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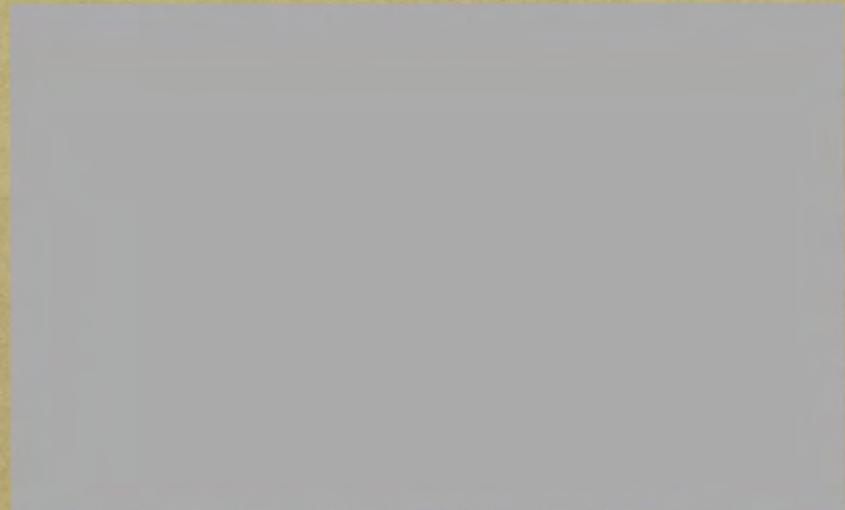


THE WORLD BANK
Washington, D.C.

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HOFFMAN, Michael L. - ARTICLES and speeches (1957-1971)



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HOFFMAN

Midwest Economic Association
Milwaukee, Wisconsin
April 12, 1957

THE WORLD BANK

by Michael L. Hoffman
Director
Economic Development Institute

File



Mr. Chairman, etc.

I am very grateful for this opportunity to be in Milwaukee today to talk to you about the World Bank. I joined the staff of the Bank in December, perhaps plunged in is a better term, since which time our Economic Development Institute has been completing its second course. In spite of the rather busy time I have had trying to keep slightly ahead of a full and active program for 18 keen and intelligent participants from 16 different member countries of the Bank, I have tried to learn as much as possible about the Bank's policies from the inside after a good many years of watching their development, at some distance, from the outside. Your invitation has given me an opportunity to see how well I have done my homework.

I have been asked to concentrate attention on the Bank's lending policy. Before doing so, I should like to make a general remark. The most important thing about the World Bank is that it is a Bank. It is NOT a Fund, a Treasury or a slot machine. It has to borrow money before it can lend. It has made over \$3 billion in loans to member countries in a little under eleven years. If it had been restricted to lending only the capital subscribed by member countries, the Bank could not in any case have made more than \$1 billion worth of loans and it is extremely doubtful that it would have been able to obtain even that much capital out of its subscribed total had it been unwilling or unable to raise money in the capital markets of the world.

Therefore, no discussion of the Bank's lending policy makes any sense unless it is constantly borne in mind that its policies have to be framed in

the light of the Bank's need to borrow from the private capital market. I mention this at the beginning because it is a fact often ignored in criticism of the Bank's lending operations.

The Bank, as you know, makes loans to governments or with government guarantees for productive projects for which capital is not otherwise available on reasonable terms. Let me summarize for you in a few words the main figures of our lending operations. In doing so I apologize to those many close students of the Bank who are here today and to whom they are doubtless already familiar.

The Bank began operations in 1946. Since that time we have made 166 loans totalling, as I mentioned earlier, the equivalent of over \$3 billion. Of these loans, approximately 80% have been covered in dollars and the rest in other currencies, including Swiss francs, sterling and Dutch guilders. The proportion of nondollar expenditure under our loans has been increasing in recent years.

Loans have been made to assist the financing of more than 500 different projects in 44 member countries of the Bank or their dependent territories. Apart from \$500 million lent in Europe for postwar reconstruction, our loans have been divided roughly as follows: 1/3 to power, 1/3 to transport and communications and the remaining third distributed between agriculture, industry and general development. We have never had a default either of principal or of interest on any of our loans and we now have reserves of over \$250 million.

I recently heard the President of the Bank, Mr. Eugene Black, say something in private conversation which puts better and more clearly the Bank's fundamental lending policy than any detailed statement I could make. "When the Bank makes a loan," he said, "it has two things mainly in mind. It wants to be sure that it can get its money back. And it wants to see to it that the projects for which it lends money are successful - that we do real good for the member country involved." I suspect that the approach reflected in the order in which Mr. Black placed these two considerations has a lot to do with the fact that the Bank, on January 10, 1957,

issued \$100 million of bonds in a market that looked as if it might be developing fallen arches and watched them rise to 105 within a few days.

In general the Bank lends for specific projects in member countries. This is what it is instructed to do in Article 3, Section 1 of the Articles of Agreement which form its constitution. Nothing in the Bank's experience to date has led the management to doubt that this is a sound approach to international lending or to doubt that the project approach is well suited to an organization that needed to establish credit in capital markets that were and are shy, to put it mildly, of international loans in general. The project approach is also eminently suited to the implementation of another of the functions given the Bank by its Articles of Agreement, namely, the promotion of private foreign investment by means of participations in Bank loans by private capital. The careful preparation and the follow-up procedures inherent in the project approach produce a kind of security more congenial to most investment institutions than the securities based only on the general credit of member governments.

In fact, more than \$250 million worth of portions of loans have been placed with private investors without the Bank's guarantee. Another \$70 millions have been so placed with the Bank's guarantee - a total of \$320 plus millions. Indeed, in recent months participations of private capital in Bank loans at the time of their inception has become almost a normal feature of the operation.

The Bank's emphasis on the financing of projects as contrasted to lending for unspecified developmental purposes has given rise to a number of criticisms and misunderstandings. It is sometimes asserted, for instance, that this policy has led the Bank to lend only for "self-liquidating" projects. This even creeps into the analysis of such a careful student as Arthur Lewis [Theory of Economic Growth, pp. 262-3]. It is generally associated with the criticism that the Bank ought rather to lend money to finance "economic overhead" in underdeveloped countries such as roads, land reclamation, ports, etc. There has seldom been a less well founded criticism. The Bank's lending for these purposes already totals

more than \$350 millions.

It is just not true therefore that the Bank insists that all projects be self-liquidating in a commercial sense. It pays great attention to the probable contribution of a project to the national product of the borrowing country. This contribution must be clear, but it may be indirect. Indeed, particularly in underdeveloped countries, a substantial part of its lending operations have been precisely for projects that fall into the category of "economic overhead." In many cases the Bank itself has suggested the need for associating investment of this kind with direct investment in "projects" in the narrow sense as the means of making the entire operation creditworthy. Whatever may be the present view of utility theorists, the Bank with the support, I am happy to say, of such distinguished theorists as Professor Tinbergen, definitely believes that social utilities and consequently social productivity are valid and usable concepts in this kind of business and are, within broad limits, measurable. I should, of course, add that the Bank does not make loans to finance what is sometimes called "social overhead," such as schools, housing, health programs, etc.

It is perfectly true that the Bank likes projects of a commercial nature to be carried out on commercial lines. It does not believe that it is good for the Bank or good for the borrowing country to make investments that are manifestly unprofitable. Indeed, one main barrier to economic growth in many parts of the world appears to be that countries are running things like power companies and railways as if it were impossible or unwise to use market criteria in valuing their contribution to the economy when by any reasonable standards such enterprises ought, taking one year with another, to sustain themselves and to generate from their operations capital to maintain and extend their services.

