapacitadas para levantar fondos para la expansión de sus propiedades a través de la venta de bonos o de otras obligaciones. Una de las consecuencias es que la tarea de proveer estos servicios públicos tiende a caer más y más en las manos de los gobiernos, los que ya de suyo están sobrecargados con otros gastos públicos. De esta suerte los gobiernos se ven arrastrados todavía con más fuerza hacia el círculo vicioso del financiamiento deficitario, lo que a su vez imparte fresco estímulo a la inflación.

Lo decisivo no es exclusivamente la cantidad de la inversión sino su calidad. El crecimiento económico solamente se podrá asegurar a través de la inversión productiva apta para expandir la producción de bienes y servicios. Quizás una de las peores consecuencias de la inflación monetaria es que provoca la inversión puramente especulativa (la propiedad inmobiliaria urbana, por ejemplo) la que, mediante promesas rápidas y fáciles de utilidades, distrae el dinero y las energías de la empresa productiva. A su vez los gobiernos caen en la tentación de restaurar el equilibrio mediante iniciativas industriales para cuya construcción o administración están mal equipados. En algunos países de la América Latina la ecuación capital-rendimiento hubiera mejorado significativamente en los últimos años si los gobiernos se hubieran abstenido de enterrar dinero en aventuras de esta clase.

Por lo tanto, la primera respuesta a la pregunta relativa a dónde la América Latina tiene que encontrar capital para su desarrollo económico es que, primordial e inevitablemente, tiene que generarlo ella misma, y que la primera tarea de la política económica de los países de la América Latina está en cultivar condiciones tales que el ahorro de las gentes se articule efectivamente hacia el financiamiento de sus actividades productivas.

Pero, ¿qué hay del aspecto internacional? ¿No es posible acelerar el desarrollo económico de la América Latina mediante una oportuna inyección de capital extranjero? ¿Qué pueden hacer los países recipientes para estimular esta corriente? Y ¿cuál sería la distribución acertada entre las fuentes públicas y privadas que alimentan los fondos de inversión?

Ciertamente la América Latina brinda ricas oportunidades para el capital extranjero tanto público como privado; el capital es escaso a lo largo del área y, en consecuencia, su rendimiento potencial es alto. El balance indica, por otra parte, que los riesgos han de parecer elevados a menos que los países beneficiarios persigan políticas orientadas cuidadosamente hacia la promoción de la estabilidad económica y el cultivo de la confianza del inversionista. En esto no hay misterios; en gran medida se trata de las mismas políticas requeridas para promover un alto nivel doméstico de ahorro e inversiones.

Usualmente no será difícil al inversionista extranjero obtener seguridades razonables de que su dinero sea remunerado en el dinero del país en que hace la inversión. Pero su preocupación principal será si podrá convertir esos ingresos en cambio extranjero. Si tiene la fortuna de estar en una industria extractiva, de las que exportan el producto y simplemente devuelven al país lo necesario para cubrir sus costes operativos y los impuestos locales, el problema de la conversión se resuelve fácilmente. Sin duda que esta circunstancia ayuda a comprender el prominente papel de la industria extractiva en las inversiones de los Estados Unidos en la América Latina así como en otros países subdesarrollados. En defecto de este mecanismo automático que asegura la conversión de sus ganancias, el inversionista tiene que confiar en la capacidad del país en cuestión para generar cambio extranjero y en su voluntad de asignar este cambio para el servicio de las inversiones extranjeras. En consecuencia, el inversionista alienta una honda preocupación por todos los aspectos del balance de pagos internacionales del país en que se propone invertir.

La cuestión central en la calificación de las perspectivas en el balance de pagos de un país es ahora como siempre la calidad de la administración económica de ese país, especialmente en los asuntos fiscales y monetarios. Nada hay que perjudique tanto el crédito exterior de un país como la amenaza de la inflación interna, característicamente acompañada de la sobrevaluación del cambio que estimule artificialmente la demanda de la importación y destruye la posición competitiva del país en los mercados de exportación. Algunos países han pretendido resolver este problema mediante la "sustitución de importaciones", o sea, el desarrollo premeditado de industrias locales capaces de sustituir las mercancías que de otro modo se importarían con la producción nacional. Sin embargo, con frecuencia el resultado ha sido la inversión excesiva en equipos ineficientes, con lo que se debilita antes que se fortalece la posición económica básica del país. Al inversionista extranjero lo estimularía más una corriente creciente de ingresos por exportación que la corriente artificialmente restringida de los artículos de importación.

No se tomen los anteriores comentarios en un sentido pesimista. Me apresuro a agregar que la lección a derivar del casuismo de la mala administración monetaria ciertamente que no ha sido perdida para los países de la América Latina. Muchos de estos países pueden mostrar una orgullosa ejecutoria de estabilidad monetaria y en muchos otros países en los que han ocurrido excesos, se ha manifestado recientemente una fuerte corriente en la dirección de una política monetaria más cuerda. Efectivamente en la América Latina se ha manifestado una impresionante serie de programas de estabilización monetaria, llena de promesas para el futuro. Chile ha sido quizás el primer país que ha renunciado a la inflación como instrumento de la política económica nacional después de haber atravesado un ciclo inflacionario que llevó el peso chileno del equivalente de 32 por un dólar a fines de la Segunda Guerra

Mundial hasta más de 1,000 por un dólar hoy por hoy. (¡Tiendo el velo sobre lo ocurrido al dólar mismo en ese período!) En la actualidad Chile, bajo el Presidente Alessandri, igual que Colombia, bajo el Presidente Lleras Camargo y, más sensacionalmente, Argentina bajo el Presidente Frondizi, están realizando un valiente esfuerzo para restablecer sus respectivas monedas sobre una base firme. Es quizás significativo advertir que los programas de estabilización monetaria han alcanzado tan suprema importancia política en los países de la América Latina que en ellos se asocian directamente con el nombre de los Jefes de Estado de los países en cuestión.

Volviendo específicamente a las fuentes de capital extranjero para la América Latina, digamos en primer lugar que los programas de estabilización requieren en sí mismos un sustancial apoyo financiero exterior, o bien para consolidar a largo término obligaciones comerciales acumuladas o para no tocar las reservas de oro y dólares de los países en cuestión. Esto es particularmente cierto en aquellos países donde los precios declinantes de sus exportaciones han reducido sus ingresos de cambio extranjero y en los que el servicio de las deudas por obligaciones incurridas durante el período de inflación se está haciendo sentir como una pesada carga. El Fondo Monetario Internacional ha asumido un papel principal en ajustar y financiar estos programas de estabilización ayudado por los créditos simultáneos del Banco de Exportación e Importación, la Tesorería de los Estados Unidos y los bancos comerciales en este país. Recientemente se ha acordado un aumento sustancial en los recursos del Fondo Monetario Internacional (los Estados Unidos por sí solos contribuirán con \$1,400 millones adicionales). Uno de los propósitos principales en esta acción es permitir al Fondo mayor libertad de acción en su manipulación de los problemas de estabilización monetaria. Es imposible estimar el volumen de los préstamos de estabilización a los países de la América Latina que se considerará apropiado en los años venideros. Sin embargo, es abundantemente claro que las tenencias de oro líquido y de reservas dólares son enteramente inadecuadas en muchos de estos países y que una prudente administración económica recomendaría la reconstitución de estas reservas como un extremo de alta prioridad en sus programas de inversión.

El Banco Mundial y el Banco de Exportación e Importación brindan a los países de la América Latina créditos de desarrollo a largo plazo pagaderos en monedas duras. Ambas instituciones han experimentado recientemente aumentos sustanciales en los recursos de que disponen para sus actividades mundiales de préstamo. Además, se acaba de proponer al Congreso de los Estados Unidos la suscripción de mil millones de dólares para un Banco Interamericano de Desarrollo llamado a constituir una nueva fuente, organizada sobre bases regionales, para los préstamos de desarrollo a la América Latina. Está por ver si esta institución ha de suministrar préstamos adicionales en beneficio del área o meramente reemplazar en cierta medida las funciones de los dos bancos ya existentes. La mayoría de los fondos del Banco Interamericano de Desarrollo solamente estará disponible para préstamos pagaderos en moneda dura y naturalmente hay un límite para la suma total de obligaciones de las distintas fuentes de préstamo que prudentemente puede asumir ningún país deudor. Ciertamente los países latinoamericanos en su conjunto ya han acumulado una deuda relativamente fuerte pagadera en cambio extranjero; una reciente compilación indica que alrededor del 15% de sus ingresos por exportación en los años venideros, han sido hipotecados para este fin. Una cifra como ésta, sin ser necesariamente alarmante, imparte énfasis adicional a la necesidad que tienen los países de la América Latina de aumentar los ingresos por su exportación de manera de echar las bases con vista a

deudas sucesivas con el extranjero.

Los países de la América Latina disponen también, aunque en escala limitada, de facilidades para préstamos en dólares pagaderos en sus propias monedas locales. Normalmente estos préstamos se hacen a países cuya posición de crédito se ha debilitado tanto que no pueden obtener préstamos de las instituciones que operan con moneda "dura". Las dos agencias que extienden préstamos en monedas débiles son el Fondo de Desarrollo Económico y ahora el nuevo Banco Interamericano de Desarrollo, que constará con un pequeño departamento para préstamos en moneda "blanda". Cuantitativamente, sin embargo, estas operaciones parecen que no han de llegar a ser grandes. De hecho, las excederá la continua colocación de excedentes agrícolas por parte de los Estados Unidos en la América Latina, que ha promediado alrededor de \$100 millones al año en los últimos tiempos. El Gobierno de los Estados Unidos vende estos excedentes agrícolas a los países beneficiarios mediante pago en moneda local; el grueso de estos fondos se presta entonces por los Estados Unidos para ayudar a financiar los proyectos de desarrollo económico en el país en cuestión, con lo que se brinda así una fuente suplementaria de capital para la satisfacción de necesidades locales de inversión.

Tentado estoy de encarecer que la función principal de las instituciones públicas de préstamo a la América Latina ha sido y probablemente continuará siendo el financiamiento de los proyectos básicos de desarrollo en campos tales como el transporte, la energía eléctrica, el desarrollo agrícola, etc. En general, la filosofía de estas instituciones públicas es que su papel primordial consiste en suministrar ayuda para cimentar el desarrollo económico mediante servicios públicos básicos, dejando a la iniciativa y capital privados la tarea de organizar y administrar la actividad productiva en la industria y en la agricultura. Sus recursos están también disponibles sin embargo para préstamos a empresas industriales o agrícolas, tanto directamente o a través de instituciones intermediarias en los diferentes países de la América Latina. El Banco Mundial tiene una subsidiaria especial, la Corporación Financiera Internacional, que está dedicada específicamente a este aspecto de la obra. La IFC, como se le llama, hasta ahora no ha extendido sus actividades de inversión sino en escala modesta pero es en la América Latina que ha encontrado su principal campo de acción en contraposición a otras áreas del mundo.

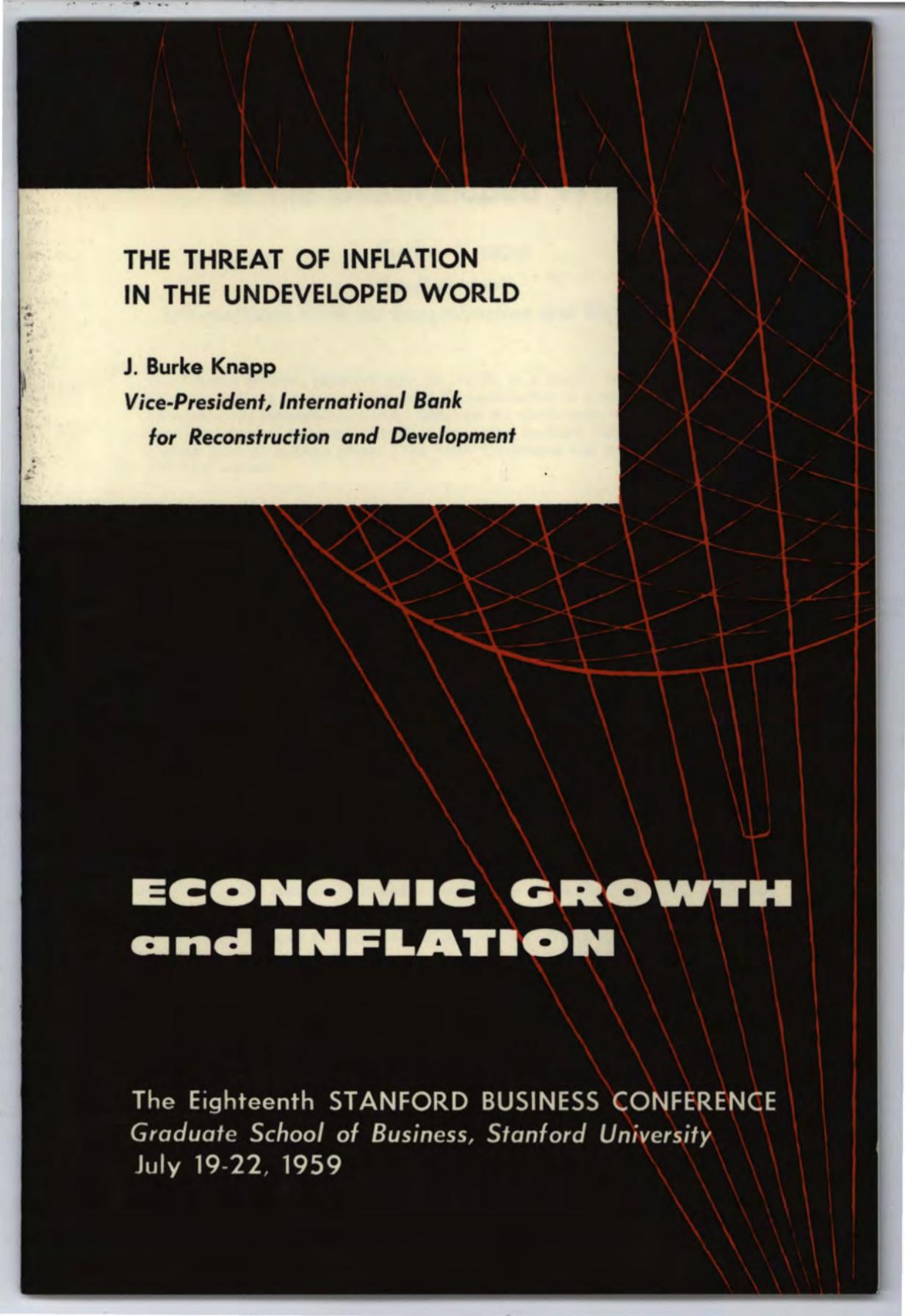
Evito deliberadamente el compromiso de estimar el monto de las exportaciones de capital de las instituciones públicas de préstamo a la América Latina que han de estar disponibles en los próximos años. Creo firmemente, sin embargo, que no habrá traba alguna para satisfacer las necesidades legítimas de los países latinoamericanos para los financiamientos correspondientes. Considero que es razonable esperar que los países latinoamericanos mismos definan sus necesidades, presenten proyectos de inversión que sirvan como vehículos apropiados para el financiamiento de su desarrollo y que orienten sus políticas económicas y financieras de manera que inspire confianza. Ciertamente esta actitud ha de continuar recibiendo la más simpática acogida por parte de las instituciones afectadas.

Si bien es verdad que existe la necesidad real de que los fondos públicos franqueen el camino del desarrollo económico, las principales oportunidades para el desarrollo de la actividad productiva en la industria, la agricultura y la minería deben estar abiertas, ahora y luego, para la iniciativa y capital privados. Inversionistas privados, tanto en los Estados Unidos

como en Europa, descubren cada vez más los amplios horizontes del desarrollo económico en la América Latina y hacen una mayúscula contribución al mismo. Solamente las inversiones directas en la América Latina por intereses americanos, suman en la actualidad más de \$9,000 millones, alrededor de la mitad de los cuales se han dedicado a iniciativas de minería y de petróleo y la otra mitad a una variada gama de actividades productivas. Estas inversiones, en su conjunto, se han duplicado desde 1950. Su ritmo ha disminuído en 1958 debido en gran medida a la reducción de la corriente fenomenal de capital hacia la explotación de los depósitos venezolanos de petróleo, pero hay razón para suponer que la inercia de esta corriente ha de recurrir dejando de lado las tradicionales industrias extractivas.

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De nuevo me he de privar del placer de especular alrededor del volumen de directa inversión de los Estados Unidos que puede afluir a la América Latina durante los próximos años. Sin embargo, estimo que esta corriente sirve el profundo mutuo interés de este país y de las Repúblicas de la América Latina, y gustosamente predeciría que a la larga las iniciativas económicas conjuntas entre este país y la América Latina han de contribuir más a la expansión de la producción, los ingresos y el nivel de vida de esta área que los préstamos intergubernamentales.



**THE THREAT OF INFLATION
IN THE UNDEVELOPED WORLD**

J. Burke Knapp

*Vice-President, International Bank
for Reconstruction and Development*

**ECONOMIC GROWTH
and INFLATION**

The Eighteenth **STANFORD BUSINESS CONFERENCE**
Graduate School of Business, Stanford University
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The Threat of Inflation in the Undeveloped World

J. Burke Knapp

Vice-President,

International Bank for Reconstruction and Development

Mr. Knapp's remarks, delivered July 20, 1959, at a session of the Eighteenth Stanford Business Conference, preceded his participation in a panel discussion of inflation in the international scene. Each year the Conference, conducted by the Graduate School of Business at Stanford University, Stanford, California, examines a major facet of business affairs. The 1959 Conference was attended by some 350 businessmen.

THERE IS perhaps no country in the world today where economic growth has not become a pressing political, social, and economic issue. The subject of this Conference is therefore extraordinarily timely. In addressing myself to the international ramifications of the problem, I might have turned to almost any country or group of countries and have found some experience suitable for your consideration. There is also almost universal concern with the problem of how to use monetary policy to stimulate economic growth, or alternatively how to avoid abuses of the monetary system which inhibit economic growth. Almost every country, or at least every country with a modern monetary system, has confronted the dilemma of how to achieve the stimulating effects of an expanding money supply without suffering the disruptive consequences of inflation.

By way of establishing a general setting, it might be noted that in recent years monetary policy, or more specifically, monetary discipline, has been coming more and more into its own all over the world following a period of relative eclipse. During the throes of the Great Depression in the thirties, which no doubt called for unorthodox remedies, monetary orthodoxy was progressively abandoned and even became to some extent discredited. Then during the war years most countries found that the discipline which was required of their economies was so great that it had to be imposed by means of direct economic controls rather than by broader monetary measures. Immediately after the war there was a strong tendency in Europe to perpetuate controls and to reject monetary policy as an instrument for attaining internal and external economic balance. Strangely enough, the Germans were among the first to break out of that pattern, and the miracle of German economic recovery owes a very great deal to the sound management of the new German currency which was introduced in 1948. One by

one, other European countries have followed suit; Italy and Austria are two striking cases of how vigorous economic growth has been achieved even in relatively weak countries with the right brand of economic, and especially monetary, policy.

Most of these countries passed through periods of acute financial disorder before achieving the comparative economic stability that they now enjoy. But the country where inflation seemed most deeply rooted was France, which had to await a major constitutional overturn before coming to grips with its devastating economic ills. Here, during the past year, the new government under General de Gaulle has executed a far reaching stabilization program, relying principally upon the assertion of strict controls over budgetary expenditures and the expansion of bank credit. This program was presented to the French people in December 1958 in a so-called "Report on the Financial Situation of France," prepared by the well-known French economist, Jacques Rueff. Mr. Rueff made no bones about the fact that the principal ill of the French economy had been excessive resort to the creation of money for both public and private purposes, and he held out no hope of recovery until "the tap of inflation has been turned off tight." Indeed his report set forth the following specific "principles of a reform strategy" for France:

- "a) Relieving inflation by saving;
- "b) Breaking the inflationary cycle;
- "c) Establishing with certainty that the inflationary process is over;
- "d) Substituting elasticity by investment for elasticity by inflation."

I need only add that the Rueff program has been vigorously implemented, and that France has staged an extraordinary economic recovery during the last few months as a result of this program.

As indicated by the title of my speech, however, I propose to devote my main attention to the situation in the undeveloped world. In this vast area the problem of inflation still has a pressing immediacy. The governments of almost all the undeveloped countries in Asia, Africa, and Latin America are under the strongest compulsion to accelerate their economic development in order to meet the clamor of their peoples for improved living standards. At the same time, unlike more advanced countries such as those that I have already mentioned, they lack experience in formulating and administering economic and financial policies. They are therefore beset by fearful temptations to try to spend their way out of political and economic troubles without regard to the consequences for their economic systems. In my opinion, this situation is fraught with the most serious danger. If the undeveloped countries of the free world fail to achieve reasonable economic progress, or if in their attempts to do so they overreach themselves and fall victim to destructive inflationary disorders, they will have great difficulty in withstanding the competition of communist forms of organization and ideology.

Ten years ago, or even less, it might have been necessary to convince people in many undeveloped countries that inflation was a bad thing. There were still some responsible leaders who thought that inflation was a useful or indeed indispensable stimulant to the economy. Much was heard about how economic progress could be accelerated through a kind of "forced saving," i.e., a process by which the government financed a large part of its expenditures on economic development by forcing depreciating money into the hands of its people. But this day is over. Most countries have by now had their bout of inflation and if the plague still runs its course in the undeveloped world, it is no longer because doctors have prescribed it but rather because the body politic is too weak to resist it. Governments no longer embrace inflationary policies, but they do still succumb to them. Sometimes they succumb unwittingly, sometimes because of internal political pressures, or sometimes because they genuinely consider (almost always wrongly) that this course will be the least of many evils. The resulting disorders are no less serious because the intentions are good!

What then do we mean by these "inflationary disorders?" How do they originate and what are their economic effects? In particular what are their effects on business? Without attempting any precise analysis, and without pointing an invidious finger at any individual countries, I might indicate briefly the main lines along which inflation in an undeveloped country runs its course.

Nine times out of ten, the root of the trouble lies in a deficit in the governmental budget which is financed by the creation of new money. The government may be spending too much because it is trying to do too much, or because what it is trying to do is executed so inefficiently. (At the same time, an important bulwark *against* inflation may be the sheer incapacity of government departments to spend money as fast as it is allocated to them.) Or the government may be failing to collect sufficient revenues, either because the tax structure is inadequate or because the laws are not enforced. Of course it requires political courage to levy higher taxes, and governments often rationalize their failure to act on the tax front by assuring themselves that increases in taxes or other charges (i.e., public utility rates) would only give further impetus to the inflationary cycle. In short the government is living beyond its means, and unless it receives support in the form of friendly aid from abroad, it must borrow to fill the gap.

But here the possibilities open to the government of an undeveloped country are strictly limited. One of the things characteristically least developed in such a country is its capital market. The institutions for collecting the savings of the people will be rudimentary, the credit of the government may not be securely established, and (here comes the vicious circle) the currency may be depreciating so that no fixed obligation stated in that currency (or at least no long-term obligation bearing a reasonable interest rate) will be saleable. If then the government cannot borrow any of the existing money supply, it can satisfy its needs only by demanding that the banking system create new money for its purposes. Whether this takes the form of outright currency printing by the central bank

or the more subtle creation of commercial bank credit, the result is to give a further impetus to the inflationary mechanism of "too much money chasing too few goods."

As the currency is thus debased, its value depreciates—i.e., prices rise. This sets in motion a series of chain reactions including the following:

Item—The rise in the cost of living touches off demands for wage increases. If these are granted, fuel is cast on the fire; if not, the seeds of serious social and political dissension have been sown.

Item—The government intervenes to limit the rise in prices of essential commodities, especially foodstuffs. Production of such commodities ceases to be remunerative and declines, thus creating new shortages and price pressures. Or the government seeks to resuscitate production through subsidies, thus creating a new source of budgetary deficits.

Item—Unless the exchange rate is altered (which the government is most loath to do lest that, too, drive up the cost in local currency of imported commodities), all imported goods become artificially cheap and imports expand. On the other hand production for export ceases to be remunerative in the face of rising internal costs, and exports wither. The combined foreign trade effects create heavy drain upon the country's gold and foreign exchange reserves, and the decline in reserves further undermines confidence in the currency. Soon shortages appear in imported fuel, raw materials, spare parts, etc. Import licensing is imposed but still production languishes.

Item—Investment in productive industrial and agricultural enterprises become less and less attractive. Public utilities, such as electric power companies, are denied rate increases to match their rising costs; since they are therefore unable to expand or even maintain their properties, the government takes over their business. The "smart money" flows into commodity hoards (again accentuating scarcities and price pressures) or into urban real estate, usually luxurious apartment dwellings for inflation profiteers.

Item—Yet, although the country as a whole may be sliding rapidly downhill, there are still a few who profit from the debacle. Some make killings in commodity speculation, preferably using borrowed money. Some who are fortunate enough to obtain import licenses sell cheap imported goods at inflated internal prices. Others simply buy foreign exchange to hold abroad until their own currency is devalued, at which time they can bring their money back home at a big profit in terms of their own currency. Sometimes the government seeks to prevent such capital movements through the imposition of exchange controls, but usually it fails.

Final Item—Many different inflationary manifestations, including some already mentioned, serve to drag the government deeper into the pit of

budgetary deficits. The costs of government operations rise because prices are rising, and also because new functions are undertaken. In some fields the government tries to take over from private enterprise (*cf.* the public utilities); in other fields a large bureaucracy is installed in a vain effort to fight inflation by regimenting private activities. Government revenues also tend to rise but not in the same proportion. Some tax sources tend to dry up—notably customs revenues, in view of the exchange shortage; others simply lag behind the general inflationary trend. The net effect is to drive the government toward more and more resort to bank credit in order to pay its bills, thus continuously expanding the money supply and fortifying the prime cause of the original inflation.

Note the number of time I have mentioned government intervention. Circumstances such as those which I have outlined breed a series of petty Canutes seeking to sweep back the inflation with a broom. This would be bad enough in itself, if only because of the stultifying effects of bureaucratic controls upon productive economic activity. But, worse yet, every such Canute is a potential focus of inflation's worst disorder, corruption. Inflation profiteers can afford to pay for services rendered, especially if these services are essential to the profiteering. And civil servants, hard pressed by the rising cost of living and falling under the influence of the "easy money" atmosphere, may be vulnerable. Indeed, in those countries which have suffered the full ravages of the inflationary disease, it has often been found that a goodly share of the luxury apartments referred to above have come to be occupied by obscure civil servants who happened to be employed in strategic positions in the economic ministries.

This all reminds me of a conversation which I had a while ago with the eminent British economist, Professor Lionel Robbins (now Lord Robbins), who was on his way back to London from his first visit to South America. In touring that continent, he had found much to praise and much to blame, but with reference to one country he remarked, with his eyes still wide open from the experience: "My dear fellow, it is a perfect laboratory of economic pathology!"

At this point I must pause to ask myself whether I have been guilty of presenting you with a caricature. You must be wondering—as I often have—how any economic or social system could withstand the sort of flagrant abuse which I have but briefly sketched. My first response is that every feature I have described has had its replica—all too many replicas—in real life in the undeveloped world. But have I nonetheless overdrawn the picture in putting together the ensemble? Perhaps a little bit. The foregoing account may be a little too pat. Actual events are somewhat more complicated and the chain of inflationary reactions takes time to work out. One bulwark against inflation is the fact that many people go about their "business as usual" simply because they don't believe how bad the situation actually is. But I assure you I have not exaggerated the ultimate threat of inflationary disorders; here I need only point to the dismal record where entire eco-

conomic, social, and political systems have been brought by such disorders to eventual total ruin.

Without going back to the great inflations of the past such as occurred in Germany after World War I or in China after World War II, let me allude briefly to two recent instances, the sad failure of Parliamentary government in the new State of Pakistan, and the fall of the Peron dictatorship in Argentina.

Inflation was clearly one of the main instruments in producing the rot in Pakistan which ended by completely destroying the confidence of the people in their democratic form of government. After the partition from India in 1947, Pakistan set its feet on the path of Western parliamentary procedure. No general elections were ever actually held, but the forms of representative self-government were established, and although the new country faced forbidding internal political and economic difficulties, there was every hope for the successful evolution of Pakistan along democratic lines. Unfortunately, economic disorders mounted rapidly, the government showed itself impotent to cope with them, and last October the Army assumed power in a bloodless takeover of political authority.

The new regime has launched a far-reaching economic stabilization program which rests upon a stern resolve to balance the budget and to cease resort to the inflationary financing of budgetary deficits. The conditions which the new government had to face were very well and effectively described in a speech delivered by the new Finance Minister, Mr. Mohamed Shoaib, in introducing his new budget to the nation in March of this year:

"When your new Government stepped in about six months ago the process of economic deterioration had gone too far and too fast. The country had moved almost to a state of collapse. Scarcity of consumer goods, rising spiral of prices, shortage of food, superfluity of money, continuous fall in foreign exchange earnings, depletion of reserves, large scale deficit financing by Government, business malpractices such as smuggling, hoarding, and blackmarketing, characterized this state of affairs. To lift the country from this morass, drastic action had to be taken. This was possible only after promulgation of martial law throughout the country.

"For a long time before martial law, prices and the cost of living had been steadily rising. There was too much money about and too few goods to buy. On the one hand the Government had been pumping money into the economy by borrowing from the State Bank, and on the other hand imports had been falling and domestic production, particularly agricultural output, had been lagging. Inflation at home and declining demand abroad had made substantial inroads on our export earnings. We had been forced to curtail ever more severely imports of consumer goods and even imports of the raw materials and spares which are the lifeblood of our own industries. A vicious circle of rising prices and declining supplies had set in.

"Under the circumstances your Government as a first step thought it imperative to impose sweeping price controls. But at the same time we know that such controls are not a fundamental or lasting remedy. When prices are fixed at a level where demand exceeds supply, supplies become exhausted or goods tend to disappear once more into black market channels. We are determined to restore this balance between supply and demand. One the one hand, we must avoid Government deficits which can only be met by borrowing from the State Bank and putting more money into circulation to chase the limited supply of goods. On the other hand, we must do everything humanly possible to increase our output and to export more of our production so that we can in turn import the goods vital to a revival of our economy."

As for Argentina, you will recall that General Peron was expelled from the country in 1955, and that after an interim period of rule by a military junta, Dr. Frondizi was elected President. By the end of 1958 Frondizi had decided that the damage wrought by the Peron regime on the once proud and wealthy land of Argentina was so far-reaching that nothing short of radical surgery could redress it. He therefore announced a sweeping program of economic austerity and stabilization, designed to lay the basis for a long-term reconstruction effort. This program, the success of which still hangs in the balance, received full endorsement and extensive financial support from the United States Government and the International Monetary Fund. One of its prime purposes is to put an end to the inflationary financing of public expenditures. In announcing his program to the Argentine people on December 29, 1958, Dr. Frondizi described in the following terms the state into which the country had fallen under the Peron regime:

"The basic problem by which Argentina's economy is afflicted is seen in the process of steady impoverishment resulting from the fact that the growth of our productive capacity has not kept pace with that of population and social needs. The financial and other resources which might have been employed for productive purposes have been used instead for non-productive investment and the maintenance of consumption at levels which exceeded the country's true production capacity.

"Inflation was the 'chosen instrument' of disinvestment, prodigality, and final impoverishment. An abundant money supply created the illusion of wealth and well-being which was completely at variance with the reality of the national economic development process. Excessive consumption was thus stimulated, capital equipment was not renewed, the reserves were run down through excessive importing, and national indebtedness grew progressively heavier.

"The basis and structure of the economic and social system was also affected. The speculator and adventurer benefited at the expense of the genuine producer and of all economically sound enterprise. The situation thus created

favoured the making of vast fortunes in record time, fortunes that were amassed without effort and without any positive contribution being made to the general well-being of the community. Respect for the orderly processes of advancement, based on effort and the enterprise of the individual, on thrift, honesty, and creative capacity, was destroyed. Here we glimpse something of the evil of inflation as the underlying cause of a national crisis which transcends the strictly economic aspect of the problem, affecting, as it does, the political, social and, very particularly, the moral bases on which society and the place of the individual in it rest."

Well, what does all this signify for business, first for business in general in a country afflicted with inflation and, secondly, for foreign business enterprises that are operating there?

Surely the question answers itself. There is always a speculative fringe on the edge of an inflation where profits can be freely made and, if you like, there is therefore one element of the business community which may prosper. But the fate of the business community generally is clearly linked with that of the nation as a whole, and if the foregoing analysis has any validity it shows that no significant group in the economic system can escape the ravages of inflation.

More specifically, consider the problems which beset a businessman in the advanced stage of the inflationary cycle.

Item—The price of his product may be rising, but so are the prices of all of his factors of production, and he scarcely knows from day to day what his costs will be. His wage costs may indeed be lagging behind, but if so he will have labor unrest and the constant threat of work stoppages. Cost accounting becomes a lost and indeed a useless art.

Item—Our businessman cannot count on the continued availability of imported materials and supplies required in his business, nor can he count on the continued provision of public services (electric power, transportation, etc.). All these may be rationed, leaving him at the mercy of unpredictable and probably erratic administrative controls.

Item—He will soon be running short of working capital, and he will find it extremely difficult to obtain additional short-term credit, especially if the government is trying to dampen down the inflationary movement through credit controls. In any case the interest rates will be extremely high since any lender will desire compensation for the depreciation of his money while it is outstanding on loan. As for long-term capital, this will scarcely be available at any price for productive enterprise; it will be taking refuge in inflation storm cellars, such as real estate, commodity hoards, etc.

Item—Governmental regulation will be pressing him from every side. If in addition corruption has begun to flower, he must face the competition of the

unscrupulous business operator who is prepared to buy his way through the administrative restraints.

Item—Finally, if he does succeed after all in making some honest profits, how is he to preserve them in the face of the continued inflation? Even in the unlikely event that the market for his product remains promising, he will probably be unable to expand his plant for lack of the imported capital equipment required for this purpose. In the end our worthy businessman may well end up himself trying to protect his capital by neglecting his business in favor of speculative adventures.

The foreign businessman has all the foregoing problems to contend with and is greatly handicapped in dealing with them by his lack of familiarity with local conditions and by the need to obtain clearance with his home office at a time when rapid-fire action is probably necessary. In addition, he must worry about making profit and other remittances abroad. If the exchange rate is being artificially maintained by the government, he will certainly be able to make remittances abroad only under close licensing control; alternatively, if the exchange rate is rapidly depreciating, he will find his remittances melting away in value by the time they reach their foreign destination.

Where then does our businessman find time to tend to his business? I have asked this question many times of businessmen operating under conditions such as those I have described, and the answer is that anywhere from 50% to 90% of their time becomes employed in wrestling with the special problems created by the inflationary environment. As little as 10% of their time may then be available for carrying out the constructive work of building their enterprise. If you consider that most other elements in the community are similarly affected in greater or less degree, it will be apparent that the heaviest toll which inflation lays upon a country is the diversion of human talents and energies from constructive to unconstructive channels.

Well, I have just about concluded my catalogue of the evils of inflation. I hope I have not left the impression that all of the undeveloped world, or even a very large part of it, is under its spell. As I pointed out at the beginning of my talk, a great many of the undeveloped countries have by now learned their lesson and learned it well, partly from their own experience and partly from the striking examples which have been set by monetary stabilization programs in Western Europe. But some countries remain vulnerable, and it is perhaps the first task of economic statesmanship in the undeveloped world to resist the temptation which each nation has to overspend its available resources.

There remains the question of how far this foreign experience may be significant for the determination of economic and monetary policies in the United States. I shall not pretend to formulate the conclusions which this Conference may desire to draw on this subject when it comes to weigh the dilemma to which I referred at the beginning of my talk, namely, how to achieve the stimulating ef-

fects of an expanding money supply without suffering the disruptive consequences of inflation. You will no doubt hear arguments that the kind of inflation, or rather the different kinds of inflation, which may arise in a very advanced industrial economy like the United States present much more complex problems of analysis than the simple and virulent form which afflicts more primitive economies. You may also hear the view that we in this country are far more knowledgeable and competent than governments in undeveloped lands when it comes to designing measures to offset and contain inflationary pressures brought about by expansionary monetary policies. I express no categorical views on these issues. I shall have accomplished my modest purpose if you will only think twice—or maybe thrice—before you accept the conclusion that in the United States inflationary methods of public or private finance can make any useful contribution to economic growth.





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THE THREAT OF INFLATION IN THE UNDEVELOPED WORLD 1/

There is perhaps no country in the world today where economic growth has not become a pressing political, social, and economic issue. The subject of this Conference is therefore extraordinarily timely. In addressing myself to the international ramifications of the problem, I might have turned to almost any country or group of countries and have found some experience suitable for your consideration. There is also almost universal concern with the problem of how to use monetary policy to stimulate economic growth, or alternatively how to avoid abuses of the monetary system which inhibit economic growth. Almost every country, or at least every country with a modern monetary system, has confronted the dilemma of how to achieve the stimulating effects of an expanding money supply without suffering the disruptive consequences of inflation.

By way of establishing a general setting, it might be noted that in recent years monetary policy, or more specifically, monetary discipline, has been coming more and more into its own all over the world following a period of relative eclipse. During the throes of the

1/ Text of speech delivered by J. Burke Knapp, Vice President of I.B.R.D., at a session of the Stanford Business Conference, held at Stanford University, California, on July 20, 1959 on the general theme of "Economic Growth and Inflation."

Great Depression in the thirties, which no doubt called for unorthodox remedies, monetary orthodoxy was progressively abandoned and even became to some extent discredited. Then during the war years most countries found that the discipline which was required of their economies was so great that it had to be imposed by means of direct economic controls rather than by broader monetary measures. Immediately after the war there was a strong tendency in Europe to perpetuate controls and to reject monetary policy as an instrument for attaining internal and external economic balance. Strangely enough, the Germans were among the first to break out of that pattern and the miracle of German economic recovery owes a very great deal to the sound management of the new German currency which was introduced in 1948. One by one, other European countries have followed suit; Italy and Austria are two striking cases of how vigorous economic growth has been achieved even in relatively weak countries with the right brand of economic, and especially monetary, policy.

Most of these countries passed through periods of acute financial disorder before achieving the comparative economic stability that they now enjoy. But the country where inflation seemed most deeply rooted was France, which had to await a major constitutional overturn before coming to grips with its devastating economic ills. Here, during the past year, the new government under General de Gaulle has executed a far reaching stabilization program, relying principally upon the assertion of strict controls over budgetary expenditures and the expansion of bank credit. This program was presented to the French people in December 1958 in a so-called "Report on the Financial Situation of France", prepared by the well-known French economist,

Jacques Rueff. Mr. Rueff made no bones about the fact that the principal ill of the French economy had been excessive resort to the creation of money for both public and private purposes, and he held out no hope of recovery until "the tap of inflation has been turned off tight". Indeed his report set forth the following specific "principles of a reform strategy" for France:

- "a) Relieving inflation by saving;
- "b) Breaking the inflationary cycle;
- "c) Establishing with certainty that the inflationary process is over;
- "d) Substituting elasticity by investment for elasticity by inflation".

I need only add that the Rueff program has been vigorously implemented, and that France has staged an extraordinary economic recovery during the last few months as a result of this program.

As indicated by the title of my speech, however, I propose to devote my main attention to the situation in the undeveloped world. In this vast area the problem of inflation still has a pressing immediacy. The governments of almost all the undeveloped countries in Asia, Africa, and Latin America, are under the strongest compulsion to accelerate their economic development in order to meet the clamor of their peoples for improved living standards. At the same time, unlike more advanced countries such as those that I have already mentioned, they lack experience in formulating and administering economic and financial policies. They are therefore beset by fearful temptations to try to spend their way out of political and economic troubles without regard to the consequences for their economic systems. In my opinion, this

situation is fraught with the most serious danger. If the undeveloped countries of the free world fail to achieve reasonable economic progress, or if in their attempts to do so, they overreach themselves and fall victim to destructive inflationary disorders, they will have great difficulty in withstanding the competition of Communist forms of organization and ideology.

Ten years ago, or even less, it might have been necessary to convince people in many undeveloped countries that inflation was a bad thing. There were still some responsible leaders who thought that inflation was a useful or indeed indispensable stimulant to the economy. Much was heard about how economic progress could be accelerated through a kind of "forced saving", i.e. a process by which the government financed a large part of its expenditures on economic development by forcing depreciating money into the hands of its people. But this day is over. Most countries have by now had their bout of inflation and if the plague still runs its course in the undeveloped world, it is no longer because doctors have prescribed it but rather because the body politic is too weak to resist it. Governments no longer embrace inflationary policies, but they do still succumb to them. Sometimes they succumb unwittingly, sometimes because of internal political pressures, or sometimes because they genuinely consider (almost always wrongly) that this course will be the least of many evils. The resulting disorders are no less serious because the intentions are good!

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analysis, and without pointing an invidious finger at any individual countries, I might indicate briefly the main lines along which inflation in an undeveloped country runs its course.

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But here the possibilities open to the government of an undeveloped country are strictly limited. One of the things characteristically least developed in such a country is its capital market. The institutions for collecting the savings of the people will be rudimentary, the credit of the government may not be securely established, and (here comes the vicious circle) the currency may be depreciating so that no fixed obligation stated in that currency (or at least no long-term obligation bearing a reasonable interest rate) will

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business malpractices such as smuggling, hoarding and blackmarketing, characterised this state of affairs. To lift the country from this morass, drastic action had to be taken. This was possible only after promulgation of Martial law throughout the country.

"For a long time before Martial Law, prices and the cost of living had been steadily rising. There was too much money about and too few goods to buy. On the one hand, the Government had been pumping money into the economy by borrowing from the State Bank and on the other hand imports had been falling and domestic production, particularly agricultural output, had been lagging. Inflation at home and declining demand abroad had made substantial inroads on our export earnings. We had been forced to curtail ever more severely imports of consumer goods and even imports of the raw materials and spares which are the lifeblood of our own industries. A vicious circle of rising prices and declining supplies had set in.

"Under the circumstances your Government as a first step thought it imperative to impose sweeping price controls. But at the same time we know that such controls are not a fundamental or lasting remedy. When prices are fixed at a level where demand exceeds supply, supplies become exhausted or goods tend to disappear once more into black market channels. We are determined to restore this balance between supply and demand. On the one hand, we must avoid Government deficits which can only be met by borrowing from the State Bank and putting more money into circulation to chase the limited supply of goods. On the other hand, we must do everything humanly possible to increase our output and to export more of our production so that we can in turn import the goods vital to a revival of our economy."

As for Argentina, you will recall that General Peron was expelled from the country in 1955, and that after an interim period of rule by a military junta, Dr. Frondizi was elected President. By the end of 1958 Frondizi had decided that the damage wrought by the Peron regime on the once proud and wealthy land of Argentina was so far-reaching that nothing short of radical surgery could redress it. He therefore announced a sweeping program of economic austerity and stabilization, designed to lay the basis for a long-term reconstruction effort. This program, the success of which still hangs in the balance, received full endorsement and extensive financial support from the United States Government and the International Monetary Fund. One of its prime purposes is to put an end to the inflationary financing of public expenditures. In announcing his program to the Argentine people on December 29, 1958, Dr. Frondizi described in the following terms the state into which the country had fallen under the Peron regime:

"The basic problem by which Argentina's economy is afflicted is seen in the process of steady impoverishment resulting from the fact that the growth of our productive capacity has not kept pace with that of population and social needs. The financial and other resources which might have been employed for productive purposes have been used instead for non-productive investment and the maintenance of consumption at levels which exceeded the country's true production capacity.

"Inflation was the "chosen instrument" of disinvestment, prodigality and final impoverishment. An abundant money supply created the illusion of wealth and well-being which was completely at variance with the reality of the national economic development process.

Excessive consumption was thus stimulated, capital equipment was not renewed, the reserves were run down through excessive importing, and national indebtedness grew progressively heavier.

"The basis and structure of the economic and social system was also affected. The speculator and adventurer benefited at the expense of the genuine producer and of all economically sound enterprise. The situation thus created favoured the making of vast fortunes in record time, fortunes that were amassed without effort and without any positive contribution being made to the general well-being of the community. Respect for the orderly processes of advancement, based on effort and the enterprise of the individual, on thrift, honesty and creative capacity, was destroyed. Here we glimpse something of the evil of inflation as the underlying cause of a national crisis which transcends the strictly economic aspect of the problem, affecting, as it does, the political, social and, very particularly, the moral bases on which society and the place of the individual in it rests."

Well, what does all this signify for business, first for business in general in a country afflicted with inflation and, secondly, for foreign business enterprises that are operating there?

Surely the question answers itself. There is always a speculative fringe on the edge of an inflation where profits can be freely made and, if you like, there is, therefore one element of the business community which may prosper. But the fate of the business community generally is clearly linked with that of the nation as a whole, and if the foregoing analysis has any validity it shows that no significant group

in the economic system can escape the ravages of inflation.

More specifically, consider the problems which beset a businessman in the advanced stage of the inflationary cycle.

Item - The price of his product may be rising, but so are the prices of all of his factors of production, and he scarcely knows from day to day what his costs will be. His wage costs may indeed be lagging behind, but if so he will have labor unrest and the constant threat of work stoppages. Cost accounting becomes a lost and indeed a useless art.

Item - Our businessman cannot count on the continued availability of imported materials and supplies required in his business, nor can he count on the continued provision of public services (electric power, transportation, etc.). All these may be rationed, leaving him at the mercy of unpredictable and probably erratic administrative controls.

Item - He will soon be running short of working capital, and he will find it extremely difficult to obtain additional short-term credit, especially if the government is trying to dampen down the inflationary movement through credit controls. In any case the interest rates will be extremely high since any lender will desire compensation for the depreciation of his money while it is outstanding on loan. As for long-term capital, this will scarcely be available at any price for productive enterprise; it will be taking refuge in inflation storm cellars, such as real estate, commodity hoards, etc.

Item - Governmental regulation will be pressing him from every side. If in addition corruption has begun to flower, he must face

the competition of the unscrupulous business operator who is prepared to buy his way through the administrative restraints.

Item - Finally, if he does succeed after all in making some honest profits, how is he to preserve them in the face of the continued inflation? Even in the unlikely event that the market for his product remains promising, he will probably be unable to expand his plant for lack of the imported capital equipment required for this purpose. In the end our worthy businessman may well end up himself trying to protect his capital by neglecting his business in favor of speculative adventures.

The foreign businessman has all the foregoing problems to contend with and is greatly handicapped in dealing with them by his lack of familiarity with local conditions and by the need to obtain clearance with his home office at a time when rapid-fire action is probably necessary. In addition, he must worry about making profit and other remittances abroad. If the exchange rate is being artificially maintained by the government, he will certainly be able to make remittances abroad only under close licensing control; alternatively, if the exchange rate is rapidly depreciating, he will find his remittances melting away in value by the time they reach their foreign destination.

Where then does our businessman find time to tend to his business? I have asked this question many times of businessmen operating under conditions such as those I have described and the answer is that anywhere from 50 to 90% of their time becomes employed in wrestling with the special problems created by the inflationary environment. As little as 10% of their time may then be available for carrying out the constructive work of building their enterprise. If you consider that most other

elements in the community are similarly affected in greater or less degree, it will be apparent that the heaviest toll which inflation lays upon a country is the diversion of human talents and energies from constructive to unconstructive channels.

Well, I have just about concluded my catalogue of the evils of inflation. I hope I have not left the impression that all of the undeveloped world, or even a very large part of it, is under its spell. As I pointed out at the beginning of my talk, a great many of the undeveloped countries have by now learned their lesson and learned it well, partly from their own experience and partly from the striking examples which have been set by monetary stabilization programs in Western Europe. But some countries remain vulnerable, and it is perhaps the first task of economic statesmanship in the undeveloped world to resist the temptation which each nation has to overspend its available resources.

There remains the question of how far this foreign experience may be significant for the determination of economic and monetary policies in the United States. I shall not pretend to formulate the conclusions which this Conference may desire to draw on this subject when it comes to weigh the dilemma to which I referred at the beginning of my talk, namely, how to achieve the stimulating effects of an expanding money supply without suffering the disruptive consequences of inflation. You will no doubt hear arguments that the kind of inflation, or rather the different kinds of inflation, which may arise in a very advanced industrial economy like the United States, present much more complex problems of analysis than the simple and virulent form which afflicts more primitive economies. You may also hear the view that we in this country are far more knowledgeable and competent than governments in

undeveloped lands when it comes to designing measures to offset and contain inflationary pressures brought about by expansionary monetary policies. I express no categorical views on these issues. I shall have accomplished my modest purpose if you will only think twice - or maybe thrice - before you accept the conclusion that in the United States inflationary methods of public or private finance can make any useful contribution to the economic growth.

Feb 28, 1961

Sydney, Australia

THE INTERNATIONAL BANK FOR RECONSTRUCTION & DEVELOPMENT



Men working at the construction of the highway between Embu and Meru, Kenya (see also p. 33)

Summary of Speech at the I.R.F. Pacific Regional Conference

The World Bank, which is affiliated to the United Nations, is a non-political, inter-governmental institution, with some seventy countries participating in its work, subscribing its capital and providing its Board of Directors. It fulfils the functions of a bank as such, which means those of a business institution, as well as those of a development institution. It adopts a technical-professional approach to all problems and has a highly qualified staff drawn from some fifty different countries who provide technical assistance to aid national economic development programmes.

The Bank has a capital of U.S. \$20 billion,* 10 per cent. of which (i.e., \$2 billion) has been paid up by subscribing governments; moreover, \$500 million of this latter sum is in local currencies. Additional capital is also raised by the sale of bonds in the leading financial markets of the world. Funds subscribed in this manner are, for the most part, received from institutions, insurance companies, savings banks, pension funds and so on. To date loans advanced to underdeveloped countries amount to some \$5 billion.

In the years immediately succeeding World War II the emphasis was on reconstruction and \$500 million was loaned to countries in Europe for this purpose, but subsequently the main aim became one rather of aiding development and loans under this head now total some \$5 billion to fifty-two countries. Repayments and in-

* U.S. billion = 1,000 million.

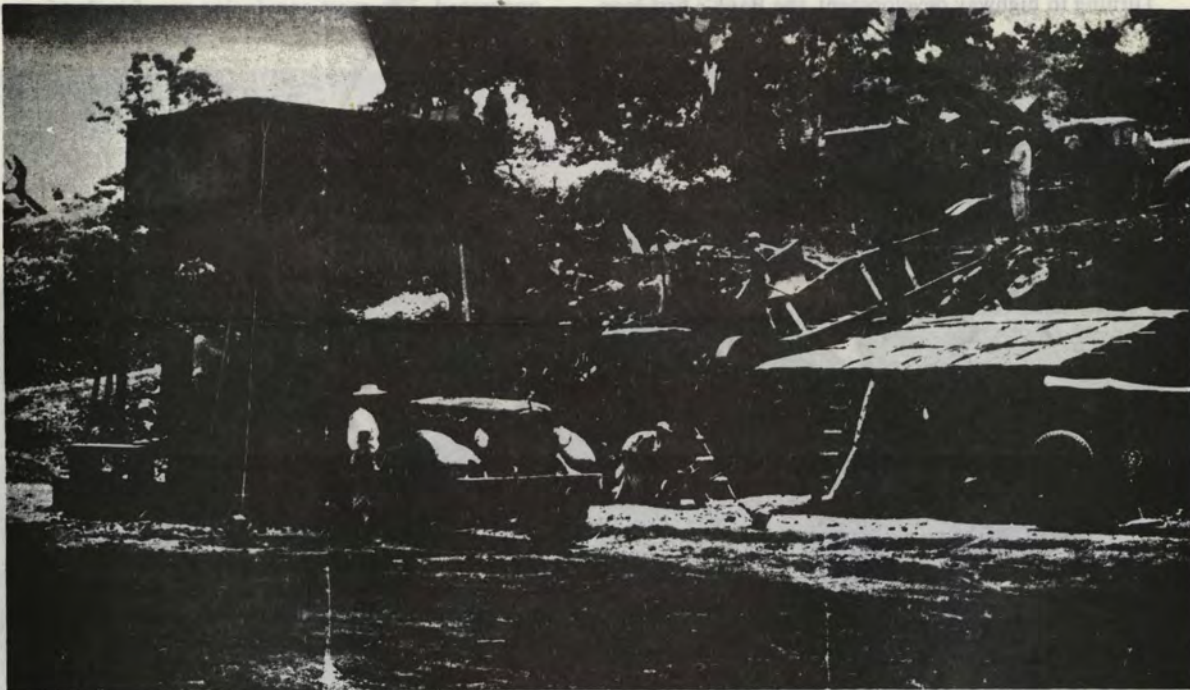
By
J. BURKE KNAPP,

Executive Vice President
of the I.B.R.D.



terest received amount to approximately \$1½ billion. The present lending rate for most projects is 5½ per cent., which allows for the cost of borrowing and for a reserve fund.

Asia has been the principal recipient—particularly during the last two or three years—with credits amounting to \$2 billion. Latin America has received \$1 billion; Africa and Australasia together, \$1 billion; with the remaining \$1 billion to the less developed countries of Europe, such as Norway, Finland, Austria, Turkey and Yugoslavia.



The Leon-Chinandega highway, Nicaragua, an I.B.R.D. project

Road International (Continued)

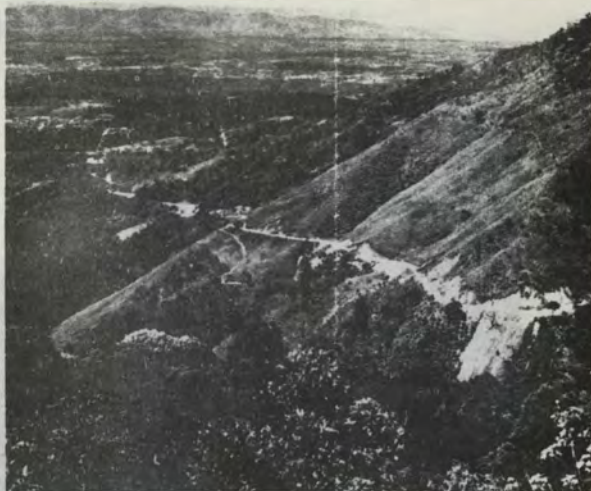
Autumn 1961

In Asia, India has been the largest borrower with loans totalling over \$700 million. Pakistan has received \$240 million; Japan \$350 million and Thailand \$100 million.

Three simple principles guide the Bank's activities: firstly not to lend a country more than it can afford to pay back; secondly to make loans for specific productive projects which will make a maximum contribution to the economic strength of the country; and thirdly to promote the free growth of private enterprise in industrial and agricultural development.

Loans are chiefly to governments and to public enterprises—although at the same time substantial credits have been given to private organisations (utilities or basic industries, such as steel). Fundamentally, however, the Bank's function is to help governments provide basic public services, such as power and transportation: thus one-third of the loans made to date are for electric power development and one-third for all forms of transportation.

Recently the International Development Association (IDA)—an affiliate of the World Bank—has been set up with an initial capital of \$1 billion. It is a special pool of government funds entrusted to the Bank for the purpose of making "softer" loans or for lending on more liberal



A World Bank loan assisted in the improvement of this highway in Colombia between Armenia and Ibaque, an important artery for trade



Compacting the base of the Granada-Masaya highway, Nicaragua, another I.B.R.D. project

terms. This pool will enable the Bank to serve the needs of those countries who, through no fault of their own, have run up an external debt to the limit of their capacity. The fund will be used for the most part in the Asian countries, starting with India and Pakistan.

Turning to highway development, the Bank's first loan

was made to Ethiopia in 1950. In the following 10 years 27 loans have been granted to seventeen countries, totalling nearly \$400 million. Experience has shown that highway investments have been among the most productive and beneficial to the economies of the countries concerned. The most convincing proof is that in several



Modern machinery at work on the Embu-Meru road, Kenya, through I.B.R.D. finance

Road International (Continued)

Autumn 1961

countries successive loans have been granted for carrying out different stages of road development. A good illustration is Colombia in Latin America. This vast country had never been knit together into an economic whole before the 1950s and isolated communities depended mainly on air transport as a means of communication. The Bank has been building highways in Colombia now for 10 or 12 years. The fourth loan is in process of negotiation and this will bring the total amount of the Bank's investment in this country to some \$60 million. There is no question but that highway development has revolutionised the country in terms of its economy, exports, standards of living and so on. Most of the other Latin-American Republics have also received World Bank loans for transportation purposes.

There has also been substantial investment in road building in Africa and the Bank has materially assisted, for example, in Ethiopia, the former Belgian Congo and in the British African territories.

In the Asian countries two major loans have been made specifically for highway development—in 1959 \$72 million to Iran to finance a nation wide programme of road building; and in March 1960 \$40 million to Japan to finance expressway construction.

In this continent generally—particularly in those countries where the Bank has been active, such as India, Pakistan, Burma, Malaya and Thailand—it was considered that not enough emphasis has been placed on highway development. Transport development has been unduly centred on existing forms—be it railways or inland waterways—and it has been urged that more

attention should be given to the possibilities of *motor transport*. Illustrating this trend is the Bank's experience in India when it was asked by the Government to make an appraisal of the Third 5-Year Plan which was to be launched on 1st April this year. A consortium was set up of those nations engaged in helping to finance the plan—the U.S.A., U.K., Germany, Japan and various others of the Western European countries. In a report to the consortium it was stressed that inadequate finance had been allocated to the highways sector with disproportionately heavy investment contemplated for other sectors. Reallocation was therefore advised to redress the balance. The Bank envisages that the loans made to India during the next few years will be related specifically to *road* development.

Types of Project Supported

As to the types of project to which the Bank gives support, these cover a wide range including, for instance, highway maintenance, improvement and rehabilitation of existing roads and new construction. Particular importance is attached also to supplementing the major networks by building farm-to-market and local roads.

With regard to the execution of roading programmes, the Bank favours the use of contractors, especially for construction, and believes in the value of competitive tenders for contracts—including international tenders.

In general the Bank supports the idea of highway funds in which resources from petrol and licence taxes and so forth can be pooled, for in all the underdeveloped countries the one great lack is capital to carry out their economic development programmes.



In Iran a road rehabilitation and expansion programme is in progress with World Bank assistance as part of the country's 7-year development plan

Ten years of active partnership

PAKISTAN AND THE

By Harold Graves

Director of Information World Bank

THE active association of Pakistan and the World Bank is of nearly ten years' standing. This is not a long period, on the astronomical scale, but it is a long time in the history of these two partners—a country still approaching the 15th anniversary of its independence and an international development institution only a year or two older.

The Bank's direct assistance to economic progress in Pakistan began with a loan in March 1952. That loan helped to buy equipment for the railways of Pakistan. Since then, the Bank's activity has become much more comprehensive. It has continued to include both wings of the country, and has embraced all loans in all. The Bank has been concerned not only with the financing of projects, but with the progress of the Five-Year Plan as a whole—witness the fact that the Bank is expected to convene representatives of a group of friendly governments early in 1962 to continue consideration of external financing for the Plan.

256 Million Dollars

THE Bank has lent 256 million dollars to pay for equipment and services needed to carry out development projects in Pakistan. It has lent more money—just short of 100 million dollars—for transport than for any other purpose. Most of this sum has benefited the railways, thereby aiding the distribution of goods throughout the nation. The rest has been used to rehabilitate the Port of Karachi (a new port already having been created at Chittagong) and to build a pipeline to transport Sui gas in the West wing.

The war years had left the Pakistan railways with a legacy of worn out or obsolete equipment. Beginning in 1952, the Bank has lent 71 million dollars to help modernise the railways and to aid them in expanding both freight and passenger service. The three loans for this purpose have bought diesel locomotives, passenger and goods wagons, track and maintenance equipment, and one of these loans also contained funds for the reconstruction of the Lansdowne Bridge across the Indus 250 miles above Karachi. The

diesel locomotives alone, through their greater efficiency, have saved Pakistan well over a million dollars a year on expenditures of foreign exchange for locomotive fuel.

Port Of Karachi

SOME 14.8 million dollars of the Bank's transport financing has been directed to the port of Karachi. The purpose in this case was to rehabilitate the East Wharves, which handle three-fifths of the traffic of the Port. Built six decades ago, they had deteriorated so much by the time of the first Five-Year Plan that they were seriously hindering the flow of goods to and from West Pakistan.

A Bank loan was made in August 1955 for the reconstruction and modernisation of ship berths and cargo-handling facilities at the wharves. The work also included the construction of a concrete quay wall, new storage facilities, access roads and railway tracks, the provision of cranes and, finally, the construction of workshops and of an office building. The project has enabled the Port to increase its capacity and to greatly speed up the handling of both incoming and outgoing cargoes.

Pakistan has little coal and less timber, and in the past a large part of its requirements of fuel have had to be imported. The discovery in 1952 of a huge reservoir of natural gas at Sui, about 350 miles north of Karachi, was therefore of vital importance to the economy. It promised an abundant and economical fuel for Pakistan's developing industries, without the strain of large expenditures of foreign exchange for imports of industrial fuel.

Sui Gas Supply

IN June 1954, the Bank made a loan of 5 million pounds to the Sui Gas Transmission Company.

The project benefited by the loan consisted of laying a 16-inch pipeline from Sui to Karachi by way of Sukkur and Hyderabad, and also of providing connecting lines to several large consumers at other points.

The line, it will be recalled, was laid in the astonishingly rapid time of five and a half months, and service to consumers started in September 1955. By the end of 1955, Sui gas was supplying two-thirds of West Pakistan's requirements of industrial fuel, and the proportion



Eugene R. Black, President of the World Bank

has continued to grow. The remarkable industrial progress of the last few years in and around Karachi would hardly have been possible without this project.

Commerce, Industry

MUCH of the Bank's other lending has benefited industry and commerce in Pakistan, both East and West. In Karachi, the continuous expansion of population and of economic activity has created a constantly growing demand for electricity, for industrial, commercial and residential use.

To meet the demand, the Karachi Electric Supply Corporation, Ltd., has greatly increased generating capacity. In this, it has been aided by three World Bank loans amounting to slightly more than 30 million dollars.

The first loan was made in the summer of 1955 and helped to finance an expansion of power service calculated to meet the most urgent needs. A 30,000-kilowatt generating station was built in Karachi and began service early in 1957. Beyond that, existing power plants were rehabilitated, and service in Karachi was widened and improved

through work on the distribution system.

The second loan was made in the spring of 1958 for a much larger addition to generating capacity, amounting to 60,000 kilowatts. Since this new capacity was not expected to be available until 1962, the Bank made a further loan for a 14,500-kilowatt diesel generating station which could be constructed more quickly.

Industrial Production

A PART from the support given to industry through loans for the supply of fuel and power, the Bank has lent more than 33 million dollars in funds intended to be used directly in establishing or expanding industrial production.

One of the Bank's loans for this purpose helped in founding Karnaphuli Paper Mill Ltd. and its manufacturing plant at Chandragona, on the Karnaphuli River downstream from the bamboo forests of the Chittagong Hill Tracts in East Pakistan. The company was established partly on the basis of prospective Bank loan, and the loan itself, amounting to 4.2 million dollars, was made in August 1955.

The funds helped equip a mill designed to produce 30,000 tons of writing and wrapping paper, and to satisfy the country's requirements for these two products. In addition, the mill provided a new use for bamboo in Pakistan, and at full production gives employment to about 3,000 workers. The company, founded by the Pakistan Industrial Development Corporation, now belongs mostly to private investors.

The Karnaphuli loan, however, was exceptional. In normal course, the World Bank is not able to make a large number of individual loans to small and medium industries. Generally, therefore, it has tried to help these enterprises indirectly.



Sui Gas Transmission Pipeline

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

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Statement by Mr. J. Burke Knapp, Vice President of the World Bank

Circulated April 14, 1961, at the Annual Meeting
of the

Board of Governors of the Inter-American Development Bank
in Rio de Janeiro

I am delighted to participate in this Second Annual Meeting of the Board of Governors of the Inter-American Development Bank. My pleasure is the greater because the meeting gives me the occasion to revisit Brazil, in which I once lived a very happy and instructive year. Like everyone who has had the privilege of this experience, I continue to feel from time to time acute nostalgia for Brazil, and I have learned that the only remedy is to make return visits here whenever the opportunity offers.

Brazil is the giant of Latin America. Its size, potentialities and aspirations provide the measure of the challenge it faces. That challenge, on a different scale, is the one all Latin American countries face: symbolized in the contrast between the luxury hotel in which we meet and the favelas a few miles away, between booming Sao Paulo and the depressed Northeast, between the skilled industrial workers and the primitive jungle inhabitants who both share the privilege of citizenship of this great country. We all applaud Brazil's struggle to weld these disparate elements into a new and modern nation. We all watch with understanding and hope Brazil's efforts to achieve

the twin aims proclaimed by the motto on its national flag "Order and Progress." For our present purposes I take this to mean order in its internal finances and international accounts and progress in economic development and in the satisfaction of the material needs of the Brazilian people.

I need not say again -- but I will -- that the World Bank is more than happy to be joined by institutions like the Inter-American Bank in the task at which we have now been working for some 12 years: the task of fostering the development of Latin America. We welcome a partner who is bringing new sources of capital, new talent, new ideas and a fresh spirit to that task. The work of the Inter-American Bank should not be thought of as a substitute for what the World Bank has been doing in Latin America. No good purpose would be served if we merely divided a given amount of investment with one more institution. Rather, our joint purpose should be to use the increasing financial resources available from the world's governments and private capital markets in such a way as to expand the rate of growth which some Latin American countries have achieved since the war, and to bring new stimulation to those which have, unfortunately, made little progress in economic development.

Taken as a whole, Latin America's experience in the past 15 years has not been too bad. Its gross product has grown at a compound annual rate of around 5% -- better by far than most of the under-developed world. This increase in total output has been sufficient -- despite a fast growing population -- to raise per capita product by an average 2-1/2% per year and real per capita income by more than 3%.

Yet these continental statistics of growth -- however gratifying -- cover wide annual variations, wide variations among the Republics, wide variations among the sectors of production, and wide variations in the distribution within each Republic of the benefits of that growth. Two and one-half per cent per year is substantial; at that rate per capita income doubles within a generation, 28 years. But not everyone, by a long way, has had a full share in this advance. Moreover, the rate of growth has slowed down in the past several years. Public awareness of these circumstances no doubt underlies the restlessness, the apprehension and the tension, which are probably more acute and pervasive in Latin America today than at any time since the revolutionary upsurges of the 19th century.

But it would be presumptuous for me to interpret Latin America's problems to you. You who live with them know your needs better than I. Let me only suggest to you that we should regard this tension as both a warning and a sign of promise -- a warning that the economic and social problems of the 1960's must be dealt with more fundamentally and more decisively than were those of the 1950's, and a promise that they will not be allowed, through neglect and apathy, to ferment inside the body politic until an explosion occurs. Of one thing we may be sure -- the next decade will be a time of change, of evolution if not of revolution, and our responsibility is to see that this change is channeled toward meeting the highest aspirations of the peoples of the Continent.

May I take this occasion to point to a few matters which seem particularly important from the viewpoint of an international

lending institution which has lent \$1.2 billion for development projects in Latin America over the past 12 years. This sum is not large in relation to the total investment effort in that period, or even in relation to total capital inflows, public and private. But it has been qualitatively significant, and indeed quantitatively significant in the two basic fields of power and transport facilities to which over 90% of our loans to Latin America have been devoted. More important, this experience of more than a decade has given us the opportunity to become intimately acquainted with the institutions and policies through which your governments work, and with the entrepreneurs, both governmental and private, on whose initiative and efforts your economic growth depends.

The first is a word of caution about the burdensome growth of external debt. In the 1950's, Latin America borrowed heavily -- with the result that, for the area as a whole, public foreign indebtedness rose from around \$2.1 billion in 1950 to around \$5.6 billion at the end of 1960, an increase of 170 per cent in 10 years. Furthermore, this very substantial increase in external obligations was not always wisely incurred; the projects were not always well-conceived and the financial terms were often quite ill-suited to the project or to the repayment capacity of the borrowing country. As a result of the increased volume of debt, and of the heavy concentration on short- and medium-term loans, the service on Latin America's external public debt has risen from about 3% of foreign exchange earnings in 1950 to something over 10% in 1960. There is, of course, a great variation in the rate at which this service burden has grown among the Latin American

Republics; but in every case it has risen and in some instances to more than 20%. Against this background, it is gratifying indeed that many Latin American countries have become increasingly aware of the dangers of short- and medium-term supplier credits, dangers which go beyond their bearing on the burden on external payments. And against this background, too, there is special reason to welcome the advent of new financial institutions, such as the Inter-American Bank and the latest affiliate of the World Bank, the International Development Association, both capable of providing capital on especially lenient terms.

The second, not unrelated, matter to which I should like to call your attention is the uncertainty of export prospects for some of Latin America's major primary products, such as coffee and cocoa. By far the most critical situation is that of coffee, where catastrophe has been prevented only because of the constructive joint action undertaken by the producing countries. The burden of coffee stabilization has rested most heavily on our hosts the Brazilians and their neighbors the Colombians. Unfortunately, the danger is not over. An acute problem of over-production remains, and is accentuated by the advent of new production on other continents which is fully competitive even at today's prices. It is difficult to see the end of the crisis until aggregate world production is brought into some reasonable relationship with consumption requirements. The other major export products are not exposed to anything like the coffee situation. On the contrary, some of the metals and foodstuffs have a promising market. But on the whole, it is probable that no major improvements from the

present level of commodity prices may be expected in the near future. The growth in export earnings will depend on increases in the volume of exports of primary products, which will be only gradual, and on the development of new export goods, mostly in the manufacturing field, where much vigorous action and imagination are required if success is to be achieved.

Here is one of the challenges of the 1960's, and a challenge to the more advanced countries which constitute the principal markets for these products as much as to the producing countries themselves. In our increasingly interdependent community of nations, it is imperative that the export efforts of the less developed countries be matched by positive import policies in the more developed areas -- by the removal of import restrictions, by modification of excise taxes bearing heavily on imported commodities, and generally by recognition of the merits of trade rather than aid as a solution to the distressing disparity in economic standards among the nations of the world. At the same time much can be done among the Latin American countries themselves to promote the mutually profitable exchange of goods and services; and we should all extend a cordial welcome to the steps taken to create new trading communities in Central and South America.

I should like to stress that the levels of debt service and of foreign exchange earnings are important indicators that must be watched, but are by no means the only determinants of a country's international credit. Of far more fundamental importance, in our eyes, is the extent to which a country is taking the steps necessary to mobilize its domestic energies and resources in support of its own

economic development - to raise the flow of domestic savings, to create incentives for productive investment, to replace wasteful government expenditures with outlays on development, and to stimulate the growth of new economic activities whether they are oriented toward export promotion or import saving. I believe that international financial institutions like ourselves will always be far readier to assume specific investment risks if we feel that the country which is seeking loans is pursuing policies designed to improve its long-term prospects along the lines I have mentioned, thereby strengthening its capacity to withstand short-term as well as more fundamental economic and financial crises.

This leads me to the third matter to which I should like to call your attention, namely the hazards of inflation. I realize that it is no longer necessary, as it was through most of the 1950's, to expound these dangers. Country after country in Latin America has become aware of them - not always as a result of advance warnings, but from the bitter experience that excessive inflation has in fact slowed down growth and created insuperable political difficulties. The efforts of Argentina, of Colombia, of Chile, of Peru and of others to achieve monetary stability will, I believe, continue; and those efforts and their results will, I am sure, lend weight to the views of those in other countries who have been advocating action in the same direction. The real point I want to make, however, is that financial stability, however indispensable as a means to economic progress, is not an end in itself. If it is not a component of a much broader set of economic development policies, it will break down under

the pressures of domestic social and political unrest and the sterile cycle of inflation will begin again. For the 1960's, vigorous development policies and programs will be just as important as a vigorous anti-inflationary policy.

I should like to re-emphasize the need for development programming and to re-state the readiness of the World Bank to help both in preparing and in executing national programs. This is a field in which we have had extensive experience around the world, and we hope to find many more opportunities to apply this experience in Latin America during the 1960's. We are encouraged by the fact that Chile, after long effort, has just announced a comprehensive 10-year program of economic development, designed to achieve substantial benefits for its population without recourse to the devastating inflation that frustrated that country in the 1950's; and we take some pride in the fact that parts of this program bear a close lineal resemblance to the recommendations of a joint Bank-FAO mission, made 10 years ago. We are ready, whenever we receive a convincing request, to place our resources at your disposal to do a similar job.

A sensible and thoroughly-considered program for economic development will be an indispensable tool for any country which is seeking to share in the economic progress of the next decade. Quite aside from the guidance that you yourselves will derive from such programs, they will be of immeasurable assistance to those of us outside - like the Inter-American Bank and the World Bank - in our efforts to assist you. We need perspective in planning our lending operations and in making our individual investment decisions. If we

are to help you with our funds, and to give you effective assistance in attracting resources from elsewhere, we need to know your targets, the extent of the effort you propose to make, and the measure of the resources you propose to mobilize. When you can present a program that commends itself as reasonable, we will be able to tell you what part of it we are ready to finance and help you get the rest.

The domestic effort which you will be called upon to put forth in preparing and pursuing such programs will not be easy. And if I judge correctly the tone of development assistance programs for the 1960's, the nature of the domestic effort - the "matching" effort - will become more important than ever before. You will be required to deal with deep-seated and difficult problems. I am tempted to repeat the questions asked by Raul Prebisch in another context at Bogota last September: Are our member countries prepared "not only from the point of view of technology - which is certainly not an insuperable obstacle - but also from the political point of view, to introduce...all the structural and social reforms required for the application of an effective economic policy? Are we not running the risk that these resources, intended for social development, may simply be used to pour oil on troubled waters without getting down to the root of the problems which are impeding the economic development of Latin America?" The answers to these penetrating questions lie in your hands.

I should like to close by paying tribute to the immense and dedicated effort which has been made during the past year to launch the Inter-American Bank upon its historic mission. The outstanding calibre of the membership of the Board of Directors already testifies

to the transcendent importance which is attributed to this institution in the American Republics. The great good fortune of the Bank in securing the executive leadership of Dr. Felipe Herrera and Mr. Graydon Upton brings further assurance of its success. May I only express the hope that the intimate collaboration which has already developed between our two institutions may be continually deepened and strengthened in the interests of the peoples of Latin America, whom we both serve.

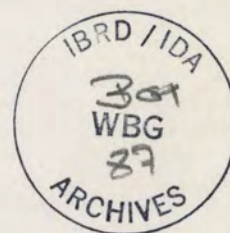
BANCO INTERNACIONAL DE RECONSTRUCCION Y FOMENTO

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TELÉFONO: EXECUTIVE 3-6360



Declaraciones del señor J. Burke Knapp,
Vicepresidente del Banco Mundial, dis-
tribuidas en la Reunión de Gobernadores
del Banco Interamericano de Desarrollo.
Río de Janeiro, abril 14 de 1961



Me complace mucho participar en esta Segunda Reunión Anual de la Junta de Gobernadores del Banco Interamericano de Desarrollo. Mi complacencia es mayor porque esta reunión me ofrece la oportunidad de volver a visitar Brasil donde pasara anteriormente un año, etapa esa que fué para mí muy feliz e instructiva. Como todos los que han tenido ese privilegio, sigo sintiendo de vez en cuando una aguda nostalgia por Brasil y me he convencido de que el único remedio es el de regresar siempre que se presente la oportunidad.

Brasil es el gigante de la América Latina. Su extensión territorial, sus posibilidades y aspiraciones, dan la medida de la obra que está por realizarse en el futuro. Esta situación, en proporciones distintas, es la que afrontan todos los países de la América Latina: simbolizada en el contraste entre el lujoso hotel en que nos reunimos y las "favellas" que se divisan a unos pocos kilómetros de distancia, entre la prosperidad pujante de San Pablo y el desaliento del Noreste empobrecido, entre los trabajadores industriales especializados y los primitivos moradores de la selva, poseedores ambos del privilegio de ser ciudadanos de este gran país. Aplaudimos todos este esfuerzo del Brasil para fusionar estos elementos disímiles en una nueva y moderna nación. Todos

observamos con comprensión y esperanza los esfuerzos del Brasil por realizar los dos objetivos que aparecen como lema en su estandarte nacional "Orden y Progreso." A los efectos que ahora nos preocupan, lo interpreto como orden en las finanzas internas, en los créditos internacionales, y progreso en el desarrollo económico y en poder satisfacer las necesidades materiales del pueblo brasilero.

No necesito repetirlo de nuevo - pero lo haré - que el Banco Mundial se siente más que complacido al ver que se le unen en la labor que hemos venido desarrollando durante unos 12 años, instituciones como el Banco Interamericano: la de fomentar el desarrollo de la América Latina. Damos la bienvenida a la nueva institución hermana que nos aporta nuevas fuentes de capital, de talento, de ideas y un espíritu lozano para acometer esa empresa. No debe de evaluarse al Banco Interamericano como un elemento sustitutivo de lo que el Banco Mundial ha venido haciendo en Latinoamérica. Nada ganaríamos si nos contentáramos simplemente con dividir determinados recursos destinados a la inversión con una institución mas. Nuestro objetivo conjunto debería mas bien ser la utilización de los recursos financieros aumentados, que hagan disponibles los gobiernos y los mercados de capital privado en el mundo, en forma tal que produzcan la expansión en la tasa de crecimiento que algunos países latinoamericanos han alcanzado desde la guerra, y traigan un nuevo estímulo a aquellos que, desafortunadamente, han experimentado poco progreso económico.

La experiencia de lo que ha ocurrido durante los últimos 15 años en la América Latina no ha sido muy mala, si se aprecia en conjunto. El

producto bruto ha crecido a razón de una tasa anual compuesta de alrededor de un 5% -- lo cual es mucho mejor que en la mayoría del mundo subdesarrollado. Este incremento en la producción total ha sido suficiente - a pesar del factor de una población en rápido crecimiento - para elevar el producto per capita en un promedio de 2-1/2% anual y el ingreso real per capita en mas de un 3%. Sin embargo, por más satisfactorias que sean estas estadísticas continentales de crecimiento, indican a su vez grandes fluctuaciones anuales, varían mucho de una República a otra y entre los sectores de la producción, así como en la distribución de los beneficios de ese crecimiento dentro de cada República. El aumento de un dos y medio por ciento al año es sustancial; con una tasa de crecimiento como esa, el ingreso per capita se duplica a los 28 años, durante una generación. Pero todos no han tenido una participación plena en este progreso. Además, la tasa de crecimiento ha sido más lenta durante los últimos años. En el conocimiento público de estas circunstancias se basa, sin duda, la inquietud, aprensión y tensión existentes en la América Latina, en forma más aguda y generalizada que las que ha habido desde los levantamiento emancipadores del siglo XIX.

No voy a tener la pretensión de decirles a ustedes cuales son los problemas de la América Latina. Ustedes que los viven, conocen mejor que yo las necesidades. Permítaseme sugerir solamente que tenemos que considerar esta tensión como advertencia y a la vez como signo promisorio: como advertencia de que los problemas económicos y sociales de la década de 1960 deberán tratarse de modo más fundamental y decisivo que los de la década de 1950, y como promesa de que no se permitirá que, por negligencia y apatía, fermenten en el seno del cuerpo político hasta que ocurra

una explosión. Podemos tener la seguridad de que la próxima década será un período de cambio, de evolución si no de revolución, y debemos responsabilizarnos en procurar que este cambio se encauce de suerte que satisfaga las más altas aspiraciones de los pueblos del Continente.

En esta ocasión me gustaría señalar algunos aspectos que me parecen especialmente importantes desde el punto de vista de una institución internacional que en estos últimos doce años ha prestado 1.200 millones de dólares para proyectos de desarrollo en la América Latina. Esta no es una suma sustancial en relación con el esfuerzo total de inversión realizado en este período, ni siguiera en relación con las aportaciones totales de capital público y privado. Pero ha sido de importancia en el orden cualitativo, y aun en el cuantitativo en los dos campos básicos de instalaciones para energía y de transportes, a las cuales se han dedicado más del 90% de nuestros préstamos a la América Latina. Y más importancia tiene aún el hecho de que esta experiencia de más de una década nos haya brindado la oportunidad de familiarizarnos íntimamente con las instituciones y normas con que trabajan vuestros gobiernos, y con los dirigentes, tanto gubernamentales como privados, de cuya iniciativa y esfuerzos depende vuestro crecimiento.

Primeramente quisiera advertirles que se pongan en guardia frente a un aumento excesivo de la deuda exterior. En la década de 1950, la América Latina contrajo fuertes obligaciones: en el conjunto de la zona, la deuda pública exterior subió de unos 1.200 millones de dólares, en 1950, a unos 5.600 millones de dólares a fines de 1960, o sea un incremento de 170 por ciento en 10 años. Añádase que ese aumento muy sustancial de las obligaciones exteriores no siempre fué presidido por la prudencia;

los proyectos no siempre estuvieron bien concebidos y los plazos financieros resultaron a menudo en franca desproporción con el proyecto o con la capacidad de reembolso del país prestatario. Como consecuencia del aumento de volumen de la deuda, y de la pesada concentración de préstamos a plazo corto y mediano, el servicio de la deuda ha subido en la América Latina desde alrededor de un 3% de los ingresos en divisas en 1950 a un poco más de un 10% en 1960. Existen, desde luego, grandes variaciones entre las repúblicas americanas en lo que respecta a los aumentos en las tasas de este servicio; pero ha ocurrido un aumento en todos los casos y, en algunos, este ha ascendido a más del 20%. Frente a esta situación, es ciertamente satisfactorio el observar que varios países latinoamericanos se vayan convenciendo cada vez más de los peligros que encierran los préstamos de proveedores a corto y medio plazo, peligros que van mas allá de las repercusiones que puedan tener sobre los pagos al exterior. Y también frente a esta situación tenemos motivos especiales para felicitarnos por el advenimiento de nuevas instituciones financieras, como el Banco Interamericano y la más reciente filial del Banco Mundial - la Asociación Internacional de Fomento - ya que ambas pueden facilitar capital en condiciones especialmente benignas.

En segundo lugar desearía someter a la atención de ustedes algo que no deja de estar relacionado con lo anterior y es el de la inseguridad en las perspectivas para la exportación de ciertos productos primarios de la América Latina, tales como el café y el cacao. La situación del café es incomparablemente más crítica que la de cualquiera otro de estos productos, y si no ha adquirido proporciones catastróficas, se ha debido únicamente a las constructivas medidas adoptadas de común acuerdo por los

países productores. Los que han tenido que soportar el mayor peso en la estabilización del café han sido nuestros huéspedes brasileños y sus vecinos los colombianos. Desgraciadamente, el peligro no ha pasado aún. Persiste un agudo problema de sobreproducción, y se hace más patente con el advenimiento de nuevas producciones en otros continentes, que son competitivas aún a los precios actuales. Es difícil prever que la crisis desaparezca hasta que la producción mundial se ajuste de una manera razonable a las necesidades de consumo. Los otros principales productos de exportación no se hallan en una situación tan expuesta como la del café. Por el contrario, algunos metales y productos alimenticios tienen un mercado prometedor. Pero, en conjunto, no cabe esperar que mejore considerablemente en un futuro próximo el nivel actual de precios de los productos. El incremento en los ingresos por concepto de exportaciones dependerá de que aumenten las exportaciones de productos primarios y esto sólo será gradual, así como del desarrollo de nuevos renglones de exportación, sobre todo en productos manufacturados, lo que requiere, para tener éxito, una vigorosa iniciativa y decisión.

Es ésta una de las cuestiones a resolver en la década de 1960, tanto por los países más desarrollados que constituyen los principales mercados de estos productos, como para los propios países productores. En nuestra comunidad de naciones, cada vez más interdependiente, es imperativo que los esfuerzos de exportación por parte de los países menos desarrollados tengan como contrapartida una política positiva en materia de importaciones por parte de las zonas más desarrolladas, que elimine las restricciones a las importaciones, modifique los impuestos demasiado onerosos para las mercaderías importadas y, en general, reconozca los méritos del comercio

mas que los de la ayuda financiera como una solución a la lamentable disparidad entre los niveles económicos de las naciones del mundo. Al mismo tiempo, mucho pueden hacer los países Latinoamericanos para promover un lucrativo intercambio de mercancías y servicios; y nosotros debemos dar una cordial acogida a los pasos que se den para crear nuevos centros de intercambio en Centro y Sur América.

Quisiera señalar que los niveles del servicio de la deuda y de los ingresos en divisas son indicadores importantes que no deben perderse de vista, pero en modo alguno constituyen los únicos factores determinantes del crédito internacional de un país. Consideramos fundamentalmente más importante la adopción de las medidas necesarias que tome un país para movilizar sus energías y recursos nacionales en apoyo de su propio desarrollo económico, elevando la circulación de los ahorros nacionales, creando incentivos para la inversión productiva, suprimiendo derroches gubernamentales para invertir más en desarrollo y estimulando el crecimiento de nuevas actividades económicas orientándolas a aumentar las exportaciones o a disminuir las importaciones. Creo que instituciones financieras internacionales como las nuestras estarán siempre mucho mejor dispuestas a asumir los riesgos de inversiones específicas si tenemos la impresión de que el país que solicita préstamos, sigue una política destinada a mejorar sus perspectivas a largo plazo dentro de las orientaciones a que me he referido, fortaleciendo así su capacidad de resistir tanto las crisis económicas y financieras a corto plazo como las más fundamentales.

Esto me lleva al tercer aspecto que yo deseaba someter a la consideración de ustedes, es decir, los riesgos de la inflación. Me consta

que ya no es tan necesario exponer estos peligros como lo era en casi toda la década de 1950. Los distintos países de América se han ido dando cuenta de ello: no siempre porque hicieran caso de las advertencias que se les habían hecho, sino por la amarga experiencia de que, en realidad, la inflación excesiva sólo disminuyó el ritmo del crecimiento y creó insuperables dificultades políticas. Los esfuerzos de Argentina, Colombia, Chile, Perú y de otros países para lograr la estabilidad monetaria, continuarán, según lo espero; y tengo la seguridad de que esos esfuerzos y sus resultados contribuirán a reforzar las opiniones de quienes en otros países han venido preconizando medidas en este sentido. Pero el verdadero punto que yo deseaba señalar es que la estabilidad financiera, aun siendo indispensable como medio para el desarrollo económico, no constituye en sí misma una finalidad. Si no es uno de los muchos componentes que integran una serie más amplia de medidas de desarrollo económico, fracasará bajo las presiones de la inquietud social y política del país, y comenzará de nuevo el ciclo estéril de la inflación. En la década de 1960, las vigorosas orientaciones y programas de desarrollo serán tan importantes como una vigorosa política antiinflacionaria.

Permítaseme hacer hincapié en la necesidad de elaborar programas de desarrollo y de reafirmar una vez más que el Banco Mundial está dispuesto a contribuir a la preparación y ejecución de programas nacionales. Es un campo en que hemos adquirido mucha experiencia en todo el mundo, y esperamos encontrar muchas más oportunidades de ponerla en práctica en la América Latina durante la década de 1960. Nos alienta el hecho de que Chile, tras largos esfuerzos, acaba de anunciar un vasto plan decenal

comprendido de desarrollo económico, con el propósito de proporcionar ventajas sustanciales a su población sin recurrir a la devastadora inflación que azotó al país en la década de 1950; y nos ocasiona cierto orgullo el hecho de que algunas partes de ese programa tengan una gran semejanza en su orientación con las recomendaciones formuladas, hace diez años, por una misión mixta del Banco Mundial y la FAO. Estamos dispuestos, siempre que recibamos una solicitud convincente, a poner nuestros recursos a la disposición de ustedes para llevar a cabo una tarea similar.

Un programa razonable de desarrollo económico, cuidadosamente concebido, será un instrumento indispensable para todo país que desee participar en el progreso económico en la próxima década. Aparte de la orientación que para ustedes mismos constituirán tales programas, serán una inapreciable ayuda para quienes desde afuera - como el Banco Interamericano y el Banco Mundial - desean prestarles su cooperación. Para que podamos ayudarles con nuestros fondos y proporcionárselos en forma eficaz que permita atraer recursos de otras partes, necesitamos conocer sus objetivos, la extensión de los esfuerzos que ustedes se proponen hacer, y la medida de los recursos que ustedes piensan movilizar. Si ustedes pueden presentar un programa que resulte razonable, podremos decirles qué parte del mismo estamos en condiciones de financiar y a ayudarles a obtener el resto.

El esfuerzo nacional que tendrán ustedes que emprender para preparar y llevar a cabo esos programas, no es cosa fácil. Y si interpreto debidamente el tono de los programas de asistencia para el desarrollo en la década de 1960, la naturaleza del esfuerzo nacional - el esfuerzo "conco-

mitante" - resultará aun más importante que en ocasiones anteriores. Ustedes tendrán que abordar problemas difíciles y de hondas raíces. Me parece oportuno repetir las preguntas que Raúl Prebisch formuló en otra reunión en Bogotá en septiembre pasado: Están preparados nuestros países miembros "no sólo desde el punto de vista de la tecnología - que indudablemente no es un obstáculo insuperable - sino también desde el punto de vista político, a implantar.... todas las reformas estructurales y sociales necesarias para la aplicación de una política económica eficaz? No estamos corriendo el riesgo de que estos recursos, destinados para el desarrollo social, se empleen simplemente para calmar las aguas agitadas sin ahondar a la raíz de los problemas que impiden el desarrollo económico de la América Latina?" Las respuestas a estas penetrantes preguntas están en manos de ustedes.

Para terminar, me gustaría rendir tributo al inmenso y abnegado esfuerzo que se ha hecho durante el pasado año para poner en marcha el Banco Interamericano hacia su misión histórica. El calibre sobresaliente de los miembros de la Junta de Directores ya da fé de la trascendente importancia que se atribuye a esa institución en las Repúblicas Americanas. La gran suerte del Banco al obtener la dirección ejecutiva del Dr. Felipe Herrera y del Sr. Graydon Upton, constituye otra garantía de éxito. Solamente quisiera hacer votos para que la íntima colaboración existente ya entre nuestras dos instituciones, se ahonde y fortalezca en interés de los pueblos de la América Latina a quienes servimos.

March 2, 1962

Welcoming Remarks by Mr. J. Burke Knapp
at the Fourth Annual Conference of
The Society for International Development

Washington, D.C.

It is a great honor and a special pleasure to perform the function of welcoming you here today. I know that all of you, like myself, are looking forward with the greatest interest to hearing the address of our President, Ambassador Jose Antonio Mayobre, and I do not propose to occupy much of your time. However, the mere fact that the Society for International Development could bring together here today such a distinguished group of workers in the vineyard of economic development seems to call for some comment and indeed for some self-congratulation.

The Society for International Development has come a long way. From the tentative beginnings initiated by its founding pioneers, there has evolved a thriving institution of some 1,800 members which has created for itself a unique place in the international arena. I hasten to add, before I am prompted by Mr. Marion Clawson, that this must be regarded as only a beginning; the Society will not have realized anything like its potential until its present number has expanded many, many-fold. But the attendance here today indicates the vitality of the organization, and I feel confident that, with the help of all of you, it will expand beyond the dreams of its founding fathers.

The Society for International Development is engaged in a field which is of the deepest interest and consequence for the World Bank and for its affiliated institutions, the International Development Association and the International Finance Corporation. The World Bank is, of course, a bank first and foremost, but it is also an international development institution. Indeed the history of the Bank has been marked by a constant evolution in the direction of recognizing the duties and responsibilities inherent in this latter role. This evolution received special impetus from the creation a year or so ago of the International Development Association. Indeed, I am rather struck by the fact that SID and IDA have both come into being in recent years with names that are practically interchangeable in every respect except the sex which is indicated. I am glad that you left us with the feminine version; it was perhaps time that the masculine firmness and discipline of the Bank was complemented by the softer and more intuitive graces of our IDA.

As the text for the rest of my remarks, I want to relate to you a little story which we like to tell in the Bank about the President of a remote, undeveloped country who came to call on Mr. Black. This gentleman, fortunately for his country, was a very well-educated and enlightened man. He had a profound grasp of the problems which his

country confronted in setting its feet upon the path of economic development, but unfortunately, his country lacked almost completely the administrative apparatus for pursuing rational economic and financial policies and for producing the design of a development program.

He listened very patiently while Mr. Black exhorted him to "put his house in order" in order to qualify better for Bank assistance, but he finally broke out in expostulation that after all, the Bank really didn't understand his problems.

"Mr. Black", he said, "Don't you realize what I'm up against? You sit here as the President of the World Bank and when a matter comes across your desk that involves some very difficult problems of economic analysis and strategy, what do you do? You push a buzzer on your desk, in comes an assistant, you order that a working party be assembled to prepare a report on the matter, they assemble the best financial, engineering, legal and technical talent which can be found in the world to produce this report, and within a few days there arrives back on your desk a finished set of conclusions and recommendations which requires only your final decision.

"Now consider my case. Suppose I receive a memorandum from one of my ministers posing some very difficult and complicated question of economic policy. What do I do? Well, I push the buzzer on my desk, but nothing happens -- the damned buzzer doesn't work."

Well, that is a nice little story It usually draws a laugh, although sometimes it sounds a little condescending. After all, most countries can accomplish the simple technical adaptation of making buzzers work. It's when we come to the question of who answers the buzzers that the real trouble begins and this is the task to which in one way or another, most of us in this room are dedicated.

If the experience of the World Bank proves anything, it is that the developing countries need to do a great deal, and to be helped a great deal, in developing their capacity to absorb and put to effective use the resources which are available to them from abroad. Clearly this is one of the most challenging missions that confronts us in the Western world. It is not good enough just to offer money, aside from the fact that money alone is often useless. If we accept the premise that the promotion of economic development around the world is of vital interest to the West, then we must also accept the responsibility for finding ways to harness for that task the necessary human resources, both in the developing countries themselves and in our own societies.

This means action on a host of fronts, but surely in the center lies the need for education, for training, for the systematic accumulation and evaluation of experience, and especially for a deeper

appreciation of the great complexity and interconnectedness of the economic development process. We read in the papers these days of the extraordinary progress being made in divining the fundamental constitution of organic life, a progress which would have been unthinkable without the most intimate collaboration among many scientific disciplines. We are coming increasingly to realize how many facets there are, and how many different disciplines are involved, in the constitution of an economic community and in the phenomenon of economic growth. It will be, I dare hope, the special role of the Society for International Development to elucidate these interconnections and to help design constructive methods for handling them.

But there remains the question, and perhaps the most important question of all: Will the buzzer be pushed and if so, who will push it? The promotion of economic development is a branch of political economy and political economy, or at least its practical application, is too important a subject to be left to the politicians or indeed to the economists. Who then is to take it in hand? Who in the developing regions is to provide the driving force, the will, to raise these countries by their boot straps to the stage of economic take-off? How can the undeveloped societies find leadership capable of building the moral fibre and generating the sense of purpose which is so indispensable for this purpose?

In the story which I told above (which incidentally is nearly true to life), the President of the remote, undeveloped country was a "just prince" who was both dedicated to the welfare of his people and reasonably knowledgeable as to the ways of the modern world. But what can we expect from countries where the buzzers are never pushed, or if they are, it is by the trembling hands of men who are only now plunging headlong, as the phrase goes, into the 19th century? What can we expect from countries where political power is paralyzed by indecision or still rests in the hands of those who do not seek or indeed will not tolerate genuine economic development?