Criticism of the project approach often slides over into another type of criticism of Bank lending policy, namely that the Bank lends only to meet specific foreign exchange requirements of projects when what many countries need

is help in financing local currency outlays of a type that may, and generally do, have a so-called foreign exchange impact - that is, the country cannot contemplate making the investment without being able to see its way clear to pay for additional raw materials, food, or other things likely to be imported in increased quantities as an indirect result of the investment itself, the increase in national income, and the other familiar secondary effects.

This point was made rather strongly in one of the early critiques of bank lending policy contained in a report prepared in the first half of 1950 for a sub-committee of the Economic and Social Council E/CN/1/80.

The first thing to say about this is that Article 4, Section 3 of the Articles of Agreement specifically limits local currency loans to "exceptional circumstances." Of course it is easy for outsiders to meet this point by suggesting that the Bank take the initiative in getting the Articles of Agreement changed. The management of the Bank, however, does not believe it would be wise or useful to alter the general limitation, if it is a limitation, on the Bank's freedom to make local currency loans contained in the Articles as they stand.

The limitation is not there because the founders of the Bank were ignorant of the fact that investment financed locally might have a foreign exchange impact that would limit a country's capacity to make such investment unaided. The point is that a country's borrowing capacity in terms of its ability to service foreign exchange loans ought not to be used up to finance local currency projects if, as often appears to be the case, this would lead to its being unable to finance projects involving imports of capital goods where the foreign exchange requirement is specific, readily calculable, and otherwise eminently bankable. Furthermore, by adhering quite strictly to its principle of not financing local currency requirements, the Bank reduces the risk that countries might come to regard Bank loans as a crutch to enable them to get along without monetary and credit policies conducive to the development of local capital markets. Its policy of insisting that the exceptional cases of local currency financing be really exceptional has

already produced some rather astonishing results in the way of extracting local capital for development purposes in places where none was supposed to exist.

Stress on the above arguments has perhaps led to the impression that there are no "exceptional cases" in which it is deemed appropriate for the Bank to lend dollars, for instance, to finance local currency projects. In fact, it has made some large loans of this kind, notably to Italy, Belgium, Norway and Austria. These loans have been mainly or entirely designed to cope with the impact on the balance of payments of projects for which the finance specific to the project was in local currency.

In order to qualify for such a loan, the country would have to fulfil certain conditions:

- 1) It would have to be of sufficient general creditworthiness to be able to assume the foreign exchange obligation involved;
- 2) The project or program would have to be of sufficient urgency to make it advisable for the country to undertake foreign borrowing for that purpose;
- 3) It would have to be shown that domestic resources could not reasonably be expected to provide all the local currency costs;
- 4) It would have to be clearly demonstrated that the project involved indirect foreign exchange requirements of comparable dimension.

In any case, the Bank would expect the borrowing country to find out of its own resources part of the funds required for any such project.

Another constant thread running through cases in which the Bank has helped finance local currency requirements is that the countries in question all had highly developed capital goods industries. Their most obvious and pressing needs involving substantial external finance for capital goods imports but did include projects did not include large individual projects, the execution of which would clearly involve increased imports of energy, food or raw material. The Bank does not exclude the possibility that other "exceptional cases" will arise in the future

in which a member country's needs may best be met by this type of financial aid.

But there need be no hesitation in stating that this type of lending is and should remain exceptional. The Bank will generally expect a member country to show beyond reasonable doubt that no major projects involving direct foreign exchange outlays requiring outside finance are visible on the nearby rungs of its time-ladder of economic growth, when the Bank and the government peer upwards as far as they can into the future.

The Bank, of course, does not lend only for large, spectacular projects. A good many of its loans have been small and designed to provide incidental equipment or spare parts for a large program or project locally financed. It is increasingly aware furthermore of the importance of increasing the output of food in almost every underdeveloped country, particularly those where rapid urbanization is creating new dependents for every acre of cultivated ground. It has made several loans for agricultural machinery, for irrigation and land reclamation, and has paid great attention to the agricultural consequences of some of the large multi-purpose projects that it has been able to help finance.

In many cases, the amount of preliminary investigation and analysis that goes into Bank loans seems at first glance to an outsider becoming familiar with the Bank's operations to be wholly out of proportion to the amount of money involved. The Bank, of course, does not respond to every casual request from a member country for survey missions, technical assistance or resident representatives. It does, however, keep experts and Bank staff members working on the spot for varying periods of time in areas where it has undertaken the responsibility of examining seriously a loan application or, more important, when it is engaged in assisting in the implementation of projects it is helping to finance.

I have become persuaded that all this activity is by no means simply the expression of exuberance on the part of an institution with a good deal of money to spend. In the Economic Development Institute we have traced through, as case studies, a number of Bank projects, some comparatively small. I am impressed with the extent to which the real productivity of a project can be and is in

practice increased for a member country by the careful preparation and rigorous follow-up procedures that the Bank has developed. Its insistence on the use of independent consultants by borrowers, often over their initial resistance (on the grounds that consultants are an expensive luxury) has often resulted in the project being carried out more cheaply and more quickly. It has on some occasions persuaded a country that it is true economy to borrow more than it planned, rather than less, for instance, in order to avoid construction of a power system in terms only of urgent needs when what is required is to build with an eye to obvious future demands. Many countries which, in the early years, objected to Bank supervision of the implementation of projects have completely altered their opinion and now invite the Bank to take more responsibility in this respect than it is prepared to do.

There is always the possibility that foreign borrowers may try to use loans for purposes other than what was intended. The Bank's loan contracts are so drawn that failure to carry out the purposes specified in the contract simply means that the loan will not be disbursed. Indeed, it is worth noting that the term "default" in relation to a Bank loan agreement refers not only to failure of the borrower to meet the service on the loan but to failure of the borrower to use the goods purchased for the purpose stated in the agreement or any other failure on the borrower's part to carry out the specific terms of the agreement. These terms often range rather widely.

The Bank recognizes, however, that unforeseen circumstances or local political changes may make it impossible for a project to be carried out as planned. In such cases, the Bank has developed procedures, ranging all the way from consultation with the borrower to cancellation of the loan, for protecting its interests, and if possible attempting to solve whatever difficulties may have arisen. In some cases cancellation is clearly the wisest way out of the difficulty, both in the interest of the Bank and in the interest of the borrower. In some ^{such} cases, where a country's creditworthiness continues to be good, the Bank is able to

invite the country to submit new projects in place of the old.

There are some cases in which a country needs help in financing a large number of comparatively small enterprises rather than, or in addition to, aid for larger projects such as railways, power plants, etc. One technique of dealing with this problem is the establishment of industrial development banks. In some cases these can be organized and financed by the country with technical assistance from the Bank but without a capital contribution. In the cases of India, Ethiopia and Turkey the Bank has both taken an active part in organizing and providing management for the national institution and provided a line of credit which may be drawn from to finance the foreign exchange component of the small projects as they mature. It does not, however, provide equity capital to these institutions.

Finally, in this brief sketch of the World Bank's lending policy, a word should perhaps be said about the cost of credit to member countries. The Bank's lending rate is based upon cost of the capital that the Bank must borrow in world markets, mainly in New York. Were any other policy to be followed the Bank would soon cease to be the sound financial institution that was clearly intended by its founders. The rate of interest written into a loan agreement includes an element which the Bank regards, in terms of its own accounting, as a commission. This part of what a borrower repays must be allocated by the Bank to reserves. Now that the Bank has passed the ten-year point in its operations, it has the authority, through action of the Executive Directors, to alter the 1% commission either upward or downward. In fact, the management is under some pressure to reduce it but this has not been done. An additional one-fourth of 1% of the charge to the borrower is to cover the Bank's administration expenses.

It is important to realize that this 1% commission does not, in practice, mean that a country pays the Bank a rate of interest that accurately reflects its credit standing, say in the New York bond market, and then pays another 1%.