Please do not mistake me. I am not calling for Leaders, with a capital L, for men on horseback. But unless enlightened leadership emerges, in whatever ways are best suited to the political genius of the countries concerned, those who answer the buzzers will never be able to apply their talents and energies adequately to their task. The technocrats of economic development can illuminate the choices that have to be made by a society, but only the society itself, through its established leadership, can make the choices which will set in motion the engines of economic growth.

I conclude on a note of hope. I believe that there has been significant progress in the past decade in the direction of placing the levers of political power in the undeveloped countries in the hands of modern men. There is little that we in the developed world can or should do to aid and abet this process. But our fellows in this Society for International Development who are citizens of the developing countries can -- in their capacity as citizens, not as experts -- strive toward this goal. Upon their success, and the success of others like them in the developing areas, rests our best hope for the coming decade of economic development.

The Place of Highways in Economic Development

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It is a special pleasure to represent the World Bank at a meeting of this other great world organization. As you know, the World Bank is primarily concerned with the promotion of the economic development of the relatively undeveloped countries, and although these countries form only part of your geographical area of interest, I am confident that you share with me a deep concern for the problems of the undeveloped world and an earnest desire to help find solutions to these problems. An organization such as yours, which combines the efforts and resources of both government and private enterprise, is particularly suited to take part in the campaign for raising economic productivity and living standards in the so-called backward areas of the globe.

In February 1961, I had the honor of speaking to the Regional Highway Conference in Sydney, Australia, where I took the occasion to express the very deep interest which the World Bank takes in highway development in the undeveloped countries of the world. I am now in a position to assure you that this was no idle statement. Indeed, in the year and a half which has elapsed since the Sydney Conference, the World Bank (including here and in my further remarks, its affiliated institution, the International Development Association) has extended new loans for highway construction, improvement and maintenance amounting to \$356 million, a sum only slightly less than the total amount of highway loans extended by the Bank during its previous ten years of activity in this field. This means participation in the financing of specific highway projects in 13 different countries, calling for a total investment of around \$900 million. As you know, the Bank normally finances only the foreign exchange requirements in connection with such projects - i.e., the required imports of goods and services - which tend to average around 40% of the total expenditure.

These operations bring the total Bank investment in highway development to some \$782 million, representing projects in 24 countries and territories, calling for a total investment of perhaps \$2 billion. These works are widely distributed around the world, but there has been a certain concentration in Latin America, a continent which has been giving special attention to

1/ Text of address to be delivered by Mr. J. Burke Knapp, Vice President of the World Bank, before the Fourth World Meeting of the International Road Federation in Madrid, Spain, on October 15, 1962.

the expansion of its transportation facilities during the period since World War II. In fact, the Bank has by now supported highway projects in every one of the Central and South American republics except Uruguay and Bolivia, and a substantial loan to Uruguay is actually under active negotiation at the present time. Other Latin American highway loans to be completed during the period since the Sydney Conference have included \$49 million to Argentina, \$25 million to Chile, \$39 million to Colombia, \$30 million to Mexico, and \$45 million to Venezuela. Other recent operations which are particularly noteworthy have been a second \$40 million Bank loan to Japan for express-way construction and a \$60 million credit from the International Development Association in support of a very extensive highway development program in India, a country which has hitherto relied largely on rail transport but which is now rapidly moving into the motor age.

Loans from the Bank (as well as from the International Development Association) are used to finance capital investment rather than recurring costs, and most of those for highway development are devoted to new construction or to major rehabilitation or improvement of existing routes. However, there often exists a substantial need for investment in machinery and vehicles to equip highway maintenance services. Indeed, as I have emphasized on previous occasions, the Bank has often found it desirable, and sometimes even necessary, to see that an adequate highway maintenance service was established in a given country before loans could be considered for the expansion of the road network there. When it comes to highway construction and reconstruction, the Bank has financed a wide variety of roads ranging from major thruways of the autopista type all the way down to simple feeder roads designed to accommodate purely local traffic. One of the things that you learn from working on problems of highway development is the great variety of roads which must be taken into consideration, and the great importance of establishing proper priorities and coordination among them.

From what I have already said, it will be abundantly apparent that the World Bank considers that highway development is of fundamental importance in stimulating the economic development of the undeveloped countries. In general terms, the Bank's role in these countries is to help build the basic sinews of economic development in the form of the major public services, thus creating a base from which the expansion of agricultural and industrial activities can be carried forward, primarily in response to private initiative and through the investment of private funds. Indeed, of the more than \$7 billion of development loans which the Bank (again including the International Development Association) have made, some two-thirds have been devoted to the support of transportation and electric power.

The provision of land transportation facilities is obviously indispensable in any country which is being opened up for economic development. I spoke earlier of the sinews of the economy, but perhaps it would now be more appropriate to adopt the more usual phrase that road and rail transport provide the arteries of trade and commerce. Through these arteries flow the streams of commodities and persons which make the difference between a stagnant and barren countryside, and a nation springing to economic life. In their most dramatic form, new penetration highways into jungle or desert regions open up whole new areas for man's domain. No less productive are rehabilitation and improvement works which take existing routes and bring them up to standards which will accommodate modern traffic flows. And no less essential, though often neglected because of their superficially less impressive character, are the local feeder road networks radiating out from existing road or rail trunk lines and making direct contact with the eventual producers and consumers.

In this connection I should perhaps say a few words about rail versus road, although this subject has its dangers, including the danger that you will think I am merely telling you what you would like to hear. The fact is that in many undeveloped countries with which I am familiar, motor transport has demonstrated great practical advantages in handling many kinds of traffic, and railroads have been thrown upon the defensive in dealing with the threat of highway competition. On the whole this has been a good thing, even from the point of view of the railroads, which have been driven toward modernization of their equipment and operating procedures and have thus in many instances made great progress in operating efficiency. There is no doubt that the extensive railway networks with which many undeveloped countries have been endowed will continue to serve vitally important transportation needs. However, in many instances these railroads were built in earlier generations for the main purpose of moving massive traffic (for example, minerals and bulky agricultural products) to the sea for export. They are frequently quite ill-suited to provide the much more complicated and diversified services which come to be needed as the economic development of the country proceeds. Characteristically, this economic development, moving usually in the direction of industrialization, involves a much greater interchange of goods and persons within the country itself, and lateral lines of communication become more prominent in relation to the existing trunk routes to the sea. A striking instance of this pattern is presented by Argentina, where a major revamping of internal transportation facilities is now under way and where heavy emphasis is being placed on new highway construction to supplement and in some degree supplant the traditional reliance upon rail transport.

In fact it has become increasingly common for railways to abandon branch lines that have been rendered uneconomic by the advent of highway competition. This is particularly likely to happen in those cases (which are painfully numerous) where railways have run down their rolling stock and other facilities to the point of exhaustion and are confronted with the need to make major new capital investment in renewals. It may be noted that, from the point of view of governments, highway development has the great advantage that its "rolling stock" is, for the most part, provided through private initiative and by the investment of private funds.

Road construction, however, is itself a very expensive undertaking, especially if the roads are to be built to design standards which will keep highway maintenance costs, and wear and tear on motor vehicles, within reasonable limits. At the same time in most countries of the world, and in particular in the undeveloped countries, there is an acute shortage of capital, which is in demand for a great many other important public works such as electric power development, irrigation and land reclamation, telecommunications, ports and airports etc. Capital must, therefore, be rationed to the more important uses, and great care must be taken not to waste capital resources on investment projects which are not of top economic priority or on projects which are designed to unnecessarily high standards. Furthermore, it is necessary to avoid the pitfall of investing funds in a project which cannot then be properly utilized because of the lack of resources to construct and maintain related facilities. These principles are fully operative in the highway field. It may well be a very sound investment to build a penetration highway into a jungle region to open up new areas for cash crops; but such an investment will not accomplish its purpose unless capital is also available to finance the settlement of the jungle lands. Similarly, a highway serving the hinterland of a port will not yield the appropriate return on the investment unless the port itself is enlarged to handle the mounting volume of traffic.

The World Bank, both in the interests of seeing its own loan funds used effectively and in its broader role of adviser and counselor to undeveloped countries on their development problems, has specialized in the study of these problems. We frequently send so-called economic survey missions to advise countries on the preparation of over-all development programs, to prepare a sort of balance sheet of their capital resources and of the claims upon them for high-priority investment projects. On other occasions, we have undertaken surveys limited to some particular sector of the economy such as agriculture, power or transport.

A recent example of our transport surveys was in Argentina where the World Bank, in association with the United Nations Special Fund, organized a very high caliber team of engineers and economists to make a thorough survey of the surface transport problems in Argentina, and to present

recommendations for a coordinated ten-year program of investment in railway, highway, port and waterway facilities. In this instance the services of three outstanding engineering firms were employed, including an American firm for overall transport coordination, a Dutch firm specialized in railway problems, and an Italian firm with special competence in the highway field. Their report, which is now in the hands of the Argentine Government for action, recommends among other things a ten-year program of construction, reconstruction, and modernization covering more than 40,000 kilometers of highways designed to accommodate an anticipated doubling of motor traffic in Argentina during that period of time. Over and above this, the report recommends the provision of a further 6,700 kilometers of new highways to replace obsolete railway routes which it is proposed be abandoned.

Similar studies have been undertaken under the sponsorship of the Bank (and sometimes with substantial financial assistance from the Bank) in such countries as Peru, Colombia, Ecuador, Honduras, Burma and Nigeria, the latter three being limited specifically to highway development in the country concerned. We are also carrying out two special surveys in India relating to the problem of highway access to the two great cities of Calcutta and Bombay.

All of these studies concentrate on the cost-benefit ratio, i.e., the relation between the capital costs involved and the economic benefits to be derived from the investment. Unless this ratio is very favorable it would probably be preferable to devote the available resources to some other purpose. Obviously, however, such a ratio cannot be accurately calculated unless there is available a reasonably precise estimate of the costs of the project concerned. Here, we in the Bank have found ourselves consistently running into difficulties. Rarely do the highway agencies with which we deal, or the advisers and consulting engineers whom they employ, present realistic estimates of the costs, and we have fallen into the regular habit of adjusting their estimates upward and then making further allowances for contingencies. This tendency appears to result from a combination of wishful thinking by the government concerned, incomplete engineering services, and failure to give full consideration to local conditions, including especially the inevitable impact of large construction projects upon local labor costs. I do recognize the very great difficulties of producing accurate estimates, especially for highway construction in remote regions, but it is disturbing to see that there is almost always a downward bias in the cost figures. Hence we have urged, and will continue to urge, that governments exercise very special care in carrying out full and detailed costing of their highway projects before embarking on any substantial investment.

Let me thank you again for inviting me to appear before this distinguished gathering. I am sure that we may look forward with immense interest to the proceedings of the Conference during the coming days, and I know that we shall all leave the Conference with a fresh sense of dedication to the great task of highway development around the world.

Road International, London
April 1963

The Place of Highways in Economic Development



The International Bank for Reconstruction and Development (World Bank) considers that highway development is of fundamental importance in stimulating the economic growth of developing countries, as emphasised here in the paper presented by its author to the IRF fourth World Meeting at Madrid in October last year.

By J. BURKE KNAPP

Vice-President of the World Bank



THE WORLD BANK is primarily concerned with the promotion of the economic development of the relatively undeveloped countries, and although these countries form only part of your geographical area of interest, I am confident that you share with me a deep concern for the problems of the undeveloped world and an earnest desire to help find solutions to these problems. An organisation such as yours, which combines the efforts and resources of both government and private enterprise, is particularly suited to take part in the campaign for raising economic productivity and living standards in the so-called backward areas of the globe.

In February 1961, I had the honour of speaking to the Regional Highway Conference in Sydney, Australia, where I took the occasion to express the very deep interest which the World Bank takes in highway development in the undeveloped countries of the world. I am now in a position to assure you that this was no idle statement. Indeed, in the year and a half which has elapsed since the Sydney Conference, the World Bank (including here, and in my further remarks, its affiliated institution the International Development Association) has extended new loans for highway construction, improvement and maintenance amounting to \$356 million, a sum only slightly less than the total amount of highway loans extended by the Bank during its previous ten years of activity in this field. This means participation in the financing of specific highway projects in 13

different countries, calling for a total investment of around \$900 million. As you know, the Bank normally finances only the foreign exchange requirements in connection with such projects—i.e., the required imports of goods and services—which tend to average around 40 per cent of the total expenditure.

These operations bring the total Bank investment in highway development to some \$782 million, representing projects in 24 countries and territories, calling for a total investment of perhaps \$2,000 m. These works are widely distributed around the world, but there has been a certain concentration in Latin America, a continent which has been giving special attention to the expansion of its transportation facilities during the period since World War II. In fact, the Bank has by now supported highway projects in every one of the Central and South American republics except Uruguay and Bolivia, and a substantial loan to Uruguay is actually under active negotiation at the present time. Other Latin American highway loans completed during the period since the Sydney Conference have included \$49 million to Argentina, \$25 million to Chile, \$39 million to Colombia, \$30 million to Mexico, and \$45 million to Venezuela. Other recent operations which are particularly noteworthy have been a second \$40 million Bank loan to Japan for expressway construction and a \$60 million credit from the International Development Association in support of a very extensive highway development programme in India, a

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Above: Road construction in progress at Pedro Carbo, Ecuador

Below: Heavy earthmoving equipment on a highway project at Machakos, Kenya

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Arteries of trade

The provision of land transportation facilities is obviously indispensable in any country which is being opened up for economic development. I spoke earlier of the sinews of the economy, but perhaps it would now be more appropriate to adopt the more usual phrase that road and rail transport provide the *arteries of trade and commerce*. Through these arteries flow the streams of commodities and persons which make the difference between a stagnant and barren countryside, and a nation springing to economic life. In their most dramatic form, new penetrating highways into jungle or desert regions open up whole new areas for man's domain. No less productive are rehabilitation and improvement works which take existing routes and bring them up to standards which will accommodate modern traffic flows. And no less essential, though often neglected because of their superficially less impressive character, are the local feeder road networks radiating out from existing road or rail trunk lines and making direct contact with the eventual producers and consumers.

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The effect of highway development in Guayas Province, Ecuador, is illustrated by this view of El Empalme, a booming settlement which now has a doctor, a dentist, two drugstores, two cinemas, numerous stores, bars, petrol stations and repair shops

The Santa Marta interchange just outside Mexico City at the start of the Mexico City-Puebla highway, part of a three-year expansion programme to which the World Bank has contributed \$30.5 million

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Bananas being loaded at Km. 66 on the Duran-Bucay highway, Ecuador. Small plantations have sprouted all along the highway since year-round transportation facilities became available. The old road was impassable during the rainy season and over half of the banana crop was lost every year for lack of transportation. Nowadays, rain or shine, banana trucks roll down the highways with the precious cargo which is the basic factor in the economy of the region

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The old road to Procel, Ecuador, presents many hazards to the drivers of heavily loaded lorries

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Coordination of investment

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Earthmoving on the West Pacific section of the Coastal Highway in Guatemala



The newly completed Las Vacas bridge, now called Belice Bridge, in Guatemala City

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All of these studies concentrate on the cost-benefit ratio, i.e., the relation between the capital costs involved and the economic benefits to be derived from the investment. Unless this ratio is very favourable it would probably be preferable to devote the available resources to some other purpose. Obviously, however, such a ratio cannot be accurately calculated unless there is available a reasonably precise estimate of the costs of the project concerned. Here, we in the Bank have found ourselves consistently running into difficulties. Rarely do the highway agencies with which we deal, or the advisers and consulting engineers whom they employ, present realistic estimates of the costs, and we have fallen into the regular habit of adjusting their estimates upward and then making further allowances for contingencies. This tendency appears to result from a combination of wishful thinking by the government concerned, incomplete engineering services, and failure to give full consideration to local conditions, including especially the inevitable impact of large construction projects upon local labour costs. I do recognise the very great difficulties of producing accurate estimates, especially for highway construction in remote regions, but it is disturbing to see that there is almost always a downward bias in the cost figures. Hence we have urged, and will continue to urge, that governments exercise very special care in carrying out full and detailed costing of their highway projects before embarking on any substantial investment.

The Nagoya-Kobe Expressway near Kyoto, Japan, where the Yamashina project's first strip of test pavement in asphalt measures 4,300m. in length. The 5m. high embankment is widened to accommodate bus stop lanes





*Revision recd from
Mr Knapp's office 3/6/63
Copy to Paris 3/6/63*

Draft Statement for Press Conference, Frankfurt, Germany,
Tuesday, March 5, 1963

It is a great pleasure to be visiting again in Germany and especially in Frankfurt. It happens that I first arrived in this city some 30 years ago by means of a Faltboot down the Main, and I have much enjoyed every visit since that time.

Frankfurt is my first stop on a visit which will last for just over a week, and take me also to Bonn, Duisburg, Cologne, Hamburg and Berlin. I expect to see Vice-Chancellor Erhard and other ministers in Bonn, and I shall be meeting bankers, businessmen and officials in each of the places I visit. All of these discussions will be aimed at the single objective of strengthening the already-close links between Germany and the World Bank.

As you know, the Bank was set up at the end of the war as a sort of international cooperative to assist in financing economic development. Over eighty countries, both developed and underdeveloped, are now members of the Bank. Germany has been a member since 1952. Each member has contributed to the Bank's subscribed capital in proportion to its economic strength. Germany's paid-in subscription is DM 420 million, representing about 5% of the Bank's total paid-in capital and carrying with it about 5% of the voting rights in the conduct of the Bank's affairs. However, the Bank has raised most of its available funds by selling bonds in the capital markets all over the world. Germany has been an important buyer; the \$2.5 billion of Bank bonds now outstanding includes more than \$400 million of dollar issues held by the Bundesbank, together with over DM 1 billion in Deutschmark issues, derived partly from a public issue made here in 1959 and partly again from the Bundesbank. Germany thus has good reason for wishing to know how the Bank employs and takes care of its money.

The Bank has used its resources to make loans to over sixty countries or territories. The total of these loans now approaches \$7 billion, all used to finance high priority development projects, mostly in the fields of transportation, electric power, agriculture and industry. Industry is also assisted by the specialized efforts

of the International Finance Corporation, an affiliate of the Bank which was established seven years ago to foster private industrial investment in the undeveloped countries.

The Bank lends only when it is satisfied that a project meets stringent conditions designed to ensure its success. We insist upon careful planning in the fields of engineering design, finance, and management. In order to assure the most effective application of our funds we require that contracts that we finance be opened to international competitive bidding - a condition which has not hampered German suppliers, as they have secured about 16% of the value of all contracts financed by the Bank in recent years. The soundness of the Bank's policies is emphasized by the fact that borrowers have repaid over \$2.5 billion in amortization and loan charges without default, so that the Bank has now built up reserves of over \$750 million out of earnings. Much of this has been plowed back into our business. The Bank has ^{also} extended its activities far beyond the scope of traditional banking procedures, by providing an increasing volume of technical assistance to its undeveloped member countries, helping them to draw up overall plans of development, to select the most worthwhile projects, and to meet technical and management problems which arise in carrying the projects out. In this way we hope to be helpful not only to the undeveloped countries themselves but also to other public and private agencies who are seeking ways to provide assistance to these countries on a sound basis.

For many years, this problem of preparing sufficient properly-planned projects was the greatest single obstacle to increasing our lending. Recently, another obstacle has arisen - the very heavy burden of existing debt which makes it imprudent for many developing countries to borrow much more on conventional terms. To help meet this threat, the International Development Association was set up in 1960 as an affiliate of the Bank. With a capital of about \$1 billion contributed directly by governments, it lends for broadly the same purposes as the Bank, and requires the same

strict justification for all projects. Its lending terms to the borrowing government are, however, unusually favorable, as only nominal interest is charged and repayments are spread over 50 years. We take special care to assure that this cheap money is not used to reward countries which are following unsound financial and economic policies and we insist, in the case of public or private revenue-producing projects, that the agency executing the project is obliged to repay the loan at least in local currency on fully conventional terms. We expect that IDA's initial capital resources will be committed on loans before the end of this year and discussions regarding the replenishment of these resources are now proceeding among the various participating governments. I am sure that Germany will play its full part in this action.

The economic development of the undeveloped world is a great challenge to us in the Western countries. I very much hope that my visit here will contribute to a closer coordination between the efforts which all of us are making - both public and private agencies and both national and international institutions - toward this great objective.

Knapp - Mar 6, 1963



The Work of the World Bank

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It is a great pleasure to be with you here tonight and I am honored by the invitation to speak before the Parliamentary Society. It is curious that I should be addressing you on the subject of aid to the undeveloped countries because it happens that my own great-grandfather emigrated to America from Bavaria after the abortive effort to form the Frankfurt Parliament in 1848-49, and thus became one of the early German contributions to the then undeveloped world. He settled in the State of Indiana, on the Ohio River; at that time those names no doubt sounded as exotic as names like Brazzaville and Brasilia sound to us today. In any case, my family history may remind us that economic development is nothing very new. In those days, Indiana was building a great network of roads and canals, financed partly through the sale of bonds abroad. Such works were then referred to as "internal improvements" - today they are called "economic infrastructure". But the pattern and the purpose are the same, namely to lay the basis for fruitful progress in industry, agriculture, and other directly productive activities.

I want to talk with you now about the work of a modern institution devoted to this task - the International Bank for Reconstruction and Development, now known popularly as the World Bank. As you know, the World Bank is an inter-governmental institution conceived at the Bretton Woods Conference at the end of World War II and founded on the proposition that there is a truly international community of interest in building up the economies of the nations in the undeveloped world. It was already realized at that time that the age of colonialism was dying fast, and that vast areas and peoples would be emerging into independence with scant preparation for their new responsibilities. The World Bank was therefore established as a sort of cooperative credit society on an international scale designed to mobilize the capital resources of the more developed countries to meet the economic, social and humanitarian challenge of these new societies. It has since become a great adventure in international cooperation, an independent multi-national, professional institution concentrating single-mindedly upon the task of promoting economic development.

1/ Text of a speech delivered by Mr. J. Burke Knapp, Vice President of the International Bank for Reconstruction and Development, before the Parliamentary Society at Bonn, Germany, on March 6, 1963.

Although having formal links with the United Nations, the World Bank has in fact a fully self-governing status, and for this reason it was possible for the Federal Republic of Germany, while still prevented from taking its place in the United Nations, to become a member of the Bank in August 1952. The voting power in the institution has been realistically established in proportion to the respective capital contributions rather than on the one country - one vote principle. Germany, having subscribed 5% of the capital, casts 5% of the votes. It is represented at our Annual Shareholders' Meeting by the Governor for Germany, your distinguished Vice Chancellor, Dr. Ludwig Erhard; and on our Board of Executive Directors, which meets regularly at the Bank's headquarters in Washington, by my good friend and travelling companion on this tour, Dr. Otto Donner.

We in the management of the Bank are therefore in constant contact with your Government, and the conduct of our business brings us a great many contacts with German banks, industrial and engineering firms. It is only very rarely, however, that we have an opportunity such as this to report upon our work directly to a group representing such a wide cross-section of Germany's public and private life. I should like to take this occasion, therefore, to give you a brief summary of recent developments in the Bank's operations, to tell you something about the problems which we are encountering, and to discuss the need for closer coordination between our work and that of many other national and international agencies if these problems are to find the right solution.

Our financial record is available from many sources and I shall not give you more than a very few relevant figures. The World Bank (together with its "soft loan" affiliate, the International Development Association) is now making new loan commitments in various currencies at the rate of about \$1,000 million a year, and actual disbursements on project expenditures will reach the equivalent of about \$750 million this year. Bank loans or IDA credits have now been made to some 65 nations and territories all over the globe, and there are constant additions to the list as our preparatory work brings new projects in new countries to the stage of financing and execution. At the same time it should be noted that we have decided to stop lending to many countries which have been substantial borrowers from the Bank in the past, on the ground that they should be able to mobilize the resources necessary for a reasonable degree of economic progress either in their own domestic capital markets or in the private financial markets of the world. As countries approach this degree of financial independence, we sometimes adopt intermediate solutions in which we continue to provide a limited amount of funds to them in joint or parallel operations with the private capital markets. A number of countries in Europe (e.g., Italy, Austria, Denmark, and Norway) as well as Australia, South Africa and Japan are approaching or have attained this advanced standing. We are also

prepared at any time to sell out of our portfolio any loans or portions of loans which become attractive to private or other purchasers; such sales have in fact amounted to the equivalent of more than \$1,400 million up to this time.

Bank loans continue to be concentrated mainly upon the financing of large scale public works. Our member countries naturally tend to turn to us when they have some very big undertaking which requires a large-scale commitment of capital and presents large technical and organizational problems. As a result, about one-third of the Bank's development loans has been in the field of transportation (highways, railways, ports, airports, pipelines, etc.), and another third in the field of electric power, including both hydroelectric and thermal power as well as one loan for nuclear power development in the South of Italy. The remaining third encompasses a wide variety of activities including the financing of large private mining and industrial ventures where these make an important contribution to economic development, either directly or because of the royalty and tax revenues that they may generate in favor of the host country. We also set up lines of credit to local institutions which extend smaller-scale agricultural and industrial loans. In particular, we have taken the lead in fostering the development of privately-owned and managed industrial development banks in a number of undeveloped countries, the two most recent cases being in Morocco and the Philippines. This activity is now supervised on our behalf by the Bank's affiliated agency, the International Finance Corporation. This agency, which has its own capital equivalent to about \$100 million provided by our member governments, also makes direct loans to and takes participations in private industrial ventures in the undeveloped countries. Its purpose is to act as a catalytic agent in stimulating industrial investment by private investors both within the country concerned and from outside.

The Bank continues to maintain an outstanding financial record, having received from borrowers the equivalent of over \$2,500 million in amortization payments and loan charges without a single default. Reserves have been built up out of earnings in the amount of \$750 million, of which the equivalent of about \$250 million is held in a special liquid reserve and the rest has been added to the Bank's lendable resources.

Up to the present time the Bank has had no difficulty in raising all the funds that it has needed for its operations. It has had the benefit, of course, of capital contributions from all of its member countries, and these have now yielded the equivalent of about \$1,700 million in currencies usable for loan operations. This money is all out on loan and the income from these loans constitutes the heart of the Bank's earning power. Aside from capital and earnings thereon, the Bank finances itself, as you know, by the issuance of bonds in the financial markets, relying in

part upon certain guarantees provided by its member governments. Over \$2,500 million of such bonds are now outstanding. Most of them have so far been denominated in dollars, but we have also made public issues in seven countries outside the United States denominated in the currency of the country concerned. Bond issues have recently been made, for example, in Italy, the Netherlands, and Switzerland. A large part of our dollar bonds is also sold to non-American investors and we reckon that today well over half of our total bond issues are held outside the United States.

Germany has, of course, made very important contributions to our financial resources, ranking second in this respect only to the United States. Germany's paid-in capital amounts to only DM 420 million; however, we have also placed a DM 200 million bond issue in the private capital market here, and the Deutsche Bundesbank has lent us about DM 1,000 million and over \$400 million. I think it is fair to say that all of these have proved to be very good investments for Germany. Borrowers from the Bank have made over DM 1,700 million of purchases in Germany, so that German exporters have earned back not only all of the Deutsche Mark made available to the Bank from Germany but many of the dollars as well. In the meantime, interest is being received by the investors, and the Bundesbank in particular is receiving an advantageous return on that portion of its dollar reserves which has been placed with us.

The experience of the Bank, therefore, continues to demonstrate that a large volume of investment in the undeveloped countries can be put on a sound financial basis. The fact that this investment has been financed so largely from the capital markets must come as a great relief to the Bank's principal member governments, who are all under constant pressure to cover their various budgetary expenditures, including those on foreign aid. Yet our experience has also shown that only a part of the task of sustaining the pace of economic development at tolerable levels can be accomplished in a strict banking manner. Indeed, we have been calling increasingly urgent attention to the fact that a number of the undeveloped countries, including such major nations as India and Pakistan, have reached or are rapidly reaching the limits of their capacity to assume external debt obligations on conventional banking terms. This now threatens to become the principal limiting factor on the future expansion of the World Bank's operations.

It is, of course, a matter of judgment how much foreign debt a particular country can carry, taking into account its total resources, its various strengths and weaknesses (not only economic but also social and political), and especially its capacity to earn foreign exchange and make it available for the service of foreign currency debt. This is obviously not a matter for slide-rule calculation, particularly since repayments on development loans usually extend over a period of from 10 to 25 years.

We in the Bank can only do our best to make these judgments fairly in the interests of the Bank and all of its member countries. I would only offer two comments on how we rate a country's credit, both of which bear upon the importance of human resources as distinct from natural resources in economic development. First, we attach great importance to the economic and financial policies of a country and the prospect for these being administered on sound lines in the future; in this connection, a country's capacity to resolve political and social as well as economic problems, is obviously important. Secondly, like all bankers, we must weigh the intangibles of a country's will to meet its obligations. You may find one hint of this approach in our policy of not lending money to countries which have not made reasonable efforts to settle defaults on earlier international debts.

In any case, it clearly becomes disturbing when a number of undeveloped countries have reached the point of mortgaging for the service of external debt some 20-30% of the foreign exchange receipts which they may be expected to earn for many years ahead. It is also alarming to note that the total external debt of the undeveloped countries at the end of 1962 was equivalent to about \$22 billion, well over double what it was six years earlier, and that total service on that debt in 1962 was perhaps two and one-half times the requirement in 1956. Only in very exceptional cases has repayment capacity, as measured in terms of government revenue, export earnings or any other test, increased correspondingly.

Hence the nations and institutions which are supplying capital to promote the economic development of these countries face a very serious dilemma as long as such assistance is supplied entirely on conventional terms (for example, 10-20 year loans with interest at 5-6%): they will have either to reduce the volume of their assistance to amounts which will be inadequate to sustain the economic progress of these countries, or impose financial obligations upon the borrowing nations which will ultimately prove to be an impossible burden. In either case, grave economic and financial disorder would certainly result.

There is, however, a middle path, which is to maintain the volume of development assistance but to moderate the repayment burden very considerably, insofar as transfer into foreign exchange is concerned. This course also has its risks, especially in the case of bilateral credits. Grants or so-called "soft loans" may well create an unhealthy relationship between the donor and the recipient. The donor comes to expect some compensation in political terms if he is not to receive full financial reimbursement. The recipient tends to resent this, or, to the extent that he accepts the concept of political compensation, he acknowledges no obligation to use the money effectively for economic development. Indeed, both the givers and the recipients of political aid tend to lose sight of the economic importance of

the capital which is transferred, and the money is likely to be invested far less wisely than if it were being lent on commercial terms. In short, "soft loans" will fail in their purpose if they become "soft-headed" loans. It is very important to put them under hard-headed administration, divorced from short-range political and commercial objectives and aimed squarely at the long-range promotion of economic development.

It was exactly this line of thinking which led to the creation in 1960 of the International Development Association (IDA) as a "soft loan" fund placed under the direct administration of the World Bank and having an identical management and staff. Whereas the Bank can be financed mainly out of the capital markets, IDA represents a pool of funds contributed to the Bank by governments to meet development needs which cannot be financed on conventional loan terms. In general, IDA funds are directed toward much the same kind of projects as those handled by the Bank itself (an exception may be found in the field of education which is ill-suited to international financing on a hard-loan basis). But IDA money is used to finance such projects in countries which, in the light of their over-all economic position and especially their balance-of-payments prospects, appear unable to incur large additional external debt obligations.

The initial fund contributed to IDA from the member governments of the Bank was the equivalent of about \$1,000 million, - or, allowing for the fact that some of the currencies contributed were not usable for lending purposes, about \$750 million in convertible currencies. Credits extended from these funds must be repaid eventually in foreign exchange but so far IDA has allowed an initial 10-year period of grace and amortization over a period of 40 years thereafter. No interest is charged, but there is a small annual fee (at present $3/4$ of 1% per annum) designed to cover administrative expenditures. A large part of these funds has now been committed on development projects in India, Pakistan and other appropriate countries, and discussions are now under way among governments for a second round of subscriptions to replenish IDA's resources.

But is it really possible to administer these "soft loans" in a hard-headed manner? Isn't the money used merely as a palliative for countries which are conducting their economic and financial policies so badly that they have destroyed their creditworthiness for normal loans? And isn't it an unnecessary and harmful subsidy if money is made available to public or private revenue-producing projects on such ultra-liberal financial terms?

Well, these questions go to the heart of the IDA philosophy and there are answers to them. In the first place, the management of the Bank/IDA has taken the position that when a country is destroying its creditworthiness by loose financial management, it should not be regarded as eligible for IDA assistance. The managers of bilateral soft-loan programs can also

impose judgments like this but they may well shrink from doing so because of the damaging results for international relations. We, on the other hand, as a professional and non-political organization, can afford to be tough. Our judgments are much more likely to be respected as fair and impartial, and we may even be given credit for having acted in the best interests of the applicant country itself - something practically impossible to expect in bilateral relations!

As for the matter of subsidies to revenue-producing projects, we in the Bank/IDA would certainly agree that a railroad, or an electric power company, or a steel plant, should not receive money interest-free or on any other artificial basis. Nothing would be better calculated to encourage waste and the misdirection of investment into, for example, needlessly capital-intensive projects. Obviously such subsidies could also give rise to grave inequities, both within the country and in relation to foreign competition. We have therefore taken great care to design procedures which avoid these consequences. When we extend an IDA credit for a project which can properly be put on a revenue-producing basis, we make our loan with its subsidy terms directly to the government of the country concerned, which then by agreement with us relends the money to the agency executing the project for repayment in local currency on conventional terms. In other words, the project is financed on terms comparable to those on an ordinary Bank loan, so that the agency executing the project is kept under the full financial discipline to make effective use of the capital funds and to see to it that they are invested in such a way as to earn an economic return. The country on the other hand is relieved of a large part of the foreign exchange burden of servicing this debt, although it too must eventually repay the capital across the exchanges. The forgiveness of interest is indeed a subsidy to the recipient country, but one which is given only in meritorious cases, and in particular only where the provision of development assistance wholly on conventional terms would threaten to drive the country into default, with damage to the whole fabric of international indebtedness.

If lack of creditworthiness now threatens to become the first limitation on future Bank operations, the second is certainly the continuing lack of well-conceived development projects and programs, a problem which has also curtailed the activities of IDA. This has been a lament of the Bank since its earliest days, although indeed immense progress has been made since then. Much of the credit for this progress can fairly be claimed by the Bank, which year after year has been putting increasing emphasis on its role as guide and counsellor to the undeveloped countries in the preparation of their investment plans. In fact it would be little exaggeration to say that today as much time and effort is spent in the Bank on these so-called "technical assistance" activities as on the actual preparation and negotiation of loan agreements.

Let me describe briefly the case of the Bank's work in Colombia, which has been duplicated in many forms elsewhere. In 1949 we sent a full-scale economic survey mission to Colombia which prepared and published an extensive report on the country's resources and potential for development. One of the many fruitful recommendations of the mission was that the Government create an Economic Planning Office, and we have supported this office with economists and technical personnel almost ever since. Subsequent specialized surveys of Colombia's agricultural, power, and transportation needs, and of the most effective ways of meeting them, have been carried out on a very extensive scale either at the instigation of the Bank or by the Bank itself. We have also done a special appraisal of the rich Cauca Valley area of the country, and are now carrying out an investigation of the possibilities for exploiting the very promising coal deposits there. There is scarcely time to mention further surveys in the field of public administration, railway management, development of capital markets, plans to salvage a huge and ill-advised investment which the Government had made in a steel plant, etc. etc. It was this kind of preparatory work over a long period of years that brought Colombia to the point where, only a few weeks ago, the Bank felt it appropriate to convoke an international consultative group to consider the financing of Colombia's development program. The Bank and IDA have already invested the equivalent of about \$290 million in Colombia, and the path is laid for much more to follow. At the same time the Colombians are equipped to present well-conceived projects with sound arrangements for their execution to the other members of the consultative group, including the Inter-American Development Bank and eleven governments, among which the German Government, I am glad to say, is one. Finally, in order to provide a continuing source of guidance to the Colombian Government on its development policies, and in order to expedite the arrangements for financing Colombian projects not only by the Bank but also by the other members of the consultative group, the Bank has now established a permanent resident mission in Bogota.

Aside from a multitude of "technical assistance" activities such as these, aimed at defining the most productive investment opportunities and creating a hospitable climate for such investment, the Bank exercises great care in helping to shape individual projects and in establishing standards designed to assure their efficient and successful execution. This may involve lengthy and careful analysis of such problems as highway versus railway development in the transportation field, or hydroelectric power versus thermal or possibly nuclear power in the field of electricity development. It will require drawing up a financial schedule designed to ensure that all of the funds necessary to construct a given project will be available in timely fashion, and that (if the project can be established on a self-liquidating basis) revenue will be adequate to cover all future expenditures, including service on the proposed Bank loan or IDA credit.

We also devote a great deal of attention to assuring that proper organizations are established, if they do not already exist, to carry out the construction of the project and to operate it after its completion. This often extends to helping the sponsors of the project find appropriate management and technical personnel, including in many cases the employment of foreign advisers or executive officers. About half of the Bank's loans in Latin America, for example, involving the equivalent of nearly \$1,000 million, have been made to organizations which were either newly created or substantially reorganized to carry out the projects concerned.

Finally, in the interests of the most economic fulfilment of the project as well as in the interests of fair competition among all countries contributing to the Bank and IDA resources, we normally insist on free and open international competitive bidding on contracts related to Bank and IDA-financed projects. The preparation and administration of such competitive bidding takes time, but the savings from the point of view of the borrowing country - and of all contributing to its support - are always substantial and sometimes spectacular. As shown by the figures cited above, Germany has emerged from this competition with flying colors - as a matter of fact, she has captured an average of about 16% of all the orders placed abroad in the last few years in connection with Bank-financed projects.

It is, of course, very time-consuming to carry out all of these economic and technical studies and then to negotiate the terms and conditions that are necessary to assure the successful execution of the project. Our money, whether from the Bank or IDA, is hard to get - but we think it ought to be! We are guided in all our actions by the knowledge that capital resources are extremely scarce in the undeveloped countries, that they promise to continue very scarce in the foreseeable future, and that therefore these countries simply cannot afford to misdirect their capital funds into ill-considered investments.

I come now to the urgent need for effective coordination between our efforts and those of other institutions and governments which are providing assistance to the undeveloped countries. Obviously we in the Bank can claim no monopoly in the provision of development capital and no monopoly in the knowledge of what constitutes sound development policy. But the painful truth is that contained in Gresham's Law: that bad money from whatever source will drive out good money from any source. Among the many categories of bad development money are:

1. Money lent on hard terms in excess of a country's creditworthiness.
2. Money provided in any form to a country which is failing to meet minimum standards of financial management and self-help.

3. Money provided to finance a project justified only on prestige grounds or as a favor to local regional or political interests.
4. Money provided for a technically or economically unsound project in order to catch an export contract.
5. Money provided for a sound project but at excessively short-term or on other conditions (e.g., tied to specific supply sources) which will make repayment unduly burdensome.
6. Money provided for a technically and economically sound project which is nonetheless entirely beyond the capacity of the borrower to execute and operate effectively.

The hard task of building a sound structure of economic development, while preserving the international credit of the undeveloped countries can be thoroughly frustrated by operations of **this kind**. I would give particular emphasis to the problem of the misuse or abuse of tied exporter credits. These have often been criticized on the grounds that they were too short-term and hence not genuinely development aid. Much worse, however, is the fact that they have sometimes been used - I should again say misused - to finance projects which were ill-planned, ill-managed, and turned out to be a burden rather than a stimulus to the economy. All the good done by the sound use of such credits can be undone by a few unfortunate cases in which the short-term political or commercial interests of the exporting country become combined with the desire of some transient political figure in the borrowing country to "bring home a plum" and see his name perpetuated on a massive masonry monument. I confess that sometimes I have been glad to see the short terms offered on supplier credits since I felt that this would at least raise some obstacle to over-indulgence in unjustified credits of this type.

We have recently been hearing in many countries, first of all in the United States, the phrase: "We're tired of foreign aid", or in German "Entwicklungsmüdigkeit". I do not believe that this represents true disillusionment with the grand objectives of economic development but rather that it reflects dissatisfaction with some of the methods by which development aid has been administered. After all we should have learned by now that it is not very practical to try to buy political favors from proud and sensitive new regimes. And export contracts can prove very expensive if they overload a country with debt on an unproductive project and spoil the market for future exports there. Above all, the disillusionment is with our failure - the failure of all of us in the developed countries and outside -

to do a more effective job with the resources which have been put at our disposal. If this disillusionment should go too far, the bad money will not only drive out the good money but we may be left with no money at all to get ahead with one of the most vital tasks of the Twentieth Century!

Here is a challenge to the Bank. Perhaps the most important service which the Bank can provide to its member countries as a whole is to help establish in each undeveloped country sound plans and standards which would then form the framework within which that country could seek aid both from the Bank and from other lenders. We are, of course, already working hard in this direction, through the numerous economic and technical reports which we distribute to all our member governments; through the international consortiums and consultative groups which we have organized to coordinate development assistance to selected countries; through our cooperation with the Development Assistance Committee of the OECD which also has organized coordinating groups on a number of countries; through consultations with other individual lenders (including the appropriate public and private institutions in Germany) regarding countries and projects of mutual interest; and above all through promoting the establishment in the undeveloped countries themselves of effective organizations for planning economic development and for negotiating and allocating the internal and external resources which may become available to support the country's development program. As a further major step in that direction, we recently inaugurated what we call our Development Advisory Service, which consists of a corps of top-level economic consultants who are available upon the request of an undeveloped country to take up residence there as advisors on economic development policies and programming.

All these initiatives by the Bank are, I think, useful in themselves but they cannot fully achieve their purpose if they are left to stand alone. The problems of economic development require not only coordinated planning but also closely concerted action by all of us, public and private, national and international. I very much hope that my visit here will have made some contribution toward a clearer understanding of our mutual problems and toward a closer harmonization of our respective efforts.

Die Weltbank und ihre Arbeit ¹⁾

Es ist mir ein besonderes Vergnügen, heute unter Ihnen zu sein. Ist es nicht merkwürdig, dass ich mich zum Thema der Entwicklungsländer an Sie wende, wo doch mein eigener Urgrossvater nach dem Scheitern der Bemühungen der Paulskirche 1848/49 aus Bayern nach Amerika auswanderte und so einen der ersten deutschen Beiträge an die damals unentwickelte Welt lieferte. Er siedelte sich im Staate Indiana, am Ohio an; damals klangen diese Namen zweifellos ebenso exotisch, wie uns heutzutage Namen wie Brazzaville und Brasilia vorkommen. Auf jeden Fall dürfte meine Familiengeschichte uns daran erinnern, dass Wirtschaftsentwicklung nichts sehr Neues ist. Damals wurde in Indiana ein ausgedehntes Netz von Strassen und Kanälen gebaut, das zum Teil durch den Verkauf von Obligationen im Ausland finanziert wurde. Solche Arbeiten wurden damals mit "internen Verbesserungen" bezeichnet - heute nennt man sie "wirtschaftliche Infrastruktur". Gedanke und Zweck sind aber dieselben geblieben, nämlich die Voraussetzungen für eine nutzbringende Entwicklung der Industrie, der Landwirtschaft und anderer Gewerbebezüge zu schaffen.

Ich möchte nun zu Ihnen über die Arbeit einer modernen Organisation sprechen, die sich gerade dieser Aufgabe widmet, nämlich der Internationalen Bank für Wiederaufbau und Entwicklung, die jetzt allgemein unter dem Namen "Weltbank" bekannt ist. Wie Sie wissen, ist die Weltbank eine internationale staatliche Organisation, die am Ende des zweiten Weltkrieges auf der Konferenz in Bretton Woods gegründet wurde, und zwar auf der Überlegung basierend, dass ein allseitiges Interesse daran besteht, die Wirtschaft der Nationen in der unentwickelten Welt aufzubauen. Man war sich bereits damals darüber klar, dass das Ende der Kolonialzeit gekommen war und dass weite Gebiete und Völker sich zur Unabhängigkeit erheben würden, die für ihre neue Verantwortung nur spärlich ausgerüstet waren. Die Weltbank wurde daher als eine Art Kreditgenossenschaft auf internationaler Ebene gebildet, mit dem Ziel, die Kapitalquellen der entwickelten Länder zu mobilisieren, um den wirtschaftlichen, sozialen und

1) Vortrag des Vizepräsidenten der Weltbank, J. Burke Knapp, März 1963.

humanitären Anforderungen dieser neuen Gesellschaften zu begegnen. Sie hat sich seither zu einem Instrument internationaler Zusammenarbeit und zu einer unabhängigen, viele Nationen umfassenden Organisation entwickelt, die sich ganz bewusst nur einer Aufgabe widmet, nämlich die wirtschaftliche Entwicklung zu fördern.

Die Weltbank ist den Vereinten Nationen zwar formell angeschlossen, verwaltungsmässig ist sie aber völlig selbständig. Aus diesem Grunde war es der Bundesrepublik Deutschland möglich, obwohl sie noch immer verhindert ist, den Vereinten Nationen beizutreten, im August 1952 Mitglied der Weltbank zu werden. Das Stimmrecht in der Organisation ist den verschiedenen Kapitalanteilen entsprechend realistisch verteilt, und nicht etwa nach dem Prinzip "Ein Land - eine Stimme". Deutschland, das 5% des Kapitals der Bank gezeichnet hat, gibt 5% der Stimmen ab. Auf unserer jährlichen Mitgliederversammlung ist es durch den Gouverneur für Deutschland, Ihren Vizekanzler und Wirtschaftsminister Prof. Erhard, vertreten; und in unserem Verwaltungsrat, der sich regelmässig in der Hauptgeschäftsstelle der Bank in Washington trifft, durch meinen Freund Prof. Donner, der diese Reise ebenfalls mitmacht.

Wir in der Direktion der Bank stehen somit in ständiger Verbindung mit Ihrer Regierung, und die Durchführung unserer Geschäfte bringt uns häufig in Kontakt mit deutschen Banken, Industrie- und Baufirmen. Nur selten jedoch haben wir eine Gelegenheit wie heute, über unsere Arbeit direkt zu einer Gruppe zu sprechen, die wie Sie einen Querschnitt durch breite Schichten des deutschen öffentlichen und privaten Lebens repräsentiert. Ich möchte deshalb die Gelegenheit wahrnehmen, Ihnen eine kurze Zusammenfassung der jüngsten Entwicklungen in der Geschäftstätigkeit der Bank zu geben, über die Probleme zu berichten, denen wir uns gegenübersehen, und über die Notwendigkeit zu sprechen, unsere Arbeit mit der Tätigkeit der vielen anderen nationalen und internationalen Organisationen zu koordinieren, damit diese Probleme die richtige Lösung finden.

Unsere Finanzberichte sind an vielen Stellen verfügbar, und ich möchte Ihnen daher nur einige wenige bezeichnende Zahlen nennen. Die Weltbank - zusammen mit ihrer Tochtergesellschaft für "weiche Anleihen", der Internationalen Entwicklungsorganisation (IDA) - gewährt zur Zeit neue Darlehen in den verschiedensten Währungen in Höhe von etwa 1 Milliarde Dollar pro Jahr. Die effektiven Auszahlungen zur Deckung von Projektkosten werden in diesem Jahr den Gegenwert von etwa 750 Millionen Dollar erreichen. Bis jetzt wurden Bankdarlehen und IDA-Kredite an ungefähr 65 Länder und Gebiete auf der ganzen Welt gegeben; neue Länder

kommen ständig in dem Maße hinzu, wie neue Projekte in neuen Ländern durch unsere vorbereitende Arbeit finanzierungs- und ausführungsfähig gemacht werden. Gleichzeitig sei aber darauf hingewiesen, dass wir den Entschluss gefasst haben, an viele Länder, die in der Vergangenheit bedeutende Kreditnehmer bei der Bank waren, keine Anleihen mehr zu geben, und zwar aus dem Grund, dass es ihnen nun möglich sein müsste, die für eine angemessene Wirtschaftsentwicklung notwendigen Mittel entweder auf ihren eigenen inländischen Kapitalmärkten oder auf den privaten Finanzmärkten der Welt flüssig zu machen. Wenn Länder sich diesem Grad finanzieller Unabhängigkeit nähern, ergreifen wir manchmal Zwischenlösungen, indem wir ihnen weiterhin Mittel in begrenztem Umfang gemeinsam mit den privaten Kapitalmärkten oder parallel dazu zur Verfügung stellen. Eine Anzahl von Ländern in Europa (z.B. Italien, Österreich, Dänemark, Norwegen), wie auch Australien, Südafrika und Japan nähern sich diesem Stand oder haben ihn bereits erreicht. Wir sind auch stets bereit, ganze Darlehen oder Teile davon aus unserem eigenen Bestand, die für private oder andere Käufer interessant geworden sind, abzugeben. Solche Geschäfte beliefen sich bis zum heutigen Tage auf mehr als 1,4 Milliarden Dollar.

Bankdarlehen sind nach wie vor hauptsächlich für die Finanzierung von öffentlichen Arbeiten grossen Umfangs bestimmt. Unsere Mitgliedsländer neigen ganz natürlich dazu, sich an uns zu wenden, wenn ihnen irgendein grosses Projekt vorliegt, das beträchtliche Kapitalien erfordert und grosse technische und organisatorische Probleme stellt. Als Ergebnis entfällt ein Drittel der von der Bank gewährten Entwicklungsdarlehen auf den Verkehrssektor (Strassen, Eisenbahnen, Häfen, Flugplätze, Ölleitungen, usw.) und ein weiteres Drittel auf das Gebiet der Elektrizitätswirtschaft, sowohl Wasser- und Wärmekraftwerke als auch die Entwicklung von Atomkraft in Süditalien umfassend. Das restliche Drittel betrifft die verschiedensten Gebiete, einschliesslich der Finanzierung grosser privater Bergbau- und Industrieunternehmen, wo diese in beträchtlichem Maße entweder direkt oder über Royalties bzw. Steuereinnahmen zur wirtschaftlichen Entwicklung beitragen. Ebenfalls geben wir Darlehen an Kreditinstitute in Entwicklungsländern, die ihrerseits kleinere Landwirtschafts- und Industriekredite gewähren. Insbesondere haben wir damit begonnen, die Errichtung von industriellen Entwicklungsbanken zu fördern, die in Privatbesitz sind und privat geleitet werden; Marokko und die Philippinen sind dafür die jüngsten Beispiele. Diese Geschäftstätigkeit wird für uns durch die Tochtergesellschaft der Bank, die Internationale Finanz-Corporation, überwacht. Diese Institution, die ihr eigenes, von unseren Mitgliedsregierungen zur Verfügung gestelltes Kapital im Gegenwert von etwa 100 Millionen Dollar hat, gibt ebenfalls Darlehen an Unternehmen der Privatindustrie in Entwicklungsländern. Sie hat auch die Möglichkeit sich an solchen Unternehmen direkt zu beteiligen. Ihre Aufgabe ist es, als Katalysator zu wirken und privaten Investoren, sowohl inländischen als auch ausländischen, einen Anreiz zu Investitionen in der Industrie der Entwicklungsländer zu geben.

Die Bank kann nach wie vor auf hervorragende finanzielle Ergebnisse hinweisen. Sie hat von den Darlehensnehmern den Gegenwert von mehr als 2,5 Milliarden Dollar an Amortisierungsbeträgen und Zinsen zurückbezahlt bekommen; nicht in einem einzigen Fall ist es vorgekommen, dass Zahlungsverpflichtungen nicht erfüllt wurden. Aus Gewinnen wurden Rücklagen in Höhe von 750 Millionen Dollar gebildet, wovon etwa 250 Millionen Dollar als besondere, liquide Reserve gehalten werden und der Rest den ausleihbaren Mitteln der Bank zugeschlagen wurde.

Bis jetzt hat die Bank keine Schwierigkeiten gehabt, die für ihre Tätigkeit notwendigen Mittel aufzubringen. Sie hat natürlich den Vorzug, Kapitalbeiträge von allen ihren Mitgliedsländern zu erhalten; diese machen bis jetzt den Gegenwert von etwa 1,7 Milliarden Dollar in solchen Währungen aus, die für eine Darlehensvergabe in Frage kommen. Diese Mittel sind in Form von Darlehen völlig ausgegeben worden, und Einkommen aus diesen Darlehen bildet den Kern der Ertragsfähigkeit der Bank. Neben diesem Kapital und den daraus erzielten Gewinnen finanziert sich die Bank, wie Sie wissen, durch die Ausgabe von Obligationen auf dem Kapitalmarkt; sie stützt sich dabei zum Teil auf gewisse, von den Mitgliedsländern gegebene Garantien. Im Augenblick stehen über 2,5 Milliarden Dollar an solchen Obligationen aus. Bis jetzt lauteten die meisten auf Dollar, wir haben aber auch in sieben anderen Ländern Anleihen in der Währung des betreffenden Landes auf dem öffentlichen Markt aufgelegt. Plazierungen erfolgten z.B. erst kürzlich in Italien, den Niederlanden und der Schweiz. Ein grosser Teil unserer Dollar-Obligationen wird ebenfalls an nicht-amerikanische Anleger verkauft, und wir schätzen, dass sich heute weit mehr als die Hälfte unserer gesamten Anleihen ausserhalb der Vereinigten Staaten befindet.

Deutschland hat natürlich einen grossen Beitrag zu unseren Finanzierungsmitteln geleistet und steht in dieser Beziehung nach den Vereinigten Staaten an zweiter Stelle. Das von der Bundesrepublik eingezahlte Kapital beträgt nur 420 Millionen DM; aber wir haben hier privat eine Anleihe von 200 Millionen DM untergebracht, und die Deutsche Bundesbank hat uns etwa 1 Milliarde DM und über 400 Millionen Dollar als Darlehen zur Verfügung gestellt. Ich glaube, es ist nur fair zu sagen, dass sich alle diese Mittel als sehr gute Investitionen für Deutschland erwiesen haben. Kreditnehmer bei der Bank haben für über 1,7 Milliarden DM Käufe in Deutschland getätigt, so dass deutsche Exporteure nicht nur die der Bank von Deutschland zur Verfügung gestellten Deutschen Mark, sondern auch viele der Dollar in Form von Aufträgen wieder hereingeholt haben. Gleichzeitig beziehen die Anleger Zinsen, und die Bundesbank insbesondere erzielt einen guten Ertrag aus dem Teil ihrer Dollar-Reserven, den sie bei uns angelegt hat.

Die Erfahrung der Bank beweist also nach wie vor, dass beträchtliche Investitionen in den Entwicklungsländern auf eine gesunde finanzielle Grundlage gestellt werden können. Die Tatsache, dass diese Investitionen so weitgehend auf dem Kapitalmarkt finanziert wurden, sollte den wichtigsten Mitgliedsländern der Bank, die alle unter einem ständigem Druck stehen, ihre verschiedenen Staatsausgaben, einschliesslich der für Entwicklungshilfe, zu decken, eine grosse Erleichterung bedeuten. Unsere Erfahrung hat uns jedoch auch gezeigt, dass die Aufgabe, die Wirtschaft mit einer annehmbaren Wachstumsrate zu entwickeln, nur zum Teil auf streng bankmässige Weise erfüllt werden kann. Wir haben in der Tat immer dringender darauf hingewiesen, dass eine Reihe von Entwicklungsländern, darunter bedeutende Länder wie Indien und Pakistan, sich schnell ihrer Kapazitätsgrenze nähern, Auslandsverschuldung zu herkömmlichen Bankbedingungen aufzunehmen, oder dass sie bereits diese Grenze erreicht haben. Diese Entwicklung droht nun zum grössten retardierenden Moment bezüglich der künftigen Ausdehnung der Geschäftstätigkeit der Bank zu werden.

Es ist natürlich eine Frage der Entscheidung, wie gross die Auslandsschulden sein dürfen, die ein Land tragen kann; dabei müssen alle seine natürlichen und menschlichen Hilfsquellen, seine Stärken und Schwächen (nicht nur die wirtschaftlichen, sondern auch die sozialen und politischen), und ganz besonders seine Fähigkeit berücksichtigt werden, Devisen zu verdienen und sie für die Bedienung von Auslandsschulden verfügbar zu machen. Diese Dinge lassen sich offensichtlich nicht mit dem Rechen-schieber kalkulieren, vor allem auch weil sich die Rückzahlung von Entwicklungsdarlehen gewöhnlich auf einen Zeitraum von 10 bis 25 Jahren erstreckt. Wir als Bank können nur unser Bestes tun, diese Fragen im Interesse der Bank und aller ihrer Mitgliedsländer fair zu beurteilen. Ich möchte nur zwei Bemerkungen zu dem Problem machen, wie wir den Kredit eines Landes bestimmen; beide beziehen sich auf die Bedeutung des Faktors "Mensch" im Gegensatz zu naturgegebenen Hilfsquellen in der Wirtschaftsentwicklung. Erstens, wir messen der Wirtschafts- und Finanzpolitik eines Landes und der Wahrscheinlichkeit, dass diese auch in Zukunft auf solider Grundlage weitergeführt wird, grosse Bedeutung zu; in diesem Zusammenhang ist es natürlich wichtig, dass ein Land in der Lage ist, politische und soziale, wie auch wirtschaftliche Probleme zu lösen. Zweitens müssen wir, wie alle Bankleute, die Imponderabilien abwägen, die den Willen eines Landes bestimmen, seine Schulden zu tilgen. Sie können einen Hinweis auf diese Einstellung in unserer Politik finden, kein Geld an Länder zu verleihen, die nicht beachtliche Bemühungen unternehmen, alte Auslandsschulden abzutragen.

Auf jeden Fall wird die Lage ernst, wenn eine Reihe von Entwicklungsländern den Punkt erreichen, wo sie für die Deckung ihres Schuldendienstes etwa 20 bis 30% ihrer Deviseneinnahmen auf viele Jahre hinaus verwenden müssen. Und es ist ebenfalls alarmierend festzustellen, dass sich die gesamten Auslandsschulden der Entwicklungsländer Ende 1962 auf einen Gegenwert von etwa 22 Milliarden Dollar, gut das Doppelte des Betrages von vor sechs Jahren beliefen, und dass der Gesamtbetrag der Bedienung dieser Schuld im Jahre 1962 etwa zweieinhalb Mal so gross war wie die 1956 fälligen Beträge. Nur in sehr grossen Ausnahmefällen hat sich die Rückzahlungskapazität, gemessen in Staatseinnahmen, Exporterlösen oder ähnlichen Maßstäben, in gleichem Maße erhöht.

Daher sehen sich die Staaten und Institutionen, die Kapital für die Wirtschaftsentwicklung dieser Länder zur Verfügung stellen, einem sehr ernststen Dilemma gegenüber, solange Unterstützungen dieser Art nur zu herkömmlichen Bedingungen geleistet werden (zum Beispiel 10 bis 20-jährige Darlehen mit einem Zinssatz von 5-6%): Entweder müssen sie den Umfang ihrer Unterstützung auf Beträge reduzieren, die für die Aufrechterhaltung des wirtschaftlichen Fortschritts in diesen Ländern unzureichend sind, oder sie sind gezwungen, den kreditnehmenden Ländern solche finanzielle Verpflichtungen aufzuerlegen, die sich später als untragbare Lasten erweisen. In beiden Fällen würden ernste wirtschaftliche und finanzielle Störungen das Ergebnis sein.

Es gibt allerdings auch einen Mittelweg, nämlich den gegebenen Umfang der Entwicklungshilfe beizubehalten, jedoch die Rückzahlungsbelastungen wesentlich zu erleichtern, soweit dies die Umwandlung in Devisen betrifft. Das hat natürlich auch seine Gefahren, besonders im Fall von bilateralen Krediten. Zuschüsse oder sogenannte "weiche Darlehen" können sehr leicht ein ungesundes Verhältnis zwischen Geber und Empfänger schaffen. Der Geber wird eine Entschädigung in politischer Hinsicht erwarten, falls er nicht finanziell auf seine Kosten kommt. Der Empfänger wird verstimmt, oder er fühlt sich in demselben Maße, in dem er die Idee politischer Entschädigung akzeptiert, nicht mehr verpflichtet das Geld wirksam für die Wirtschaftsentwicklung zu verwenden. In der Tat neigen Geber als auch Empfänger politischer Hilfe dazu, den Blick für die wirtschaftliche Bedeutung des übertragenen Kapitals zu verlieren; das Geld wird wahrscheinlich viel sorgloser ausgegeben, als es der Fall wäre, wenn es zu kommerziellen Bedingungen geliehen worden wäre. Kurz gesagt, "weiche Darlehen" verfehlen ihren Sinn, wenn sie nicht unter eine "harte" Verwaltung gebracht werden, die sie, von kurzfristigen politischen und kommerziellen Zielen getrennt, ausschliesslich in die Richtung langfristiger Wirtschaftsentwicklung lenkt.

Es war genau diese Überlegung, die im Jahre 1960 zur Bildung der Internationalen Entwicklungsorganisation (IDA), einem Fonds für "weiche Darlehen", führte, die von der Weltbank direkt verwaltet wird und mit ihr Direktion und Stab teilt. Während sich die Bank ihre Mittel hauptsächlich auf dem Kapitalmarkt beschaffen kann, stellt die IDA einen Fonds von Geldern dar, die der Bank von Regierungen gegeben wurden, um dem Entwicklungsbedarf gerecht zu werden, der nicht zu herkömmlichen Kreditbedingungen finanziert werden kann. Im allgemeinen werden IDA-Mittel für dieselbe Art von Projekten verfügbar gemacht, wie die von der Bank selbst bearbeiteten (eine Ausnahme wird auf dem Gebiet der Erziehung gemacht, das für eine internationale Finanzierung auf der Basis harter Darlehen schlecht geeignet ist). Allerdings sind IDA-Mittel dazu bestimmt, Projekte dieser Art in solchen Ländern zu finanzieren, die im Hinblick auf ihre wirtschaftliche Lage im Ganzen und ihre künftige Zahlungsbilanzsituation im besonderen offensichtlich nicht in der Lage sind, grosse zusätzliche Auslandsverpflichtungen auf sich zu nehmen.

Die der IDA von den Mitgliedsregierungen der Bank ursprünglich zur Verfügung gestellten Mittel beliefen sich auf den Gegenwert von etwa 1 Milliarde Dollar - oder, unter Berücksichtigung der Tatsache, dass einige der eingezahlten Währungen für Darlehenszwecke nicht verwendbar waren, auf etwa 750 Millionen Dollar in konvertierbaren Währungen. Aus diesen Mitteln gewährte Kredite müssen letzten Endes in Devisen zurückgezahlt werden; bis jetzt hat die IDA jedoch zugestanden, dass die Rückzahlung erst nach zehn Jahren beginnt und die Amortisierung danach sich auf einen Zeitraum von 40 Jahren erstreckt. Die Kredite sind zinsfrei, es ist jedoch eine kleine jährliche Gebühr (zur Zeit $\frac{3}{4} \%$ pro Jahr) zu zahlen, die für die Deckung der Verwaltungskosten bestimmt ist. Ein grosser Teil dieser Mittel wurde bereits für Entwicklungsprojekte in Indien, Pakistan und anderen in Frage kommenden Ländern ausgegeben, und es sind jetzt unter den Regierungen Verhandlungen über eine zweite Runde von Subskriptionen im Gange, die die IDA wieder mit neuem Kapital ausrüsten soll.

Aber ist es denn wirklich möglich, diese "weichen Anleihen" nach harten Kriterien zu vergeben? Wird das Geld nicht etwa nur als "Heilmittelchen" für Länder verwandt, die ihre Wirtschafts- und Finanzpolitik so schlecht führen, dass sie ihre Kreditwürdigkeit für normale Darlehen zerstört haben? Und ist es nicht eine unnötige oder gar schädliche Art von Unterstützung, wenn man Geld zu so übertrieben liberalen Bedingungen in öffentliche oder private Unternehmen steckt, die auf die Erzielung von Gewinn abgestellt sind?

Nun, diese Fragen gehen an den Kern der IDA-Philosophie und sie haben ihre Antworten. Zunächst, die Direktion von Bank und

IDA steht auf dem Standpunkt, dass ein Land, das seine Kreditwürdigkeit durch nachlässige Finanzwirtschaft zerstört, für IDA-Unterstützung nicht in Frage kommen kann. Die Leiter bilateralen Hilfsprogramme können ebenfalls Urteile dieser Art fällen, doch dürften sie davor wegen der nachteiligen Auswirkungen auf die internationalen Beziehungen zurückschrecken. Wir, andererseits, können es uns als nicht-politische Fachorganisation erlauben, hart zu sein. Unser Urteil wird viel eher als fair und unparteiisch respektiert, und man wird es uns vielleicht sogar positiv anrechnen, im Interesse des Entwicklungslandes selbst gehandelt zu haben, etwas, das man in bilateralen Beziehungen wohl kaum erwarten kann!

Was die Frage von Subventionen für gewinnbringende Projekte betrifft, so sind wir in der Bank und IDA uns darüber einig, dass eine Eisenbahn, ein Kraftwerk oder ein Stahlwerk kein Geld zinsfrei oder zu anderen künstlichen Bedingungen erhalten soll. Nichts wäre besser dazu angelegt, Verschwendung und Fehlinvestitionen für z.B. unnötig kapital-intensive Projekte zu ermuntern. Es ist klar, dass solche Subventionen zu grossen Ungerechtigkeiten führen würden, und zwar im Lande selbst wie auch im Hinblick auf die ausländische Konkurrenz. Wir haben deshalb mit grosser Sorgfalt Verfahren entwickelt, die diese Auswirkungen vermeiden. Wenn wir einen IDA-Kredit für ein Projekt gewähren, das auf die Erzielung von Gewinn abgestellt werden kann, so geben wir diesen Kredit mit seinen Subventionsbedingungen direkt an die betreffende Regierung des Landes, die unter einem Vertrag mit uns das Geld an die das Projekt ausführende Stelle weiterverleiht; diese jedoch muss das Darlehen dann in Landeswährung zu herkömmlichen Bedingungen zurückbezahlen. Mit anderen Worten, das Projekt wird zu Bedingungen finanziert, die denen eines normalen Bankdarlehens entsprechen, so dass die das Projekt ausführende Stelle voll und ganz unter dem finanziellen Zwang steht, das Geld ertragbringend anzulegen, damit es wirtschaftlichen Gewinn abwirft. Andererseits wird dem Land ein grosser Teil seiner Devisenbelastung für Schuldentilgung abgenommen, obwohl es das Kapital letzten Endes doch in Form von Devisen zurückzahlen muss. Die Erlassung der Zinsen ist in der Tat eine Subvention für das Empfängerland, jedoch eine, die nur gegeben wird, wenn sie wirklich verdient ist, und auch nur dann, wenn die Gewährung der gesamten Entwicklungshilfe zu herkömmlichen Bedingungen die Gefahr mit sich bringen würde, das Land zahlungsunfähig zu machen und damit dem ganzen Gefüge der internationalen Verschuldung zu schaden.

Wenn der Mangel an Kreditwürdigkeit nun zum ersten begrenzenden Faktor der zukünftigen Tätigkeit der Bank zu werden droht, dann ist der zweite sicherlich der anhaltende Mangel an

gut geplanten Entwicklungsprojekten und-programmen, ein Problem, das auch das Wirken der IDA beschränkt hat. Dies war seit ihren Anfangstagen ein Klagelied der Bank, obwohl inzwischen in der Tat ein immenser Fortschritt erzielt wurde. Der Verdienst für diesen Fortschritt kann mit gutem Gewissen zu einem grossen Teil der Bank zugeschrieben werden, die Jahr um Jahr mehr Nachdruck auf ihre Rolle gelegt hat, den Entwicklungsländern bei der Vorbereitung ihrer Investitionspläne Führer und Berater zu sein. Es ist in der Tat kaum übertrieben, wenn festgestellt wird, dass in der Bank heutzutage ebensoviel Zeit und Mühe auf diese sogenannte "technische Hilfe" als auf die tatsächliche Vorbereitung und Verhandlung von Darlehensabkommen verwendet wird.

Lassen Sie mich Ihnen kurz die Arbeit der Bank in Kolumbien beschreiben, die sich in vielen Formen an anderer Stelle wiederholt. Im Jahre 1949 entsandten wir eine grosse Mission zur Wirtschaftsbegutachtung nach Kolumbien, die einen umfassenden Bericht über die Hilfsquellen und Entwicklungsmöglichkeiten des Landes vorbereitete und veröffentlichte. Eine der vielen wertvollen Empfehlungen der Mission war, dass die Regierung eine Stelle für Wirtschaftsplanung errichte; wir haben diese Stelle seither mit Wirtschaftlern und technischem Personal unterstützt. Später wurden spezielle Untersuchungen über die Landwirtschafts-, Energie- und Transportbedürfnisse Kolumbiens, und die besten Wege, diesen gerecht zu werden, auf sehr breiter Ebene entweder auf Anregung der Bank oder durch die Bank selbst durchgeführt. Wir haben auch ein spezielles Gutachten über das reiche Cauca-Tal in Kolumbien angefertigt und führen jetzt Untersuchungen über die Möglichkeit durch, die vielversprechenden Kohlenvorkommen dort auszubeuten. Die Zeit reicht kaum aus, weitere Untersuchungen auf dem Gebiet der Öffentlichen Verwaltung, des Eisenbahnbetriebs und der Entwicklung des Kapitalmarkts oder Pläne zur Sanierung einer riesigen unglücklichen Investition der Regierung in Form eines Stahlwerks usw., usw. zu erwähnen. Es war diese Art von viele Jahre hindurch geführter Vorbereitungsarbeit, die Kolumbien an einen Punkt gelangen liess, an dem die Bank es vor einigen Wochen für angebracht hielt, eine internationale Konsultativgruppe einzuberufen, um die Finanzierung des kolumbianischen Entwicklungsprogrammes zu behandeln. Die Bank und IDA haben bereits einen Gegenwert von 290 Millionen Dollar in Kolumbien investiert, und der Weg für weitere Investitionen steht nun offen. Ausserdem sind die Kolumbianer nun in der Lage, den übrigen Mitgliedern der Konsultativgruppe, der die Interamerikanische Entwicklungsbank und elf Regierungen angehören - darunter, wie ich gern feststelle, auch Deutschland - gut geplante Projekte vorzulegen, für deren Ausführung die notwendigen Vorkehrungen getroffen sind. Schliesslich hat die Bank jetzt noch eine Mission mit ständigem Sitz in Bogota eingerichtet,

um der kolumbianischen Regierung fortlaufend Hilfe bei der Formulierung ihrer Entwicklungspolitik zu bieten und um die Finanzierung kolumbianischer Projekte nicht nur durch die Bank, sondern auch durch die anderen Mitglieder der Konsultativgruppe zu bewerkstelligen.

Neben einer Vielzahl ähnlicher Bemühungen auf dem Gebiet der "technischen Hilfe", die zum Ziel haben, die produktivsten Investitionsgelegenheiten zu bestimmen und ein freundliches Klima für solche Investitionen zu schaffen, bemüht sich die Bank sehr, bei der Gestaltung individueller Projekte und der Aufstellung von Maßstäben, die eine wirksame und erfolgreiche Ausführung garantieren sollen, zu helfen. Dies macht oft langwierige und sorgfältige Analysen von Problemen notwendig, wie z.B. auf dem Transportgebiet die Frage "Bau von Strassen oder Bau von Eisenbahnen" oder auf dem Gebiet der Elektrizitätsentwicklung die Frage "Wasserkraft oder Wärmekraft oder möglicherweise Atomkraft". Dies wird die Aufstellung eines Finanzplans notwendig machen, durch den sichergestellt werden soll, dass alle für die Ausführung eines gegebenen Projektes aufzuwendenden Mittel jeweils rechtzeitig zur Verfügung stehen, und dass (falls das Projekt sich selbst tragen kann) die Einnahmen genügend gross sein werden, alle kommenden Ausgaben einschliesslich der Amortisierung des in Frage stehenden Bankdarlehens bzw. IDA-Kredits zu decken. Wir richten auch grosse Aufmerksamkeit darauf, sicherzustellen, dass geeignete Organisationen gebildet werden, falls solche noch nicht bestehen, die das Projekt ausführen und nach seiner Fertigstellung den Betrieb übernehmen. Dies geht oft so weit, dass denen, die das Projekt ausführen, geholfen wird, geeignetes kaufmännisches und technisches Personal zu finden, wozu in vielen Fällen die Anstellung von ausländischen Beratern und leitenden Angestellten gehört. Zum Beispiel wurde etwa die Hälfte der Bankdarlehen in Lateinamerika, was einem Betrag von fast 1 Milliarde Dollar entspricht, an Organisationen gegeben, die zur Ausführung des in Frage stehenden Projekts entweder neu errichtet oder in beträchtlichem Umfang reorganisiert worden waren.

Im Interesse einer möglichst wirtschaftlichen Ausführung des Projekts, wie auch im Interesse eines fairen Wettbewerbs zwischen allen Ländern, die zur Kapitalausstattung der Bank und IDA beigetragen haben, bestehen wir im Normalfall darauf, dass alle durch die Bank oder IDA finanzierten Projekte international ausgeschrieben werden. Die Vorbereitung und Handhabung solcher Ausschreibungen nimmt viel Zeit in Anspruch, doch sind die Ersparnisse vom Standpunkt des kreditnehmenden Landes - und aller zu seiner Unterstützung Beisteuernden - immer beträchtlich und manchmal geradezu unglaublich. Wie die vorher erwähnten Zahlen zeigen, ist Deutschland aus diesem Wettbewerb sehr gut herausgekommen; in der

Tat hat es in den letzten Jahren im Durchschnitt 16% der an das Ausland vergebenen Aufträge auf Grund von Bank-finanzierten Projekten hereingeholt.

Es ist natürlich sehr zeitraubend, alle diese wirtschaftlichen und technischen Studien durchzuführen und dann die Bedingungen auszuhandeln, die die erfolgreiche Durchführung des Projekts gewährleisten. Unser Geld, sei es von der Bank, sei es von IDA, ist schwer zu bekommen - aber wir glauben, dass es so sein soll. In allen unseren Handlungen werden wir von dem Wissen geleitet, dass Kapital in den Entwicklungsländern äusserst knapp ist, dass es bis auf unbestimmte Zeit knapp zu bleiben verspricht, und dass diese Länder sich aus diesem Grunde Fehlinvestitionen einfach nicht leisten können.

Ich komme nun auf die dringende Notwendigkeit zu sprechen, unsere Bemühungen mit denen anderer Organisationen und der Regierungen abzustimmen, die ebenfalls Entwicklungshilfe leisten. Es ist klar, dass wir in der Weltbank kein Alleinrecht auf die Versorgung mit Entwicklungskapital und kein Alleinrecht auf das Wissen beanspruchen können, was gesunde Entwicklungspolitik darstellt. Die schmerzliche Wahrheit ist jedoch in Greshams Gesetz enthalten, dass schlechtes Geld, einerlei welchen Ursprungs, gutes Geld aus jedweder Quelle vertreiben wird. Zu den vielen Kategorien schlechten Entwicklungsgeldes gehören folgende:

1. Mehr Geld zu harten Bedingungen, als die Kreditwürdigkeit eines Landes zulässt.
2. Geld in irgendeiner Form, das einem Lande zur Verfügung gestellt wird, das gewissen Mindestanforderungen an Finanzpolitik und Selbsthilfe nicht Genüge leistet.
3. Geld, das zur Finanzierung eines Projektes bestimmt ist, das nur aus Prestigegründen gutgeheissen werden kann oder nur ausgeführt wird, um lokalen, regionalen oder politischen Interessen einen Gefallen zu erweisen.
4. Geld, das für ein technisch oder wirtschaftlich ungesundes Projekt zur Verfügung gestellt wird, mit dem Ziel, einen Exportauftrag zu bekommen.
5. Geld, das für ein gesundes Projekt, jedoch zu übertrieben kurzfristigen oder anderen Bedingungen verfügbar gemacht wird (z.B. an bestimmte Lieferanten gebunden), die die Rückzahlung zu einer ungebührlichen Belastung machen.

6. Geld für ein technisch und wirtschaftlich gesundes Projekt, dessen Ausführung und Betrieb nichtsdestoweniger völlig über das Vermögen des Kreditnehmers hinausgeht.

Die harte Aufgabe, eine gesunde Grundlage für die Wirtschaftsentwicklung zu bauen und dabei den internationalen Kredit der Entwicklungsländer zu erhalten, wird durch Maßnahmen dieser Art sehr belastet. Ich möchte besonderen Nachdruck auf das Problem der falschen Anwendung und des Missbrauchs von gebundenen Exportkrediten legen. Diese werden oft kritisiert, sie seien zu kurz befristet und deshalb keine echte Entwicklungshilfe. Allerdings viel schlimmer noch ist die Tatsache, dass sie manchmal dazu benutzt wurden - ich sollte eigentlich wiederum sagen "dazu missbraucht wurden" - Projekte zu finanzieren, die schlecht geplant und schlecht verwaltet sind und für die Wirtschaft eher zu einer Belastung als zu einer Bereicherung wurden. All das Gute, das durch die vernünftige Verwendung solcher Kredite getan werden kann, kann durch einige wenige unglückliche Fälle verdorben werden, in denen sich kurzfristige politische oder kommerzielle Interessen des Ausfuhrlandes mit dem Wunsch irgendeiner, bald wieder von der politischen Bühne verschwindenden Figur im Empfängerland verbinden, "eine runde Sache nach Hause zu bringen" und seinen Namen in einem mächtigen Monument aus Stein und Zement verewigt zu sehen.

Ich muss zugeben, dass ich die kurzen Fristen der Lieferantenkredite manchmal mit Genugtuung gesehen habe, weil ich glaube, dass sie einer übertriebenen Verwendung nicht-angebrachter Kredite dieser Art wenigstens einen kleinen Riegel vorschieben.

In letzter Zeit haben wir in vielen Ländern, insbesondere den Vereinigten Staaten, von "Entwicklungsmüdigkeit" gehört. Ich glaube nicht, dass dies eine tiefe Enttäuschung bezüglich der grossen Ziele der Wirtschaftsentwicklung bedeutet, sondern vielmehr die Unzufriedenheit über gewisse Methoden widerspiegelt, die bei der Gewährung von Entwicklungshilfe angewendet werden. Wir sollten jetzt gelernt haben, dass es sich nicht empfiehlt zu versuchen, politische Gefälligkeiten von stolzen und empfindsamen neuen Regimen zu erkaufen. Und Exportaufträge können teuer zu stehen kommen, wenn sie ein Land mit Schulden für ein unproduktives Projekt überladen und den Markt dort für zukünftige Exporte verderben. Vor allem aber rührt diese Enttäuschung von unserem eigenen Versagen her - dem Versagen von uns allen, in den fortgeschrittenen Ländern und ausserhalb -, mit den uns zur Verfügung gestellten Mitteln eine wirksamere Arbeit zustande zu bringen. Wenn diese Enttäuschung zu weit gehen sollte, dann wird das schlechte Geld das gute Geld nicht nur vertreiben, sondern wir werden unter Umständen ganz ohne Geld dastehen, um eine der lebenswichtigen Fragen des zwanzigsten Jahrhunderts anzupacken!

Hierin liegt eine grosse Aufgabe für die Bank. Vielleicht besteht der grösste Dienst, den die Bank ihren Mitgliedsländern als Gesamtheit erweisen kann, darin, in jedem Entwicklungsland die Aufstellung vernünftiger Pläne und Maßstäbe zu unterstützen. Sie könnten dann den Rahmen abgeben, innerhalb dessen das betreffende Land Hilfe von der Bank und anderen Geldgebern erhalten könnte. Wir machen auch schon jetzt grosse Anstrengungen in dieser Richtung: durch die zahlreichen wirtschaftlichen und technischen Berichte, die wir an alle unsere Mitgliedsregierungen verteilen; durch die internationalen Konsortien und Konsultativgruppen, die wir ins Leben gerufen haben, um die Entwicklungshilfe für bestimmte Länder zu koordinieren; durch unsere Zusammenarbeit mit dem Ausschuss für Entwicklungshilfe der OECD, die ebenfalls Koordinierungsgruppen für eine Reihe von Ländern organisierte; durch Konsultationen mit individuellen Geldgebern (einschliesslich der zuständigen öffentlichen und privaten Institutionen in Deutschland) bezüglich Länder und Projekte von gemeinsamem Interesse; und vor allem durch die Unterstützung der Entwicklungsländer, leistungsfähige Organisationen zu errichten, die die Wirtschaftsentwicklung planen, Verhandlungen führen und die internen und externen Hilfsquellen verteilen können, die das Land zur Ausführung seines Entwicklungsprogramms erhalten wird.

Als einen weiteren bedeutsamen Schritt in dieser Richtung haben wir kürzlich unseren sogenannten Dienst für Entwicklungsberatung ins Leben gerufen. Er besteht aus einer Gruppe von Spitzenkräften für die Wirtschaftsberatung, die auf Antrag einem Entwicklungsland zur Verfügung gestellt werden, sich dort für ständig niederlassen und die Regierung in Fragen der Entwicklungspolitik und der Aufstellung von Entwicklungsprogrammen beraten.

Alle diese Initiativen der Bank sind, so glaube ich, nützlich in sich selbst; sie können jedoch ihren Zweck nicht voll erfüllen, wenn sie für sich allein bleiben. Die Probleme der Wirtschaftsentwicklung erfordern nicht nur eine koordinierte Planung, sondern auch eine Abstimmung unserer aller Maßnahmen - seien wir im öffentlichen oder privaten Sektor, im nationalen oder internationalen Bereich tätig. Ich hoffe sehr, dass ich mit meinem Besuch einen Beitrag zu einem besseren Verständnis unserer gemeinsamen Probleme und zu einer Harmonisierung unserer jeweiligen Bemühungen leisten durfte.

*Knapp - March in Germany
to other audiences
1st page only changed slightly
pages 2-11 identical
to speech March 6, 1963*

The Work of the World Bank

It is a great pleasure to be with you here tonight. It is curious that I should be addressing you on the subject of aid to the undeveloped countries because it happens that my own great-grandfather emigrated to America from Bavaria after the abortive effort to form the Frankfurt Parliament in 1848-49, and thus became one of the early German contributions to the then undeveloped world. He settled in the State of Indiana, on the Ohio River; at that time those names no doubt sounded as exotic as names like Brazzaville and Brasilia sound to us today. In any case, my family history may remind us that economic development is nothing very new. In those days, Indiana was building a great network of roads and canals, financed partly through the sale of bonds abroad. Such works were then referred to as "internal improvements" - today they are called "economic infrastructure". But the pattern and the purpose are the same, namely to lay the basis for fruitful progress in industry, agriculture, and other directly productive activities.

I want to talk with you now about the work of a modern institution devoted to this task - the International Bank for Reconstruction and Development, now known popularly as the World Bank. As you know, the World Bank is an inter-governmental institution conceived at the Bretton Woods Conference at the end of World War II and founded on the proposition that there is a truly international community of interest in building up the economies of the nations in the undeveloped world. It was already realized at that time that the age of colonialism was dying fast, and that vast areas and peoples would be emerging into independence with scant preparation for their new responsibilities. The World Bank was therefore established as a sort of cooperative credit society on an international scale designed to mobilize the capital resources of the more developed countries to meet the economic, social and humanitarian challenge of these new societies. It has since become a great adventure in international cooperation, an independent multi-national, professional institution concentrating single-mindedly upon the task of promoting economic development.

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The Role of Governments and International Agencies in
Asian Development



The title of this address is an imposing one, and my first task must be to whittle it back to a size that can be dealt with within the time allowed us here. Hence, I propose: first, to limit my discussion of the role of governments to the role of the governments of the Asian countries themselves, and, second, to confine my discussion of the work of international agencies to the work of the World Bank and its affiliated institutions (the International Development Association and the International Finance Corporation). This procedure may leave some gaps in the panorama which is being presented to you today, but I hope that it may enable you to get a little clearer view of some parts of the terrain.

What then would it be useful for me to say regarding the role of the Asian governments in economic development? I am sure that before this audience it is unnecessary to enumerate the accepted public functions which must be discharged by any government; still less is it necessary to dwell upon the inherent limitations of government and upon the dangers of excessive government intervention in the affairs of society. But rather than simply translating our own thinking on these subjects to the Asian scene, let us have a somewhat closer look at what kind of problems governments confront in most of the Asian countries. In general, over this vast area:

- (1) living standards are very low and capital is very scarce,
- (2) the rising tide of population is bringing heavy pressure upon the resources that are available,
- (3) there is a tradition of extensive governmental activity inherited from the days of colonial rule,
- (4) the private sector of the economy is weak - on the one hand, local entrepreneurial and management talent is limited and lacks experience; on the other hand, foreign capital and enterprise are distrusted, mainly on nationalistic grounds.

In these conditions, it is exactly in the field of economic development that key controversies arise regarding the role of governments in the Asian countries. How far should the Government itself undertake the task of developing the nation's economic

1/ Text of address to be delivered by Mr. J. Burke Knapp, Vice President of the World Bank, before the Northern California World Affairs Council meeting at Asilomar, California, on May 4, 1963.

resources? How can the Government carry out economic planning in such a manner as to assure that scarce resources are devoted to priority uses, while not infringing unduly upon the freedom and initiative of the private sector? How can the Government raise the funds necessary to execute essential public works, while avoiding damage to the incentives necessary to evoke the best performance by the private sector?

Before venturing an answer to these and related questions, we must face the fact that in the Asian countries generally the administration of governmental programs also suffers from a serious lack of experienced human talents. Obviously conditions differ very much as we pass from Japan to India and then on to some of the smaller countries which are much less well-endowed in the area of public administration. It may be significant to note, however, that the degree of governmental involvement in the economic process tends to be less in the countries with more robust economic growth, and more in the countries with the most enfeebled and needy economies. Does this mean that government intervention stultifies economic progress, or only that it becomes more imperative in countries suffering economic afflictions? The fact that many Asian governments have demonstrated a serious incapacity for public administration must incline us toward the former alternative.

I do not propose, however, to embark upon any extended analysis of this somewhat subtle question. Instead let me express my own viewpoint by citing to you a few of the suggestions that we commonly make to governments of underdeveloped countries when they come to us for advice on their economic problems. These are simple maxims of economic common-sense which apply generally in the underdeveloped world, with, of course, appropriate adaptation to the local conditions and circumstances.

- (1) Be careful not to overload the machinery of government - it can easily become clogged and a slow-down can have serious consequences.
- (2) Within the capacities of the governmental system, give priority to those functions which only governments can discharge. Don't take on a new function without counting the cost in terms of the less effective discharge of existing functions.
- (3) Given the limitations of the capacities of government, leave open to the private sector the maximum opportunities for growth, particularly in industry, where the spirit of entrepreneurship plays a strategic role in development.
- (4) Be careful of the formula that governments must undertake those functions which the private sector is not yet equipped to handle - this is the best way to deny new growth opportunities to the private sector. Also be careful of the idea of coexistence by public and private enterprises in a given field - nothing inhibits private development more than the spectre of government competition.

- (5) Where governments feel that they must embark upon ventures which might otherwise be undertaken by private resources, let them at least define exactly how far they propose to go - uncertainty about a government's intentions is perhaps the most crippling deterrent to private endeavour.
- (6) Let any public enterprise be given the greatest possible degree of independent management, and let its finances be so administered as to put it on a fully self-supporting basis. Indeed, most public services ought to be required to generate an income sufficient to pay for a substantial part of the necessary costs of expanding their properties. (In most Asian countries there are fortunately institutions and traditions which help to achieve these results. There is a startling contrast, for example, between the self-supporting railway systems of India and Pakistan, and the grossly mis-managed State railways in many Latin American countries, where the railway deficits are commonly the most serious fiscal and financial problem of the nation.)
- (7) Governments must indeed draw up "development programs", but these should be prepared in appropriate consultation with the private sector and they should concentrate primarily on setting forth a rational program for public investment designed among other things to give support to the private sector. In so far as they relate to the pattern of development for the private sector itself, such programs should take the path of "indicative" planning, with the government presenting a general model of economic growth, stating what policies it intends to pursue and what investments it intends to make in order to achieve that economic growth, and then indicating rather than attempting to dictate the goals for industrial and agricultural production in key lines.
- (8) Finally let it not be forgotten that the fuel that drives the engine of the private sector is profits. I see that in a recent concession agreement between some of the major oil companies and the government of Indonesia, it has been deemed more tactful to refer to profits as something like "the fruits of enterprise". If this makes people happy, well and good. But governments that seek economic development and efficient economic production must be prepared not only to tolerate profits but to cultivate them.

I want to turn now a little more closely to the affairs of the World Bank and its associated institutions. These are in the first instance financial institutions and, taken together, their loans and investments play an important role in the flow of capital to the underdeveloped countries.

But they are also development institutions, dedicated to the cause of economic development, organized on a co-operative basis with the underdeveloped countries themselves as full members, and administered by an international career service which has built up a high reputation for professional competence and objectivity. These institutions (together with our sister agency, the International Monetary Fund, organized along similar lines) are in a unique position to exercise a constructive influence on the policies and practices pursued by the underdeveloped countries in their efforts to achieve a reasonable pace of economic progress. After reviewing some of the financial operations of the Bank and its associates in Asia, I shall return to the subject of their technical assistance and advice to the Asian countries.

The resources of the World Bank have been derived from the paid-up subscriptions of its member countries, from its issuance of bonds in the capital markets of the world, and from its very substantial accumulated earnings. The amount of convertible currencies derived from capital subscriptions by governments now comes to about \$1.7 billion, of which some 40% has been provided by the United States. In addition, the Bank has raised some \$2.5 billion by issuing its own bonds: the issues at present outstanding are denominated in eight different currencies, and more than half of the total has been purchased by investors outside the United States. Finally the Bank has put back to work in the underdeveloped countries over \$500 million derived from profits on its operations. The Bank also has a so-called "soft loan" affiliate, the International Development Association, which draws its funds solely from member government subscriptions. This Association, popularly known as "IDA", now has convertible currency resources amounting to about \$760 million, of which again about 40% has been provided by the United States; most of this sum has now been committed and inter-governmental discussions about replenishing IDA's resources are in progress at the moment. Together, then, the Bank and IDA have assembled about \$5.5 billion of funds, drawn from broadly international sources, and are investing these funds in specific development projects in the underdeveloped countries.

The total amount of loans which the Bank and IDA have so far made to the countries of Asia (without deducting repayments which have been received) comes to nearly \$2.3 billion, or about one-third of our development lending in all countries. Since we are primarily in the business of financing large public works, about \$1.6 billion has been lent to governments or public organizations. Some \$700 million has been lent to finance development projects undertaken by private enterprise.

Far and away our biggest borrower is India, which has now received almost \$1.1 billion from the Bank and IDA. Although this sounds a great deal, it is much less per capita than we have lent to many of our member countries. Next comes Japan, which has borrowed over \$480 million from the Bank, followed by Pakistan with \$327 million from the Bank and IDA together. Thailand has borrowed a little less than \$140 million, and the Philippines just under \$80 million. Burma, Ceylon and Malaya have each borrowed between \$30 and \$40 million, and Nationalist China and Korea have recently received IDA credits in the amount of some \$15 million each.

Most of our loans have been used to finance so-called "infrastructure projects", - railways, roads, power stations, ports and so on. Over the world as a whole, about one-third of the money lent by the Bank and IDA has gone into electric power development, another third into transportation projects, and most of the remainder into industry, agriculture, and telecommunications. In Asia, the proportion is somewhat different: transportation accounts for almost \$1 billion, or more than two-fifths, of our total lending in the area, and we have lent rather more for industry than for electric power.

The greater part of our transportation lending has been for railway development. We have made seven loans to the Indian Railways, amounting to nearly \$450 million - the biggest amount lent by us to any single organization. This series of loans, beginning in 1949, has helped to cover the very heavy expenditures which the Indian Railways have had to make on imported equipment and supplies required to modernize their operations and to keep pace with the rapidly increasing traffic generated by the country's economic development. In Pakistan, too, the railways carry most of the long-distance passenger and freight traffic, and here we have lent over \$90 million to improve track and signalling equipment and to finance the acquisition of modern locomotives and rolling stock. A large loan to the Japanese National Railways is financing a very unusual project - the New Tokaido Line that will provide an express passenger and freight service, at speeds of up to 125 miles an hour, over the 300 miles between Tokyo and the port city of Osaka. Other railway loans have been made to Burma, Korea and Thailand. We have also made loans to improve many Asian ports, by installing new cranes and warehouses, building or rebuilding quays, and dredging channels and basins. This list includes Bombay, Madras and Calcutta in India; Karachi in West Pakistan; river ports in East Pakistan; Rangoon in Burma, and Bangkok in Thailand; and a number of harbors in China and the Philippines. We are financing a major express highway in Japan and improvements to the National Highways System of India, and we have also helped to pay for aircraft for Air India and a natural gas pipeline for Pakistan.

It is never easy to measure the effects of a development loan, and it is particularly difficult to do so when the loan is made to improve a service that already exists. But we know, for instance, that the Indian Railways are carrying fifty per cent more freight than they were about five years ago, and that if the investments necessary to support this traffic had not been made, there would have been a disastrous breakdown in the Indian transportation system and in the economic development of the country. Similarly, the extraordinarily rapid industrial development of Karachi, the capital city of Pakistan, which has resulted from the cooperative efforts of the government and many private investors, would hardly have been possible without the stimulus provided by the piping of natural gas from the Sui field, some 350 miles away.

We calculate that our electric power lending in Asian countries has added, or will add, about three and one-quarter million kilowatts to their generating capacity. The projects financed have included several spectacular hydroelectric schemes, notably in the Japanese Alps and in Thailand. They have also included a number of less exciting but equally useful steam and diesel plants, along with many thousands of miles of transmission lines. Japan has been our biggest borrower for power development; most of the \$150 million lent there for this

purpose has gone to four privately-owned companies. India, the second largest borrower for power, has used our loans to build power stations in the important industrial regions of the Damodar Valley and Bombay. In Thailand, we have made two loans for the Yanhee project, probably the largest of its kind in Asia. When completed, Yanhee should meet most of the country's needs for electricity for the next decade, and will also improve agriculture and navigation along the Chao Phya River. We are financing three separate hydroelectric projects in the Philippines, the important Cameron Highlands project in Malaya, and other power plants to serve Karachi in Pakistan and Colombo in Ceylon. Altogether, our power loans in Asia amount to nearly \$500 million.

These basic facilities have provided an essential under-pinning for the expansion of industrial and agricultural output. At the same time additional money from the Bank and IDA has been flowing directly into productive enterprises. Our industrial lending in Asia has now reached over \$500 million, no penny of which incidentally has gone to ventures owned or controlled by governments in the countries concerned. More than \$300 million has gone to finance the development of the steel industries of Japan and India. In Japan, we made loans for the benefit of half-a-dozen iron and steel producers, helping them to achieve a quite striking increase in output during the late nineteen-fifties. Our loans in India went to the Tata Iron and Steel Company and the Indian Iron and Steel Company, enabling both of them to double their production and so to provide their contribution to India's rapidly growing needs. I think it is noteworthy that these two private companies, even last year, were still producing more iron and steel than all three of the state-owned steel plants combined.

Our industrial lending also includes two loans to help increase coal output in India, and a loan for a paper mill and another for industrial estates in Pakistan. But the most interesting part of our industrial lending in Asia is represented, I believe, by the total of approximately \$125 million that we have lent to support the establishment and growth of privately-owned and operated industrial development financing institutions - the so-called development banks.