In the first place, if a country could borrow more cheaply in the market, the Bank would insist that it do so. In the case of countries with no standing whatever in the market, it is obvious that the Bank's rate of interest is the only non-subsidized rate applicable to their foreign borrowing. Such a country might, for instance, be able to borrow from a government or a tax-supported institution at lower rates than those applied by the Bank. The Bank's rate, however, would be the only one available to the country that reflected what may fairly be regarded as the true cost of capital at a given time. The Bank intervenes between the borrower and the market, but it does so, so far, at a profit. There is no element of subsidy in its rates. In the case of countries which do have some possibility of selling bonds or notes to private investors, the Bank, as I have already noted, actively encourages the participation of such private investors in Bank loans to the extent that private investors are willing to take, for example, parts of a loan which mature comparatively early.

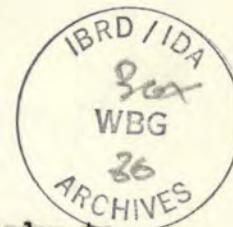
Because private buyers in practice ^{take} mainly the short maturities, they normally ~~prefer~~ ^{wish} to accept a rate of interest that is somewhat less than the rate written into the loan agreement. In such cases, where securities are sold to private buyers without the Bank's guarantee, the Bank, as a matter of policy, passes on to the borrower the benefit, up to 1%. In effect it waives its commission on that part of the loan taken by private investors.

Not the least significant feature of the World Bank's loans is that they are untied. Orders for equipment, supplies and services financed by the Bank ^{loans} /are placed by the borrowers, not by the Bank. Indeed the Bank attaches great importance to the procurement of goods needed for any Bank-financed project in the cheapest possible market. In this connection, it keeps in mind the interests of those of its member countries that are primarily suppliers of capital goods rather than borrowers. It encourages competitive international bidding wherever this procedure is appropriate. Here again, the role of the independent private

consultant is important. Sometimes the Bank even requires a borrower to employ a qualified consultant to assist in determining the qualifications of bidders and in analyzing the merits of different bids.

STATEMENT FOR ECOSOC BY MICHAEL L. HOFFMAN,
DIRECTOR OF THE ECONOMIC DEVELOPMENT INSTITUTE,
15 July 1957

(Geneva)



Mr. President, Members of the Council:

I appreciate the opportunity to appear before you today to tell the Council in somewhat more detail than has hitherto been possible about the work of the Economic Development Institute of the International Bank for Reconstruction and Development.

The discussion of the Secretary General's proposal to establish a corps of trained international civil servants who could, on request, work for extended periods in the administrations of member countries of the United Nations indicates the concern of governments about the problems of administration facing countries in the early stages of economic development. As the President of the Bank has said on numerous occasions, the Bank is also deeply concerned about the difficulties many of its member countries have in drafting, organizing and implementing economic programs and development projects. In this connection I may say that the Bank considers that the proposal of the Secretary General provides the foundation for a worthwhile experiment in aiding governments to deal more effectively with problems of economic development. The Bank feels that improvement of the quality of economic management in its member countries directly contributes to the more effective use of the Bank's resources and, indeed, of all other resources available to its member countries.

It was because of this concern that the management of the Bank decided in 1955 to establish what is now the EDI.

Before proceeding further, I should like to inform you that on June 13, 1957 the Executive Directors of the Bank approved the recommendation of the President to establish the EDI as a continuing activity of the Bank. The Bank no longer considers the Institute an experiment but an integral part of its regular operations in the interests of its member countries. It is in the light of this decision that Mr. Black thought it would be appropriate for me to come here today to tell you of our experience and give you some idea of our plans for the future.

I will dwell only briefly on the past. The EDI was fortunate in having as its first Director Professor A. K. Cairncross of Glasgow, whose wisdom and wide practical experience contributed immeasurably to its fundamental structure and philosophy and whose leadership during the formative period should be given a large share of the credit for whatever success has been achieved.

The first course of the Institute ran from January through June, 1956, the second course from October 1956 through March 1957. Fourteen participants from as many countries took part in the entire

program of the first course. Eighteen participants from sixteen countries and two participants from the staff of the Bank took part in the work of the second course. Twenty-five participants from twenty countries have been accepted for the third course, which begins in October.

Who are our participants and where do they come from? They are, first of all, from senior ranks of public service of member countries of the Bank. Each must be nominated by a member government and for each participant accepted the government or some appropriate institution, such as the central bank, contributes \$1500 to the budget of the Institute. (I might say parenthetically that the government contributions just about cover the cost to the Institute of transporting participants from their homes to Washington and back.) The Institute is not designed for, nor will it accept, officials whose work is highly specialized in technical subjects or whose position is such that they do not have a considerable degree of broad administrative responsibility in their respective functions. Of the 57 participants from member countries who will have completed courses at the Institute by the spring of next year, 16 are (or were when attending the Institute) from Ministries of Finance, 13 from other central or regional government departments, 11 from central banks or monetary boards, 9 from planning commissions or their equivalent, and 8 from industrial or agricultural development banks. While at the Institute they continue to be officials of their governments, on leave of absence with pay. They are in no sense "internationalized" in status. They do, however, enjoy the unique opportunity of having access to the great information resources of the Bank. The record of its experience is available to us for study and discussion purposes. The importance of this intimate relationship between the EDI and the Bank's operations can hardly be overestimated.

The experience of the first two courses convinced the management of the Bank and its Executive Directors that as long as the Institute can continue to attract participants of the stature and quality of those of the first two courses, it can perform a useful function. This depends, in the last analysis, on whether enough member governments, central banks and other important public institutions in enough member countries are prepared to release enough of their senior officials for a period of six months to engage in the course of work at the Institute. The indications are that as more and more governments learn about the Institute and its program, we will have more nominations than we can accept, but it is of course impossible to predict how long this will continue to be the case.

I have given you a few facts about our participants first, because I think they are the most important thing about the EDI. You will note that I refer to them as participants - not students. This effort to emphasize the non-academic character of the work often seems to my colleagues at the Bank to be in itself somewhat academic, but I have stuck to my guns and offered to use a better term if anyone could invent one. I am even more unsympathetic to reference to us on the staff side

of the Institute as the "faculty". It is not only that the Institute is designed to give practical assistance in the solution of practical problems to responsible administrative officials. The subject matter of its program and its method of dealing with that subject matter are quite far removed from normal academic standards and techniques. Unfortunately the language with which we have to describe our work contains some apparently unavoidable words, such as courses, curriculum, seminars, etc., borrowed from the world of the university. But we are not a college; we do not give examinations or award credits or degrees; we do not accept individual applications for participation; we do not do research in the sense of pursuing knowledge for its own sake.

The management of the Bank has encouraged the Institute to exercise full independence in the establishment of its curriculum, the choice of reading material and the selection of speakers and specialists to take part in the work.

We do not try to persuade our participants to accept any particular doctrine or theory about economic development and we do not attempt to impose on them the views of the Bank concerning any of their problems (although I hope we leave them in no doubt as to what the views of the Bank are on important issues).

It is understood, however, that the Institute should conduct all its operations with a view to contributing to the broad purposes of the Bank as set forth in the Articles of Agreement. In this sense we are and will continue to be guided by the general philosophy of the World Bank and we shall remain very close to its operating departments. It is the close link with the Bank which gives the Institute its unique position in the eyes of the public officials of the Bank's member countries whom it is our purpose to serve.

Through the third course approximately half the budget of the Institute will have been financed by the Ford and Rockefeller Foundations, half by the Bank. Not only by their financial help, but by their interest and moral support, these great foundations have strongly buttressed the Institute during its experimental period. Now that that period is over, the Bank is undertaking the full financial responsibility for the Institute, apart from the contributions of member governments mentioned earlier.

I will not go into any details as to curriculum, concerning which published information is now available. Its essence is flexibility and emphasis on the kinds of problems with which senior administrators in underdeveloped countries are required to deal in the course of their work.