Local institutions of this kind have a very special role to perform in the promotion of industrial development by providing private industry with financial, technical and other services, by encouraging the development of local capital markets, and by facilitating the inflow of foreign private investment. Perhaps the best known venture of this kind is the Industrial Credit and Investment Corporation of India - ICICI for short - which was set up in 1955 with assistance and advice from the World Bank. Indian private interests own the majority of ICICI's shares, but it also has British, American, Japanese and German shareholders. Some rupee loan capital was provided by the Indian Government which, however, does not interfere with the institution's private business management; foreign currency for its lending has been provided by four World Bank loans amounting to \$60 million, and by smaller loans from the U.S. Agency for International Development and the German Reconstruction Loan Corporation.

In the eight years of its existence, ICICI has provided nearly two hundred companies in India with the equivalent of well over \$100 million in loan or share capital. Nearly half of these companies were newly-established, and they were heavily concentrated in industries which were also new to India. ICICI has also done much to develop the Indian capital market by underwriting industrial share issues to the extent of some \$30 million. In Pakistan, a similar role is played by another development financing institution, the Pakistan Industrial Credit and Investment Corporation, to which the World Bank has lent nearly \$50 million. Under the current Five-Year Plan, PICIC is expected to provide the foreign exchange needs of about half the private industrial investment taking place in Pakistan between 1960 and 1965.

Recently, the Bank has vested primary responsibility for developing its relations with local industrial financing institutions in its affiliate, the International Finance Corporation, which is engaged in similar activities on a broad international basis. The International Finance Corporation was set up about seven years ago with a capital of \$100 million to provide a supplementary source of venture capital for private industrial enterprises in the underdeveloped countries. It is better fitted for this role than the Bank: it is not required - in fact it is specifically forbidden - to ask for a government guarantee for its lending; and it can make investments in a variety of forms - fixed-interest, equity, or a combination of the two forms - to suit the circumstances of the case. The International Finance Corporation has made investments in private manufacturing enterprises in 24 developing countries throughout the world, including India, Pakistan, the Philippines and Thailand. The power to invest in equity is new - it was granted as the result of an amendment to IFC's Charter less than two years ago - and it has opened up what appear to be particularly promising opportunities for cooperation with local industrial financing institutions like ICICI.

An instance of this kind of cooperation occurred recently in the Philippines, where the Private Development Corporation of the Philippines has just been established, charged with the task of supporting new and expanding industries in that country by providing them with finance, by helping to market their share issues, and by offering managerial and technical help as needed. IFC and the Bank together helped to arouse interest in the idea of such an institution, and gave guidance in setting it up. They have also helped to finance it: the Bank has lent \$15 million to the Corporation and IFC, as well as helping the Corporation to make contacts with prospective investors in Europe, Japan and the United States, is itself becoming a shareholder and is underwriting part of the shares that are being offered to the public in the Philippines. We hope that before long we shall be able to assist similar institutions in a number of other Asian countries.

Finally, I should mention our lending in the agricultural field, which for several reasons has tended to remain small. Agricultural development needs less foreign currency than the construction of railways, power stations or factories - and we are primarily in the business of supplying foreign currency. Also such development often needs much more detailed supervision than can be effectively supplied by an international agency. In fact our most important support for agricultural development has probably been given indirectly through loans for farm-to-market roads, rural electrification and other projects. Nonetheless, we have lent more than \$150 million directly for Asian agricultural

development, and agriculture has had a share in multipurpose projects in Thailand and Japan. Once again, India has been the biggest borrower in this field, mainly through a series of credits from the IDA for irrigation projects in many parts of the country. Other large borrowers have been Thailand and Pakistan, also to improve farming in areas under irrigation, and smaller credits have been extended to China.

So much for our first and main activity of providing finance for economic development. This is still our most important function, but it is being challenged these days by the rapid growth in our so-called "technical assistance" activities, meaning the provision of advice to our underdeveloped member governments and their various institutions and agencies. In the long run the Bank may well have a greater impact upon the great problem of economic development through these "technical assistance" functions than through all of its direct financial transactions.

Our biggest and most formal exercises in technical assistance are our general economic survey missions. This month, for instance, we are sending a mission, at the request of the Australian Government and the United Nations Trusteeship Council, to the Territory of Papua and New Guinea. The mission will be headed by a senior member of the Bank's staff, and it will include a Chief Economist, agricultural specialists and advisers on transportation, education, public health, and industry and power. Its task will be to assess the Territory's economic and financial resources, to examine present development policies and propose changes if necessary, and to recommend in broad outline how to allocate the resources that are likely to become available to the Territory for investment in the various sectors of its economy. The objectives of this mission are similar to those of the more than twenty general survey missions that we have sent to other countries around the world, including Ceylon, Malaya and Thailand, namely, to look at the economic situation and prospects of the country as a whole and to try to come up with a sound program for its development over the next five or ten years. The reports of these missions are generally published in book form and many of them have been used as the basis for national development plans.

The Bank has also sponsored many other economic advisory missions of a less formal nature. Some of them have published their reports; others have not. We sent a mission to Malaya in 1960 to make a study in preparation for that country's Second Five-Year Plan, and Bank staff members later helped to prepare the Plan itself. Similar help has been given to the Philippines, and when President Macapagal delivered his first "state of the nation" address in January 1962, he attached as an annex a report which a Bank mission had just prepared setting forth its recommendations for the economic and financial policies and objectives of the country.

Another mission is at present preparing recommendations regarding the economic aspects of the Federation of Malaysia that is to come into being later this year. A mission went to Ceylon in 1961 to study a number of river basin development schemes and recommend a choice between them. Apart from visiting technical assistance missions of this kind, we also have resident

missions or advisers in several Asian countries. In Pakistan, for instance, a member of the Bank's staff is now serving as Adviser to the Minister of Finance. And the Bank has provided intensive training in the problems of economic development to about 120 officials from a dozen or more Asian countries through courses at its own staff college, the Economic Development Institute, or through training programs within the Bank itself. One of the alumni of our Economic Development Institute is the present Minister of Finance of Thailand, Mr. Sunthorn Hongladoram.

Some of our assistance has been concerned less with economic policy than with individual programs or projects that have proved to be of critical importance to a country's development. In India, for instance, deep-seated difficulties in transporting coal (which is largely carried by the railways) are hampering industrial development in the important manufacturing regions of West Bengal and Bihar, and in particular are preventing India from getting the full benefit of its recent heavy investments in steel production. The Bank has therefore organized and sponsored a study of the problem by an American engineering firm supported by economic consultants. An interim report will suggest ways of relieving the immediate bottlenecks in coal transport, and the final report will contain a comprehensive review of the problem of speeding up the movement of coal. The foreign exchange cost of the study, amounting to \$750,000, is being paid by the Bank.

Another such study by consultants, again organized and financed with the Bank's help, will draw up interim and long-term plans for improvement and expansion of water supplies to Manila in the Philippines, where the growth of population and industry has outrun the capacity of the present water system. In Thailand, the Bank helped to draw up a request to the United Nations Special Fund for assistance with a study of siltation problems at the Port of Bangkok, and of the possibility of establishing a new alternative port at Sriracha on the Gulf of Siam. Our interest in this study arose out of an earlier Bank loan to finance dredging and other improvements at Bangkok, and the Bank is now acting as Executing Agency for the research project on behalf of the Special Fund.

One piece of "technical assistance" by the Bank took us well outside the ordinary scope of our activities, although it followed naturally enough from our interest in the economic development of two important member countries. This was our long and intimate involvement in the negotiations that led in 1960 to the settlement of the Indus Waters dispute between India and Pakistan. As you probably know, this dispute arose out of the unfortunate circumstance that the partition of the Indian subcontinent in 1947 left the headwaters of the Indus River system in India, while giving to Pakistan the huge area of the Indus Valley that is irrigated by those waters. India wanted to make use of the waters for irrigation on her side of the border; yet each of the six rivers of the system was vital to a large and densely-populated area in Pakistan. In 1952, the Governments of the two countries accepted the offer of the Bank's good offices in trying to find a solution to this very threatening situation. Various suggestions were made for an equitable division of the waters of the system. In the end, after eight years of negotiations, agreement was reached on the basis of a formula originated by the technical staff of the Bank. India will be allowed

to retain the waters of three of the major rivers flowing into Pakistan, and the down-stream areas in Pakistan will be supplied by diverting water from farther north through an immense system of canals and other works. An Indus Basin Development Fund has been set up under the administration of the World Bank to provide finance for these works. The Fund was initially established with resources of about \$900 million contributed mainly by the United States and other Western countries but including a \$175 million contribution from India and a loan of \$90 million from the World Bank to which I have already referred. The period of construction will run until at least 1972, but it is already apparent that the original funds will prove insufficient for the purpose, and discussions are proceeding among governments looking toward their further replenishment.

The Indus negotiations exemplify another of the Bank's main roles in economic development - its role as a coordinator of the aid programs of others. All this past week, in Washington D.C., representatives of a dozen countries have been meeting with officers of the Bank to discuss the foreign exchange needs of India and of Pakistan over the coming years. These meetings are now almost routine, although their outcome is anxiously awaited in the two countries concerned. The Indian Consortium, as it has come to be known, grew out of an emergency meeting called by the Bank in 1958, when India was experiencing balance of payments' difficulties. At this meeting, a number of the Bank's principal member countries agreed on new loans and credits sufficient to tide India over its immediate difficulties. Further meetings were held in 1959 and 1960, this time without the crisis atmosphere of the first gathering, to work out financing for the final two years of India's Second Five-Year Plan. Then, during the months before the Third Five-Year Plan came into operation, the Bank prepared a detailed analysis of India's economic problems and her plans for tackling them. This report was circulated to the consortium members, so that when they again met in 1961, they could consider India's request for assistance on the basis of an objective appraisal of the country's needs. They were able to find the funds required and the consortium meetings have come to be the focal point for organizing support from the West for India's development efforts.

Pakistan asked for a similar consortium arrangement in 1960, and the procedure here has been very much the same. The Bank has presented periodic appraisals of Pakistan's needs, based on its study of the Five-Year Plans and of economic progress in Pakistan, and the member countries have done their best to meet these needs. The advantages of the Indian and Pakistan consortiums have been great. It seems unlikely that without these meetings the two countries would have received as much aid as they have. They would almost certainly have received it in less useful form, sometimes tied to projects that were not really necessary, and often on more burdensome terms of repayment. On the other side, the United States and the other contributing countries have found these procedures very useful in achieving coordination of their efforts and greater efficiency in the administration of their development aid.

The Bank has also sponsored meetings to discuss and coordinate assistance for a number of other underdeveloped countries, although none of these happen to be in Asia. In addition, through many less formal channels, we consult very extensively with other governments and institutions who are providing assistance to the underdeveloped countries. For example, we have a close working relationship with the United States agencies in Washington in which we seek to coordinate our respective activities all over the underdeveloped world. Similarly, we keep in close touch with the British who, of course, remain active over large areas of South and Southeast Asia; with Germany, which is developing an aid program in several Asian countries including, for example, Thailand; and with the Japanese, who, aside from participating in the Indian and Pakistan consortiums, are taking an increasing interest in supplying capital for development in Southeast Asia.

It is, however, a rather cumbersome process to try to "coordinate" the aid activities of all of the different bilateral aid agencies. It is, of course, much simpler when nations pool their funds through multilateral institutions like the Bank and IDA. Indeed, some of the smaller countries in Europe, rather than trying to develop their own foreign aid programs, are leaning heavily upon the Bank and IDA, either by making special supplementary contributions to their capital or by directing their bilateral credits toward projects which we endorse or in which we are actually participating.

However, bilateral aid programs are certainly here to stay, at least in the larger countries, and in the long run we in the Bank feel that the most effective approach that we can take to deal with the problem of coordination is to help each of the underdeveloped countries to evolve their own organizations and procedures which will enable them to prepare well-conceived national plans, to assign economic priorities to their development projects, and to carry through the necessary negotiations for obtaining external aid. In short, if a recipient country is properly organized to absorb assistance, no matter where it is coming from, the providers of this assistance need not feel so much concern about coordination. Here therefore is a key task for the Bank - to help countries prepare and execute sound programs of investment and economic development, thereby establishing the framework and the standards within which bilateral as well as multilateral development assistance can flow.

From THE WORLD BANK GROUP

PROUD TO HAVE HAD SOME PART

By J. BURKE KNAPP, Vice-President, World Bank

WITHIN the next three years, India's population will exceed 500 million, an increase of 160 million in two decades since independence. The fact that there has been some improvement in average living standards, despite this enormous population increase and without the sacrifice of essential political freedoms, speaks more eloquently than any words of praise for the immense effort of the Indian Government and people in their drive for economic development.

In the World Bank, we are proud to have had some part in this achievement and we expect to find further opportunities to lend support to India's leaders as they face the many deeprooted problems that must be overcome, if this great country is to climb to the high ground of self-sustained economic growth.

India—in total figures, though not on a per capita basis—is the largest borrower from the Bank group of institutions. By 31st October 1964, a total of nearly \$1,350 million in Bank loans (\$847 million), I.D.A. credits (\$485 million) and I.E.C. investments (\$11 million) had been approved for development purposes in India.

The Beginning

World Bank assistance to India began only two years after independence, well before the Government drafted its first Five-year Plan in 1950, when loans were made for improvement of the national railways, reclamation of large tracts of land in Central India, and for a thermal power project which constituted the first step in a larger scheme to develop the Damodar Valley in Eastern India. As successive Plans have been formulated and carried out, the World Bank group has helped to finance a wide range of high priority projects—chiefly basic investments in transportation, power, industry, agriculture and communications which form the essential foundation for economic growth.

The Bank group, of course, is only one of a number of sources to which India has been able to turn for the large volume of foreign exchange her Five-year Plans have required, but the Bank's support for India's development has extended well beyond the limits of its financial contribution. In 1958, when a foreign exchange crisis threatened to disrupt development plans, the Bank took the leadership in bringing together a group of capital-exporting countries for regular consultations on the requirements of India's Five-year Plans. Representatives of these countries, together with others that have since joined, have met regularly under the chairmanship of the Bank as the Indian Consortium, the so-called "Aid-India Club." The Consortium now consists of ten capital-exporting countries plus the Bank and I.D.A. Together, they have pledged \$4,445 million for the first four years of the third Five-year Plan. They will meet again early next year to consider pledges for the final year of the current Plan. Of total Consortium pledges for the first four years, the share of the Bank and I.D.A. has been \$940 million.

Disturbing Trend

We must now face the fact that progress during the last few years has not been as rapid as all of us

had hoped, and national output has barely been keeping pace with the rise in population. This is disturbing to all friends of India. Growth in agricultural production especially has been disappointing, due in part to bad weather, and in part to a combination of other causes with which the Government is grappling, and food prices have risen sharply. This critical situation again emphasises the key importance of agriculture in the Indian economy and surely gives agriculture a demanding claim to priority consideration. Industrial production, too, has expanded at a rate considerably lower than envisaged in the third Five-year Plan, partly because shortage of foreign exchange precluded the import of required materials.

Taxes have been raised, but much of the increase in revenue has gone for defence expenditures since the Chinese attack in 1962. Thus, despite higher taxes, development investment from domestic savings has not grown. Imports have increased steadily, as they must if economic growth is to be sustained, but the export drive has lagged and the balance-of-payments position has been growing worse. At the same time, India's obligations for debt service on foreign loans have mounted continuously and may amount to as much as \$1,300 million during the third Plan period, or about as much as the World Bank group has made available to India since its first loan in 1949.

A Real Test

In the light of this situation, it is evident that the drawing-up of the fourth Plan is of crucial importance and that its presentation will represent a real test. Prospects were viewed fairly optimistically when previous plans were inaugurated, both by India and by the countries assisting and investing in India's development. This optimism has not been fully reflected in the record of accomplishments. The earlier underrating of the problems and difficulties will no doubt be reflected both in the Plan itself and in the attitude of those who have shown their interest in supporting India's development efforts.

Railways

Although, as seems inevitable in any development plan, performance has often fallen short of set targets, there are several projects, assisted by the Bank, that have come up to expectations and made significant impact on the economic life of the country.

Take the Indian railways, for example. At the end of the Second World War, rehabilitation of the Indian railways was one of the most urgent tasks and their continued expansion and improvement have required vast outlays since independence to keep pace with the growth of industry and commerce. As in all development, the great preponderance of investment in the railways has come from domestic sources, but large amounts have also been required in foreign exchange to purchase goods and services from overseas. To help meet these needs, the Bank and I.D.A. have made available more than for any other single purpose in any country—a total of \$507 million, including an I.D.A. credit of \$62 million approved in October 1964.

As India's capacity to manufacture railway equipment has increased, foreign exchange requirements for this purpose have diminished during the third Five-year Plan, but substantial needs remain. The situation of the Indian railways today is a far cry from what it was when the Bank's association with India began: the railways now are able to move all of the freight they are offered and even some surplus capacity is reported. In 1962-63, the amount of freight (in ton-kilometres) moved on the railways was almost 80 per cent larger than in 1955-56 and passenger kilometres increased by 35 per cent in the same period.

Steel

One of India's greatest assets in economic development is the availability of rich deposits of iron ore and coal, and the Bank has made loans totalling \$186 million to the principal steel companies in the private sector. India's five main steel plants are now working at capacity and all of them are in the process of expansion. Except for flat products, special steels and pig iron for sale to foundries, the industry is now capable of meeting most of the current demand. With present expansion plans, steel-making capacity is expected to keep pace with the rising tide of requirements resulting from the nation's economic development.

Development Bank

A third example of success is the activity of the Industrial Credit and Investment Corporation (I.C.I.C.I.), a privately owned development financing institution that was established in 1955 with the Bank's advice and assistance. The Bank has made five loans to I.C.I.C.I. totalling \$90 million. In its first nine years of existence, the Corporation has assisted more than 280 companies in India with more than \$155 million equivalent in loans and purchases of equity. It has channelled foreign exchange and rupees into a wide range of industries, nearly half of them newly established, and has helped to develop the capital market by its own underwriting activities. It is estimated that the operations of I.C.I.C.I. have resulted in mobilising five times the amount of its own investments in capital from other sources, domestic and foreign. The ownership of this Corporation is vested primarily in Indian hands, with participation by investors in Japan, the Federal Republic of Germany, the United Kingdom and the United States.

Other Fields

The Bank has also assisted in a number of other projects in agriculture, transportation (highways and ports), power generation, telecommunications and industry. Satisfactory progress has been made in several of these projects, too, in addition to the three examples specially mentioned—railways, steel and the I.C.I.C.I. Loans for the coal-mining industry, and for enterprises producing transportation, telecommunications, construction and other equipment have provided imported components and materials, normally unobtainable because of lack of foreign exchange, thereby stimulating increased efficiency and capacity in existing plants.

Projects Under Study

Several projects which might be financed by the Bank and I.D.A. in

the next few years are now under preliminary consideration, including loans to the Tata Iron and Steel Company and the Indian Iron and Steel Company, both of which have received substantial assistance from the Bank in the past. Other joint projects under serious discussion include further assistance to selected Indian capital goods industries, a new loan to the Industrial Credit and Investment Corporation of India, funds for a fertiliser project in Andhra Pradesh, the development of the new port of Haldia and expansion of water supply in Bangalore.

The activities of the World Bank group in India are far from limited to extending individual loans and credits. There is a continuous and frank exchange of views and information between the Bank and the Government of India; Bank experts regularly visit India to enable the Bank to keep in close touch with the economic situation, follow the country's development efforts, keep currently informed of progress on Bank-supported undertakings, and study, in a preliminary way, the feasibility of new projects. An example of this close collaboration and interchange of information and views is the team of experts, organised by the World Bank, which is now in India to study some key sectors of the development programme. The Bank also finances the foreign exchange costs of specific technical studies being carried out by consul-

tants, such as the recent study of interim and long-term measures to improve the transport of coal.

Optimum Return

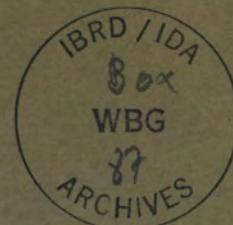
I am confident that many more co-operative ventures between India and the Bank group will be undertaken in the future. In launching them, we will both, of course, desire to build on the experience we have gained which, as already stated, has had both disappointing and promising aspects. No doubt, the Indian authorities, as well as the Bank, will have many suggestions to offer for improvements and innovations. The Indian Prime Minister himself has indicated, in a broader context, that changes in management and housekeeping methods might result in an annual increase of as much as one per cent in the national product. I feel that this is, if anything, an understatement. In any case, as India is so desperately short of capital, it is of the utmost importance that each investment project be carefully designed both in the construction stage and in the subsequent operating stage to achieve the maximum possible return.

Perhaps there are other ways, too, of promoting higher returns from the Indian economy in the efforts to fill the constant and pressing need for foreign exchange. For instance, too much emphasis has probably been put on import substitution and too little on invest-

ment in growing export industries, —both the traditional ones like tea and jute and the more recent ones of sugar, oilcake, iron ore, and tourism. Perhaps also there has been an undue reliance on dirigiste policies and procedures and too little trust in the well-proven incentives of markets and prices. Again, because India is such a vast and complex social organism, it would seem wise to lay stress on monetary and fiscal policies and procedures as the regulators of economic life rather than to try to impose direct controls which would overtax the already highly strained administrative mechanisms.

This is not the place to translate these generalities into specific remedies for India's challenging economic problems. The Bank stands ready, however, to give its candid and unbiased advice and assistance in these matters, whenever it is desired. The sharpened attention paid by the Bank to the agricultural and educational sectors of its member-countries is of particular interest to India. The development and growth of I.D.A. should also be encouraging to countries like India which are faced with a dangerously high and growing debt burden. It is our firm hope that the India-Bank group partnership, now in its fifteenth year, will be able, despite the weight of population growth, to throw into the other side of the scale solid achievements in expanding the output and productivity of the Indian economy.





THE EXPORT GROUP FOR THE
CONSTRUCTIONAL INDUSTRIES

Chairman

MR. D.M. BALFOUR

Chairman of Council

Speaker and Guest of Honour

MR. J. BURKE KNAPP,

Vice-President

International Bank for Reconstruction
and Development
(World Bank)

ABRAHAM LINCOLN ROOM
THE SAVOY HOTEL, LONDON

Friday, 19th November, 1965.

To Judicial Committee of Privy Council,
H.M. Patent Office, &c., &c.,

MARTEN, MEREDITH & Co.,

Shorthand Writers,

36-38, Whitefriars Street,

Fleet Street,

London, E.C.4.

Ludgate Circus 0889

(Midland Circuit and Leeds Assizes)

December 27, 1965

Mr. David Balfour
c/o The Export Group for the
Constructional Industries
21, Tothill Street
London, S. W. 1
England

Dear David:

Believe it or not I only arrived back in Washington the day before Christmas, since I had to extend my African tour to some unexpected places like Rhodesia and Zambia. Anyway, upon my return I have found your nice letter of December 13th and hasten to let you know how very much I appreciated the privilege of speaking before your distinguished group. Also my best thanks to you for the intimate dinner party the night before where I had the pleasure of seeing you in the very interesting company which you had assembled for the purpose. I do hope that my visit accomplished some constructive result in evoking the interest of British constructional industries in participation in projects financed by the World Bank.

Thank you also for sending me the transcript of my remarks. I note that you do not plan to circulate this, so I shall not bother to do any editing. I might just call your attention to the fact that the line in the middle of page 5 should read "another 700 million dollars in Pakistan, including".

With best personal regards,

Sincerely yours,

J. Burke Knapp

J. Burke Knapp
Vice President

JBurkeKnapp:ad

cc: Mr. Alderwereld
Mr. Graves ✓

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THE EXPORT GROUP FOR THE
CONSTRUCTIONAL INDUSTRIES

A Chairman

MR. D.M. BALFOUR

Chairman of Council

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B MR. J. BURKE KNAPP,

Vice-President

International Bank for Reconstruction
and Development

(World Bank)

C ABRAHAM LINCOLN ROOM
THE SAVOY HOTEL, LONDON

Friday, 19th November, 1965.

D _____
(Transcript of the Shorthand Notes of Marten, Meredith & Co.,
36-38, Whitefriars Street, Fleet Street, London E.C.4.)

MR. J. BURKE KNAPP: Mr. Chairman and gentlemen, I need hardly say I am flattered by the introduction of our Institution and myself, and I am certainly flattered to have this opportunity to speak before this distinguished group about the work of the World Bank, and, in particular, its relationship to^{the} United Kingdom and British industry and British contractors.

I confess I am quite awed to appear before such a distinguished group of engineers and designers and contractors with the experience you have in your field. To demonstrate the complete inadequacy of my qualifications in this field, I have to tell you a little story or experience I once had when I was still quite a young boy. My brother and I went out to go fishing in a little river in the wilds of the Oregon country, where I come from. We were going to fish off a bridge and the bridge was marked "Load Limited to One Ton". We were just getting ready to do our fishing off the bridge when a truck came across the river from the other side very slowly. The driver had his hand outside the truck and he was beating furiously on the side of the truck making a terrible din. He came across the river and we were furious at this and we stopped this fellow and we said, "Don't you know you are spoiling the fishing for the whole area over here. What's the idea of beating on that truck all the way across the bridge?". He said, very scornfully, "Well, buddy, let me tell you. I have here a one ton truck and I have a four ton load of canaries. How do you expect me to get across this bridge if I don't keep beating to keep them flying?". (Laughter and applause). Of course, the trouble is that I believed the story and I still do. (Laughter).

However, I propose to talk to you today in less technical terms, but in terms of my own technology of finance in which I dare say you gentlemen have a certain collateral

interest.

A I want to say really that in talking before a group like this we in the World Bank feel we are talking to friends and partners. It would be invidious to name names in this connection, but from a quick glance at the list of guests and from the people I have met here I have identified projects that are going on around the world with the co-operation of British contractors and British consulting engineers which present quite an impressive list.

INDUS BASIN

B We can start with the immense ~~Interprovincial~~(?) works, the greatest engineering work going on anywhere in the globe, with which British names are prominently identified. We could go through quite a long list, and I have noted down a few of them. There is the Kariba Dam, which is much in the news today in Rhodesia; the ~~Kainji~~ ^{Kainji} Dam in Nigeria; power developments in Argentina, Brazil and Columbia; ports in Latin America, India and Pakistan; railways and highways over the length of Africa; irrigation works in the Sudan and Pakistan; and power in India, Sudan and Trinidad. It is an impressive list which those of you who are associated with those projects will remember. I dare say I have missed some in the company here who are identified with other projects, but it would take too much time to list them all.

C D E F More and more broadly, taking the thing in broader perspective, we think of the British as close partners and constant partners with the World Bank and our associated institutions, the International Development Association, which is our soft loan lending agency, and the International Finance Corporation, which engages in industrial financing in the developing countries.

Again, just a few facts on that. We are a governmental institution set up with shares and the

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shareholders are governments. The United Kingdom is the second largest shareholder in the World Bank. It is the third largest provider of funds to the World Bank. When I say "second", you will understand that the United States is the first. In the case of providers of funds, it might interest you to know that "third" means after Germany. It is the United States, Germany and the United Kingdom, in that order, who have provided funds for the World Bank in terms of capital ~~construction~~^{contributions} and the purchase of our bonds. In the case of this soft loan affiliate I referred to, the International Development Association, the United Kingdom is again in second place.

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With all that goes the contribution of talent to the World Bank, because we have drawn very heavily on the talent of this country. We have a total staff at this time, for example, of the order of 1,100, of whom about half are what you might call professional people. Out of that 1,100 there are 167 United Kingdom nationals working in Washington with the World Bank, and again about half of them are in the professional field. That is not counting all the other British Commonwealth countries who have contributed very heavily to our staff.

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We have three Vice-Presidents in the Bank, one of whom is British, one is Dutch and one is myself. I must refer to the presence of Sir William Iliff, who was for many years the British Vice-President of the World Bank and who I am very happy to see here today. ("Hear, hear" and applause).

F
We divide the world, for purposes of lending, into five areas, and two of the area heads are United Kingdom nationals. We are grateful to this country for all that they have done to support the Bank not only financially, but, what is most important, in bringing to us the people who help to administer this Institution.

A On the lending side we do not lend money to the highly developed countries. We have never lent money to the United Kingdom as such, but we have lent money to dependent territories of the United Kingdom against the United Kingdom guarantee and in recognition of the United Kingdom membership.

B I thought it might interest you to appreciate the fact that between the Bank and this I.D.A. operation, we have now made total loans around the world of something over ten billion -- or should I say ten thousand million dollars -- and of this amount rather more than one third (three and a half billion dollars) has gone to Commonwealth countries, which includes the dependent territories, but, of course, much more widely, the C Commonwealth countries. India is by far the largest borrower from the Bank and I.D.A. We have a total of one and a half billion dollars invested in India, and another 700 million dollars in ^{Pakistan} ~~fact sent~~, including the ^{INDUS BASIN} ~~Inter-space~~ money we have put into this ⁽²⁾ works.

D Coming a lot closer home now to the interests of this particular community, I would like to say a word about the procurement that goes on around the world under these projects that are financed by the World Bank and by I.D.A. This procurement is based on the principles of E international competition. As of June 30th last -- and I happen to have the figures here -- the Bank has dispersed, on the execution of these projects, the sum of 6.6 billion dollars, of which partly some of these expenditures were for local expenditures in the country concerned and some F were otherwise unidentifiable. Out of this 6.6. we can trace 4.8 billion, which has been in the form of procurement outside the country where the project is located for imported goods and services. Out of that 4.8 billion dollars the United Kingdom has obtained, in

terms of the orders and contracts placed here, 733 million dollars, or about 15 per cent.

A I think it is interesting to measure that figure
B against the financial contribution which the United
Kingdom has made to the Bank, speaking on the Bank side
for the moment, in terms of contributions of share capital
and the purchase of bonds in financial support of the
Institution, and the share of the United Kingdom in that
respect is 7 per cent. In other words, the procurement
here has been about double the amount of financial
support which has been provided from the United Kingdom
to the World Bank.

C If you look at the I.D.A. side of the ledger, the
accounting is very similar, although on a smaller scale.
I.D.A. is still getting under way committing funds and
gradually dispersing them on projects as they come forward.
The total disbursements on the I.D.A. side as at the
present time (again as at June 30th) are 415 million
dollars, of which no less than -- my figure does not look
quite right here. The figure must be wrong, so I will not
read the figure, but I will tell you the percentage.
(Laughter). The percentage is 27 per cent. 27 per cent of
the total disbursements of I.D.A. have gone to the United
Kingdom, and that is to be measured against a rather larger
share that the United Kingdom has contributed to the I.D.A.
resources. The percentage in usable currency which has
been used in our lending operations in the case of the
United Kingdom is 13 per cent; so again the procurement
and follow up of contracts for goods and services has been
double the amount of the financial contribution.

F This all really sounds a little too good. It is, of
course, a great tribute to the competitive position of
British industry in world markets, and do not underrate
that. It is also attributable to certain other factors,

and one very clearly is what I alluded to before: that a high proportion of our lending activity has taken place in Commonwealth countries. There is no doubt about it that you have had to face international competition, but trade and standardisation of products and customs usages have no doubt had an effect in steering many Commonwealth purchases towards the United Kingdom. In the I.D.A. case, for example, 70 per cent of the total I.D.A. credits have been given to India and Pakistan, and that alone perhaps accounts for the very high percentage which British industry and services have played in the I.D.A. projects in general.

It has to be said that the contracting industry has not in general maintained as high a proportion. I do not have the figures on that; this is just an impression. However, I have a very clear impression that world wide British contractors have not attained the percentages I have indicated here for British industry generally. All I can say is that nothing would please us more in the World Bank than to see British contractors playing a much larger role than they have in the past in some of these projects.

I would like to talk a little about the future and about the future prospects and opportunities in the work which is being done by the World Bank and other people. We have an extremely high pressure on the Bank these days and on I.D.A. for lending to projects in the developing countries to the point where we are more and more cutting back in our lending to the more advanced countries in order to concentrate on those requests which are coming forward to us from the less developed nations. If funds are available to the Institution there is no question that we will be expanding our activities very substantially; but, even at the present level, in the last fiscal year, for example, we made new commitments on new projects in

A the amount of one and a half billion dollars. If you
want to take some rough rule of thumb you might say that
we tend to finance something like 50 per cent of these
projects, so you might say that this is equivalent to
B projects having a total value in their execution of
something like 3 billion dollars. I am advised by our
people that by and large very roughly a third of that
might be spent on civil works, and a third of that is a
billion dollars, so in broad orders of magnitude we have
C something like a billion dollars a year in new commitments
being made for civil works construction on projects around
the world. Clearly this offers a great opportunity to
the British contracting industry and to British
consulting engineers.

D The basis of the rules of the game we play is
fundamentally grounded on the principle of international
competition for the contracts which are awarded. With
all due respect to the initiative and the enterprise that
many individual contractors have shown by going out to
E countries and working out projects for themselves and
executing them, we believe very firmly in the separation
of functions in the execution of these projects between,
on the one side, the establishment of the priority of the
project and the drawing up of the plans and specifications
which we feel is the responsibility of the owner, whether
it is a government or government agency or private
enterprise.

F The second phase is the provision of finance, and
we think it is our job to provide the finance to the owner
on the basis of his project, his plans and specifications.

The third element is the contracting: to put out
the job to tender and get in the contractor to do the job.

We feel that the confusion of these functions, or
the mixture of these functions, can lead to trouble and

A
often has. We do not believe in what we call the package deal. We do not believe that the package deal, in the first place, ensures that the best projects are undertaken, because often it is a purely opportunist thing as to what projects will be undertaken if it is determined by the contractor himself. We do not think the contractors ought to be in the ^Nbaking business. I understand generally that ^Ncontractors do not like to be in the ^Nbaking business, and that is where they get if they are going out sponsoring projects themselves.

B
So we ask and we appeal to contractors everywhere -- and specifically now the British contracting industry -- to face up to the rigours of international competition. The rigours of international competition, we all know, are tough, and the experience of the past has shown they are tough; but, as against the rigours of international competition, what we have to offer is the following. First, that the project which is selected is going to be a good sound project making a high priority contribution to the development and economic strength of the country in which it is located and one with which the contractor can be proud in the future to have been associated.

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Secondly, we offer the secure availability of finance. You are going to know the money is available and on time when it is needed.

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Thirdly, we can assure you that we will have on these jobs first class consulting engineers. I have not talked much about consulting engineers, because I realise they are, like me, guests at this table; but British consulting engineers have played a very prominent role around the world in the preparing of designs and specifications and supervising the execution of projects in which we are engaged. We cannot assure a British contractor that he will necessarily have a British

consulting engineer on the job, but we can assure you that he will have been chosen on competence and ^{knowledge}~~chronology~~ of his business and that your risk of conflicts with the consulting engineers and supervisors will be very quickly diminished.

Finally we can offer something which is less tangible, but of persuasive importance: the presence of the World Bank and its organisation in this operation. We exercise very close supervision and control over these jobs. We want to see the job get done, we want to see it get done in the right way and on time, and we want to see that all the partners in the enterprise, the owner and consulting engineers and contractors and suppliers of equipment etc., get a fair deal and are all joined in the team effort. In that sense I think we can offer you, as I say, the presence of the Bank and that, I hope you will find, ~~is~~ an encouraging factor. Thank you, Sir. (Applause)

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87
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Address by Mr. J. Burke Knapp
to the National Academy of Sciences Scientific Program, 103rd Annual Meeting
Washington, D.C., on April 25, 1966

THE ROLE OF INTERNATIONAL AGENCIES IN AIDING WORLD FOOD PRODUCTION

It is an honor and a pleasure to represent the World Bank Group at this symposium on the prospects for the world's food supply. As you know, the financing of economic development is our business, and we are lending money to support a wide variety of development projects of high economic priority. We are fully aware of the close link between the rate of a country's economic development and the rate of expansion of its agricultural sector. By earning or consuming foreign exchange, this sector is often of critical significance in the balance of payments of developing countries, and it is always an important source of domestic savings needed to finance the country's over-all development program. It is the agricultural sector that provides a great part of the demand for the products of industry, and as the sector increases in efficiency, it releases labor for industrial expansion. We therefore regard agricultural development as a vital ingredient in balanced economic growth.

I doubt if there is any aspect of economic development that has such strongly emotional connotations as the struggle to produce enough food for growing populations. Hunger must surely be the oldest pain known to man, and his search for adequate supplies of food his oldest occupation. What rouses our sentiments is the stark fact that in this technological age, and despite the enormous potential for increased food production, millions in many parts of the world suffer the debilitating effects of malnutrition and live in recurrent fear of starvation. In reference to such an emotionally charged issue, it may seem callous to speak of food production in such coldly professional terms as an ingredient of balanced economic growth.

And yet this problem really does call for just such an appraisal, for simple as the notion of growing more food may appear to be, actual success in doing so depends on a host of actions being taken at different levels and in different sectors of the economy. Thus, while the magnificent rescue operations epitomized by the United States' Food for Peace Program bring relief to those in the existing pockets of critical food shortage, the task of helping the less developed countries to plant the seeds of self-reliance, and to ensure food production for their future needs, demands a long-term skillfully planned, carefully coordinated and properly financed program of development aid.

The lines along which such a program should be planned provide a subject for endless discussion, and some controversy. But it is clear that if the rising demand for food to feed growing populations is to be met, over-all agricultural productivity will have to be increased both by raising the yields of land already under cultivation and by bringing new lands under cultivation. Indeed, for almost half of the world's population, the second alternative scarcely exists, so that their effort to feed themselves must depend almost entirely on raising the productivity of the existing acreage. For countries with a fixed-land economy subject to the pressure of a rapidly rising population, the failure to raise yields can only entail an indefinite postponement of economic advance on all fronts and a steady decline in already inadequate living standards. No program for general economic development can thrive in this environment.

As to the extent to which the population explosion compounds the difficulties, you will be hearing expert testimony from Dr. Revelle later this morning. Suffice it for me to say that while the effort to control family sizes in the worst afflicted countries now appears for the first time to be

getting under way on a limited scale, we must realize that there will be little real relief from the current oppressive pattern of population growth for at least a generation. We must therefore assume a continuous increase in the number of mouths to be fed, and that the world population which took over half a million years to reach its present level of three billion is almost doomed to double itself in the span of the next 30 to 35 years.

Let me now briefly identify the three institutions of the World Bank Group whom I represent here, all of which share the common purpose of providing and promoting a flow of capital into productive projects and programs in the developing countries. First is the World Bank itself, bearing the official title of the International Bank for Reconstruction and Development. Second is the International Development Association, founded in 1960 as an affiliate of the Bank, and known as IDA. Both the Bank and IDA make long-term development loans to their member countries, but whereas the Bank makes loans on more or less the same terms that borrowers expect to encounter in the private capital markets, IDA extends long-term, interest-free credits, with only a small service charge to borrowers whose debt servicing capacity makes it impractical for them to borrow on conventional terms. Because World Bank and IDA operations differ only in the terms of their lending -- even their staffs are one and the same -- I shall be speaking for them both when I describe the policies that we are pursuing in relation to agricultural development in the developing countries.

The third institution is the International Finance Corporation, founded in 1956, and devoted to promoting investment in private industrial and mining enterprises, mostly in the developing countries. Although less directly involved in the agricultural sector, the IFC is, nonetheless, supporting in a number of cases the processing and marketing of agricultural commodities, and the supply of agricultural inputs, especially of fertilizer.

The World Bank, in its twenty years of operations, has lent nearly \$10 billion, the greater part of it in financing so-called infrastructure projects such as electric power and transportation, which provide the basic framework for a country's economy, but which generally do not attract private investors. Such financing has accounted for some two-thirds of the volume of the Bank's lending. Most of the remaining one-third has been devoted to industry, agriculture, and, in recent years, education. IDA has extended almost \$1.3 billion worth of credits for much the same types of projects.

By the end of 1965, the Bank and IDA had together provided nearly \$1 billion of loans and credits for the direct support of agriculture. The greater part of this -- more than \$600 million -- has financed irrigation and flood control projects. The rest has been lent for a wide range of purposes including land clearance, farm improvement and mechanization, crop processing and storage, livestock improvement and fishing. I should also point out that projects financed in other sectors have in many cases afforded very substantial benefits to agriculture, notably road projects which have provided the agricultural community with greater access to suppliers and to markets. Considerable benefits have also been derived from projects extending electric power and telecommunications into rural areas.

In recent years we have been consciously striving to make a greater direct impact in the field of agricultural development. Our experience has taught us that our earlier efforts were inspired by an insufficient understanding of the numerous human and institutional problems which impeded effective use of capital resources in this sector. We have become keenly aware that capital is only one of the essential elements required to bring about a substantial increase in agricultural production, and that it can be applied only as rapidly and effectively as other elements of the agrarian structure permit. In some countries,

extensive land reform and other changes in land policies are prerequisites. There is nearly always a need to strengthen or introduce other aspects of agrarian reform in the field of agricultural administration, research and extension services, the supply of farm requisites, and market opportunities. Until such reforms have been carried through, there can be little really effective use of farm credit, the capital element of the agrarian structure at farm level.

Finally, I think we must recognize that despite all that has been done in the way of research and experimentation regarding cropping patterns, a very great deal remains to be done along these lines to guide the farming communities in the individual developing countries. In a large part of the underdeveloped world there is still inadequate knowledge of soil and climatic conditions, and much to be learned about adapting plant strains to local conditions. We are still a long way from being able to tell an individual farmer where his best opportunities lie, and perhaps still further from designing a rational division of labor between developing countries in the field of agricultural production. Too many export crops, particularly in the realm of tropical agriculture, are already showing burdensome surpluses and too many countries are planning to diversify production into lines which would exhibit burdensome surplus if all of them succeeded. This problem lies at the heart of a major study which is presently being undertaken by the World Bank and the FAO in conjunction with the International Coffee Council in an attempt to give guidance to coffee producing countries as to how they might best diversify their agricultural production. It is already clear, I might add, that part of this necessary diversification must lie in the direction of industrialization as well as in the development of new cropping patterns.

For all these reasons, we find that many countries cannot effectively absorb much capital for agricultural development at the present time. To take irrigation as an example; there are many irrigation projects around the developing world which are not giving reasonable yields or not leading to significant intensification of production. If proper advantage is to be taken of irrigation, for instance by the introduction of multiple cropping, extensive changes have to be effected in farming practices including the proper performance of field work through mechanization, application of fertilizers, use of pesticides, efficient marketing, and adequate credit. In other words, the provision of supplies and services to farmers, including the provision of technical advice, becomes the limiting factor, rather than any shortage of capital. But if these administrative and organizational problems can be solved, our experience shows that large and sometimes spectacular results can be achieved.

Back in 1960, the Bank lent \$42 million to Iran for a multipurpose project on the Dez River in the province of Khuzestan for electric power generation, irrigation and flood control. In the area of the Dez project was a population of approximately 150,000 whose chief livelihood was subsistence agriculture. Conversion to irrigated crops could greatly expand their productivity, but a program of investment in physical irrigation work could be a complete waste of money without many organizational and administrative innovations designed to introduce new and improved farming methods. The Government very wisely decided to proceed with a pilot project first, covering some 50,000 acres, accompanied by the creation of a new irrigation operating authority, and the provision of supporting services to educate

farmers in sound agricultural management. Outside consultants were employed to launch this program and to train Iranians to take over the management. A great deal of agonizingly hard work has had to go into this task, but the results are very encouraging, and we hope that the basis will soon be established for a major expansion in the irrigated area of the Dez project.

Another example: before the early 1950s the former African areas of Kenya were farmed under the tribal system. There was no security of tenure nor incentive to husband the soil or improve the temporary and often scattered holdings. Embarking on a program of reform, the Government first enlisted the cooperation of the tribal authorities in the consolidation and demarcation of holdings and registration of titles. They then provided extension services to propose a farming plan for each holding and to guide the farmers in the use of new techniques. Water supplies, feeder roads and market outlets were developed. The role of farm credit through this initial period was limited. Emphasis was given to placing the farmer in a productive agricultural setting in which he could, in succeeding years, make efficient and intelligent use of credit.

The World Bank came onto the scene in 1960 with a loan of \$5.6 million to help finance the last three years of the program, including the building or improvement of over 400 miles of feeder roads. By 1962 some 2-1/2 million acres had been consolidated into registered holdings and about a quarter of a million farm families were farming much more efficiently. In 1964 an IDA credit of \$4.5 million was extended to cover about three-quarters of the cost of an extension of the road program, and IDA is currently considering extending a credit which would enable Kenya's Agricultural Financial Corporation to provide credit for on-farm development and husbandry improvement to selected smallholders after their farms have been consolidated and registered.

A third example of the importance of preparing the ground for capital investment takes us to Latin America. In 1950, the Government of Uruguay invited the Bank and the FAO to send a joint mission to undertake a survey of agricultural problems. Animal production based on grassland is the backbone of Uruguay's economy. Wool, meat, milk and by-products represent about three-quarters of the total value of agricultural output and provide most of the country's foreign exchange earnings. Among the mission's recommendations, special attention was drawn to the need for a comprehensive livestock development program, requiring fundamental changes in the techniques and pattern of farming.

What was needed was a demonstration to the nation's livestock farmers of the advantages of modern techniques of pasture improvement and management, such as had been successfully applied elsewhere, particularly in New Zealand and Australia. It took years of effort, however, to secure the establishment of an organization which could effectively select farmers to participate in the demonstration, provide technical assistance, recommend development plans for individual farms, and supervise the execution of each farm program. Technicians had to be trained in the new methods, and the necessary legislation had to be passed in the face of numerous obstructions. Eventually, in 1958, these preparatory steps were taken and the Bank made a loan of \$7 million to cover most of the foreign exchange requirements of a pilot program to provide technical and financial assistance to selected livestock owners on a pilot group of 600 farms. Pastures and soil fertility were improved by fertilizing and reseed-ing, farms were subdivided with fencing to permit controlled rotational grazing, and improved control of livestock diseases was introduced.

This program has been a great success. Throughout the country's farming community, word has spread of the three to fourfold increases in livestock production in the selected areas. With demand for credit rising, the Bank has

recently made a new loan of \$12.7 million to expand the operation. Within three years a quarter of the grassland farmers of Uruguay will have acquired enough practical experience to develop their own properties and to extend advice to their neighbors. The program as a whole will have an immense impact upon Uruguay's economic development and upon its chronic balance of payments difficulties.

In addition to illustrating the importance of pre-investment preparation, these examples point to the great importance of agricultural credit. After irrigation, agricultural credit is the second largest category of Bank lending to agriculture. Our program of lending to credit institutions includes providing them not only with financial resources but also with extensive technical assistance designed to improve their organization and operations. Due to shortage of local personnel with relevant experience, it has been necessary to bring in foreign experts to develop sound management and operating procedures. But the technical soundness of the on-farm investment plans is equally important. Demand for credit is sometimes overestimated, since the effective use of credit is often limited by the lack of technical advice available to farmers to guide their operations. As more technical personnel become available, both from abroad and through local training programs, the role of these credit institutions can and should greatly increase. During 1965 the Bank and IDA financed the expansion of medium and long-term agricultural credit through institutions in Morocco, Mexico, Pakistan, Peru, the Philippines, Paraguay and Uruguay, and a dozen similar projects in other countries are currently under active consideration.

Speaking more generally, the work of the World Bank and IDA in the field of agricultural development has increased considerably in recent years. At the close of 1965, we had 25 agricultural projects under negotiation, involving possible Bank or IDA financing totaling \$250 million. Another 43 projects were in various stages of identification and preparation, and we have now established an active interest in the agricultural sector in sixty countries. In order to intensify this work, the Bank and IDA have considerably expanded their own agricultural staff, and two years ago this month, reached agreement with the FAO on a cooperative program designed to increase agricultural investment in the developing countries by identifying and preparing new projects suitable for investment. A special team was established within FAO, and this team and the Bank's Agriculture Division are cooperating in bringing new projects to the point where they can be considered for financing by the Bank or IDA. Since the partnership commenced, the FAO staff have participated with us in 105 missions to 49 countries.

The World Bank also has a similar cooperative program with Unesco, directed toward the identification and preparation of projects for investment in educational facilities in developing countries, particularly at the level of secondary and technical schools and teacher training institutions. We are confident that such efforts will, in the long run, greatly benefit agricultural development. Some of our investments in educational facilities, for instance in two agricultural colleges in Pakistan, will produce an increased flow of agricultural technicians and administrators. But also, more broadly, it is an established fact that general advances in educational standards increase people's ability to understand, learn and put into practice new agricultural methods and practices.

Again we see the interplay of the manifold factors contributing to the growth of agricultural productivity.

I think it is now widely agreed that whatever success may be achieved in improving agricultural output by the introduction of better seeds, new methods of cultivation, increased or more regular supplies of water, etc., a really significant break-through in agriculture requires a major increase in the application of the right kinds of fertilizer. On the scale on which we have to approach this problem, this means manufactured chemical fertilizers. We know that the natural resources required -- essentially, hydrocarbons associated with petroleum production and refining, phosphate and potash -- are abundant in many parts of the developing world. But they are rarely found together and they are rarely in adequate supply in the countries and regions where the potential demand is greatest.

The technology exists for very large-scale production of the basic fertilizers and fertilizer ingredients. Furthermore, we have reason to believe that a great deal of private capital would welcome opportunities for large-scale investment in fertilizer production. But knowing how to produce, and even where to produce at lowest cost, takes us only part of the way toward a solution of the problem. Equally important are markets and distribution facilities in the countries where the need is greatest. Distribution systems are also, unfortunately, much more complicated and difficult to create than the fertilizer plants themselves. The needs of the developing countries can only be met if the whole fertilizer complex from raw material to farmer is approached as one system, including production, distribution, and technical assistance to farmers who have to learn how to use the end-product.

The Bank is currently giving special attention, in consultation with private industry and interested governments and international agencies, to the question of what role our institutions can play in this challenging field. Our affiliate, the International Finance Corporation, is actively engaged in several important fertilizer projects in some of the countries where the need for new capacity is great. We would be receptive to new ideas from any source as to how our financial and technical resources might be brought more effectively to bear on the problem of assuring adequate supplies of fertilizer to the hungry regions of the world.

I close by noting that despite -- or perhaps because of -- the prophets of doom, there is in fact much convincing evidence around the world of what can be done to raise agricultural productivity; of how irrigation, modern inputs and farmer training has raised Israel's food production by 150% in a decade; of how countries such as Japan, Mexico, Taiwan, Thailand and the Philippines, for example, are increasing their food production faster than their population numbers. Other countries, now seriously lagging, can catch up with the front-runners if they -- and we -- make the necessary effort. In this great task, we in the World Bank Group hope and expect to play a part.

The role of INTERNATIONAL AGENCIES

in aiding WORLD FOOD PRODUCTION



*Address by J. BURKE KNAPP, Vice President,
World Bank, to the National Academy
of Sciences Scientific Program,
103rd Annual Meeting, Washington, D. C.
April 25, 1966.*

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IT IS AN HONOR and a pleasure to represent the World Bank Group at this symposium on the prospects for the world's food supply. As you know, the financing of economic development is our business, and we are lending money to support a wide variety of development projects of high economic priority. We are fully aware of the close link between the rate of a country's economic development and the rate of expansion of its agricultural sector. By earning or consuming foreign exchange, this sector is often of critical significance in the balance of payments of developing countries, and it is always an important source of domestic savings needed to finance the country's over-all development program. It is the agricultural sector that provides a great part of the demand for the products of industry, and as the sector increases in efficiency, it releases labor for industrial expansion. We therefore regard agricultural development as a vital ingredient in balanced economic growth.

I doubt if there is any aspect of economic development that has such strongly emotional connotations as the struggle to produce enough food for growing populations. Hunger must surely be the oldest pain known to man, and his search for adequate supplies of food his oldest occupation. What rouses our sentiments is the stark fact that in this technological age, and despite the enormous potential for increased food production, millions in many parts of the world suffer the debilitating effects of malnutrition and live

in recurrent fear of starvation. In reference to such an emotionally charged issue, it may seem callous to speak of food production in such coldly professional terms as an ingredient of balanced economic growth.

And yet this problem really does call for just such an appraisal, for simple as the notion of growing more food may appear to be, actual success in doing so depends on a host of actions being taken at different levels and in different sectors of the economy. Thus, while the magnificent rescue operations epitomized by the United States' Food for Peace Program bring relief to those in the existing pockets of critical food shortage, the task of helping the less developed countries to plant the seeds of self-reliance, and to ensure food production for their future needs, demands a long-term, skillfully planned, carefully coordinated and properly financed program of development aid.

The lines along which such a program should be planned provide a subject for endless discussion, and some controversy. But it is clear that if the rising demand for food to feed growing populations is to be met, overall agricultural productivity will have to be increased both by raising the yields of land already under cultivation and by bringing new lands under cultivation. Indeed, for almost half of the world's population, the second alternative scarcely exists, so that their effort to feed themselves must depend almost entirely on raising the productivity of the existing acreage. For countries with a fixed-land economy subject to the pressure of a rapidly rising population, the failure to

raise yields can only entail an indefinite postponement of economic advance on all fronts and a steady decline in already inadequate living standards. No program for general economic development can thrive in this environment.

As to the extent to which the population explosion compounds the difficulties, you will be hearing expert testimony from Dr. Revelle later this morning. Suffice it for me to say that while the effort to control family sizes in the worst afflicted countries now appears for the first time to be getting under way on a limited scale, we must realize that there will be little real relief from the current oppressive pattern of population growth for at least a generation. We must therefore assume a continuous increase in the number of mouths to be fed, and that the world population which took over half a million years to reach its present level of three billion is almost doomed to double itself in the span of the next 30 to 35 years.

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The third institution is the International Finance Corporation, founded in 1956, and devoted to promoting investment in private industrial and mining enterprises, mostly in the developing countries. Although less directly involved in the agricultural sector, the IFC is, nonetheless, supporting in a number of cases the processing and marketing of agricultural commodities, and the supply of agricultural inputs, especially of fertilizer.

The World Bank, in its 20 years of operations, has lent nearly \$10 billion, the greater part of it in financing so-called infrastructure projects such as electric power and transportation, which provide the basic framework for a country's economy, but which generally do not attract private investors. Such financing has accounted for some two-thirds of the volume of the Bank's lending. Most of the remaining one-third has been devoted to industry, agriculture, and, in recent years, education. IDA has extended almost \$1.3 billion worth of credits for much the same types of projects.

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IN RECENT YEARS we have been consciously striving to make a greater direct impact in the field of agricultural development. Our experience has taught us that our earlier efforts were inspired by an insufficient understanding of the numerous human and institutional problems which impeded effective use of capital resources in this sector. We have become keenly aware that capital is only one of the essential elements required to bring about a substantial increase in agricultural production, and that it can be applied only as rapidly and effectively as other elements of the agrarian structure permit. In some countries, extensive land reform and other changes in land policies are prerequisites. There is nearly always a need to strengthen or introduce other aspects of agrarian reform in the field of agricultural

administration, research and extension services, the supply of farm requisites, and market opportunities. Until such reforms have been carried through, there can be little really effective use of farm credit, the capital element of the agrarian structure at farm level.

Finally, I think we must recognize that despite all that has been done in the way of research and experimentation regarding cropping patterns, a very great deal remains to be done along these lines to guide the farming communities in the individual developing countries. In a large part of the underdeveloped world there is still inadequate knowledge of soil and climatic conditions, and much to be learned about adapting plant strains to local conditions. We are still a long way from being able to tell an individual farmer where his best opportunities lie, and perhaps still further from designing a rational division of labor between developing countries in the field of agricultural production. Too many export crops, particularly in the realm of tropical agriculture, are already showing burdensome surpluses and too many countries are planning to diversify production into lines which would exhibit burdensome surplus if all of them succeeded. This problem lies at the heart of a major study which is presently being undertaken by the World Bank and the FAO in conjunction with the International Coffee Council in an attempt to give guidance to coffee-producing countries as to how they might best diversify their agricultural production. It is already clear, I might add, that part of this necessary diversification must lie in the

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For all these reasons, we find that many countries cannot effectively absorb much capital for agricultural development at the present time. To take irrigation as an example, there are many irrigation projects around the developing world which are not giving reasonable yields or not leading to significant intensification of production. If proper advantage is to be taken of irrigation, for instance, by the introduction of multiple cropping, extensive changes have to be effective in farming practices including the proper performance of field work through mechanization, application of fertilizers, use of pesticides, efficient marketing, and adequate credit. In other words, the provision of supplies and services to farmers, including the provision of technical advice, becomes the limiting factor, rather than any shortage of capital. But if these administrative and organizational problems can be solved, our experience shows that large and sometimes spectacular results can be achieved.

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tive innovations designed to introduce new and improved farming methods. The Government very wisely decided to proceed with a pilot project first, covering some 50,000 acres, accompanied by the creation of a new irrigation operating authority, and the provision of supporting services to educate farmers in sound agricultural management. Outside consultants were employed to launch this program and to train Iranians to take over the management. A great deal of agonizingly hard work has had to go into this task, but the results are very encouraging, and we hope that the basis will soon be established for a major expansion in the irrigated area of the Dez project.

ANOTHER EXAMPLE: before the early 1950s the former African areas of Kenya were farmed under the tribal system. There was no security of tenure nor incentive to husband the soil or improve the temporary and often scattered holdings. Embarking on a program of reform, the Government first enlisted the cooperation of the tribal authorities in the consolidation and demarcation of holdings and registration of titles. They then provided extension services to propose a farming plan for each holding and to guide the farmers in the use of new techniques. Water supplies, feeder roads and market outlets were developed. The role of farm credit through this initial period was limited. Emphasis was given to placing the farmer in a productive agricultural setting in which he could, in succeeding years, make efficient and intelligent use of credit.

The World Bank came onto the scene in 1960 with a loan of \$5.6 million to help

finance the last three years of the program, including the building or improvement of over 400 miles of feeder roads. By 1962 some 2½ million acres had been consolidated into registered holdings and about a quarter of a million farm families were farming much more efficiently. In 1964, an IDA credit of \$4.5 million was extended to cover about three-quarters of the cost of an extension of the road program, and IDA is currently considering extending a credit which would enable Kenya's Agricultural Financial Corporation to provide credit for on-farm development and husbandry improvement to selected smallholders after their farms have been consolidated and registered.

A THIRD EXAMPLE of the importance of preparing the ground for capital investment takes us to Latin America. In 1950, the Government of Uruguay invited the Bank and the FAO to send a joint mission to undertake a survey of agricultural problems. Animal production based on grassland is the backbone of Uruguay's economy. Wool, meat, milk and by-products represent about three-quarters of the total value of agricultural output and provide most of the country's foreign exchange earnings. Among the mission's recommendations, special attention was drawn to the need for a comprehensive livestock development program, requiring fundamental changes in the techniques and pattern of farming.

What was needed was a demonstration to the nation's livestock farmers of the advantages of modern techniques of pasture improvement and management, such as had

been successfully applied elsewhere, particularly in New Zealand and Australia. It took years of effort, however, to secure the establishment of an organization which could effectively select farmers to participate in the demonstration, provide technical assistance, recommend development plans for individual farms, and supervise the execution of each farm program. Technicians had to be trained in the new methods, and the necessary legislation had to be passed in the face of numerous obstructions. Eventually, in 1958, these preparatory steps were taken and the Bank made a loan of \$7 million to cover most of the foreign exchange requirements of a pilot program to provide technical and financial assistance to selected livestock owners on a pilot group of 600 farms. Pastures and soil fertility were improved by fertilizing and reseeded, farms were subdivided with fencing to permit controlled rotational grazing, and improved control of livestock diseases was introduced.

This program has been a great success. Throughout the country's farming community, word has spread of the three to fourfold increases in livestock production in the selected areas. With demand for credit rising, the Bank has recently made a new loan of \$12.7 million to expand the operation. Within three years a quarter of the grassland farmers of Uruguay will have acquired enough practical experience to develop their own properties and to extend advice to their neighbors. The program as a whole will have an immense impact upon Uruguay's economic development and upon its chronic balance of payments difficulties.

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SPEAKING MORE generally, the work of the World Bank and IDA in the field of agricultural development has increased considerably in recent years. At the close of 1965, we had 25 agricultural projects under negotiation, involving possible Bank or IDA financing totaling \$250 million. Another 43

projects were in various stages of identification and preparation, and we have now established an active interest in the agricultural sector in 60 countries. In order to intensify this work, the Bank and IDA have considerably expanded their own agricultural staff, and two years ago this month, reached agreement with the FAO on a cooperative program designed to increase agricultural investment in the developing countries by identifying and preparing new projects suitable for investment. A special team was established within FAO, and this team and the Bank's Agriculture Division are cooperating in bringing new projects to the point where they can be considered for financing by the Bank or IDA. Since the partnership commenced, the FAO staff have participated with us in 105 missions to 49 countries.

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manifold factors contributing to the growth of agricultural productivity.

I THINK it is now widely agreed that whatever success may be achieved in improving agricultural output by the introduction of better seeds, new methods of cultivation, increased or more regular supplies of water, etc., a really significant break-through in agriculture requires a major increase in the application of the right kinds of fertilizer. On the scale on which we have to approach this problem, this means manufactured chemical fertilizers. We know that the natural resources required — essentially, hydrocarbons associated with petroleum production and refining, phosphate and potash—are abundant in many parts of the developing world. But they are rarely found together and they are rarely in adequate supply in the countries and regions where the potential demand is greatest.

The technology exists for very large-scale production of the basic fertilizers and fertilizer ingredients. Furthermore, we have reason to believe that a great deal of private capital would welcome opportunities for large-scale investment in fertilizer production. But knowing how to produce, and even where to produce at lowest cost, takes us only part of the way toward a solution of the problem. Equally important are markets and distribution facilities in the countries where the need is greatest. Distribution systems are also, unfortunately, much more complicated and difficult to create than the fertilizer plants themselves. The needs of the developing countries can only be met if the whole

fertilizer complex from raw material to farmer is approached as one system, including production, distribution, and technical assistance to farmers who have to learn how to use the end-product.

The Bank is currently giving special attention, in consultation with private industry and interested governments and international agencies, to the question of what role our institutions can play in this challenging field. Our affiliate, the International Finance Corporation, is actively engaged in several important fertilizer projects in some of the countries where the need for new capacity is great. We would be receptive to new ideas from any source as to how our financial and technical resources might be brought more effectively to bear on the problem of assuring adequate supplies of fertilizer to the hungry regions of the world.

I CLOSE by noting that despite—or perhaps because of—the prophets of doom, there is in fact much convincing evidence around the world of what can be done to raise agricultural productivity; of how irrigation, modern inputs and farmer training has raised Israel's food production by 150% in a decade; of how countries such as Japan, Mexico, Taiwan, Thailand and the Philippines, for example, are increasing their food production faster than their population numbers. Other countries, now seriously lagging, can catch up with the front-runners if they—and we—make the necessary effort. In this great task, we in the World Bank Group hope and expect to play a part.



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April 25, 1966.*

IT IS AN HONOR and a pleasure to represent the World Bank Group at this symposium on the prospects for the world's food supply. As you know, the financing of economic development is our business, and we are lending money to support a wide variety of development projects of high economic priority. We are fully aware of the close link between the rate of a country's economic development and the rate of expansion of its agricultural sector. By earning or consuming foreign exchange, this sector is often of critical significance in the balance of payments of developing countries, and it is always an important source of domestic savings needed to finance the country's over-all development program. It is the agricultural sector that provides a great part of the demand for the products of industry, and as the sector increases in efficiency, it releases labor for industrial expansion. We therefore regard agricultural development as a vital ingredient in balanced economic growth.

I doubt if there is any aspect of economic development that has such strongly emotional connotations as the struggle to produce enough food for growing populations. Hunger must surely be the oldest pain known to man, and his search for adequate supplies of food his oldest occupation. What rouses our sentiments is the stark fact that in this technological age, and despite the enormous potential for increased food production, millions in many parts of the world suffer the debilitating effects of malnutrition and live

in recurrent fear of starvation. In reference to such an emotionally charged issue, it may seem callous to speak of food production in such coldly professional terms as an ingredient of balanced economic growth.

And yet this problem really does call for just such an appraisal, for simple as the notion of growing more food may appear to be, actual success in doing so depends on a host of actions being taken at different levels and in different sectors of the economy. Thus, while the magnificent rescue operations epitomized by the United States' Food for Peace Program bring relief to those in the existing pockets of critical food shortage, the task of helping the less developed countries to plant the seeds of self-reliance, and to ensure food production for their future needs, demands a long-term, skillfully planned, carefully coordinated and properly financed program of development aid.

The lines along which such a program should be planned provide a subject for endless discussion, and some controversy. But it is clear that if the rising demand for food to feed growing populations is to be met, overall agricultural productivity will have to be increased both by raising the yields of land already under cultivation and by bringing new lands under cultivation. Indeed, for almost half of the world's population, the second alternative scarcely exists, so that their effort to feed themselves must depend almost entirely on raising the productivity of the existing acreage. For countries with a fixed-land economy subject to the pressure of a rapidly rising population, the failure to

raise yields can only entail an indefinite postponement of economic advance on all fronts and a steady decline in already inadequate living standards. No program for general economic development can thrive in this environment.

As to the extent to which the population explosion compounds the difficulties, you will be hearing expert testimony from Dr. Revelle later this morning. Suffice it for me to say that while the effort to control family sizes in the worst afflicted countries now appears for the first time to be getting under way on a limited scale, we must realize that there will be little real relief from the current oppressive pattern of population growth for at least a generation. We must therefore assume a continuous increase in the number of mouths to be fed, and that the world population which took over half a million years to reach its present level of three billion is almost doomed to double itself in the span of the next 30 to 35 years.

LET ME NOW briefly identify the three institutions of the World Bank Group whom I represent here, all of which share the common purpose of providing and promoting a flow of capital into productive projects and programs in the developing countries. First is the World Bank itself, bearing the official title of the International Bank for Reconstruction and Development. Second is the International Development Association, founded in 1960 as an affiliate of the Bank, and known as IDA. Both the Bank and IDA make long-term development loans to their member countries, but whereas the Bank

makes loans on more or less the same terms that borrowers expect to encounter in the private capital markets, IDA extends long-term, interest-free credits, with only a small service charge to borrowers whose debt servicing capacity makes it impractical for them to borrow on conventional terms. Because World Bank and IDA operations differ only in the terms of their lending—even their staffs are one and the same—I shall be speaking for them both when I describe the policies that we are pursuing in relation to agricultural development in the developing countries.

The third institution is the International Finance Corporation, founded in 1956, and devoted to promoting investment in private industrial and mining enterprises, mostly in the developing countries. Although less directly involved in the agricultural sector, the IFC is, nonetheless, supporting in a number of cases the processing and marketing of agricultural commodities, and the supply of agricultural inputs, especially of fertilizer.

The World Bank, in its 20 years of operations, has lent nearly \$10 billion, the greater part of it in financing so-called infrastructure projects such as electric power and transportation, which provide the basic framework for a country's economy, but which generally do not attract private investors. Such financing has accounted for some two-thirds of the volume of the Bank's lending. Most of the remaining one-third has been devoted to industry, agriculture, and, in recent years, education. IDA has extended almost \$1.3 billion worth of credits for much the same types of projects.

By the end of 1965, the Bank and IDA had together provided nearly \$1 billion of loans and credits for the direct support of agriculture. The greater part of this—more than \$600 million—has financed irrigation and flood control projects. The rest has been lent for a wide range of purposes including land clearance, farm improvement and mechanization, crop-processing and storage, livestock improvement and fishing. I should also point out that projects financed in other sectors have in many cases afforded very substantial benefits to agriculture, notably road projects which have provided the agricultural community with greater access to suppliers and to markets. Considerable benefits have also been derived from projects extending electric power and telecommunications into rural areas.

IN RECENT YEARS we have been consciously striving to make a greater direct impact in the field of agricultural development. Our experience has taught us that our earlier efforts were inspired by an insufficient understanding of the numerous human and institutional problems which impeded effective use of capital resources in this sector. We have become keenly aware that capital is only one of the essential elements required to bring about a substantial increase in agricultural production, and that it can be applied only as rapidly and effectively as other elements of the agrarian structure permit. In some countries, extensive land reform and other changes in land policies are prerequisites. There is nearly always a need to strengthen or introduce other aspects of agrarian reform in the field of agricultural

administration, research and extension services, the supply of farm requisites, and market opportunities. Until such reforms have been carried through, there can be little really effective use of farm credit, the capital element of the agrarian structure at farm level.

Finally, I think we must recognize that despite all that has been done in the way of research and experimentation regarding cropping patterns, a very great deal remains to be done along these lines to guide the farming communities in the individual developing countries. In a large part of the underdeveloped world there is still inadequate knowledge of soil and climatic conditions, and much to be learned about adapting plant strains to local conditions. We are still a long way from being able to tell an individual farmer where his best opportunities lie, and perhaps still further from designing a rational division of labor between developing countries in the field of agricultural production. Too many export crops, particularly in the realm of tropical agriculture, are already showing burdensome surpluses and too many countries are planning to diversify production into lines which would exhibit burdensome surplus if all of them succeeded. This problem lies at the heart of a major study which is presently being undertaken by the World Bank and the FAO in conjunction with the International Coffee Council in an attempt to give guidance to coffee-producing countries as to how they might best diversify their agricultural production. It is already clear, I might add, that part of this necessary diversification must lie in the

direction of industrialization as well as in the development of new cropping patterns.

For all these reasons, we find that many countries cannot effectively absorb much capital for agricultural development at the present time. To take irrigation as an example, there are many irrigation projects around the developing world which are not giving reasonable yields or not leading to significant intensification of production. If proper advantage is to be taken of irrigation, for instance, by the introduction of multiple cropping, extensive changes have to be effective in farming practices including the proper performance of field work through mechanization, application of fertilizers, use of pesticides, efficient marketing, and adequate credit. In other words, the provision of supplies and services to farmers, including the provision of technical advice, becomes the limiting factor, rather than any shortage of capital. But if these administrative and organizational problems can be solved, our experience shows that large and sometimes spectacular results can be achieved.

BACK IN 1960, the Bank lent \$42 million to Iran for a multipurpose project on the Dez River in the province of Khuzistan for electric power generation, irrigation and flood control. In the area of the Dez project was a population of approximately 150,000 whose chief livelihood was subsistence agriculture. Conversion to irrigated crops could greatly expand their productivity, but a program of investment in physical irrigation work could be a complete waste of money without many organizational and administra-

tive innovations designed to introduce new and improved farming methods. The Government very wisely decided to proceed with a pilot project first, covering some 50,000 acres, accompanied by the creation of a new irrigation operating authority, and the provision of supporting services to educate farmers in sound agricultural management. Outside consultants were employed to launch this program and to train Iranians to take over the management. A great deal of agonizingly hard work has had to go into this task, but the results are very encouraging, and we hope that the basis will soon be established for a major expansion in the irrigated area of the Dez project.

ANOTHER EXAMPLE: before the early 1950s the former African areas of Kenya were farmed under the tribal system. There was no security of tenure nor incentive to husband the soil or improve the temporary and often scattered holdings. Embarking on a program of reform, the Government first enlisted the cooperation of the tribal authorities in the consolidation and demarcation of holdings and registration of titles. They then provided extension services to propose a farming plan for each holding and to guide the farmers in the use of new techniques. Water supplies, feeder roads and market outlets were developed. The role of farm credit through this initial period was limited. Emphasis was given to placing the farmer in a productive agricultural setting in which he could, in succeeding years, make efficient and intelligent use of credit.

The World Bank came onto the scene in 1960 with a loan of \$5.6 million to help

finance the last three years of the program, including the building or improvement of over 400 miles of feeder roads. By 1962 some 2½ million acres had been consolidated into registered holdings and about a quarter of a million farm families were farming much more efficiently. In 1964, an IDA credit of \$4.5 million was extended to cover about three-quarters of the cost of an extension of the road program, and IDA is currently considering extending a credit which would enable Kenya's Agricultural Financial Corporation to provide credit for on-farm development and husbandry improvement to selected smallholders after their farms have been consolidated and registered.

A THIRD EXAMPLE of the importance of preparing the ground for capital investment takes us to Latin America. In 1950, the Government of Uruguay invited the Bank and the FAO to send a joint mission to undertake a survey of agricultural problems. Animal production based on grassland is the backbone of Uruguay's economy. Wool, meat, milk and by-products represent about three-quarters of the total value of agricultural output and provide most of the country's foreign exchange earnings. Among the mission's recommendations, special attention was drawn to the need for a comprehensive livestock development program, requiring fundamental changes in the techniques and pattern of farming.

What was needed was a demonstration to the nation's livestock farmers of the advantages of modern techniques of pasture improvement and management, such as had

been successfully applied elsewhere, particularly in New Zealand and Australia. It took years of effort, however, to secure the establishment of an organization which could effectively select farmers to participate in the demonstration, provide technical assistance, recommend development plans for individual farms, and supervise the execution of each farm program. Technicians had to be trained in the new methods, and the necessary legislation had to be passed in the face of numerous obstructions. Eventually, in 1958, these preparatory steps were taken and the Bank made a loan of \$7 million to cover most of the foreign exchange requirements of a pilot program to provide technical and financial assistance to selected livestock owners on a pilot group of 600 farms. Pastures and soil fertility were improved by fertilizing and reseeded, farms were subdivided with fencing to permit controlled rotational grazing, and improved control of livestock diseases was introduced.

This program has been a great success. Throughout the country's farming community, word has spread of the three to fourfold increases in livestock production in the selected areas. With demand for credit rising, the Bank has recently made a new loan of \$12.7 million to expand the operation. Within three years a quarter of the grassland farmers of Uruguay will have acquired enough practical experience to develop their own properties and to extend advice to their neighbors. The program as a whole will have an immense impact upon Uruguay's economic development and upon its chronic balance of payments difficulties.

IN ADDITION TO illustrating the importance of pre-investment preparation, these examples point to the great importance of agricultural credit. After irrigation, agricultural credit is the second largest category of Bank lending to agriculture. Our program of lending to credit institutions includes providing them not only with financial resources but also with extensive technical assistance designed to improve their organization and operations. Due to shortage of local personnel with relevant experience, it has been necessary to bring in foreign experts to develop sound management and operating procedures. But the technical soundness of the on-farm investment plans is equally important. Demand for credit is sometimes overestimated, since the effective use of credit is often limited by the lack of technical advice available to farmers to guide their operations. As more technical personnel become available, both from abroad and through local training programs, the role of these credit institutions can and should greatly increase. During 1965, the Bank and IDA financed the expansion of medium and long-term agricultural credit through institutions in Morocco, Mexico, Pakistan, Peru, the Philippines, Paraguay and Uruguay, and a dozen similar projects in other countries are currently under active consideration.

SPEAKING MORE generally, the work of the World Bank and IDA in the field of agricultural development has increased considerably in recent years. At the close of 1965, we had 25 agricultural projects under negotiation, involving possible Bank or IDA financing totaling \$250 million. Another 43

projects were in various stages of identification and preparation, and we have now established an active interest in the agricultural sector in 60 countries. In order to intensify this work, the Bank and IDA have considerably expanded their own agricultural staff, and two years ago this month, reached agreement with the FAO on a cooperative program designed to increase agricultural investment in the developing countries by identifying and preparing new projects suitable for investment. A special team was established within FAO, and this team and the Bank's Agriculture Division are cooperating in bringing new projects to the point where they can be considered for financing by the Bank or IDA. Since the partnership commenced, the FAO staff have participated with us in 105 missions to 49 countries.

The World Bank also has a similar cooperative program with UNESCO, directed toward the identification and preparation of projects for investment in educational facilities in developing countries, particularly at the level of secondary and technical schools and teacher training institutions. We are confident that such efforts will, in the long run, greatly benefit agricultural development. Some of our investments in educational facilities, for instance in two agricultural colleges in Pakistan, will produce an increased flow of agricultural technicians and administrators. But also, more broadly, it is an established fact that general advances in educational standards increase people's ability to understand, learn and put into practice new agricultural methods and practices. Again we see the interplay of the

manifold factors contributing to the growth of agricultural productivity.

I THINK it is now widely agreed that whatever success may be achieved in improving agricultural output by the introduction of better seeds, new methods of cultivation, increased or more regular supplies of water, etc., a really significant break-through in agriculture requires a major increase in the application of the right kinds of fertilizer. On the scale on which we have to approach this problem, this means manufactured chemical fertilizers. We know that the natural resources required — essentially, hydrocarbons associated with petroleum production and refining, phosphate and potash—are abundant in many parts of the developing world. But they are rarely found together and they are rarely in adequate supply in the countries and regions where the potential demand is greatest.

The technology exists for very large-scale production of the basic fertilizers and fertilizer ingredients. Furthermore, we have reason to believe that a great deal of private capital would welcome opportunities for large-scale investment in fertilizer production. But knowing how to produce, and even where to produce at lowest cost, takes us only part of the way toward a solution of the problem. Equally important are markets and distribution facilities in the countries where the need is greatest. Distribution systems are also, unfortunately, much more complicated and difficult to create than the fertilizer plants themselves. The needs of the developing countries can only be met if the whole

fertilizer complex from raw material to farmer is approached as one system, including production, distribution, and technical assistance to farmers who have to learn how to use the end-product.

The Bank is currently giving special attention, in consultation with private industry and interested governments and international agencies, to the question of what role our institutions can play in this challenging field. Our affiliate, the International Finance Corporation, is actively engaged in several important fertilizer projects in some of the countries where the need for new capacity is great. We would be receptive to new ideas from any source as to how our financial and technical resources might be brought more effectively to bear on the problem of assuring adequate supplies of fertilizer to the hungry regions of the world.

I CLOSE by noting that despite—or perhaps because of—the prophets of doom, there is in fact much convincing evidence around the world of what can be done to raise agricultural productivity; of how irrigation, modern inputs and farmer training has raised Israel's food production by 150% in a decade; of how countries such as Japan, Mexico, Taiwan, Thailand and the Philippines, for example, are increasing their food production faster than their population numbers. Other countries, now seriously lagging, can catch up with the front-runners if they—and we—make the necessary effort. In this great task, we in the World Bank Group hope and expect to play a part.

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Address by Mr. J. Burke Knapp, Vice President, World Bank,
to the National Farm Institute, Des Moines, Iowa

February 16, 1967



Ladies and Gentlemen:

I am sure you have listened this morning with immense interest to the exposition of world food problems and policies by a distinguished panel of speakers. I have a choice between adding one more analysis of these global problems, or of turning in the direction of a more concrete description of some of our experiences in the World Bank with agricultural development around the world. In the hope that you might like some change of pace at this point, I have chosen the latter course. However I cannot resist prefacing my talk with a few comments on the global problem as seen from the point of view of an institution dedicated to the promotion of economic development in the poor and underdeveloped countries of the world.

In the first place it seems to me abundantly clear that in the future, as in the past, these countries are going to have to rely mainly upon their own domestic resources. Despite the impression which may exist in some minds, the poor countries of the world are for the most part engaged in "Operation Bootstrap," that is to say an effort to make the most effective use of their own very limited resources with only some marginal assistance from abroad. For example, in the countries of the developing world as a whole (excluding the Soviet bloc), some 86 per cent of investment is financed out of their

own domestic savings; and these same countries earn about 84 per cent of their foreign exchange requirements out of their own international trade, as compared with only 16 per cent which is supplied to them from the richer countries of the world through investment and aid programs. These proportions will not greatly change in the future, even if the Western World becomes more conscious of its responsibilities to the poor countries and resolves to make a more adequate contribution to their needs.

You should also bear in mind that the great bulk of the population of these underdeveloped countries is dependent upon agriculture for their livelihood. In the typical underdeveloped country, some 70 to 75 per cent of the people live on the land and most of them are deriving from it a mere subsistence living. In almost all of these countries some beginnings have been made on the road to industrialization and modernization, but new industries are dependent upon the agricultural areas for their markets, and in many cases for the supply of their raw materials.

I conclude that the development and modernization of agricultural production in most underdeveloped countries is the main hope for economic progress there. These countries have to buy abroad the machinery and other capital goods required for economic development, and they simply cannot afford to import the foodstuffs required to feed their expanding populations and to raise their living standards.

At the same time, as you have heard this morning, it is becoming increasingly apparent that the world cannot continue to rely indefinitely upon food surpluses from the great granaries of North America. During the postwar years the United States (and also Canada) has made an immense contribution to the welfare and to the economic development of the developing

countries (particularly to the massive populations in India and Pakistan) by exporting food surpluses, but these surpluses are fast disappearing in spite of the measures which have been taken by the United States Government to restore great areas in the United States to food grain production. Programs of food aid to the poor countries, both from the United States and from other rich countries, will no doubt continue; but it is being more and more clearly recognized that these efforts can only supply a modest supplement to programs of self-help in the developing countries themselves.

This is where the World Bank comes in, along with its affiliated institutions: the International Development Association, which is designed to give development assistance to very poor countries that cannot meet the credit standards of the World Bank itself; and the International Finance Corporation, which is the special arm of the World Bank for promoting private investment in the developing countries. This World Bank Group has made over \$12 billion of loans and investments around the world, for the most part in the underdeveloped countries, directed toward building up their productive capacity so that they may more effectively meet from their own resources the basic needs of their peoples. About one third of these funds have been devoted to financing investment in electric power and another third to investment in local transportation needs; most of the remaining third has gone into financing directly productive activities in industry and agriculture. The heavy concentration in the area of public services has simply reflected the fact that in most of the underdeveloped countries, agricultural and industrial development can thrive only if there is a reasonably cheap and abundant supply of electricity and of transportation services. We have, for example, invested about \$1.5 billion in highway development around the world,

and a large part of this has been devoted to roads which were needed to open up agricultural areas for the marketing of their produce, and for the supply of farm requisites and other goods to the agricultural population.

At the same time we have been making a special effort in recent years to expand our lending in the direction of agricultural development, realizing that this is almost always the key to self-help programs in the developing countries. Sometimes this involves massive public works such as dams, irrigation works and land reclamation projects; sometimes it involves the provision of agricultural credit through local institutions that can deal directly with local farmers and ranchers at the farm level; sometimes it involves plantation schemes for the promotion of tropical products, with accompanying processing and marketing facilities, or projects for the improvement and modernization of pasture and livestock development; and sometimes it involves projects for agricultural training, research, and education. And then again -- and here we move into an area which is extremely difficult but which is still absolutely essential in many, even most, of the developing countries -- we try to design an integrated approach to the whole agricultural development of a country or a particular region, seeking to raise a primitive peasant population out of traditional subsistence agriculture into modern economic life, that is to say into wholly new patterns of production geared to modern techniques and to the production of foods and fibers for domestic and foreign markets.

I would like to be able to tell you that we are right on top of these problems in the 75 or 80 developing countries which we deal with around the world. But this would obviously be a gross exaggeration. The problems of promoting agricultural development stand in sharp and challenging contrast

to those of, for example, building power plants in the developing countries. In the latter case it is relatively easy -- though we have our problems here too -- to identify what needs to be done, to design hydro power or steam plants to meet the needs, and to import the foreign engineers and contractors required to build the facilities. But agricultural development is a far more complicated process, far more difficult to design and sometimes extremely difficult to execute, primarily because of the human element -- that is to say, the need to convert untrained and usually illiterate men and women into skilled farmers, technicians, extension workers, etc. However we in the World Bank Group are trying to rise to meet this challenge. We feel we are learning a great deal more about it as we go along, and we are beginning to have some real impact at least in some of the countries with whom we deal.

At this point let me tell you some of our specific experiences which will serve to illustrate that progress must be slow but at the same time that developing countries which are prepared to undertake solid efforts to develop their agricultural production can and do achieve very satisfying results. I will start with two countries -- Malaysia and Thailand -- which, in spite of the fact that they are poor countries, living in a very troubled part of the world, have instituted and maintained successful programs of economic development and have, for example, been able to expand food production at the rate of nearly 5 per cent per annum over the past decade.

Around 1959 the Malaysian Government launched a scheme to introduce double cropping of rice in a traditional farming area, poorly watered and relatively low-yielding, north of Kuala Lumpur, their national capital. This initial scheme provided capacity for double-cropping on only some 33,000 acres of land. By early 1965, the World Bank was sufficiently impressed with the

results to be ready to finance a much more extensive project, providing for capacity to double-crop some 262,000 acres. The Bank made a loan of \$45 million toward an \$83 million irrigation project, and the Malaysian Government undertook to put up the rest. The project is well under way, scheduled for completion in 1970.

Meanwhile a Bank officer just returned from the region tells me that in the areas where the double-cropping was first introduced six or seven years ago, rice production has just about tripled -- the big increase coming not only from the extra crop sown each year, but also from significantly higher yields on both the old crop and the new. If this performance can be maintained throughout the scheme, Malaysia will be well on its way toward self-sufficiency in rice production.

Now, it is important for the international development business to know how this small but significant breakthrough has been achieved. As in almost every case of successful agricultural development, it turns out to be a package of factors, including the following:

First, an administration able to set out a country's priorities in line with its economic needs -- able to identify, prepare and pursue projects aimed at meeting these priorities.

Next, the presence of research capacity capable of drawing upon the results of research pursued elsewhere on such matters as seed varieties, soils, pesticides, fertilizer use, cropping patterns and so on, and capable of adapting these results to local conditions and needs. In the Malaysian case, great hopes are now being placed in the adoption of a high-yielding seed variety first developed at the International Rice Institute at Los Banos in the Philippines, a basic research institution supported by the Ford and Rockefeller Foundations.

Thirdly, the presence of a sound extension service capable of communicating at the farmer's level in the field, carrying to him the messages of the new technology and persuading him that these new methods can lift the yoke off the backs of himself and his family.

The fourth portion of the package here is the farmer's ready access to the inputs which the extension officer tells him he needs -- fertilizer, pesticides, simple farm machinery, adequate irrigation water and improved seed. This requires freedom from import controls and other bureaucratic blocks to the supply of necessary inputs. Vital at this point, too, is the availability of credit. Once successful second cropping has begun, the credit situation becomes easier: the farmer's demonstrated productive capacity becomes a "bankable" proposition and in Malaysia we found that almost everybody -- from the village storekeeper to the fertilizer and farm equipment supplier -- was then ready to lend him money.

The fifth element of success here has been the existence of access to commercial markets capable of returning a fair and attractive price to the farmer. Due to Malaysia's soundly based internal development effort, national income has grown at an average rate above five per cent a year. There is an expanding demand for food in the towns and the development plan has included the construction of roads and storage facilities to handle the marketing of the nation's rice production.

Now let's look at another case, again a success story. In Thailand, the Bank has now been engaged for a number of years in projects aimed at controlling the network of waters feeding the great Thai Central Plain, so as to allow more intensive cultivation of the area by reducing the hazard of regular flooding and, in effect, converting floods to irrigation water which can be

held over for use in the dry season. Through this water control program, the productive capacity of the area has been -- and is still being -- greatly increased. Our officers are still some way from being satisfied with the rate at which the rest of the package is being added -- the home-grown research, the extension officer channel between research and the farmer in the field, the increased use of fertilizer, expanded use of improved seeds, and the improvement of marketing methods. However, even though the combination may be still below its potential, early results have been quite remarkable. From a situation of stagnant yields in the 'fifties, the production of Thai paddy fields has approximately doubled in recent years, from about five million tons in 1957 to nearly 10 million tons in 1965. Water control and expansion of irrigated land have been the main factors here, with expanding use of improved seeds, increased fertilizer use and second cropping beginning to make their impact. Expansion into new uplands crops, resulting from the introduction of Thai farmers to profitable export marketing possibilities, has also produced quite phenomenal results: corn output has risen from no more than 137,000 tons in 1957 to a crop of 1,000,000 tons in 1965; tapioca production shot up from about 400,000 tons in 1957 to 2,340,000 tons in 1965. The Thai farmer has already proved beyond doubt that if he is given the tools for the job, he has all the necessary initiative to achieve an agricultural revolution in his little part of the less developed world.

In most cases it takes time -- usually a considerable time -- to bring together in suitable combination the package of factors which will furnish the difference between stagnation and dynamic agricultural growth. Often it is a seemingly simple factor which eludes the promoters. It may be a gap in research -- we still know far too little about basic soil and climatic

conditions in individual undeveloped countries and about the plant strains that will thrive there. Or it may be a lack of incentive on the part of the individual farmer, which takes us into the difficult area of land tenure and the need in many countries for basic agrarian reform.

Consider for example the recent experience in Kenya, where European farmers had great success but where efforts to stimulate native African agriculture had very disappointing results. Until recently, rights to land farmed by the average African were vested in some kinship or tribal grouping: the individual African farmer had little security of tenure and little or no incentive to husband the soil and improve his temporary and often fragmented holdings. For a long time, the Colonial Government of Kenya was reluctant to break down this tribal system, but the outbreak of the Mau Mau rebellion among the Kikuyu tribe in the early 'fifties revealed the deep-seated land hunger among the younger elements of the tribe. In the wake of Mau Mau uprising, the Government adopted land tenure reform.

The Colonial Government (and soon thereafter the Government of the newly independent Kenya) enlisted the cooperation of the tribal authorities, and set about the task of consolidating and demarcating land in individual holdings and of registering the titles to these holdings. Each new holder was backed by extension services working on the basis of individual farm development plans. Work on water supply, feeder roads and market outlets was intensified. The World Bank entered the picture in 1960 with a loan of \$5.6 million to help finance the last three years of this program. By 1962 some 2½ million acres had been consolidated into registered holdings, and about a quarter of a million farm families were settled on them. This process of consolidation, settlement and development has continued, with further financial support coming

from the World Bank and the International Development Association, both for new farming operations and for the access roads, processing and marketing facilities needed to support them. Right now we are working out a new program to provide credit for on-farm development to a selected 8,000 small holders after their farms have been consolidated and registered.

One of the most important results of this agrarian reform has been the development of a thriving new smallholder tea growing industry in Kenya geared to the export market and turning out a quality product considered superior in many cases to the product of the established large-scale plantation industry. Altogether the gross value of agricultural output marketed by the native African farmers in Kenya has risen from some \$15 million in 1955 to some \$41 million in 1965. The increase would have been greater had it not been for a decline in world market prices for some commodities during this period.

Another very important part of agricultural promotion in the developing countries is in livestock. We have financed several projects in this field and have many more under review, especially in Latin America and in Africa. I might review briefly, for example, our experience in Uruguay, where animal production based on grassland is the backbone of the economy, but where wool and meat production per acre was at low and static levels in the years after World War II. As early as 1950 a joint World Bank-FAO mission had recommended a comprehensive livestock development program, requiring fundamental changes in the techniques of pasture improvement and management, and involving substantial investments in seeds, fertilizers, fencing, water supplies and technical services. It took years of effort, however, to secure the establishment of an organization capable of providing technical assistance.

recommending development plans for individual farms, and supervising the execution of a pilot program in this field. Eventually, in 1959, a working basis for a demonstration scheme was ready and the Bank made an initial loan of \$7 million to cover the foreign exchange costs of a program designed for selected livestock owners scattered all over the country. Pasture and soil fertility were improved by fertilizing and reseeded, farms were sub-divided with fencing to permit controlled rotational grazing, and improved control of livestock diseases was introduced.

The results have more than matched our hopes. Throughout the country's farming community, word has spread of the three to fourfold increases in livestock production in the pilot areas, and the impact effect on production outside the selected demonstration farms has been widespread. With demand for credit rising from livestock farmers, the Bank has recently made a new loan of \$12.7 million to spread the program more widely in the country. Within another three years, a quarter of the grassland farmers of Uruguay will have acquired enough practical experience to develop their own properties and to extend advice to their neighbors.

Now, I would be neglecting one of the most important issues of the day if I did not spend some of my time with you on the problems and prospects of agricultural development in India. As the President indicated earlier this month in his special message to Congress, India -- in this calendar year -- faces a gap of 10 million tons of grain in her capacity to meet the basic food needs of her 500 million people. This 10 million tons is the minimum which must be provided in 1967 if an already rampant inflation in food prices is to be held somewhere near existing levels, and if the threat of famine is to be held at bay. President Johnson has set in motion emergency action

which should ensure that the granaries of the United States provide some two-thirds of the 10 million tons minimum required. He has insisted, however, that this U.S. contribution be matched by aid from other rich countries, and in line with this new international approach, the President has proposed that food assistance to India should now become a part of the task of the consortium of nations which is already operating under World Bank chairmanship to coordinate general development assistance in India.

In an immediate sense, this latest Indian food crisis can be attributed largely to severe and untimely drought. In a year of reasonably normal rainfall, if there ever is such a year, Indian agriculture would probably have produced some 90 million tons of grain in the 1965/66 season. Instead, the lowest rainfall in almost four decades cut her actual production to 72 million tons, and due to continuation of the dry conditions, her total grain harvest will barely reach 80 million tons in this current year. Drought is thus the immediate villain; but the effects of drought have only compounded a much more deeply embedded problem. For the trend rate of growth in Indian agricultural production in recent years has been quite inadequate to keep pace with the demand generated by population growth, let alone enough to provide a significant carry-over of stocks for the lean years.

To look at the problem realistically, if somewhat harshly, the fact is that some good has come from the ill wind of drought in India; it has produced a new and growing realization, within the country and outside, of the vital importance of an expanding agriculture to India's general economic growth. The Indian authorities appear determined now to take all the measures they can to give Indian agriculture the resources it needs to achieve dynamic growth, even if this means subordinating their aspirations for

industrial development. The Government's target is to achieve a "normal year" output of food grains amounting to 120 million tons by 1970/71, compared with a 90 million tons "normal year" capacity in 1965/66. To reach such a target, the trend rate of increase in Indian food grain production, leaving aside year to year variations due to weather, would need to double over the next five years: from an average increase of 2.5 per cent a year in recent years to a new average growth of five per cent a year.

As you will appreciate, this would be an achievement of great magnitude in a country which has seemed sometimes to be submerged in its vast problems. Just before coming out here, however, I had advice from some hard-headed gentlemen whose job it has been to consider -- conservatively and objectively -- the chances of success for this new drive in Indian agriculture. I found them for once reasonably optimistic, and inclined to think that, given the right kind of financial and technical backing from richer nations as well as a continuation of the new Indian spirit of determination and urgency, the Indians have a good chance of getting near their aims -- say to about 110 million tons by 1970/71.

Part of this new confidence among objective observers stems from a series of practical research breakthroughs into new high-yielding varieties of seeds for wheat and rice, as well as for hybrid maize, sorghum and millet, suitable for cultivation under Indian conditions. A dwarf variety of wheat developed in Mexico and adapted in India has shown itself capable of at least doubling existing wheat yields when combined efficiently with irrigation, fertilizer, plant protection materials and other inputs. The same great promise emerges from practical farming tests of new varieties of rice developed in Taiwan and at the Los Banos International Rice Institute in the Philippines, and the same can be said of varieties of hybrid maize, sorghum and millet developed in India, principally under a Rockefeller Foundation program.

But the key to achievement of some of the enormous new potential which these genetic developments hold for Indian agriculture lies in the phrase "when combined efficiently with ... other inputs". The promise of the new seed varieties could collapse unless the Indian farmer has ready access to the fertilizer, pesticides, water control, credit, extension services, etc., which must go with them. And ensuring even minimum supplies of some of these inputs, particularly fertilizer, is going to put great strain on what is already a critical foreign exchange shortage in India. On fertilizer, for example, the Indian authorities estimate that to meet their food grains' target they are going to have to be using 2 million or more tons of nitrogenous fertilizer by 1970/71. Since India cannot afford to pay for additional imports on this scale, a major effort must be undertaken to expand their domestic production and if this effort is to succeed, there will have to be active cooperation between the Indian authorities and Western private enterprise, plus substantial financial support from public agencies, including the World Bank Group, who are providing development assistance to India.