As a result of the experience of the first two courses, it is clear that the Institute is developing at least four effective lines of attack on its fundamental objectives, which is to improve the quality of economic management in government in the less developed countries.

- a) The seminars. These consist essentially of the presentation by an expert and discussion by participants of some specific aspect of economic development problems. The method is very flexible and enables us to deal with a wide range of topics, from historical studies to studies of specific Bank loan operations or of the possible significance of nuclear power for underdeveloped countries. We have about 80 of these seminars during the session, divided for convenience into courses of related groups of topics. The seminars are supplemented by occasional evening lectures by recognized authorities from various fields. The Institute is able to draw on the services of a very large number of specialists from international agencies, member governments of the Bank, and, of course, above all from the Bank itself in connection with this work. The Institute's small resident international staff acts as a nucleus, organizes the program and provides continuity for the course as a whole. I should like to emphasize that the staff is drawn from several member countries of the Bank and it is our intention to keep it thoroughly international in character.
- b) The entire Institute takes a number of field trips and makes visits to institutions and organizations of various kinds. These have the triple function of giving participants a firsthand impression of a wide variety of industrial, agricultural, power, transport and administrative operations, of enabling them to discuss management problems with responsible executives in both private and public organizations, and of providing a break in what would otherwise become an intolerable grind.
- c) Participants are encouraged to do individual work in some field of special interest to them or to their governments. Some of this work produces material of value to some or all of the other participants. Some of it produces material suitable for publication in professional journals.
- d) All of the above approaches contribute something to the fourth and possibly, in the long run, the most important sector of the Institute's attack on its objective. This is the opening up of new channels through which participants can get help on the problems they have met or will meet in the performance of their official duties. The Institute is able to arrange for its participants a very large number of contacts, many of which can be developed extensively in future years. We also provide them with sources of documentation and up-to-date information about subjects of special concern to them. We continue to serve the Fellows of the Institute (those who have completed a full course) in this respect after they return home.

I should also mention that practically all of our participants declare that the opportunity given them by their six months' stay at the Institute to take a broader and larger view of their countries' problems than is possible under the stress of their administrative work constitutes

one of the most valuable parts of the entire operation.

As I have indicated earlier, the Institute is able to bring together for the benefit of its participants very substantial resources of ideas and experience from governments, international agencies, private business and the academic world. Its location in a major capital undoubtedly enhances its capacity to do this.

I should like particularly to mention the great advantage we have derived from being so close to the headquarters of the United Nations. From the beginning the Institute has had the utmost cooperation from the Secretariat in all aspects of its program. We have benefited from frequent discussion of our program and procedures with the experienced officials of the Secretariat. We intend to give our participants considerably more briefing on the kinds of things senior officials of member governments ought to know about what the United Nations is doing, both in technical assistance and in research, analysis and training at headquarters. The Institute deeply appreciates the cooperation it has consistently received from the Secretary General and his staff.

It is clear that no program lasting only six months and directed to only 20 or 25 persons per year can provide the answer to all or even any very large part of the tremendous problems to which the Secretary General's Memorandum of June 10, 1957 (E/3017) is directed. It is equally clear on the other hand that if we were to extend our program much beyond the present duration or to increase the number of participants, we would defeat the purposes for which the Institute was founded. We would not get responsible senior officials away from their desks for longer periods and we would not be able to give each of a large number of participants the individual attention and opportunity for self-expression that are so essential to effective work of this nature. In establishing the Institute, the Bank undertook to contribute to the improvement of quality of administration in public service in a small but vital sector. It welcomes the increased interest shown in the United Nations, the specialized agencies and in many other places in the cultivation of other sectors of this large and difficult field. The Economic Development Institute is now in a position to cooperate fully with other such endeavors and welcomes the opportunity to do so.



Nov. 13, 1958

Statement by Michael L. Hoffman,
Director, Economic Development Institute,
International Bank for Reconstruction and Development

November 13, 1958 - Colombo Plan Meeting,
REGIONAL IMPACT OF NATIONAL DEVELOPMENT *Seattle, Wash.*

Mr. Chairman:

I have been asked to introduce the discussion of the regional impact of national development programs.

Some of the views I shall express may be controversial. I was given to understand that I need not hesitate to provide a moderate stimulus to that discussion. Nearly everything I have to say on the subject grows out of the study and discussion of development problems that goes on almost continuously at our Economic Development Institute. It is probably unnecessary to remind you that my remarks do not purport to set forth the views of the management of the Bank, in general or in detail.

I want to develop the idea, for a few minutes, that one of the main results of national economic programming is that economic relationships within a region become more complicated and less predictable and that this mitigates against regional activities strictly comparable to national programming but increases the usefulness and desirability of reducing barriers to intraregional trade and provides a growing foundation for the operation of regional institutions of an executive, as well as of a consultative nature.

I could spend a good deal of time exploring the concept of a region. I prefer, however, to concede immediately that it is one of those loose ideas that probably defies precise definition except in terms of some specific problem, and that you would be likely to get a different definition appropriate to each problem.

This would make serious difficulties if I were trying to talk about regional economic planning, whatever that means--it is a concept about which I may have some remarks later. But I do not think it matters very much for our purpose. Any commonsense notion of a region is enough to enable us to turn our eyes outward from the nation as it happens to be defined at a particular time, in a particular place, to a larger and perhaps in the long run more significant area, the extent and definition of which would vary considerably for each of us depending on where, so to speak, we happen to stand.

I see several families of problems under this general heading. One is suggested by the question as to what the impact of national development programs is, in fact, likely to be, regionally speaking. Another is as to whether these effects are "good" or "bad" in terms of some more or less objective criteria--how they affect living standards and growth rates, for instance. Another is as to whether, to what extent, and how regional considerations "ought" to influence national programs and the people who administer national programs.

My own view is that, at this stage of the game, we can talk with some confidence about several aspects of the first group of questions, with no confidence at all about the second, and with very little confi-

- 2 -

dence about the third except to reiterate some widely accepted and consequently almost hopelessly abstract generalities.

However else they may differ, national development programs all seem to be directed toward pushing growth in some sectors of an economic system faster than it would otherwise go. They also generally attempt to provide better machinery for coordinating economic growth in different parts of an economy better than can normally be achieved by single instruments, such as a budget or a public investment program, taken by themselves. A good development program has one, or several, aims that can be expressed in quantitative terms, and several aims that cannot be expressed in quantitative terms, such as any "improved climate for investment." It also involves the creation or mobilization of the necessary instruments to carry out the program--marching orders.

The purely economic justification for development programs (apart from political or ideological considerations) is that underdeveloped countries do not seem to experience sustained economic growth as a natural response to the signals put up by the price system as it functions in the real world. Certainly one of the key reasons for this is the crucial role of what has come to be known as "social overhead capital" in modern economic growth. This capital has to be invested in big indivisible lumps. Its productivity effects are largely incalculable by examination of ordinary market phenomena. But its absence seems to be the overwhelming reason for stagnation at low productivity levels (India). Another fundamental reason is that many, if not most, investments outside of fairly primitive agriculture are impossibly risky in the short--or medium-term view unless there are reasonable assurances that the market for the products of the investment will expand appropriately. A man is more likely to risk capital employing a thousand men to make shoes if he is reasonably sure that a hundred other factories making machines, clothing, food, etc. are also going to be employing labor in his market area. Providing assurances of this kind is one way in which a soundly based and well administered development program can contribute effectively to economic growth.

It is necessary to emphasize the above points in order to dispel the notion that adoption of a development program means that a country's impact on the economy of its neighbors and trading partners--on its region--is likely to be more predictable than it has been, or would be, in the absence of such a program. I submit that it is likely to be much less predictable--and much more complicated--than the regional impact of such economic growth as there was during the 19th century in what we now know as the underdeveloped parts of the world.