The costs of carrying through this whole new strategy for Indian agriculture are going to be great; but the costs of failure will be infinitely greater. The consortium of the richer nations assembled under World Bank chairmanship must do whatever they can to assist this great bid by India toward agricultural self-sufficiency. This will certainly be our objective so far as funds from the World Bank Group are concerned. If this bid for agricultural revolution in India succeeds, we can, for the first time, look forward with confidence to food grain output rising substantially faster than the rate of population growth in this largest and most challenging of all the less developed nations in the free world.

Ladies and gentlemen, let me leave with you now this summation: we have entered the final third of this 20th century. In the second third we witnessed unparalleled advances in man's technical capacity to control and dominate his environment, including further rapid growth in the productivity of agriculture. But despite it all, the period ended with the growth of the human race accelerating beyond its capacity to feed itself. Up till now, immense shipments of grain from surplus production in North America have prevented outright starvation, but this source of relief has its limits and it will not be sufficient to meet the future problem. Before the century is through a great confrontation between food supply and population must be resolved, mainly within the developing countries themselves. Clearly, if it is to be resolved without immense damage to humanity, population growth must be brought under some control. Fortunately, technological progress in this field, and a significant awakening to the problem by governments and peoples in the under-developed countries, brings real promise of effective results. But these results cannot be quick, and in the meanwhile the affected populations, particularly in the Asian sub-continent, must swiftly raise their own capacities to satisfy their basic food needs. My job is on the production and distribution side of the problem, and I have seen enough to convince me that, given willing coordination of effort between the developed and under-developed countries, between public support and private enterprise, the production and distribution challenge can and will be met.

April 27, 1967

Summary of Remarks by Mr. J. Burke Knapp, Vice President, International Bank for Reconstruction and Development, to the Savings Banks Association of the New York State - Waldorf-Astoria Hotel - April 27, 1967

Mr. Knapp said that the World Bank over the last several years had undergone a period of sharp growth. Loan operations are now ranging up to \$1 billion annually; earnings have more than doubled to about \$150 million a year; and reserves now exceed \$1 billion.

The period, however, has been one of substantial and continuing adjustment by the Bank to change within the world in which it operates, Mr. Knapp told the bankers. For example, he pointed to the membership which has moved up to 106 countries, with most of the new additions comprising some 35 African and Asian countries whose economies are primitive and whose competence and financial resources for development are severely limited.

To meet this challenge the Bank has become a development institution rather than a mere lender for development, Mr. Knapp remarked. Technical assistance in the planning and carrying out of all phases of development is now a principal activity of the Bank in its less developed member countries and will continue to be for many years to come. Only by helping these countries to choose the most feasible path to development ^{the Bank} can we insure that they will gain the most for their efforts and that our loans will be repaid. Mr. Knapp added that to date the Bank had suffered no losses on its loans in the twenty-one years of its operations.

Mr. Knapp reviewed the marketing activities of the Bank. He pointed out that the sale of bonds in the international financial markets is the largest single source of funds to the World Bank. Development of an international market on the broadest scale that is reasonably possible is one of the principal requirements of our institution, he said. Over the years we have had a good measure of success in this endeavor.

As of March 31, 1967, the Bank had outstanding about \$3.3 billion equivalent in funded debt. Of this amount nearly \$1.7 billion equivalent was held by private institutional and governmental investors on some 45 countries. The remainder was held largely by institutional investors in the United States with ~~xxxxxx~~ mutual savings banks in the State of New York holding roughly \$110 million.

April 19, 1964

Summary of Remarks by Mr. J. Edgar Hoover, Director, Federal Bureau of Investigation, before the Subcommittee on International Security and Arms Control, Senate Committee on Foreign Relations, April 19, 1964.

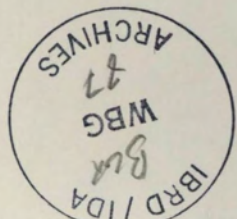
The Group said that the world has entered a period of rapid growth. In the past several years, the world has experienced a period of rapid growth. In the past several years, the world has experienced a period of rapid growth. In the past several years, the world has experienced a period of rapid growth.

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Mr. Elian

D R A F T

Notes for Mr. Knapp -- Financial Writers Briefing - May 1, 1967



I. Welcome

a. I am glad to have this chance to talk to the members of the National Society of Business Writers, and I want to congratulate you and your program committee on having had the originality to drop in on a little-frequented corner of Washington, but one that we think is of considerable interest.

b. The main feature of the organizations that you are going to hear from this afternoon is that they are international. They are international in the sense that their membership is made up of many different governments. They are international in the sense that their financial resources are derived from many countries. All of them have international staffs and governing bodies.

c. Each has been entrusted by its member governments with given tasks, and each has a degree of autonomy in carrying out those tasks. What I thought I would talk to you about for a few minutes this afternoon is the trend for governments to make greater use of these international organizations in their efforts to promote economic growth in the underdeveloped countries.

II. The World Bank Group

a. I will be delivering my remarks from the point of view of the World Bank Group. Many of you, I am sure, are familiar with the institutions of the Group. For those of you who are not, let me quickly mention that there are three of them.

1. World Bank - biggest and oldest

- largest single source of capital among the international organizations concerned with development

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- \$10 billion of loans; types of project
- relations with private market
- 2. IDA
 - terms
 - \$1.7 billion of lending; types of project
 - clientele
- 3. IFC
 - non-guaranteed financing in private sector
 - \$200 million of loan-and-share investments

III. Trend to Multilateral Institutions

a. The capital-exporting countries -- and by this term I mean the the United States and about 17 other countries, including Canada, Japan and countries of Western Europe -- the capital-exporting countries now have before them proposals to increase the flow of resources through the multilateral institutions. One of these proposals would markedly increase the funds available to the World Bank's affiliate, the International Development Association (IDA). Others would add to the financial resources of the new regional development banks working in Africa, Asia and Latin America. The United Nations Development Programme is also trying to raise the level of the government contributions it receives. Governments must soon decide about these measures of support for multilateral institutions.

b. This carries on a trend that has been in the making for some time. Currently, net disbursements of international organizations constitute 10-12 per cent of the total net flow of financial resources to the underdeveloped countries. In recent years these transfers have grown more than threefold. Between 1960 and 1965, they grew from \$268 million to \$815 million per annum. Some of this flow was derived from

governmental appropriations; but as I have said, the largest single source was the World Bank, which raises well over half its resources by borrowing from private investors and from Central Bank reserve funds.

c. This trend will certainly continue. The figures I have used so far are disbursement figures, and as you know it takes some time for disbursements to catch up with commitments. But on the basis of trends in commitments, it can be foreseen that in the next years, the proportion of development finance flowing through the multilateral agencies will rise to about 20 per cent.

IV. Advantages of Multilateral Assistance

a. Naturally, in the Bank we think this is a trend to be welcomed. We think that multilateral assistance offers certain advantages that ought to be seized by all countries concerned with economic development. I would have to agree that the international organizations themselves differ in the degree to which they themselves make the most of these advantages; and here again, I will be talking from the experience of World Bank Group itself.

b. Singleness of purpose - economic growth

- not political or diplomatic advantage
- not strategic advantage
- not export promotion

c. Insistence on high standards of project selection and execution

d. Objectivity - governed by economics, not politics; not interested in politics for show or political effect

e. Expertise - careful investigation, economic criteria

f. Ability to influence policy and performance in the recipient country

g. A multilateral effort offers a wide spread of resources. An international effort brings in skills and technical assistance from wherever they are most suitable; and many countries have specialties in which their industry and science are preeminent. An international effort makes available a wide choice of technology and institutional forms. It gives an underdeveloped country access to the assistance most suitable for its own stage of development, and in fact, has made it possible, within a multilateral framework, for underdeveloped countries with comparable problems to assist each other.

h. The list could be made longer, but let me mention just one more advantage of multilateral assistance. That is the advantage of economy in administration. This advantage has appealed to smaller countries which have wanted to keep the expenses of administering aid at a minimum -- Sweden, for instance, gives something like half its assistance through multilateral channels, and on this half of its aid program, its administrative expenses are close to zero. The same is true of the \$100 million a year the United States has been putting into IDA -- the expense to the United States of administering this assistance is about zero.

V. Tied and Untied Aid

a. Multilateral aid also offers important economies to recipient countries. Nearly all bilateral aid is tied to purchases of goods and services in the country giving the aid. Most multilateral aid has been given on an untied basis, enabling the recipient to buy goods and services on the basis of international competition, to get them wherever it was most economical to do so.

b. The difference between the purchasing power of tied funds and of untied funds is not just a minor matter. A study of the experience of Pakistan, for instance, indicates that the tying of a large proportion of aid received by that country lifted the prices of all commodities by aid to a level about 15 per cent higher than could have been obtained by international procurement.

c. There is reason to believe that the extra cost of tied aid is higher than 15 per cent in the case of other countries. The amounts involved are very substantial. Total gross disbursements of aid under bilateral arrangements -- not counting disbursements from the countries of the eastern bloc -- have been running at the rate of about \$6.5 billion a year. The annual savings to the developing countries as a result of international competition, had that been permissible, would probably have been on the order of \$1 billion a year -- or, if you wish to put it the other way round, the same amount of financing could have been used to purchase an additional \$1 billion worth of goods and services.

VI. Coordinating Groups

a. Despite what we think are its virtues, multilateral assistance is clearly not going to take the place of bilateral, government-to-government programs. We are going to continue to have both. But the Bank and a number of governments have been carrying on an experiment which lends to bilateral aid some of the advantages of the multilateral approach.

b. This experiment brings together groups of assisting countries and institutions for the purpose of considering jointly all the major problems in providing effective development finance for particular

recipient countries. So far, there are coordinating groups of this kind for 14 countries -- the 14th, for Morocco, having been organized just last Friday. The Bank is organizer and chairman of 11 of these groups, for

India	Colombia	Morocco
Pakistan	Peru	Tunisia
Malaysia		
Thailand		Nigeria
Korea		Sudan.

- c. As chairman, the Bank assumes several responsibilities --
1. comprehensive reporting of recipient country's progress and problems
 2. helping recipient country draw up projects and programs
 3. helping recipient country work out appropriate policies
 4. commenting on amount, types and terms of aid that seem appropriate.

Actual aid commitments, however, are arranged bilaterally.

d. Sitting in the middle, between donors and recipient, the Bank tries to influence both --

1. performance by recipient country
2. adequate flow of development finance on appropriate terms.

e. By jointly considering the needs of single developing country, the participating nations achieve certain advantages --

1. the donors have a defense against the old practice whereby a recipient tries to encourage donors to bid against each other for its support
2. the quality of programs, projects and policies may be improved
3. there is some assurance that the donors and the recipient

will move in consistent ways against the same development targets.

f. In the Bank and among the donor countries as well, we believe that the work of the coordinating groups is bound to lead to a definite improvement in the quality both of external assistance and of economic performance by the developing countries themselves. Nineteen donor countries are now associated with one or more of these coordinating groups -- including Spain, which is a member of the groups for Tunisia and Morocco and Nationalist China, which is a member of the group for Korea. About two-fifths of all development finance is now being planned within the framework provided by these groups. In the case of the United States, it is intended that in the next fiscal year, about 80 per cent of American aid will be given either through multilateral agencies or within the framework of coordinating groups.

VII. The Quantity of Development Finance

a. While the quality of aid and of performance in the developing countries is improving, the quantity of aid is not growing any larger. In fact, by some standards, it is growing smaller. Since 1961, the official flow of aid has remained level at around \$6 billion a year, while the national product of aid-giving nations has been rising by the equivalent of \$40 or \$50 billion a year. As a proportion of the national income of the donor countries, aid has been declining. It also has been declining in relation to the ability of the underdeveloped countries to make good use of outside capital.

b. All the donor countries, so far as I know, agree in principle that the amount of development finance must be increased. The proposals now pending for increases in multilateral financing will in this year of

- 8 -

1967 give these countries a chance to demonstrate that they mean what they say.

April 28, 1967

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MEMBERSHIP OF AID COORDINATING GROUPS

Assisting Countries:	Recipient Countries										
	Co- lombia	India	Korea	Ma- laysia	Nigeria	Paki- stan	Peru	Sudan	Thai- land	Tun- isia	Morocco
Australia.....			X	X					X		
Austria.....		X									
Belgium	X	X	X	X	X	X	X	X	X	X	X
Canada	X	X	X	X	X	X	X		X	X	X
Denmark	X			X					X	X	
China			X								
Finland							X			X	
France	X	X	X	X		X	X	X	X	X	X
Germany	X	X	X	X	X	X	X	X	X	X	X
Italy	X	X	X	X	X	X	X	X	X	X	X
Japan	X	X	X	X	X	X	X	X	X		
Kuwait										X	
Netherlands	X	X		X	X	X	X	X	X	X	X
New Zealand				X					X		
Spain							X			X	X
Sweden.....								X		X	
Switzerland	X			X	X		X	X	X	X	X
United Kingdom	X	X		X	X	X	X	X	X	X	X
United States	X	X	X	X	X	X	X	X	X	X	X

Information Department
April 28, 1967

ROUTING SLIP

Date
April 8, 1970

OFFICE OF THE PRESIDENT

Name

Room No.

Mr. Wm. Clark

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Doris B.

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Full Report

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Please note the attached letter.
This was a good group of West Coast bankers
and businessmen. I will send you the list
when it arrives.

From

J. Burke Knapp

April 8, 1970

Mr. Eliot J. Swan
President
Federal Reserve Bank
San Francisco, California

Dear Eliot:

I have been on a grand tour since I saw you in San Francisco last month and I apologise for not having written to you sooner. I did very much appreciate the nice luncheon party at the Bank which gave me a very welcome opportunity to give a "progress report" on the affairs of the World Bank to your colleagues and associates. Thanks again for the trouble that you took to get this party together.

Could you ask your secretary to be good enough to drop in the mail for me a list of the people who attended the luncheon?

With best personal regards,

Sincerely yours,

J. Burke Knapp

J. Burke Knapp
Vice President



cc: Mr. Wm. Clark

JBKnapp:ism

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INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

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Room No.

Mr. William Clark

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Action

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From

[Signature]

Luncheon for
Mr. J. Burke Knapp,
Vice President for the International
Bank for Reconstruction and Development,
Washington, D. C.
Federal Reserve Bank of San Francisco
Wednesday, March 4, 1970

ADAMS, Robert	Vice President, Security Pacific National Bank, San Francisco.
ALEXANDER, D. L.	Administrative Assistant, Federal Reserve Bank of San Francisco.
ARBUCKLE, Ernest C.	Chairman of the Board, Wells Fargo Bank N.A., San Francisco.
ARMSTRONG, H. D.	Director, Federal Reserve Bank of San Francisco; Treasurer, Standard Oil Company of California, San Francisco.
BROWN, W. M.	Vice President and Manager, Portland Branch, Federal Reserve Bank of San Francisco.
CAVAN, P. W.	Senior Vice President and Manager, Los Angeles Branch, Federal Reserve Bank of San Francisco.
CLOUT, C. H.	President, The Hongkong & Shanghai Banking Corporation, San Francisco.
CRAVEN, J. Howard	Senior Vice President, Federal Reserve Bank of San Francisco.
ECKERSLEY, Norman C.	President, The Chartered Bank of London, San Francisco.
GUNZBURGER, W. J.	Vice President, The Bank of California, N.A., San Francisco.
HEFFER, A. S.	President, California Canadian Bank, San Francisco.
HIMAN, T. C.	President, First National City Bank (International), San Francisco.
HUMM, Donald F.	Executive Vice President, First Western Bank & Trust Company, San Francisco.
HURST, W. A.	Vice President, Bank of America N.T.&S.A., San Francisco.
KNAPP, J. Burke	Vice President of the International Bank for Reconstruction and Development, Washington, D. C.
MERRITT, A. B.	First Vice President, Federal Reserve Bank of San Francisco.
OLSON, Ernest C.	Economist, Federal Reserve Bank of San Francisco.
POON, Clarence	President, Bank of Canton, San Francisco.
PRICE, A. L.	Vice President and Manager, Salt Lake City Branch, Federal Reserve Bank of San Francisco.
ROCCA, Jr., Bernard T.	Director, Federal Reserve Bank of San Francisco. Chairman of the Board, Pacific Vegetable Oil Corporation, San Francisco.

SANDSTROM, W. R.	Vice President and Manager, Seattle Branch, Federal Reserve Bank of San Francisco.
SCHOLLE, Oliver C.	Senior Vice President, United California Bank, San Francisco.
SCHUTT, John	President, The Bank of California, N.A., San Francisco.
SOLOMON, Emmett G.	Chairman of the Board and Chief Executive Officer, Crocker-Citizens National Bank, San Francisco.
SWAN, Eliot J.	President, Federal Reserve Bank of San Francisco.
TAAPKEN, Albertus	Senior Vice President, Crocker-Citizens National Bank, San Francisco.
van VLIERDEN, C. M.	Senior Vice President, Bank of America N.T.&S.A., San Francisco.
VENEMA, G. E.	Vice President, Wells Fargo Bank N.A., San Francisco.
WILLIAMS, J. B.	Vice President, Federal Reserve Bank of San Francisco.
WRAY, Douglas	President, Barclays Bank of California, San Francisco.
YAMASAKI, I.	President, The Sumitomo Bank of California, San Francisco.



Mr. Knapp:

Well, Gentlemen, its a special privilege for me to welcome you to this table. I am sorry that Mr. McNamara is away and he asked me to express to you his very warm regards. I might say that I see you are all bilingual because you don't use these earphones. Anybody that wants to use the earphones, we have a simultaneous translation in French.

I apologize for not addressing you in French but I think for the most part your English is better than my French.

Belgium has a very old association with this institution, the World Bank -- what we call the World Bank Group. The World Bank Group consists of three institutions in which Belgium is a participating member: the World Bank, itself, which is so to speak the hard lending and very businesslike member of this Group, the International Development Association which is equally businesslike in the conduct of its affairs but which provides money to very poor countries on very lenient terms, that is to say very long term loans without interest, with only a service charge to cover expenses; and then we have a third member of the World Bank Group, the International Finance Corporation which is engaged in the promotion of private investment in the developing countries and which operates exclusively in joint ventures with private entrepreneurs. Belgium is a member of all of these institutions and has participated actively. Mr. van Campenaut, you are a very distinguished member of our Board of Directors; I think certainly one of our senior members of our Board in period of service and in ~~period~~ in terms of his contribution to our work. Belgium has subscribed to the capital of the Bank. We have had one bond issue in Belgium in earlier days and we look to the day when again we may be able

to come to the Belgian capital market and raise some funds in support of the World Bank. The World Bank, as you perhaps realize, is financed primarily by the issuance of bonds all over the world in the private capital market and the European capital markets have played an important role in supporting and providing the finances of the Bank.

The International Development Association which gives us the funds for these loans to the poor countries is a pool of money supplied for administration by the Bank from 18 donor countries, 18 donor governments and Belgium is one of these governments. We are at the moment in a negotiation with the donor countries for the replenishment of this IDA fund and Belgium is taking an active part in it. We have in this house, these premises . . I counted them today . . about 30 nationals of Belgium who are working here and some of them in quite important positions in our economic and technical services. We have had many relations with Belgium banks and business houses, contractors, consulting engineering firms,. As I go round the world visiting projects in which we're engaged, I often see the Belgian influence in the form of your suppliers of equipment or your contractors. I mention one particular case in which Belgium is doubly represented. We have been financing a very important project in Africa. It's called the Boké project in Guinea which is a mining project for the extraction of bauxite and we are financing the railway which will bring this bauxite from the interior to the coast of Guinea. This mining enterprise is a joint enterprise of all the principal aluminum companies of the world including not only the American and the Canadian and British companies, but also Pechiney, and the German firm who's name I forget at the moment. In any case, this is a very big operation and Belgian firm

TRautionel , was appointed on behalf of the Guinea Government and the World Bank to prepare the project and to prepare the engineering designs and they will now supervise the construction, and when the bids were taken for the principle^{al} contract for these works, it was a firm . . it was a group headed by actual AS^{al}aldi of Italy with a participation of a Belgian and a British firm which obtained the contract for the railway and the township and the civil works connected with that, a contract on the order of about US\$60 million equivalent.

But that's just one example in which I simply say to you that we have an association with many branches of your economy and your industry, naturally with your government and with your central bank, but also with your private sector and private industry.

Now, I don't have time to go into a long discussion about what we do in this institution and how we do it, but let me briefly describe some of our functions and it may be that that will lead to some questions which you would like to address to me in the short time we have available. I have mentioned already these three institutions that we have. I will confine my remarks in the interest of brevity to the Bank and the International Development Association which are, in volume terms, the largest members of the group here ~~in~~ which are engaged in a very largescale program of financing the developing countries around the world, concentrating our attention on large-scale works in the field of what we call economic infrastructure; that is to say primarily, transport, electric power development, agricultural development, large works in the field of irrigation and land reclamation and so on. We also have an important amount of lending to agricultural and industrial enterprises through intermediary institutions.

We cannot sometimes deal in retail in particular developing countries and we deal through local institutions such as agricultural banks or industrial banks. The Bank and IDA ~~perform... engage in more or less~~ lend for more or less the same types of projects, but as I've explained to you, the World Bank is more or less on a commercial lending basis, a business basis. Our loans are made for example for 20 to 25 years with an interest rate at the present time of 7%. Mind you, in today's market that's a very low rate, but as far as the developing countries are concerned given the burdens of external debt which many of them have, they think of that as a pretty burdensome rate.

The International Development Association lends on the terms that I've described, very lenient terms. We regard this pool of funds which we call the IDA pool as supplementing the activities of the World Bank where a country is either so poor and in such an early stage of development that it is unable to meet the conditions of a World Bank loan, or a country which may be somewhat more advanced and ordinarily more capable of engaging in a Bank transaction but which has accumulated a burden of external debt which is so threatening that it does not seem a prudent lending risk, and these funds are therefore provided to us ~~as~~ to make investments for thoroughly economic or economically productive purposes, but in countries where the burden of repayment in foreign exchange ~~is the burden of transfers across the exchanges~~ would seem to be placing an undue strain upon the economy of the recipient country. Now we operate all over the world. We have in the past made loans to Belgium in the reconstruction days immediately after the War when the Bank was first started. We lent on the order of \$75 million I think to Belgium in

the late 40's and the early 50's. We continued lending to Belgium. When I say "we", I'm talking about the World Bank, now. We continued lending to Belgium during the 50's in order to support operations in the Congo. You might say these were loans to Belgium or they were loans to the Congo with the Belgian Government guarantee. They in any case were made on the credit of the Belgian Government. Some of these loans to the Congo were in fact cancelled later on because after independence there it proved that they could not be used effectively, but most of them were maintained and they have been serviced since that time by, as I understand, it, some of the loans were . . . the responsibility was assumed by Belgium and in other cases the Congo Government services the loan but still with the Belgian Government guarantee.

But now just to take an example of how our work goes and how the Bank and IDA work relates; after independence there ensued a period of years in which we felt it quite impossible to do anything in the Congo but the time came and fairly recently when we began to feel that the Government had a program, they could begin to present to us projects within their capacity to execute and we initiated a lending activity there, our first loan coming from the IDA pool because we still then and even now, we're not quite clear yet in our minds that a sufficient degree of stability has been established there to justify lending from the World Bank. This is one of the very useful functions which this IDA fund performs. We provided a credit for an emergency highway rehabilitation program. With it funds were provided for studies for future highway development. United Nations Special Fund has also provided funds for such studies and we hope as these studies are completed and providing that the Congo Government continues to show the same spirit of . . . the same capacity that

it seems to be showing now to manage its economic affairs and to carry out these public works. We look forward to substantial lending in the field of transportation development including the highways, the very important river transport system in that country and possibly some railway development. In the meanwhile another proposal has come before us which is perhaps . . will be of considerable interest to you. I mentioned that when we are lending for industrial development in some of these developing countries, we cannot lend directly except for very large individual enterprises, so for small enterprises -- small to medium size operations -- we rely upon some intermediary institution and the Congolese Government asked us to consider how we might support industrial development, small to medium scale industrial development. In the Congo and jointly with the Government and with the private banking community in the Congo, with I am sure a great deal of assistance from Brussels, a proposal has been prepared for the establishment of an industrial development bank in the Congo which would be a joint enterprise between the Congolese Government, local private investors, foreign private investors and the World Bank Group. The World Bank Group through our affiliate, the International Finance Corporation, would participate in the share capital to provide an equity base for the lending activity and we in turn will provide a loan initially in the amount of \$5 million ~~to~~ designed explicitly to cover the requirements for the importation of capital equipment by local entrepreneurs in the Congo. This is an illustration of how these different institutions can be brought together to focus upon a problem and its an indication of our great interest in and confidence in the private sector in these economies. Not only will these funds be destined to ~~be~~ for use by entrepreneurs in the private sector, but the Bank itself

will be, although serving a semi-public function, ~~will be~~ dominated by private interests. The Government participation in this institution is only 25%.

The field of agricultural development in the Congo and in Africa generally, and indeed in the developing countries generally, is of great importance to us and we are gradually expanding our activities in this field to the point where in the next year or two we shall probably have more agricultural projects being processed and acted on in this institution than any other particular category. We have established a close working relationship with the FAO, the United Nations Organization established in Rome where we have a special section in Rome that works very closely with the World Bank in Washington in these fields. We've established very close connections with a great many other governments and professional institutions all around the world trying to focus on how to more effectively ~~to~~ promote agricultural development in these countries. You will bear in mind that in most of these countries agriculture is by far the largest sector of the economy sustaining the largest proportion of the population and in many cases providing a very important proportion of the exports of the country concerned. We have in this institution . . . we engage in this institution in a great many studies of the world commodity problems and a world commodity market because when you think of it a great many of our loans, even though they may be made for the purpose of building railways or power plants or industrial establishments, they finally are repaid in foreign exchange and that foreign exchange is often earned largely by an agricultural production and export. I only need to mention the case of coffee where a great many Latin American and African countries . . . their credit rests upon the

international coffee market and their capacity to produce and export coffee at reasonable prices.

We have some other special activities that might interest you. We have within recent years begun to finance on a substantial scale educational facilities in the developing countries. It's perhaps obvious, no one could deny, that education lies at the very root of economic development and progress, but of course it doesn't require a very large capital investment. The problem is often finding ~~the~~^{and} designing the curriculum and providing the teachers and this among other things has led us to emphasize both of those aspects. We don't just finance school buildings. We're interested in knowing how these school buildings are going to be used. We're interested in lending money where it is connected with a modernization or an important new development in the curriculum of the construction. And we are often concentrating on the financing of facilities for teacher training. Many of these countries do not have adequate supply of teachers even for their primary schools, let alone for their secondary schools and university levels and its very costly for them to rely upon foreign teachers that are imported for their educational systems. So we finance buildings, equipment and technical assistance needed for financing the educational systems of these countries with emphasis on those things which are either teacher training which has a large multiplier effect or other types of education which are closely related to economic development -- technical education, agricultural education, engineering -- and things which will have a reasonably direct return to the economy in the process of economic development.

- 9 -

Well, gentlemen, I could go on for a long while and this has not been a particularly systematic review but I thought just a few things that might interest you about our work, and I would be very happy if we have a few minutes remaining to answer any questions that any of your members may . .

NEWS SERVICE

INFORMATION AND PUBLIC AFFAIRS DEPARTMENT

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☐ THE FINANCIAL TIMES

☒ Plain Dealer, Cleveland

(Plain Dealer, Cleveland)

World Bank VP, Here, Mourns Inflation

The vice president of the World Bank said yesterday he felt short-term interest rates probably would not drop any lower than they are now in the United States. They may even go up.

The implication was clear that J. Burke Knapp felt that inflation in this country had not been licked. He would not comment directly.

Knapp is vice president of both the International Bank for Reconstruction and Development (World Bank) and its affiliate, the International Development Association (IDA).

THE 110-COUNTRY membership World Bank makes relatively conservative development loans to cash-short nations. The IDA makes what bankers consider riskier loans for development of emerging nations.

Knapp arrived here from Washington. He spoke last night at the Union Club to about 70 members of the Cleveland Committee on Foreign Relations of the Cleveland Council on World Affairs.

In an interview Knapp declined to comment on economic conditions in the United

States because he was an official of an international money institution.

HIS COMMENT on loan rates came as he described how the World Bank and the IDA raise money. The bank floats bonds in major international financial centers and the IDA receives grants from member nations.

Inflation, he said, is worldwide and is not desired. Both long-term and short-term costs of borrowing are higher in all nations than the United States. High money rates are inflationary.

Only in this country have short-term interest rates gone down from recent all-time highs, though not reaching the lows of a decade ago. Asked about the imbalance in international money rates, he said the short-term rate here may go up. Long-term rates here are still high, reflecting inflationary fears.

THE WORLD BANK recently borrowed \$200 million in the American bond market on a five-year term at 6½% interest. It also borrowed \$100 million from Japan for 10 years at 7.6% — high rates for long-term

borrowing guaranteed by the major nations in the world.

Currently the bank is lending its borrowed money out at an average rate of 7.25%, its average cost. It has never had a default in its 25-year history.

Short-term rates also affect the bank. It frequently has money appropriated for loans but not yet disbursed that it moves into the short-term market for interest at a profit.

LAST YEAR when American short-term rates hit their historic high, the bank was moving this cash, about \$2½ billion, into the American money market, an enormous amount during a cash-short period.

Conceivably, the money could move out of the United States if short-term rates remain lower than in other countries. America has only a 24% vote in the bank's directorship, based on its contribution to the bank.

Knapp also said that bids are not sought by the World Bank when it wishes to float a bond issue. Instead, two companies are awarded the bonds in this country on an invitational basis.



MONEY TALKS—J. Burke Knapp, right, chats with Earl P. Schneider, left, president of the Cleveland Council on World Affairs and John A. Gelbach, center, president of Central National Bank.



IBRD / IDA
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87
ARCHIVES

INFORMAL ADDRESS BY MR. J. BURKE KNAPP, SENIOR VICE PRESIDENT, OPERATIONS, OF THE WORLD BANK, DELIVERED AS THE "KEYNOTE SPEECH" AT THE THIRD INTERNATIONAL CONFERENCE ON COOPERATIVE THRIFT AND CREDIT, HELD IN LONDON ON JUNE 10, 1974.

Thank you for that generous introduction. I bring you greetings from the World Bank. I already feel very much at home here. I knew before I came of the interest of the organizations which comprise this conference, but both you, Mr. President and Mr. Tiwari have been good enough to refer to the World Bank and to some of the declarations of the President of the Bank, Mr. McNamara, and I have a real sense of kinship with this meeting, because we are certainly devoted essentially to the same purposes and objectives.

The mobilization of the savings of the world for productive investment is our task, especially productive investment in the developing countries, and one only needs to look about this room to understand that the developing countries play an important role in this organization. I am sure that they share with us and with the World Bank again the same objectives.

The World Bank itself is, after all, an international co-operative institution. That is exactly what it is. Our members are about 120 governments, and we have a Board of Governors and a Board of Directors which are representative of these shareholder governments and, if you like, organized on the democratic system that members vote according to their contributions to the capital of the institution. Our international Board which directs our affairs in Washington fully represents all of the membership and all of the varying interests of the countries participating in our institution.

I am going to talk a little bit about the World Bank and its work in the world, but I also want to talk more broadly about some of the general problems that we as co-operative financial institutions face these days. But first let me tell you a little about ourselves. As I think the Chairman mentioned, we have a family of institutions organized under the heading of the World Bank Group. The World Bank itself is the senior member of the family, so to speak, and the World Bank itself is organized on a business basis. We make loans to developing countries around the world at a rate of interest which is not quite a commercial rate. Our present lending rate is 7½ percent, but it is a solid interest rate, and we finance ourselves by borrowing in the international capital markets. We long ago found, however, that there were many countries which were too poor, too early in the stage of their economic development, or already burdened with too much external debt, and which could not bear the terms of a World Bank loan. Therefore we organized something called the International Development Association (IDA), which is again an international co-operative institution organized along the same lines, but its funds are provided by governments as free contributions to the organization, and we are therefore

able to lend out this money on very lenient terms - 50 years without interest, to be precise. We make only a small service charge to cover our administrative expenses.

As in the case of the Bank, we use this money for productive investment. We are just as rigorous in selecting the purposes for which that money is to be used and the manner in which it is employed as we are in the World Bank itself, but we lend it on terms suited to the repayment capacity of the poor countries. This fund enables us to carry out missions in the developing countries which would not be eligible on grounds of creditworthiness for World Bank loans. I might point out here that in this year we will be lending about 4 billion dollars to developing countries, of which 3 billion dollars comes from the World Bank and 1 billion from the IDA, and our total portfolio of loans outstanding is reaching towards 25 billion dollars distributed among over 100 countries around the world. We bear the name World Bank and we are in that sense a financial institution, but there has been an historical development of the Bank in the 25 years of its existence towards being more and more what we call a "development institution". We started out on a more or less conventional basis, financing the kinds of projects which banks finance in the domestic economy of most countries. We financed largely what we call infrastructure developments - power companies, railways, ports and highways, providing the basic public services in the developing countries, which seemed to us in the first decade of the Bank's activities to be a necessary underpinning for the development of productive economic life. We still do a good deal of financing of that kind which is capital-intensive and requires large commitments of money as these large projects are carried out.

But over a period of time we have come to realize that development is a very deep-reaching economic and social process, that providing that sort of basic public services was only laying the groundwork, and that moving on from there to evoking the productive capacity of developing countries meant reaching much deeper into the economy, into industrial, commercial and particularly agricultural life.

For after all, if we look at the developing countries as a whole, the great mass of the population is engaged in agriculture and in agricultural production, and we came to realize that some of the theories about the benefits of development trickling down to the poor elements of the community, especially in the rural communities, just did not work very effectively, and that the problems of agricultural development had to be tackled directly, tackled, so to speak, at the grass roots. Therefore over a period of time we have evolved much more into an economic development institution in which we are engaged in many far-reaching studies, both functionally in different subject fields and also country by country, trying to ascertain what are the latent development capacities in a country, and

trying to adjust our lending program in such a way as to evoke those capacities. More recently this has taken the turn which was emphasized in the quotations from President McNamara, namely, that even within agriculture we were not really getting to the roots of the problem and we have become increasingly conscious of the productive capacity which is latent in that 40 percent submerged element in the rural communities to which reference has been made. We are now tackling this problem out of deep sympathy with the plight of these peoples. But we are not tackling it as a welfare measure; we are tackling it because we have become convinced that with the proper organization and provision of inputs, and the proper provision of credit and marketing facilities, there exists in this submerged 40 percent great productive capacity which can be mobilized to support food production, to support export crops which can sustain the balance of payments of these developing countries, and which can provide - frequently for the first time in the life of these people - an opportunity for them to participate in the modern society and to make an effective contribution to development.

We have a good deal of literature on the subject of how we are trying to tackle this problem. I freely confess that we do not know how best to tackle it in many countries, and governments do not always know. We are trying to find those cases of successful application of techniques to get at the poor farmer and to bring credit and facilities to him on reasonable terms. We have made some break-throughs and we have undertaken some very far-reaching steps in some countries that we expect to be very rewarding.

Mention was made of President McNamara's speech in Nairobi, where we had our conference last September, and I might just give you, as one example of the kind of thing we are doing, a very large program which was launched within the last month or two in Kenya to develop the livestock sector. This is a very large program. The total investment, both in physical facilities and in services, and the input of technical assistance, comes to something like 60 million dollars. Our own contribution is an IDA credit of \$22 million. We are in this program closely collaborating with several other external development agencies, including the US AID, the British ODA and the Canadian CIDA. This program is aimed towards developing livestock production by hundreds of thousands of farm families in Kenya. It involves the provision of inputs of all kinds, starting with breeding stock, providing water supply, local roads, veterinary services, education and training of personnel, dissemination of more modern methods of livestock care than have been known in this country, and slaughterhouses (this is primarily meat production, destined for both domestic consumption and for export). And it incorporates large amounts of money simply for training and for technical assistance, and for providing expert services to carry the message to the poor peasant families of Kenya who are engaged in livestock production.

This type of program, which we are coming to call not just agricultural development but rural development, including things like community centers and informal education, such as some simple instruction in literacy and in accounting for farm families, is increasingly engaging our attention, and throughout all this type of work runs the thread of cooperative activity.

As has been well said already by one of our speakers, neither we nor any other institution on an international or even a national scale can reach down to the level of a poor farming community, except through some kind of local organization, and we have been devoting a great deal of study and time to trying to define and ascertain what kind of organizations exist, what the experience of different countries has been in different forms of organization, and trying to act as a clearing house for the exchange of information as to how to go about these things. Organizations like your own here, in particular the ICA ^{1/} and the WCCU, ^{2/} are to be warmly congratulated for holding a meeting like this and bringing your membership together to exchange experience on how programs of this kind can be most effectively carried out.

Now our institution, like yours, confronts the fact - sometimes the harsh fact - that we can carry out our missions only as we can raise money, and raising money means finding savings. Savings are our staff of life. We have to mobilize savings to bring them to bear on productive investment in the world that we serve. The World Bank's money comes from governments in some part, but there is no magic about governments. To the extent that we get money from governments, they too have to raise it from taxpayers. A large part of our money, particularly in the World Bank, still also comes from the private sector. We sell bonds to individuals and private institutions all over the world, and in that sense we are directly dependent upon the mobilization of personal savings. We offer a reasonably profitable, but also reasonably useful and productive, outlet for those savings.

Let us look a little at these developing countries. One of the most striking facts about the process of development in the world is that, however much may be done by external agencies, bilateral agencies, and multilateral agencies like the World Bank - though we do not think it is enough and we are trying constantly to raise our sights both in terms of the volume of work we do and the quality of that work - the fact is that most of the developing countries raise most of the money for development at home. People sometimes have the false impression that developing countries are just on the end of some sort of a breadline from the rich countries. It just is not true, as you no doubt all know. On the average, something like 85 percent of the resources for development are raised in the developing countries themselves. This we think is a

^{1/} International Co-operative Alliance

^{2/} The World Council of Credit Unions, U.S.A.

very impressive contribution when we consider the level of living standards out of which that 85 percent has to be produced in a developing country.

We have a sort of rule of thumb that if a developing country is not devoting more than 10 percent of its total available resources to development, it is unlikely to be making much progress. In this connection you should bear in mind that most developing countries have to cope with a rapid growth in population so that it takes a substantial amount of investment and increasing production just to maintain living standards at existing levels. In general, a country can only really begin to tackle the problems of development if 15 percent of its total available resources are going into investment, and in order to make real economic progress in per capita terms a country must devote more like 20 percent of its resources to development. All of this means that developing countries must make a major effort to mobilize internal savings since, as I have said before, external aid normally provides only a marginal supplement to their own resources. Governments can save by taxing and by not spending all the tax money, saving some of it for investment. They save in many countries through public enterprises. One of the miracles of savings, I think, is in India, where despite the very low capacity of the population to pay for public services, the Indian Railways make money to reinvest in railway development. So through taxes in the public sector, and public service revenues, governments can save. But governments can never do the whole job or even the main part of the job - the exception being made only for a wholly socialist country. In most developing countries the burden of savings rests on the private sector and upon the capacity of private people, private households, to save and productively invest.

Private savings may go in part directly into investment, as a farmer may squeeze out of his crop a little money to employ for the purchase of a draft animal or to improve his housing. That is direct saving by the investor. This happens in building and loan associations where savers are financing their own housing development. But most savings in quantitative terms must be transferred from the saver on the one hand to the investor on the other hand through savings institutions, and this is the great role that is provided by intermediary financial institutions such as many of these represented here - and again by the the World Bank. We are just an intermediary financial institution collecting savings on the one hand and devoting them to financing production on the other. In developing countries private savings, whether directly invested or transferred through intermediary institutions, must come in large part from the poor elements of the community. It is ironic but true that the wealthy people in the community may save more individually, but when we look at the nation as a whole, unless there is a savings effort at the grass roots level, we cannot generate that amount of savings necessary to produce economic progress.

What is the outlook for personal savings in the world? I think it has to be said that it is not very good, and the most immediate reason one cannot be too happy about the outlook is the plague that is persisting in the economy and finances of the world today - inflation. I would like to say a little more about inflation later in my talk, but I want first to say, just in parenthesis, that there is one great and bizarre exception to this outlook for savings. The fact is that the oil countries of the world today, thanks to a revolution that has taken place in their trade in oil, are accumulating vast savings on a scale that is quite overwhelming for our financial mechanisms on the world markets. This happens to be of particular interest to the World Bank, because we are turning to these oil countries to mobilize their savings for the purposes of the World Bank; just in the last few months we have sold World Bank bonds in the amount of some 500 million dollars to oil countries in Iran and the Persian Gulf. This is quite an extraordinary phenomenon, because the figures are so staggering. Most estimates have it that within the next five years, say by 1980, there will have accumulated in the hands of oil-producing countries something over 500 billion dollars. In other words, in terms of the operations of the World Bank, a pretty large institution, a few crumbs off the table of the oil-producing countries will keep us going nicely. Meanwhile, while we are trying to mobilize funds from these countries, these countries are themselves setting up institutions to assist in development in the developing countries.

Kuwait has a population of some 800,000 people, and oil revenues of several billion dollars a year. There has been a Kuwait Development Fund for some time which has been using some of its oil revenues to finance poor Arab countries; only Arab countries. We have actually engaged in joint operations with them in which they have helped to finance projects in countries like the Sudan, Egypt or Yemen, and they are quite prepared, if it is a poor country like Yemen, to provide this money on extremely lenient terms. They have now decided to expand this operation on a world-wide basis and to set up a fund to assist developing countries in Africa and Asia, and maybe eventually in Latin America. They have endowed this institution, just like that, with 3½ billion dollars - this from a community of 800,000 people! There is a pool of savings which can be put at the disposal of many developing countries. But that is about the only bright light on the scene as far as savings are concerned.

There are far deeper forces, political and social, that determine the volume of savings, and to my mind the most fundamental is that savings are generated in communities where there is a degree of political and social stability and personal security. Where there is a police state and people live in fear of their lives and in fear of their property, what is the incentive to save? Savings are for the future. Looking at it from the point of view of an individual

or a family, savings are for the future of the saver or his children, and this demands a degree of personal security that is present in most parts of the world but present also in different proportions. But there is more to it than that. The habit of thrift, the propensity to save, is a part of the social ethos of countries. A great deal of study has been devoted to the question by sociologists without really coming to very satisfactory answers as to why this ethos exists in some communities and some societies and not in others. But one can certainly see that in different countries there exist different ideas about the relationship between consumption and saving.

We in the West - and coming from the USA I have to plead guilty first of all - have done a great deal to throw over old ideas of thrift, savings, confidence, and the wish to provide a future for our communities and our families. We have done much to encourage the profligate use of material resources: the "keeping up with the Jones's", the gadgetry, the fantastic material consumption which Western societies have developed: and in this sense we have set very bad - in fact impossible - examples for other societies. Many of you will be familiar with some of the analyses of the problems and what it is doing to the world's material resources. Twenty percent of the population of the world consume over 90 percent of the energy resources. Where does that leave the other 80 percent? The 80 percent, by definition, can never achieve that level of consumption. The consumption of steel per capita in the United States is 100 times that of Indonesia. It really does not make much sense to talk about a world community when disparities of that kind exist. They will in fact never be closed and they cannot even be reduced, unless Western societies organize themselves a little better in terms of the level of conspicuous consumption of material goods.

The Shah of Iran has made himself very unpopular by passing strictures like this upon Western society, but maybe he has a point. Maybe this point is coming home to some of the younger generation. Youth movements in the Western societies are often scornful of the material advances that their elders have made. They may in the end be showing very good sense. There is one dim light on the horizon there to suggest that maybe the levels of material consumption in Western societies may be reduced. But I am getting off into the question of raw materials use and the strain on the world's physical resources. Let's come back to savings and how savings are to be mobilized in such a society. How is this to be achieved in a developing country which attempts vainly and, one must say, wrongly to follow the path of such high material consumption?

Coming back again to the poor countries, I think one can only be inspired to see how a country with a per capita income of 100 dollars can save out of that level of production and devote even 10 percent - a minimum level - to development. Take the average income of people in this room; how much do you save? I am afraid

we all spend up to our income. The remarkable thing is that savings has much more relation not to the levels of living standards in a country but to the pace of advance. That is understandable. If a country can be lifted on to the curve of increasing production, savings begin to accumulate because people just have not adjusted to what is available. One of the most challenging tasks for those interested in development is to get that momentum established, to get ahead of the game, and with this comes the savings that can carry on to the next stage of development. We had a most remarkable case of that in the post-War years in Japan. Japan leapt out of its disastrous situation after the War. They had large external aid, but they leapt out of that stage of post-war frustration by a rapid increase in production. That production was not consumed, so that Japan reached extraordinary levels of savings. One of the most effective ways of measuring progress is not by percentage of gross national product invested, but by how much of the increase in gross national product is saved - the marginal savings rate. In Japan the figures reached over 40 percent; over 40 percent of the increase in production went into investment rather than into consumption. The Japanese "economic miracle" that we hear so much about is attributable exactly to that extraordinary burst in savings. Now Japan is learning to live up to those standards of production and the marginal percentage of savings is declining. Production is now much larger so a smaller margin of savings still yields very important sums for investment, so Japan is still expanding at a remarkable rate, though not quite at the extraordinary rate of the late 'fifties and early 'sixties.

The trick of savings is to keep ahead of the game, to increase production, and before people come to live up fully to their possibilities, to seize the opportunity of that margin of savings. The trouble is that as the French say, "l'appétit vient avec mangéant". People also see what is happening in other countries and the force of example set by some other societies inspires higher levels of consumption. This is what is happening now in Japan; consumption is catching up with their productive resources and has unfortunately tended to reduce the volume of savings.

Suppose that the political environment and the social ethos are favorable in a country to savings effort, then we come to the point that savings, (except in those rare cases where they are directed to a man building his own house or a farmer developing his own properties), if they are to be transferred through financial institutions to productive investment, have to be based on a unit of account. That unit is money, and here we come to the question of inflation and the degeneration in the value and standard of money.

As we look around these days, not only in the Western countries but in the developing countries too, where inflation has been imported largely from abroad, the prospects are rather dismal. Why should people save in a money medium when they see it depreciate constantly before their eyes? Why should they save when their past savings are eroding and disappearing? This has always been happening. There is a basic inflationary bias in most of our economic and financial systems, and it had been going on at the rate of 2 or 3 percent a year. But we are now reaching levels of inflation which seem to be epidemic and which carry a much greater threat to the entire system of financial institutions - including the World Bank. We are getting now to what people call chronic "double digit" inflation - over 10 percent.

I do not know if you all know the "rule of 70". Since I am not very good with a hand machine, I always do a lot of my calculations by the rule of 70. If, for example, something is increasing by 7 percent per annum, you divide that into 70 and find that it takes 10 years to double. If something is going up by 10 percent per annum it takes 7 years to double. If something is going up by 14 percent per annum it takes 5 years to double. It always works. Anyway, by the rule of 70 we can measure how long it takes for anything to double at a given rate. Looking at it in terms of the value of money, we can measure how long it takes money to fall to half its present value. Going up by just 10 percent per annum (I am not talking about "double digit" inflation; let us be conservative!) it takes 7 years for the value of money to fall to half, it takes another 7 years for it to fall to a quarter of its original value, and so on.

That is the kind of environment in which our economies and our financial systems today are trying to operate. People really froth at the mouth about inflation and give long hortatory lectures about it, but inflation really is poisonous to development, to economic progress, and certainly to savings and thrift. It stimulates consumption. People buy rather than save. Why save for the future? Live it up today. People hoard gold, commodities, postage stamps, antiques, and so on, which means money going into unproductive use. Investments go into the wrong kinds of things, to serve the wrong kinds of consumption. It has vicious effects in terms of the distribution of income.