The primitive agricultural economy or the "estate" economy wholly dependent on exports of a few products, and on imports for all of its meager share of modern industrial products, is a very predictable economy, in terms of its regional impact, compared to an economy that is beginning to show the effects of a modern development program. We are faced by the paradox that the "unplanned" economy is more predictable in this sense than the "planned" economy.

This fact, as I believe it to be, has a number of implications. Historically, countries of the region with which we are concerned have not been what we call complementary. They have had closer economic ties to various European countries than to each other. It is sometimes assumed that this will continue to be the case. I submit that it is very

- 3 -

unlikely to continue to be the case. Trade and foreign-exchange policies based on the assumption of non-complementarity are likely to be more and more unrealistic as national economies grow and become more complicated under the impetus of development programs.

Let me mention only one specific example of what I have in mind. Consider the very radical alteration of relative costs of transportation as between shipments to and from former metropolitan countries, on the one hand, and shipments between countries in the region, on the other hand, that is likely to follow the replacement of metropolitan control of transport by local control and development. I know of no development program that does not include substantial transportation projects. It seems probable to me that this factor alone can bring about substantial changes in trade flows and in commodity trade within the region--it can, that is, if its potential is allowed to find expression in the marketplace and in the administration of government controls and of the national development program itself.

Another implication of the increasing complexity of national economies likely to be associated with programming is that the advantages to be derived from regional schemes designed to reduce barriers to trade among countries in the region are likely to increase. Because economic "regionalism" is in style, stimulated, no doubt, by the persistence for more than ten years of the struggle to establish in Western Europe a new, larger market, unencumbered with traditional kinds of national trade restrictions, I find that some American economists are inclined to view talk of regional approaches to economic integration as merely a passing fancy.

If my argument is correct, this is a mistaken view. The economic basis, so to speak, for regional programs of trade liberalization and for other forms of regional cooperation is probably getting stronger all the time.

I am sure there will be among this group planning enthusiasts who believe that my arguments must lead me now to say that programming itself, therefore, could profitably be increasingly regional in nature. But I am not going to be pushed into that position because I do not believe this.

There are, of course, political considerations that will be obvious to all of us that mitigate against ambitious regional programming schemes. But the fact is that the techniques of programming--even fairly sophisticated techniques--do not extend very far beyond the limits of the fiscal systems, the customs area, and the monetary area.

To pretend that we can do much more would be hypocritical. Regional agreements concerning the rules of trade and regional institutions are one thing. But regional planning in the sense of a group of experts sitting around a table and deciding that country A should be having a fertilizer plant, country B a cement industry and country C should be producing nothing but rice--this, I say, is a futile type of exercise.

I suppose this was tried as seriously and with as much expert help and factual information as it is ever likely to be, in Europe during the early years of the OEEC. The effort never got off the ground. I

- 4 -

will go so far as to say that in my opinion even if regional planning of this sort were politically possible, it would probably be undesirable and even dangerous for the region's economic development.

The idea that you could ascertain from any conceivable amount of data what the correct pattern of industry would be for any country or region, according to the criteria of comparative real cost advantage is not even theoretically true in a situation of rapid economic change. The so-called external economies associated with growth and improvement of the quality of what is generally called social overhead capital are far more important determinants of the correct pattern of industrial growth and specialization than cost factors in the usual sense of the term. All these external economies are extremely difficult to evaluate ex post. They are certainly unpredictable. In such a situation, the really important comparative advantage problems of a region--the location of the steel industry, the development of main transport arteries, the association of the aluminum industry with water power, and so on--are obvious when the facts are known.

But the more widely you can decentralize decision making about the location and scale of most manufacturing industries, the better, in my opinion. I defy any planner who has not been there to tell me, on the basis of any conceivable amount of statistics of the kind that planners normally use, what the correct pattern of industry would be for the Sind industrial estate outside Karachi. I would be very much surprised if one could discover in this fashion much more than a small proportion of the products that are, in fact, profitably manufactured there, much less the amount of capital and labor employed. And it is downright ridiculous to suppose that anyone could have predicted ten years ago what the pattern would turn out to be. Who would ever have guessed in 1948 that Pakistan, in a few years, would be exporting profitably surgical instruments or tennis rackets?

Regional institutions of the kind I have in mind operate within a defined framework, with clear authority and, if well administered, will in fact do "regional planning" within their allotted field. I regard the growth of regional institutions as one of the desirable and probably inevitable effects of national economic programming.

For certain things such as the need for joint control of international waterways, any national program that is any good will just naturally lead to a demand for the ultimate creation of regional institutions. The same thing may well be true in such fields as technical education, many kinds of scientific research (Euratom, CERN), for health programs, locust control, etc. I think it possible at a later stage, so to speak, that regional financial institutions can improve the climate for economic growth, both by encouraging greater multilateralism in trade and payments and by providing efficient administration and possibly even entirely new finance for investments of regional as well as national importance.

But here a word of caution is necessary with particular reference to regional investment institutions. There may be a danger of rushing prematurely into the creation of such institutions in one region on no better grounds than that some have been created in other regions.

It seems to me that at least two preconditions are necessary. First there should be a clearly defined field of investment not adequately covered

- 5 -

by existing national or international organizations. Very little can be said in the abstract about this but I imagine it would be fairly easy to recognize situations that fit the description when they exist. At any rate the burden should be placed on proponents of regional investment institutions to show that such situations exist. Second, there should be clear evidence that a regional institution could mobilize new capital from the region for development purposes, or divert existing capital from less effective (excess retailing capacity) to more effective (manufacturing) uses, from the general developmental point of view. It might be able to do this because it is less bothered by local political pressures, or for technical reasons. It does not seem to me that the hope of enticing new capital from outside the region is a sound argument for a regional investment institution - certainly not unless the above two conditions are satisfactorily fulfilled.

These do not have to be public or intergovernmental institutions. And they do not have to be, and certainly should not be, substitutes for or competitors with the worldwide institutions dealing with the far more difficult and important problems of economic integration on the scale of the whole free world.

Finally, we should not forget, merely because it is obvious, that with the development of national programming the importance of regional and other international consultation of all kinds increases. This has frequently been stressed in international gatherings. We are all familiar with the work of the regional commissions of the United Nations, and particularly their technical committees, in this field.

And yet I do believe that there is some tendency to underrate the importance of what is described by the much abused terms "consultations" and "exchange of information." I say this despite having lived for ten years in Geneva, which is enough to make anyone cynical about the value of another international meeting. In order to appreciate the full impact of the unexciting but steady work of regional organizations in this field, it is probably necessary to visit a country that is clearly part of a given region but that has been excluded from this process for a substantial period of time. I have visited several such countries and it comes as a shock to learn how far they lag behind their neighbors merely because they have not had the benefit of being required to engage in the kinds of statistical and review exercises that constitute the routine work of regional economic bodies.

In order to do effective programming, it is necessary to have as many relevant facts as possible. Surely no facts are more relevant than the facts about what is happening in neighboring countries and the estimates as to what is likely to happen there. Numerous instances will come to each of our minds in which serious misallocation of resources has been reduced, if not avoided, as a result of sound economic intelligence provided by regional bodies.

I have left this point to the end of my remarks not because I think it is the least important aspect of this subject, but because I believe it is widely appreciated and understood and because I believe that the region that concerns us today is so well served by its regional organizations, not least by the consultations that take place under the aegis of the Colombo Plan, that this hardly any longer constitutes a problem. We have only to see that good progress continues.

*Circ. to Messrs. Graves,
Young, Croome & Sankaran*

EUROPEAN INTEGRATION AND AMERICAN INTERESTS



DRAFT of Oscar Jaszi Memorial Lecture to be delivered at Oberlin College, March 8, 1963

Michael Hoffman

*Mr Hoffman says
(Punctuation put in as
aid in speaking that
may not make sense
otherwise)*

It seems that every generation of Americans ^{must} rediscover Europe.

I think of the autobiography and letters of Benjamin Franklin, as fresh today as two centuries ago, when he was busy inserting into the diplomacy and culture of what was then quite clearly the Old World the knife-edge of American shrewdness and vision, and of his glee at his wholly unexpected triumphs. I think of Gouverneur Morris strolling around Paris at the height of the Revolution, observant but unperturbed, who found that, in addition to other and obvious advantages, he gained considerable inside knowledge of the political situation by sharing a mistress with the Bishop of Autun - both he and the lady retaining throughout the affection and confidence of the wily statesman, a performance that can only arouse the envy and admiration of later generations of American diplomats. I think of two Henrys, James and Adams, neither typical of his country or generation but both American discoverers of their European heritage and both, incidentally, contributors to that heritage in a manner

that only an American looking at Europe could achieve. I think of the strange, awkward American expatriate culture that shouted and drank its way through Europe in the 1920's, of the names of Hemingway, Gertrude Stein and F. Scott Fitzgerald which conjure up a Europe (and an America) as remote, almost, (to me at least) as Henry Adams' Chartres. My Europe began, so to speak, after that. And now there is yours.

I first established contact with Europe in, or at least through, Oberlin - the Oberlin of the 1930's, middle America in the middle of the great depression. In retrospect there could hardly have been a place or time less propitious for the education of one destined to earn his living for a decade, from a not very gullible employer, by purporting to know something about and, indeed, to understand something about Europe. It was unpropitious, that is, but for one thing - Oscar and Recha Jaszi were here. One's memory gets faulty with age, but I honestly believe that Oscar and Recha Jaszi were the first Europeans I ever knew. This seems a little fantastic as I say it, but then I am looking back to an America in which, at the same age, I had

never seen an American soldier in uniform. At any rate, it was largely through the doors opened by Oscar Jaszi to the history of European political thought and the more immediate background of the then current situation that I began to learn about Europe.

That was the Europe of Benito Mussolini, and Adolf Hitler, of the Stavisky scandal and the Popular Front. It was above all the Europe of economic stagnation in which it was only too easy to see, as many then did, a clear way ahead to the final collapse of the West, pretty much in line with the expectations based on the Marxian dialectic. If I had to pick one book typical of the period, I think it might be John Strachey's "The Nature of Capitalist Crisis." It was almost impossible, sitting in Oberlin, not to be persuaded by the Marxian analysis of the facts as they then looked. There was no real factual basis, as opposed to a faith in fundamental human values, for arguing with any great degree of conviction that those people were wrong in seeing Russia as "progressive" and the West as "decadent," and doomed to be destroyed by the war that nearly every thinking person already felt to be looming ahead. Practically all of the commonly

accepted American beliefs about what was right and good in private conduct and public policy were in disrepute and this country was despondent, and afraid of the future. President Roosevelt said we had nothing to fear but fear itself, but we had fear. In at least two states, what we now recognize as outright fascist political gangs very nearly succeeded in overthrowing republican institutions. Nearly everybody who thought or wrote about political and economic matters began to concede the Marxian case, either by moving towards espousal of it or by reacting in such a manner that one could see they were afraid the Marxists might be right after all.

Nearly everyone - but not Oscar Jaszi. It was not that he was optimistic, in the traditional American sense, or felt ^{as} ~~the~~ Ohio Republicans are alleged to feel, namely, that if governments would just stop doing things, everything would be all right. But he knew the Marxists were wrong; he knew why they were wrong; and he kept saying so. I don't know how effective a teacher Jaszi was for most of those who sat in his classes. But I am absolutely certain that it is because I sat there ^{because I} and worked with him, that since that day I have never had the slightest difficulty resisting

[He was far too soft hearted and too polite to give American students the grades and comments they deserved. His sharp criticism on a paper was "Some good points."]

the temptress that Marxian dialectic has proved to be for so many intellectuals of my generation - and I want to emphasize that this includes some who embrace the system of thought and many, many more who would flatly deny anything of the sort but who nevertheless reveal by their thought processes that they have been captured without knowing it. [Some of the most Marxian analyses I have ever seen have been in conservative publications in the United States.]

Europe plunged into the Second World War - the Hitler war - and my American generation followed after. It is a little hard to say which emerged more changed. Perhaps one might say that while at first Europe looked pretty battered and we felt and looked young and healthy (those that survived), as matters turned out we have faded rather quickly while Europe very clearly has not.

The postwar years have been the years of the Marshall Plan - perhaps even more deserving than Lend Lease of the Churchillian phrase "the most unsordid act in history" - and the great Western European resurgence. It has been a Europe split down the middle - clearly and sharply divided between the Communist and the non-Communist states. We have had a situation approximating, as

closely as one is ever likely to get, to laboratory conditions for the study of the application of conflicting theories of government.

It is not my purpose to proceed by contrasting the Eastern and Western European regimes of today or their economic results. I want to get on to some points that I think it is important to grasp about what we now call Western Europe. But there is one general observation I think it appropriate and essential to make in a lecture dedicated to the memory of Oscar Jaszi. It is the total absence of any resemblance whatever between developments in either Eastern or Western Europe, or in the relations between them, and the Marxian prognostications of the 1930's and early 1940's. *(at least so far as the West is concerned,)* In case this is not obvious, I would like to call one witness. Writing in 1962, and talking of the West as a whole, this observer said that history itself has answered the doctrinaire Marxists of the thirties. "In the first place, the apparently predestined curve of capitalist development has abruptly turned upwards again. The major capitalisms have unmistakably taken on a new lease of life. True they have had to undergo considerable changes in their

social and economic structures in order to stage this revival.

But it has been found that the job can apparently be done by

means of measures which, relative to revolution, are very mild.

Fifteen years after the end of the Second World War, there are

still no signs of the reappearance of those unmistakable symptoms

of social decline which stigmatised capitalism twenty-five years

ago. To allege that the American or the British wage-earners

are now sinking into ever-increasing misery is merely funny. To

deny the effectiveness, so far at least, of the democratic proc-

ess in the key countries of the developed West today, is merely

perverse. No one but a blind fanatic can possibly say that such

societies as America, Britain, North-West Europe, or Japan, are

today in obvious decline and offer no way of carrying on human

civilization." My witness? The same John Strachey of "The Nature

(1962)

of Capitalist Crisis," in his latest book, "The Strangled Cry" -

one Marxian thinker who is too big a man to be afraid of admitting

that the political judgments he once made were wrong.

*And I should add:
nobody could have
been less surprised
at this than
oscar jaggi.*

I should like now to turn to some of what seem to me to be

the important characteristics of this new Europe. I am deliberately

picking out characteristics which seem to me to contrast with current political trends in the United States, not trying to draw for you a complete portrait of modern Western Europe, which would be far beyond my competence in any case.

1. I would put first the willingness to experiment with new political institutions. (Up to the last two or so years I would have had immediately to qualify this statement by excluding Great Britain from its scope. I think this probably no longer necessary.)

This willingness was first apparent, and is still strongest in those countries that suffered either defeat or occupation during the war.

When it became clear rather quickly after the war that Western

Europe was not going to follow the Marxian path, the intellectual climate was highly favorable to new political ideas. In particu-

lar, for different reasons and expressed in different ways,

important and finally dominant political groups in the major

continental countries accepted as a fundamental principle of polit-

ical action that the wholly sovereign national state was no longer

an adequate form of political organization for Europe. This was

not widely accepted in Britain until much more recently, a fact which to me provides a wholly adequate explanation of how we arrived at the present period of hesitation, if not regression, in the movement towards European political and economic integration. One striking evidence of this movement was the inclusion in the constitutions of both the major European powers defeated in the war of explicit provisions authorizing governments to cede authority to supranational bodies. Europe is obviously still very much in the experimental stage and one would be rash indeed to predict what constitutional forms may prevail in five or ten years' time.