Mention has been made of Brazil, where I spent a year as head of an economic mission. This was at a time when the Brazilian rate of inflation was 75 percent to 100 percent per annum. The Brazilian currency degenerated within a period of about 30 years by a proportion of 1 million to 1! What was so striking in a country with inflation like that was the way in which energies and resources were all devoted to the wrong purposes. During my stay in Brazil, we had a visit from Professor Lionel Robbins - Lord Robbins now. I had had the privilege of knowing him before.

I said "Lionel, what do you think of this country?" He said, "My dear fellow, this is a perfect laboratory of economic pathology." And so it was. The productive efforts of people were going into playing the game of speculation on real estate and commodities rather than into productive activities, with gross distortions in the flow of income, losses to the poor, and a floating tide of inflation profiteers. Then we had attempts by governments to introduce rigid enforcement of price controls, materials allocations, production allocations, all to the detriment of an efficient economic mechanism.

to be mentioned,

Last/ but by no means least in this present company, inflation destroys financial institutions, for when money becomes that nearly worthless, the stock-in-trade of the financial community turns rotten. Nobody wants money. Everybody wants to get rid of money on goods or conspicuous consumption.

There are ways of dealing with these problems. It is the responsibility of governments, through fiscal policies and monetary policy and incomes policy, to deal with those problems. Indeed the fact that such problems have arisen shows the failures and deficiencies in public policies. However, once inflation has caught hold it is a kind of brush fire and cannot be stopped short in its tracks. It can only be slowed down and ameliorated over a period of time, and only with the understanding and cooperation of all elements in the society. I suggest that one of the prime considerations of this conference ought to be the effects of inflation on the institutions and purposes for which you have gathered together.

I want to say a word or two about interest rates. I think there is a wrong-headed approach to interest rates, particularly in a time of inflation. People say: Keep interest rates low, that with inflation at such a high rate, borrowers cannot afford to pay higher interest rates. They say that at least this is one thing that can be held down. I suggest that this is a wrong-headed way of looking at the matter. Inflation or not, if interest rates are abnormally low then many unfortunate things happen. I am thinking now particularly of the poorer countries, where manpower is so largely available. Many developing countries have low interest rate policies. But this fosters unemployment, for if people can borrow money cheaply and invest it in capital goods they tend to make capital-intensive rather than labor-intensive investments. Higher interest rates will encourage the more effective employment of labor, which is the great unused resource of most developing countries. Low interest rates, when administered by institutions - and particularly by public institutions - inevitably encourage favoritism, not to say corruption. As a matter of fact, although low interest rates are often advocated and meant to reach poor people, those funds often find their way to the middle income or even the richer people, through some illegitimate channels, and the benefits do not fall where they were expected to fall. But worst of all, if low interest rates prevail in a country, they prevail both on the borrowing and on the lending

side, and it means that savers do not have that incentive to save which is given by their getting a fair reward for what they entrust to financial institutions.

I suggest to you that this lesson is an important one, and that in a time of inflation we must adjust our thinking and recognize that interest rates must be raised to levels that will effectively mobilize and attract the saver's interest.

That is about all I have to say. Inflation means that our stock-in-trade as financial institutions is degenerating. I think that we as citizens should be deeply concerned about that in our respective nations, and our voices should be heard and felt. But in particular we, as people concerned with the effective functioning of institutions, have a particular interest in that matter.

I referred earlier to the fact that for the World Bank, like all financial institutions, savings are the staff of life. I would like to vary that a little now and to say that: Man does not live by bread alone - man lives by bread, love and savings. Thank you.

Jenny -> to circulate -- with final to
Monique for speech book

Press reports on a speech by Mr. Knapp.
Mr. Knapp's office says he spoke from
notes so there is no text.

(For your private information, the
International Cooperative Alliance on
Thrift and Credit promised to send
verbatim to Mr. Knapp's office -- if it
ever comes in I have been promised a copy)

got 1 copy

July 74

Mrs. D. Bomstein

Room A-110

4 copies

REUTERS

World Bank Service

Wednesday, June 12, 1974

NEWS SUMMARY

CANBERRA: Australian Prime Minister Gough Whitlam today announced establishment of new machinery as part of the development of more extensive systems of surveillance by the Government of foreign investment in Australia. A new Interdepartmental Committee will be set up to examine and provide advice on foreign investment proposals which come under notice through the exchange control mechanism, and do not involve the takeover of Australian business.

Mr. Whitlam declined at a press conference to say whether he would honor an election promise not to increase either direct or indirect taxes in this year's budget.

TAIPEI: The Nationalist Chinese Government will grant export loans of not more than five million nationalist dollars (US\$141,000) each to provide enterprises for purchase of raw materials, the Central News Agency reported today. The Agency said the measure was designed to help small and medium enterprises hard hit by the World economic recession.

PARIS: Frenchmen braced themselves today for a program of stringent austerity measures to be announced by the two-week-old Government. A stiff increase in income taxes, import restrictions and new fuel savings measures were expected to figure high on the list of measures, to be revealed after a Cabinet meeting today.

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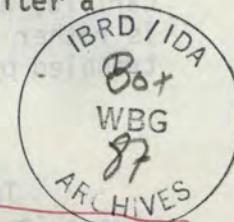
WORLD PRESS REVIEW

LONDON: The Times business section reported a London speech by World Bank Vice-President J. Burke Knapp yesterday in which he argued against low interest rates. Mr. Knapp was speaking at a conference called by the International Cooperative Alliance on Thrift and Credit. The Times said Mr. Knapp made the "controversial suggestion" that efforts to lower interest rates represented a wrong headed approach in dealing with international inflation.

He claimed low interest rates fostered unemployment and not the more effective employment of labor, the Times reported.

The Times said in a leader that of all the many engines of inflation currently eroding the value of money at home and abroad not the least menacing was the huge growth of the Eurocurrency market. It listed reasons why the Eurodollar market was both less stable and potentially more inflationary than normal domestic banking systems.

...../



"It appears that the leading Central Banks have at last reached some informal agreement to prevent a chain reaction of major banking collapses in the Eurodollar market," the Times said.

"But the normal controls on the cash basis of the system are missing."

- 0 -

The Daily Telegraph, looking at economic infiltration in Latin America, reported that the long economic shadow being cast by Brazil over Latin America was causing unease in neighboring countries. Main fear was that the relatively puny economies of such nations as Bolivia, Paraguay and Uruguay would eventually be so totally dependent on Brazil as to make even political independence suspect.

The Telegraph said it did not take "much savvy" to realize that there could some day emerge a strong economic axis of conservative military regimes backed by the flair of Brazilian technocracy.

- 0 -

The Guardian reported that Spain's Chief of High General Staff, Lieutenant General Diez Alegria, would shortly be relieved of his post, according to Madrid sources. Diez Alegria had the reputation of being a liberal, the Guardian said. As a soldier of intelligence who had a realistic outlook, he had been described as Spain's Spinoza.

Recently the head of the Spanish Communist Party in Exile, Santiago Carillo, announced in Paris that he was in contact with the General. "All this is rather too much for the rightwing establishment of Spain, which is still troubled by the aftermath of events in Portugal."

- 0 -

The Times said in an editorial on the Italian crisis that foreigners were quite used to the idea of Italy being without a Government -- "Indeed they have formed the impression that it makes very little difference whether Italy has a Government or not."

Yet it was precisely this lack of Governing capacity, lack of any central authority capable of making clear political decisions, which made the Italian problem peculiarly acute, said the Daily Telegraph.

"Britain has no cause for complacency over the Italian dilemma, It could happen here, we share some of Italy's weaknesses," it concluded.

- 0 -

The Guardian, in its business section, quoted a spokesman for the Banca d'Italia as denying flatly in Rome last night that Italy was seeking any new international credits. He said the only international loan currency being negotiated was \$200 million sought by the Italian State Railways, the Guardian reported.

NEWS SERVICE

INFORMATION AND PUBLIC AFFAIRS DEPARTMENT

This news story appeared on page 19 of the JUNE 12/74 issue of:

☐ THE NEW YORK TIMES
☐ THE WALL STREET JOURNAL
☐ THE JOURNAL OF COMMERCE
☐ THE WASHINGTON POST

☐ THE CHRISTIAN SCIENCE MONITOR
☒ THE TIMES
☐ THE FINANCIAL TIMES

World Bank chief says low interest rates wrong

By Our Industrial Editor

A controversial suggestion that efforts to lower interest rates represented "a wrong-headed approach" in dealing with international inflation came yesterday from Mr. J. Burke Knapp, vice-president of the World Bank. He said the paramount need was to restore confidence in saving and money, the stock-in-trade of bankers.

Speaking at a London conference called by the International Co-operative Alliance on Thrift and Credit, Mr. Knapp said: "People say that with inflation at such a high rate they cannot afford to pay higher interest rates. They say that at least this is one thing that can be held down."

"I suggest that it is a wrong-headed way of looking at it to want low interest rates at such a time. Inflation or not, if interest rates are abnormally low then many unfortunate things happen."

He claimed that low interest rates fostered unemployment and not the more effective employment of labour. Low interest rates when administered by institutions simply encouraged favouritism "not to say corruption".

Low rates were often advocated and meant to reach poor people, but the funds found their way to the middle income, or even the richer people, and benefits did not fall where they were expected to go.

Worst of all, if they prevailed, they were both on the borrowing and the lending side—and it meant savers did not have incentive to save to get a fair reward from financial institutions.

Bank Notes

TV Interviews
Snack Shoppe Closes
Photo Contest

April 1981



News about the men and women of the World Bank

King, in farewell, bids the Board to place interest of the Bank first



Colbert I. King

When I was very much younger, I used to deliver morning newspapers to homes and businesses in this neighborhood and walked everyday along the street on which this building is standing.

Washington was much different in those days. Sometimes on the route here from my home, I would pass in the vicinity of a public school, and a movie theater, and a drug store—all of which are still standing. What makes the Washington of today different from the Washington of 30 years ago is the fact

that then the law did not permit me to attend that public grade school or to enter the movie theater two blocks away or sit at any downtown drug store counter, simply because I was black. That world of yesterday is part of the legacy that my country grapples with even today. But it is because of those childhood experiences and all that transpired in the following years to change the United States, that I will always cherish the honor bestowed upon me by President Jimmy Carter when he appointed me to represent the United States at the World Bank.

My pleasure was only enhanced by the knowledge that I would sit as the US Executive Director during your tenure as Chairman of the Board and President of the Bank. On an earlier occasion, I expressed my admiration and respect for you because of your courage, intellect, enormous drive and energy, your genius for persuasion and leadership, and the fact that you devoted your talents not in behalf of the powerful or in pursuit of personal enrichment, but rather in behalf of the poor of the world.

I would simply add this observation: from your Senior Vice Presidents to the

support staff, you also have brought together one of the finest groups of women and men ever assembled under one organizational umbrella and together you have forged the World Bank Group into the most effective international instrument of economic and social development that the world has known. I am glad that I will be able to say in the future that I served at the Bank during part of the McNamara era. One further thought on the staff—during my tenure, but even well before my arrival, the US representative has had occasion to express himself—sometimes forcefully—on the subject of staff compensation. I want to speak personally and say that in my judgment, the staff is worth every cent it has been paid and even more. I wish you and the staff well in the future.

Saying goodbye to my fellow Executive Directors and Alternate Executive Directors is especially difficult. In the time that I have served, much of what began as official relationships have become, at least for me, warm friendships. Official courtesies have given way to personal respect, correct formal exchanges have been replaced by open, direct communication and the deep understanding which follows. It is in this vein that I wish to say a few last words to my colleagues on the Board.

The World Bank is at a critical juncture in her life. The months ahead will confront member governments of the Bank with difficult problems and the

answers—to the extent answers can be found—certainly will not be simple, easy, or painless. The role of the Executive Directors will be crucial in the future, especially as the leadership of the Bank formally changes hands, as governments continue to grapple with the problems that threaten economic growth and social development in the developing countries, and as the Bank comes to grips with its own financial uncertainty. Executive Directors, undoubtedly, will be expected to represent the views of their authorities as important issues related to the future of the Bank come before the Board. And as we have seen increasingly in the past, occasions may arise in which Directors will either be instructed or feel compelled to speak from the point of view of their authorities' economic status: for example, developing or industrial.

In today's world, it would be naive to believe that the Bank could avoid becoming embroiled in the North-South dialogue or that strong interests of member governments, albeit narrow, could not surface in Board discussions, particularly when important issues affecting fundamental national or regional interests would seem to be at stake.

But it is during such moments that the role of Executive Directors becomes truly significant. As difficult matters arise, it will be easy and perhaps

(Cont'd on Page 4, Col. 3)

The Staff Association

Ten years old and going strong

By Christine Abel

"It was the most interesting and challenging job I have had in the Bank," says Madeleine Wyss, who, 10 years ago, became the first secretary to work for the Bank's newly formed Staff Association (SA). Monique Deheza-Buchberger, the SA's current staff assistant, and Sharon de Jesus, who is the secretary of the SA, add that the job is also "very rewarding."

If perceptions haven't changed over the last 10 years, the office environment certainly has. The SA has moved four times since its inception, and it has come a long way from the crowded room where Madeline sat nearly 10 years ago, on the

fourth floor of the "C" building, to the ground floor of the "N" building where SA members have been working since last January.

Of course, the working environment is only one of many, many changes that the SA has undergone over the past 10 years. Remember the financial statement in the early years—zero assets; zero liabilities? The financial statement for the period July through December 1980 reads: "Total Estimated Resources \$105,862.75; Total Allocations \$105,862.75." And all Executive Committee members remember the long hours of evening and weekend work they

(Cont'd on Page 3, Col. 1)



The Staff Association Executive Committee, from left to right: Sharron DeJesus (Staff Association Secretary), Francois Falloux, Patricia Kittlemen, Monique Deheza-Buchberger (Staff Assistant), Zerubaberi Bigirwenkya (1st Vice Chair), Mirza T. Baig (Chairman), Dale Hill (2nd Vice-Chair), Joseph Brooks (Treasurer), Melhem Salman, and Christine Abel (Secretary). David Delmonte, Lucien Moreau, and Isaac Sam were not available when the photograph was taken.



End of an Era

George out; Marriott Corp. in

For almost 25 years, George Michael dished out a variety of fast food specialties in the first floor Snack Shoppe at 801 19th Street ("N" building). Bank staffers who were accustomed to patronizing Mr. Michael's establishment, however, now must look someplace else to eat. The Snack Shoppe closed earlier this month.

Since the Bank took over the lease for the entire building (except the basement) last year, Mr. Michael has been looking for another location for his carry-out. He says that he is "getting close to retirement" but that he would still like to work for another year or two.

Mr. Michael says that a lot of interesting people came into his shop over the years, including several US Senators and State Department staff. A number of US Government agencies leased office space in the building prior to the Bank's move there. "Bank people were nicer than anyone else," the former Snack Shoppe owner says. He adds that he enjoyed meeting people from different cultural backgrounds and that he always tried to be "diplomatic and understanding" when it came to preparing food the way someone wanted it. The most difficult customer he remembers having to deal with was a woman from one of the government agencies who

never approved of the way he buttered her toast. He finally suggested that she eat breakfast at People's Drug Store across the street, but she continued to come by the Snack Shoppe everyday for toast. "And she continued to complain, as well," he adds.

Mr. Michael says that the business has been good to him. He admits that, although he is not a wealthy man, he has been able to raise a family, buy a comfortable home, and pay his three children's expenses for college. And he even took a trip to Greece last summer. So business wasn't too bad during most of the last 25 years. But he says that the trip to Greece was his first vacation in five years and that he otherwise worked everyday from 7 A.M. to 5 P.M.

Some staff members depended on his coffee every morning to get them going; others used his refrigerator to store bag lunches and party foods; and a few stopped by now and then—when something exciting was going on someplace in the world—to catch the latest news on his 24-year-old TV set. "I'm going to miss the Snack Shoppe," an "N" building staffer said recently, adding, "I sure hope George finds a new place to set up shop until he is ready to retire."

Even Winston Would Have Been Envious

Churchill message seen by 6 million

By Katie Fawcett

On March 12, Anthony Churchill probably surprised more than a few of the 6 million people in his audience when he stated that they spend almost twice as much money every year for chewing gum as they do to help the world's poor.

Mr. Churchill, Director of the Bank's Urban Projects Department (URB), was interviewed by the Christian Broadcasting Network's (CBN) President, Patrick Robertson, in a 15-minute segment of a program called the "700 Club." The URB and the Audio-Visual Division of Information and Public Affairs have been working together for almost a year to produce background material and footage for interviews and documentary films about the Bank's role in assisting the urban poor.

Mr. Churchill said later that he picked up the "chewing gum" statement from the late US Senator, Hubert H. Humphrey, who used to remind Congress of this particular statistic every time it came around to deciding on how much money would be allocated for foreign aid. I couldn't help thinking that, if the amount of money spent for foreign aid is only half the amount used to buy chewing gum, dollars for the world's poor must not stack up very well at all alongside the same spent for other, more expensive, treats.

As I sat in the CBN's studio at the National Press Building, I thought of how frightened I might be if I were getting ready to go on TV. But not Mr.

Churchill. On the contrary, he appeared relaxed and confident as he was being "prepped" and getting his nose powdered. He had arrived a little more than 30 minutes before air time and had plenty of time for a rather scanty make-up job, a cup of coffee, a few pointers on where to look and how much time to spend answering each question, and a hasty hook-up to an earpiece and microphone.

While the producer helped prepare Mr. Churchill for the show, the crew adjusted the sound and video equipment so that his voice would be audible and his skin tone would look slightly pink instead of having the greenish glow that first came from the monitor. The studio was a mass of wires, chairs, open heating ducts, cables, and several kinds of equipment, but all of the disarray was kept well out of the camera's view. Beneath the glaring lights, the small stage was the only part of the room that looked neat and organized.

If one did not realize how the show was being broadcast, it would have been easy to get the impression that the World Bank guest was talking to himself. Mr. Churchill sat alone on the stage with a huge painted mural of the US Capitol and the Washington Monument in the background, while Mr. Robertson, the show's host, relayed his questions from a studio in Virginia Beach, Virginia, where most of the 90-minute program was being taped. The two men were able to see each other via a TV monitor as they talked. Those of us who were sitting

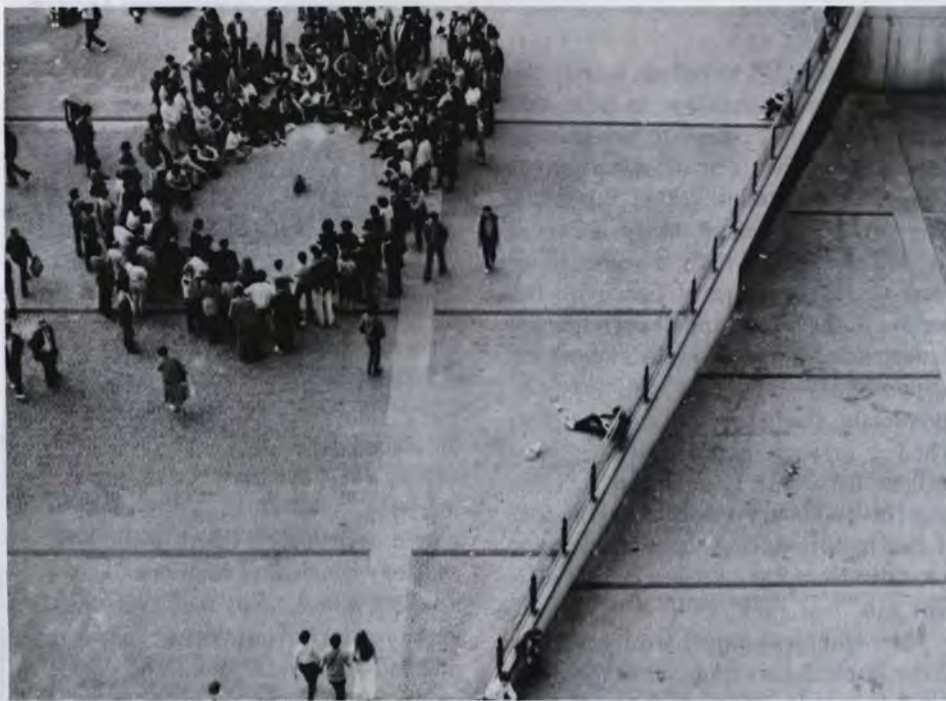


Photo: Y. Hadar

in the studio were at some disadvantage, since we could see both men on the monitor but could hear only Mr. Churchill. It was quite amusing to listen to his answers and to try to figure out what the questions had been.

Why would the CBN be interested in the World Bank, anyway? "We really are not primarily interested in the Bank itself," says Bruce Evensen, the News Editor for the CBN in Washington. But

he adds, "We are interested in what the Bank is doing to improve the living standards of people all over the world." He continued to say that the CBN likes to do whatever it can to promote goodwill and compassion for people in need, and that the Network's staff feels that it is worthwhile to focus on the Bank's work in order to make more people aware of what is being done to alleviate poverty in the world.



Point Counterpoint wins first place in exhibit.

"Fun" photo cops best of show

Magdalena Rodenas was pleasantly surprised last month when a photo she had taken "just for fun" was awarded first place in the Camera Club's most prestigious event of the year—the annual exhibition.

The photo, which Miss Rodenas named "Point Counterpoint," was taken from the top of a building that overlooks the esplanade of the Pompidou Center in Paris. She was enroute back to Washington after having spent several weeks in Spain on home leave, and she decided to do some sightseeing in France. She shot the photo with a 35-millimeter Olympus OM-2 camera with a 50-millimeter regular lens.

Miss Rodenas says that this year has been an especially good one for her. She has had several winning photos in the Club's monthly competitions and an

honorable mention in an annual exhibition that was sponsored by the Greater Washington Area Council of Camera Clubs.

In the 10 years that she has been taking photos, however, she says that this is the first time she has ever placed first in a major contest. "Point Counterpoint" was chosen as the best color print from among 140 entries.

The judges for this year's exhibition were Kathleen Ewing of Georgetown's Kathleen Ewing Gallery, David Haberstich from the Smithsonian Institution's Division of Photographic History, and Taylor Gregg, Illustrations Editor at *National Geographic* magazine. Miss Rodenas is a translator/reviser in the Language Services Division of the Administrative Services Department.

Staff Association ... Cont'd

contributed, a burden made a little less onerous by the 24 staffmonths of time release we can now use.

One of the early causes for the perceived need of a staff association may have been the unilateral decision in the late 1960s, by George Woods, the Bank's President at that time, to restrict first class travel. But the real underlying reason is more likely to be found in the growth of the volume of work and number of staff after Robert McNamara became President of the Bank in 1968.

At that time, there were about 1,700 staff members, a number that grew rapidly over subsequent years to 3,900 by 1975 and to about 5,500 today. The rather relaxed, collegial atmosphere that had prevailed in the Bank's early years was necessarily changed to one of greater formality. At the same time, both staff and management saw the need for a recognized channel of communication by which both could ensure that each was aware of the other's opinion on the broad range of issues that affect staff members in their relations with the institution.

Studying the Need

It was on April 27, 1971, that the first Provisional Delegate Assembly met, a body that represented each department in the Bank. At that first meeting, a special 12-member Working Party was formed to study the need for a staff association.

The Working Party, which issued its report on July 1, found that staff groupings were the rule, rather than the exception, in other international organizations and urged the creation of a staff group "to promote and safeguard the rights, interests, and welfare of the staff." The August 23 Delegate Assembly of that same year approved the findings of the Working Party and designated a three-member commission to draft a constitution.

Peter Eigen, of the West Africa Country Programs Department II, remembers his work with Raymond Cope, a former staff member, and Gillian Kaplan, of the East Asia and Pacific

Country Programs Department, in drafting the Constitution. He says that they met every second evening over a period of many months at each other's homes. Peter recalls that "it was the objective of the drafting committee that the Constitution be built on a consensus of opinion for each of its individual components," and, consequently, every element was discussed in the Delegate Assembly, not without considerable dispute, but, eventually, with final agree-

Chairmen of the World Bank Staff Association—1972-1981

James Chaffey	1972
Gillian R. Kaplan	1973
James Friedlander	1974
Amir Al-Khafaji	1975-76
James Chaffey	1976-77
C. Eugene Webb	1977-78
Spiros T. Voyadzis	1978-79
Nicolas Gorjestani	1979-80
	(through March)
Roy Pepper	1979-80
	(from March)
Mirza T. Baig	1980-81

ment. That agreement was overwhelmingly endorsed by staff, with the result that the Constitution of the World Bank Group Staff Association came into effect on February 25, 1972.

As stated in the Constitution, the objectives of the SA are: to foster a sense of common purpose among members of the staff in promoting the aims and objectives of the World Bank Group; and to promote and safeguard the rights, interests, and welfare of the members of the staff.

The SA can look back on many achievements in meeting these objectives over the last 20 years. An early achievement was the removal of the designations of staff as "professional," "special services," (although work continues on the F/I study), and "general services." Another was the disassociation of benefits to grade. Under Amir Al-Khafaji's chairmanship in 1975/76, the role of the SA in the compensation review procedure was substantially expanded and enhanced. Management's proposals for the 1976 staff compensation package

were being considered by the Executive Directors, and the SA's views were conveyed to the Executive Directors through management. Another major development was management's decision to allow the employment of staff members' spouses, a policy change that had long been a priority issue with the SA.

In that same year, the Appeals Committee was formed. And it was in December of 1976, when Jim Chaffey, of the Western Africa Country Programs Department II, was Chairman, that the Personnel Manual Statement on "Appeals Procedures" was first published.

Another accomplishment of this period was the introduction of the Secretarial Staff Development Program, the creation of three functional streams intended to provide a more flexible basis for career development for secretarial staff by relating grade levels more closely with the responsibilities undertaken, rather than with the level of the supervisor. Refinements to this procedure are still being worked on today in the Staff Development Committee.

Remember Kafka?

Eugene Webb, of the Legal Department, was Chairman of the 1977/1978 period, and the work of the Executive Committee started focusing on materials prepared for the Kafka Committee. Work intensified the subsequent year when Spiros Voyadzis, of the External Relations Department, held the Chair. It was then that the Legal Rights Conference was established to look into the rights and obligations of staff and management. The Participation Advisory Committee (PARTAC) was also established. Although staff representatives were able to meet directly on one occasion with members of the Kafka Committee, as well as to make a presentation to the President's Council and to the Board of Executive Directors, the Kafka Committee's consideration of staff's interests and recommendations was only incidental. The outcome of this dissatisfaction is the class-action suit that is now before the Administrative Tribunal. It covers acquired rights, cost-of-living salary increases, and the

method of tax reimbursement.

The formation of the Administrative Tribunal in July 1980 was significant in two ways: first, in filling the judicial void that had existed in the Bank by providing an independent forum for settling disputes on employment matters between the institution and its staff; and second, in that, this time, the views of the SA were sought and given due consideration before the Board made its final decision.

There are many other areas where the SA had a hand: the establishment of the Staff Relations Adviser, PARTAC, appointment of a Legal Adviser for staff, the beginning of an open personnel file system, and a range of other items. Many achievements are little known to staff. These are to be found in the work of the Task Forces, Committees, and Working Groups—17 bodies of interested staff members who give unstintingly of their time and talents to work on specific topics such as expatriate issues, pensions, health and education benefits, working conditions and services, the status of women in the Bank, compensation, and many others. The unheralded work of these small groups should not go unappreciated by staff, for it is on their activities, a "free" resource, that the SA and management often rely in formulating policy that affects all of us.

Far to Go

We have come a long way, but we still have a very long way to go. We are consulted by management on issues concerning staff, but that consultation is sporadic rather than consistent. As Matt Baig, the current Chairman, pointed out in the Work Program for 1980/81, the SA's Constitution was amended in June 1979 in response to staff's overwhelming desire for the SA to negotiate with management, on behalf of the staff, on all matters of common interests. The Chairman stated however, this massive demonstration of faith in the Association was not followed up by management, who did not accept the results of the referendum, and have yet to give the Association the formal legal status in the Bank's structure which the staff supported. In spite of this, the Associa-

(Cont'd on Page 6, Col. 3)

Martial arts club is recognized



The World Bank Shorinji Kempo Club members.

By Thierry Sagnier

The World Bank Shorinji Kempo Club, founded in May of last year, has been officially recognized by the World Shorinji Kempo Organization based in Todotsu, Japan. The Club is the only one of its type in the Washington area.

Shorinji Kempo, a form of martial art stressing technique and non-violence, as well as meditation, has over 1 million practitioners worldwide but is not well known in the United States.

Kenichi Ohashi, who is a staff member in the Treasurer's Department and who formed the Club and holds a fifth degree black belt, ascribes this to the fact that Shorinji Kempo has not been commercialized and does not endorse competition, as do other disciplines such as karate or judo. "Also," says Mr. Ohashi, "there is no great emphasis placed upon the color of the belt. Shorinji Kempo has three levels of brown belt, and nine levels of black."

"Shorinji Kempo is not strictly an art of self-defense," he adds. "One can learn a lot about self-control and develop skills in relieving pain and tension by applying

acupressure to certain parts of the body. It's an excellent way of getting exercise and staying in shape."

The Club recently awarded 'san kyu' belts (first-level brown) to five members who have practiced more than 150 hours. The awards came after a test emphasizing basic escape and striking techniques. The recipients are Bernard Dussert (West Africa Projects Department), Eriko Ishikawa (Treasurer's Department), Tafi Kronfli (American Express), and Anh Tran (Administrative Services Department).

The Club presently has 30 members, with 15 new participants joining the spring term, and it is taught by Mr. Ohashi and William Hwang, who also holds a black belt and is one of Mr. Ohashi's former students. Mr. Ohashi says: "Unfortunately, we cannot take new applicants at the moment, but I do keep a waiting list and we will probably start a new class toward the end of the summer." Please call him at extension 76302 for further information.

(Mr. Sagnier works in the Administrative Services Department. He is also a recent recipient of the 'san kyu' belt.)

King ... Cont'd

tempting for EDs to reflect merely the views of their authorities; to take positions which only serve to advance or defend the interests of the governments represented around this table. But that is only part of the responsibility of Executive Directors. This body is probably the most exclusive Board of Executive Directors in the world, and along with that honor comes a not-too-well-understood responsibility. Clearly I did not fully appreciate this aspect of my position when I arrived, and I just began to fathom it after Mr. Looijen and Mr. Sola spent several hours trying to convince me of this feature during the long automobile drive from Agra to New Delhi over a year ago.

Their point was simple: we are officers of the Bank. Apart from our representation role, we also have a duty to preserve, promote, and protect the interests of the Bank. I think in the long run, this is the most sober responsibility. The Bank's 35-year history has proven its durability; at the same time, because the Bank functions by the consent of governments, it is a fragile creature. Only those around this table, and our predecessors, can fully understand the peculiar nature of this institution and it is up to us, especially during the upcoming months, to recognize and detect stresses which can threaten the Bank, whether these stresses are caused by our own governments or by the manner in which we conduct our business here. It is in those moments of great stress when we must place the interests of the Bank first and say to each other if we must, and even to our governments, if necessary, "Enough. There are certain limits." Such sensitivity to the limitations of the Bank to sustain stress must repose in this Board if the Bank is to survive the period which lies ahead. I am confident that the will and ability to preserve the Bank can be found in this Board.

While the scope of problems ahead is imposing, I hope my government will continue to pursue its historic role in the Bank. While it is accurate to say that this Chair reflects the views of the particular Administration in power, this Chair also



On the road to Agra, a useful lesson.

is bestowed with a legacy more ennobling than the one flowing from my childhood experience.

It is a legacy that is richer and more inspiring, more lasting than the economic nostrums elevated to the level of theology which have currency today. It is a legacy which holds that every human being has an intrinsic value; that dignity and self-fulfillment should be placed in reach of everyone. Those views and values undergird our Constitution and the historic US commitment to international development, and I hope that commitment will be kept in the future.

I would be remiss if I ended without paying tribute to my associates in the Office of the US Executive Director. David King has been a fine stalwart and I am happy to have served with him and wish him well. I consider myself extremely privileged to have had two highly talented and competent staff members to work with, my Senior Executive Director's Assistants, Ms. Mary Elizabeth Kehler and Mr. Paul Pannkuk. In all due respect, I am afraid that I must claim that my staff assistants, Miss Sandra Shank, Mrs. Dora Sharpe and Ms. Thelma Jones, may be the best in the Bank and I apologize for monopolizing their talents.

I will not delay this departure any longer. Let me say I value this period in my life very much. It is for me like bringing to an end a loving relationship. I am reminded of the refrain in an old love song. This, quite simply, has been "too dear to lose, but too sweet to last."

Mr. King's remarks were read to the Executive Directors at their meeting on March 10, 1981. The "your" reference in the third paragraph was addressed to Mr. McNamara.

Bank "BPs" hit by Aspen bug

By Jeanette Nasem-Ports

On St. Valentine's Day, 32 skiers from the Bank and Fund left Washington National Airport early in the morning for a week of glorious skiing in Aspen, Colorado. Although Aspen lacked the usual Currier & Ives winter snow scenes, the 11,000-foot elevation allowed for plenty of snow and good skiing on top of the four mountains. Coming down at the end of the day was the real test of acuity, as each of us dodged the stones and boulders that littered the bottom of the ski runs.

To unwind and get out the aches and pains that had accumulated during the day, we washed away the tension in the 120-degree outdoor jacuzzi and in the

outdoor pool, which was also very warm at 90 degrees.

The youngsters who came on the trip kept us all racing to keep up, particularly those of us who had been out until 2 A.M. in the "cowboy" saloons. It was quite a sight to see our distinguished dignitaries donning feathered cowboy hats at the Monday night chili party and at the farewell luau on Thursday.

On our last evening in Aspen, we celebrated with snowball fights in the hot pool and we relaxed later over drinks at the Hotel Jerome. The hotel was built in the 1860s for miners who came to Aspen looking for treasures. On Valentine's weekend, however, it was filled with what we called "beautiful ski people." But, of course, we think that all ski people are beautiful. Interested in joining the club? We will be organizing again next fall, so anyone who is interested in being one of the "beautiful people" should keep us in mind.



Members of the World Bank Ski Club, from left to right: Laszlo Szerenyi, Larry Leiken, Magdalena Rodenas, Jurgen Reitmaier, Age Bakker, Glenn Ports, and Peter Hansen.

Bank Calendar

Art Society (Fund)—For information about the Society's current exhibits, please call Parvaneh Khosropur, extension 73168.

Bowling League—Anyone interested in joining the League should call Nancy Stavrou, extension 61870.

Bridge Club—The Club holds its bi-weekly meetings on alternate Tuesdays in the Fund atrium at 7.45 P.M. Anyone interested in playing bridge should call Libby Howe, extension 77216.

Camera Club—At the Club's monthly meeting in March, Andy Keech, the husband of Marie Keech, a Fund staff member, presented slides from his recent skydiving adventures.

The following is a list of the winners in the March competition.

Theme: Photo Journalism

First Place: Hugh Chambers	17th and M Streets, N.W.
Second Place: Tudor Kulatilaka	Red vs Black Belts
Third Place: Abraham Raizen	Weed Control, Japanese Style

Class AA

First Place: David McMurray	Skaters' Waltz
Second Place: Magdalena Rodenas	Would You Ride With Me
Third Place: David McMurray	Snow Scene

Class A

First Place: Judy Reisman	Coke, It Adds Life
Second Place: Ghazali Raheem	3 Frames
Third Place: Judy Reisman	White on White

Class B

First Place: John Cleave	Untitled
Second Place: John Cunningham	Yellow Blind
Third Place: Diana Weber	Dusty Road (Greece)

The Camera Club's annual exhibition was judged on March 2. The following is a list of this year's winners.

Prints from color slides:

First Place: Magdalena Rodenas	Point Counterpoint
Second Place: Stewart Wallis	The Other Side of Bristol
Third Place: Tudor Kulatilaka	Distant Promise

Honorable Mention:

Maurice Asseo	Rio Beach
Maurice Asseo	Blooming Season
Curt Carnemark	Clown Fish
Janusz Krasowski	Midsummer Night's Dream
Klaus-Walter Riechel	Pagsanjan Boats
Magdalena Rodenas	Would You Ride With Me?
Janet Stockard	Kristin
Paula Stone	Forest Vision
Keith Thomas	Sons of Socrates
Jean Wiggins	Imprints
Michael Wishart	Bandscape
Michael Wishart	Coonscape

Prints from color negatives:

David Cieslikowski	Table and Chair
<i>Black and White Prints:</i>	
Janos Somogyi	Movement

Chess Club—The Bank/Fund Chess Club holds meetings each Tuesday in the E building cafeteria beginning at 6.30 P.M. Please contact Tommy Heintschel, extension 60158, or Fernando Morales, extension 60942, for further information.

Chorus—For information about the Chorus, please contact Liliana Jofre, extension 60870.

Fishing Club—The Club meets on the second Wednesday of each month at 1 P.M. in room D658. For information about membership and events, please contact Friedrich Kahnert, extension 78088.

Music Group—For information about the Group's activities, please contact Karl Jahr, extension 61735.

Soccer—The World Bank Soccer Team has just completed the best season it has ever had in the Northern Virginia Soccer League. We finished in the top half of the First Division, which consists of 10 good quality amateur teams. In addition, we reached the semifinals of the League Cup and only missed going to

the finals (where we would have played a team we had beaten soundly in the League) by the difference of one penalty kick in a sudden death penalty shootout.

The principal goal scorers in the Bank's success were Eddie Crossan and Angel Arrivasplata. In addition, the remainder of what is now a very experienced team provided a sound defense which thwarted the attacks of almost all First Division teams.

Much uncertainty remains, however, in regard to the new season. The chief goal scorer, Eddie Crossan, has been transferred to the First Division Champion team, the British Lions, leaving a dearth of goal scoring talent. And the remainder of the team has grown one year older. The management of the team will be passing into the hands of Diego Hernandez, Kwei Armar, and Irajén Appasamy, and the success of their recruitment efforts will determine the fortunes of the team in this upcoming season.

Alex Green (extension 60271) is giving serious consideration to forming a second team to be called the World Bank Casuals. He would like to hear from interested players. It is probable that this team will start playing a few friendly games and that it will then formally become part of the Fourth Division this September. Anyone interested in playing should contact Mr. Green.

Eugene McCarthy

Stamp Club—For information about the Group's activities, please contact Karl Jahr, extension 64735. 61727

Table Tennis—Anyone interested in joining the Club should call Peter Ludwig, extension 72526.

Transcendental Meditation—The TM Group holds regular meetings every Thursday at Noon for those already practicing TM. For further information about the Group, please call Martin Hartigan, extension 60413.

1818 Society—Retired Bank staff members who are interested in joining the 1818 Society should contact Garry Lightowler, 525-8814.



We would like to remind new staff members and those returning from permanent missions that our volunteers, who would like to make the first weeks in Washington easier for your wife, cannot do so unless we know where she is. Please call the WIVES office at 61247 and give us your address so we can welcome her and send her a copy of our newsletter.

The WIVES Newsletter is published monthly and gives detailed information about upcoming events organized by the Group. For further information, please call 61247 or drop by room I1-172.

Conversation Groups—Weekly meetings are held in several languages. Please call Caroline Berney, 229-5706, for information.

Natalie Whitney

Acchiardi Wins Manager Award

Last month, at a conference in Ocean City, Maryland, Joseph Acchiardi, General Manager of Marriott's dining services at the Bank, was named Manager of the Year for the Business Food Service Division of the Marriott Corporation.

Mr. Acchiardi competed with Marriott managers in business establishments nationwide. (Marriott also has a division that handles dining services in hospitals and another that is responsible for the same at a number of colleges.) The Business Division includes managers from such organizations as Exxon Corporation in New York, the IBM Corporation, the Art Institute of Chicago, the Xerox Corporation, and the American Express headquarters in New York, as well as several others.



Mr. Acchiardi says that he feels that he received this special honor because he has helped train many successful managers around the country. Marriott sends employees here to be trained as managers and then they are sent to other places to work. "Sometimes I try to keep the really good ones here," he says.

As General Manager, Mr. Acchiardi is responsible for the supervision of 60 employees at the Bank, including 14 managers at the various food service locations, who regularly serve more than 4,500 lunches every day.

SID to celebrate 25 years

By J. Burke Knapp

The Society for International Development—SID, as most people know it—is a unique association of individuals who are bound together by their interest and work in development and developing societies.

SID was founded in Washington, DC in 1957 by a small and cohesive group of dedicated people. It has grown steadily to become a worldwide association of practitioners and thinkers in development. Today, SID has chapters in 55 countries and on every continent; it has a total membership of 8,000 men and women living in 120 countries; and it has an impressive list of institutional and sponsoring organizational members. Some of SID's newer members live in the Eastern bloc countries. Its international headquarters is in Rome, Italy.

SID has about 60 World Bank staff among its members, although I have always been surprised that there are not more. Every year, several of them devote time to the organization and serve at the international level as its principal officers or on its committees; they have also served as presidents, program vice-presidents, treasurers, council members, and secretaries of the Washington chapter. Bank staff are regularly invited as speakers and discussants in SID programs, both local and international, and the Bank has long been an institutional sponsor of the organization.

What does SID offer? Why do Bank staff belong to it? How do they benefit from it? I have been a member for more than two decades and I can think of several reasons why people who work here might be motivated to associate themselves with SID.

Exchanging Ideas

First, SID provides a forum for the exchange of ideas and experiences related to development. It is multidisciplinary and multinational. Second, it offers members an opportunity to meet each other informally in discussions, meetings, seminars, and conferences to develop professional links, as well as personal friendships. Third, through its publications, the *International Development Review*, newsletters, and special international conference volumes, SID provides new ideas and experiences at a global level to people concerned with promoting development. Fourth, for those in the Bank, it provides a forum to meet with people working in other institutions—nongovernmental, business, international, and academic—to learn how they are dealing with specific development problems and with new challenges and new dimensions in economic and social change.

The Washington chapter, to which most Bank SID members belong, is a particularly active one. It is also SID's largest chapter, with a membership of about 750 people from all of Washing-

ton's major multilateral, bilateral, private, and academic development institutions, including the International Monetary Fund, the Inter-American Development Bank, the US Agency for International Development, the US Export-Import Bank, the Overseas Development Council, the National Academy of Sciences, the Overseas Education Fund of the League of Women Voters (as well as the League itself), and a considerable number of well-known development consulting firms and area universities. There are lawyers, journalists, professors, health personnel, and civic-minded citizens among its members, though the largest category is probably economists.

A Dynamic Leadership

The Washington chapter has been fortunate in having had a dynamic leadership for many years. Its members are hardworking, innovative, and imaginative individuals. Monthly lunch hour meetings are conducted by the chapter at a convenient downtown location. The following programs were held during the past year: Hollis Chenery, Vice President for Development Policy at the Bank, discussed *World Development Report, 1979*; Peter Peterson, a member of the Brandt Commission, talked about the Brandt Commission's Report; Gerald Barney, coordinating author of the US Global 2000 study, discussed the study; Douglas Benet, formerly of USAID (United States Agency for International Development), reported on "Reflections on US Development Policy and Personal Views for the Future." Mahbub ul Haq of the Bank's Policy Planning and Program Review Department, and John Sewell of the Overseas Development Administration presented a sequel to the Brandt Commission Report.

The chapter offers special interest programs sponsored by each of its seven work groups. (These work groups are: Agriculture and Rural Development, Women in Development, Urban Development, China Round Table, Energy, Training for Development, and Financing of Development.) SID also sponsors the International Development Forum programs that are hosted by American University every Friday afternoon.

The Washington chapter has cooperated actively with SID's International Committees in planning the Society's international conferences, which are held about every three years. The themes of more recent conferences have been Cooperation and Confrontation (1974), Equality and Opposition Within and Among Nations (1976), and Development Chores for the 1980s and Beyond.

The next international conference is being planned for July 1982 at the new Conference Center in Baltimore, Maryland. In July, SID will celebrate its 25th birthday and the occasion promises to be a notable one. It will come at a time when many development ideas, which have

held sway for one or two decades, are being subject to challenge; when discontinuities and disruptions in the world economy are putting our thinking and institutions to severe tests, and when new ideas and solutions are eagerly, and even desperately, being sought.

Bank staff members, who are also members of SID, together with others in public and private life in Washington and members of other SID chapters, can, on this occasion, make a meaningful

contribution to development thinking and practice. Members of SID's leadership in Washington hope to encourage more Bank staff to join the organization and contribute to programs and ideas and help develop and maintain a vigorous, voluntary professional society. (Membership dues are modest, and they are tax-deductible for US citizens.) Information on membership in SID's Washington chapter can be obtained from the chapter office (293-2903).

Thursday, April 9

WASHINGTON BAROQUE & SWING ENSEMBLE

Penelope Fischer, Walter Birkedahl,
Ruth Ann McDonald, Douglas Day, John Marlow
Works by *Handel, Poulenc, Bach, Bolling & Gershwin*

Thursday, April 16

KAPITAL KAMMER KAPEL (Vocal Quartet)

Thursday, April 23

DAVID BASCH & FRIENDS

David Basch, Penelope Fischer, Ute Jahr,
Neil Tilkens, David Premo, Shelley Coss
Mozart: Quartet for flute, violin, viola & cello in C Major, K. 631
Brahms: Two Songs for Contralto, Viola & Piano, Op. 91
Bartok: Four Viola Duets (transcribed by William Primrose)

Thursday, April 30

NATIONAL SYMPHONY BRASS QUINTET

David Flowers, John DeWitt,
Daniel Carter, James Kraft, David Bragunier
Works by *Brade, Gabrielli, Bach, Horowitz, Pezel, Adson & Calvert*

Thursday, May 7

NATIONAL SYMPHONY STRING QUARTET

Miran Kojan, Virginia Harpham, Richard Parnas, John Martin
Debussy: String Quartet in F Major, Op. 96 "The American"
Mozart: Serenade "Eine Kleine Nachtmusik," K. 525

Thursday, May 14

LINN BARNES & ALLISON HAMPTON

"Music For Two Lutes"
Works by *Pilkington, Vivaldi, Pachelbel, Dowland & Barnes*

Thursday, May 21

ORGAN & TROMBONE DUO

Eileen Morris Guenther, Roy J. Guenther
Koetsler: Partita on Wachtel auf
Boellmann: Suite Gothique
Faure: Apres un Reve
Gullmunt: Morceau Symphonique, Op. 88

Thursday, May 28

DOROTHY KINGSTON & DAVID TROUP

Dorothy Kingston, soprano; David Troup, baritone; Michael Patterson, piano
Strouse: Selections from "Annie"
Gershwin: Selections from "Porgy and Bess"
Grieg: Song of Norway
Lane: Finian's Rainbow
And works by *Romberg and Herbert*

**Music
at
Noon**

Western Presbyterian Church
1906 H Street, N.W.
12:15 P.M.



Spring Series of
**FREE
NOON-TIME
CONCERTS
1981**

Staff Association ... Cont'd

tion has managed to establish a working relationship with management. There is a lot of work remaining, particularly the analysis and application of the Hay Compensation Survey, a task as complex as it is important. And, in coming months, the SA will continue its discussions with management on the array of other issues mentioned in our Mid-term Report, which was distributed to all staff at the end of January.

The improvements that the SA has brought about in our working environment could not have been achieved, and cannot continue to be achieved, without significant contributions from every staff member. At the very least, staff should be aware of the issues the SA is pursuing. The Chairman urges all staff

to "Contact your Delegate and make your own opinions known. He/she is there to represent your views each month in the Delegate Assembly. If you can, run for office yourself, or give your time and skills to one of the working groups devoted to a specific issue in which you have an interest."

A substantial majority of staff has agreed to contribute a small fraction of their salaries, in the form of fees, to help the SA carry out its mandate. On this, the occasion of its 10th anniversary, the SA is asking for a greater contribution, not only of membership fees, but also of your personal efforts towards meeting the staff's shared objectives.

(Christine Abel is Secretary of the Staff Association's Executive Committee.)

Bank Notes

April 1981

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