There is a very strong possibility that parliamentary democracy in anything like the classical British or French senses will not prove to be an effective form of government for the Europe of the future. There are many Britons who feel that their Parliament has become so atrophied that it could as well be replaced with some purely mechanical method of measuring the results of the last previous election. There are many who believe the New European

institutions must be modeled on those of federal states, of which the oldest extant example lies at the heart of Europe itself, namely, Switzerland. But of course the largest individual of the species is our own, which is one reason why American history and American institutions are being subjected to more critical examination today on the part of Europeans than for several generations past. Another constitutional theory even more characteristically American than federalism, namely, the so-called presidential system (as opposed to one in which the executive serves at the discretion of the legislature), is being given a run in France. It would be difficult at this point in time to say whether the chances of the Fifth Republic surviving are better or worse than were the chances, as seen by contemporaries, of the American federal system surviving George Washington. [Tyrannicide.]

But in my view the most important political fact in Western Europe remains the growing consensus that the national state is no longer an adequate framework for legislation, defense, or executive action, particularly on matters affecting economic activity. This is not to say that nationalism, the phenomenon

that so preoccupied Oscar Jaszi and other political thinkers of the late nineteenth and early twentieth centuries, is dead. Far from it. National sentiment waxes and wanes and will doubtless continue to do so with more or less effect on the trends I have been discussing. But these fluctuations of sentiment are taking place, it seems to me, along a dominant secular trend away from reliance on purely national institutions.

2. The second characteristic of the new Europe which seems to me highly significant is the rapid decline in importance and relevance of the issue which in this country would still be called "socialism." By this I mean mainly the issue as to whether major parts of the national productive capacity should be owned and operated by the state or by private individuals or groups, or should be owned by one and operated by the other, and so on. One of the most astonishing things to a European, or to an American who has lived long in Europe, is to come to the United States and discover that abstract and highly emotional arguments about socialism versus private enterprise are still regarded as being arguments about a real issue, at least by politicians. This is

not regarded in Europe any more as a real political issue. There are plenty of particular cases that lead to debate and political division, whether Italy should or should not nationalize electric power production, whether Britain should or should not renationalize the steel industry, etc. But the preponderant fact is that the bloom has entirely gone off nationalization or state ownership of industry as a solution to all economic problems. There is only one socialist party in Europe, the British Labor Party, that still retains a general demand for nationalization as part of its formal creed, and in spite of the late Hugh Gaitskill's failure to carry the party with him in his desire to remove this anachronism, it is clear that any Labor government that managed to convince the electorate that it would seek to implement this clause would be roundly defeated. The other side of the coin is that very large and important sectors of Western European economies are nationalized; that some though not all of these great nationally owned and operated industries are extremely efficiently run and, indeed, quite indistinguishable to the ordinary citizen from large private enterprises. One reason for this is that in most European countries

most of the nationalized industries are treated by government just as if they were private enterprises. They are expected to raise capital and sell their products in the market place and to earn a decent return. The primary role of government in economic activity has become the promotion of economic development and there is general acceptance of this new emphasis from right to left of the non-Communist political spectrum. That Europe has arrived at a consensus in this area, enabling government to play an effective role in promoting economic growth, while the United States' body politic obviously has not, is to my mind one of the main reasons why European economy, by almost any measurement, appears dynamic compared to the recent performance of the American economy - probably for the first time, by the way, since the foundation of this Republic.

3. Next I would mention a feature which it is extremely difficult to describe in anything but qualitative terms, but which I think of great importance. I began to notice in the early 1950's that in talking to European businessmen and officials concerned with economic affairs one found complete indifference, so far as

the making of investment decisions was concerned, about the prospects of war. Note that I am not saying that they believed there would never be another war, but that in their decisions and actions they were indifferent to the prospects. It would take a better psychologist than I to try to explain how this should be true for people living under the flight track of missiles bearing nuclear warheads. It may be simply a feeling that, in a comparative sense, Europe is under no greater threat of material destruction than any other place, which has certainly not been true in the past few centuries. Whatever the reasons, I am convinced that the gradual spread of this attitude has had a lot to do with Europe's economic growth. (It may also have a lot to do with the American administration's difficulties in getting European governments to assume all of what we think is their share of the general burden of Western military outlay.)

4. There has been a rather rapid blurring of class lines in Western Europe since the war. Again the reasons vary considerably from country to country, but the effects tend to be the same. The fluidity of movement between income groups and social classes in

the United States has always been a distinctive feature of our country as compared to Europe. It is no longer so to nearly the same extent. The clearest evidence of this, I think, is in the gradual disappearance of class consumption patterns. It used to be possible to tell what class a man belonged to by the way he dressed, what he ate, where he went on his holidays and, of course, as we all know from "My Fair Lady," how he spoke. These things do not disappear overnight. But the changes of the past fifteen years are very striking indeed. I can remember visiting in 1948 an Italian plant that manufactured small radio receivers and asking the management how many of their workers bought the product. It was obvious that it had never occurred to them that their workers would buy a radio set. You would not find this true in Italy today.

Indeed, the motorization of the Italian worker brought about by the invention of the Vespa was one of the first observed and most striking evidences of the phenomenon to which I refer.) In England the strategy of all three major political parties is now based in part on the theory that the "working class" as an identifiable mass

with common consumption patterns, habits and viewpoints no longer exists. The economic effects of these changes have been tremendous. Whole new industries have been created to sell products to people who would never have dreamed of buying such products before.

5. It is worth mentioning as a separate factor the purely economic corollary of the point I just tried to make. This is that labor has become an expensive factor of production in Europe for the first time since modern industrial development began. Thus another feature which used to distinguish the American economy from the European economy is rapidly disappearing. The substitution of nonhuman for human energy throughout the production process is still a long way, by most of the usual measurements, from American standards. But it may be proceeding more rapidly in Europe than is now the case here. The effects of this on the demand for machinery, power, fuel and so on are obvious. I think I might add, having shared in the error, that on no point were early postwar predictions about European economic prospects so utterly wrong as on the possibility of early absorption into the

industrial labor force of the unemployed and, even more so, the underemployed manpower of Western Europe. That upper-income ladies in Milan and Paris would by 1960 be complaining of their inability to get household help, in exactly the same terms ^{as} of a Washington or Boston lady, would have been utterly inconceivable to most observers in 1945. That the West German economy, which in 1947 had something over nine million refugees from the East adrift within its boundaries, could by 1959 have been faced with a labor shortage as the main limitation on economic growth would have been equally inconceivable to most of us in the late forties.

6. Finally, I would lump together in one package what is really a rather complicated set of phenomena. Europe, since the war, has been analyzing itself to an extent so much greater than ever before that it is of a wholly different order of magnitude. It knows more about what people are doing, how much they earn, what they buy, what they plan to do next year, what it takes to arrive at this or that production target and in general why the economy behaves the way it does. What is more, these facts and prognostications are under constant discussion and review. The men who

administered the Marshall Plan and those who worked with them in Europe can probably take most of the credit for this. But one should not overlook the contribution of the United Nations and other international agencies in stimulating analytical work in political, economic and social fields. The regular discussions of the results of all this work in dozens of professional gatherings, most of them international or at least all-European rather than national, seems to have become a permanent feature of European life. This was not so before. To take just one example, but a rather striking and important one, it was not until the European Payments Union went into effect in September 1950 that the major European central banks had ever exchanged current information on their positions in each other's currencies. Today the cooperation between them is regular and intimate to a degree that might well have given an earlier generation of central bankers something akin to apoplexy.

All that I should like to say about Europe's new willingness to apply research, intelligence and foresight to the conduct of

its economic and political affairs is summed up in the person of one man - Jean Monnet. It was Jean Monnet who began, even before the war had ended, to preach the doctrine that Europe, and particularly France, must institute a true revolution in its way of producing goods and doing business, and that if it did so, Europe's future was bright. From a small handful, his disciples and supporters have grown to include literally millions of Europeans. He introduced to France methods of setting investment and production targets and, what is far more important, of making them believable, that is now generally agreed to have been the single most important factor in the remarkable economic renaissance of France. He is best known, of course, as being the father of the European Economic Community, and many - of whom I am one, believe future generations will know him as the father of a true European federation, which will include Great Britain.

This is the Europe we must learn to live with. We must face the fact that in many respects, of which I have tried to describe a few, it is Europe today that is young and we who are

old, and perhaps a little tired. It is Europe that is doing the political and economic experimentation and we who are saddled with a government apparatus which many of those who try to operate the controls feel has ceased to be capable of functioning. It is Europe that is rapidly discarding long established prejudices and shibboleths inconsistent with the effective functioning of modern industrial society and we who seem unable to do so. It is Europe that is willing to use government as an agent of economic development in a society that increasingly respects individual liberty and human values and we who seem afraid to do so. I am not unaware of the fact that if you take average dollar incomes in this country and compare them to average money incomes in Europe expressed in dollars, we still seem to be comparatively rich, and therefore some say, "Why worry?" Let me warn you that these comparisons are increasingly misleading. (If you do not believe me, try to employ a young European businessman or engineer to work in the United States at anything approaching these average figures.) But absolute comparisons are not really relevant to my main point, which is that the pace of change in many fields,

in directions which we and the Europeans believe in common to be right, is considerably greater today in Western Europe than in this country.

Our reaction to all this, it seems to me, should not be one of pessimism or despair. We have the people, we have the resources and we have good roots for our political institutions, our major economic policies and our culture. It seems to me we need to search into our own past, as European leaders like Monnet have done, to find the springs of growth, to separate what is fundamental from what is superficial. We must be willing to discard forms and facades in order to repair and renew the central structures. Let us not forget that, although few Europeans will admit it, a great many of the features of the new Europe in origin and inspiration are fundamentally American. Let us not permit Europe, by applying lessons drawn in such large part from our own experience, to capture the lead in the constant struggle to demonstrate that men like Oscar Jaszi were right in their belief that the institutions and freedom and respect for human personality are the true foundations of the good society.

Michael L. Hoffman

DEVELOPMENT NEEDS THE BUSINESS MAN



By

Michael L. Hoffman

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Development Needs the Business Man

By Michael L. Hoffman

IN all the efforts being made to help the poor countries of the world get started up the ladder of economic growth, one problem seems to be increasingly baffling. It is this: nearly every one in control of the policies of the major industrial countries of the West believes that an active and healthy growth of private enterprise is an important, indeed essential, element in economic development; yet very little is being done to assist such a growth in the poor countries. Our speeches encourage others to follow the free (at least, fairly free) enterprise path. But our help goes mainly to governments and government-owned and -operated affairs of one kind or another. This article argues that there are some inherent difficulties about helping the private sector in less-developed countries grow by means of public aid or assistance programmes. At the end, some suggestions are made about a possible new approach.

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Several Western governments and the larger intergovernmental organizations have by now a good many years of experience with what has come quite generally to be known as technical assistance to less-developed countries. It has turned out to be a much more difficult field of operations than many thought fifteen years ago when the effort began to get under way.

There was certainly a widespread belief at that time that simply by informing a large number of people in the less-developed countries about known industrial, administrative, financial, engineering and other techniques generally applied in North America and Western Europe, one could expect that these techniques would rather rapidly be adopted and applied to the under-developed resources in other parts of the world. It was also rather generally hoped, certainly in the United States, that a large-scale programme of technical assistance would before very long make large-scale financial assistance unnecessary as societies that had not benefited very much from the evolution of the Western economies of the 19th

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and 20th centuries began to develop under their own steam. It was, indeed, common doctrine that today's less-developed countries could telescope into one or two generations those processes that took one or two centuries in the West because they would not have to discover technologies, merely to follow them.

WHAT TECHNICAL ASSISTANCE REALLY MEANS

To anybody who has had any responsibility for making technical assistance work, these views seem in retrospect to have been incredibly naive. We now know that the job is both difficult and long. Indeed, the task is only beginning to be clearly defined. It is hardly at all the comparatively simple operation of transferring a known technique from here to there. To a very large extent Western technology cannot be simply adopted in less-developed countries—it has to be adapted. The process of adaptation turns out to be nearly as complicated and time-consuming as the process of invention, and to require skills and attitudes on the part of the recipients of technical assistance scarcely more abundant than the skills and attitudes involved in the discovery and adoption of entirely new technologies. Above all, the business of giving technical assistance has turned out to be a highly professional task in itself, requiring personal qualities, training and institutional arrangements that are themselves among the world's scarcest resources. To paraphrase a well-known military cliché, technical assistance is far too important and difficult a matter to be left to technicians. In the process of learning some of these things, both suppliers and recipients of technical assistance have suffered great frustration and witnessed colossal wastes of time and money. All this is fairly common ground to professionals by now. And yet hardly any of us involved in the business doubt that the effort should and must go on.

One of the healthy signs is that there continues to be a good deal of self-criticism in the profession. We know a great deal by now about how not to do things. Unfortunately, neither the people who make the decisions in the developed countries about what kind of assistance should be financed from public funds, either nationally or through the intergovernmental agencies, nor the people in the developing countries who frame the requests, can be easily persuaded to accept the lessons of recent experience. As a consequence, governments and international agencies are required to continue to operate in ways that the professionals know to be ineffective and governments in less-developed countries continue to insist on receiving assistance of kinds that the professionals know to be comparatively unproductive, if not completely useless. To take only one example, but perhaps the most common, it has been patently obvious

for years that it does very little good and often harm to send a sequence of individual experts to a country to deal with the problems of getting an unfamiliar technology widely adopted, each of whom has to spend from three to six months learning about the country and coping with problems of administration, language and supply, only to pack up at the end of a year and leave the field to a new man who has to go through the same tiresome and irritating process. And yet this continues to be done because of the terms on which appropriations are made or the conditions under which leaves of absences from home offices are granted and contracts of employment written.

Despite all this, we are making progress in a number of ways. It seems to me that in many aspects of agricultural development, in public health, in some fields of education, and in power, transport, engineering and public administration, one can now find a good many examples of effective technical assistance being conducted by both national and intergovernmental agencies in many parts of the world.

One field of which this cannot be said, however, at least so far as the West is concerned, is that roughly covered by the term "industrial development." The failure so far to invent any effective method of responding to the insistent clamour in under-developed countries for assistance in this field strongly suggests that the frame of reference in which the problem is discussed is wrong and that some fundamental rethinking is required as to what technical assistance for industrialization might conceivably mean and how it might conceivably be done. In particular, it seems to me that the greatest gap to be bridged is that between the great, largely private, industries of Western Europe and North America and the industrial sectors in the really under-developed countries.

KEY ROLE OF BUSINESSMEN

I suggest that the forgotten man in the international technical assistance effort is the struggling businessman in a really backward country or region, trying to make something useful to sell to his fellow countrymen. And yet it seems to me that the evidence is overwhelming that unless there arises in these countries a vigorous and competent class of businessmen, devoted to national progress, economic development without the use of communist methods is unlikely to go forward at a politically satisfactory rate. I would like to add at once that I do not wish to be taken as implying that economic development in any meaningful sense would, in fact, go forward if the communist method were applied in the present non-communist under-developed parts of the world. Indeed, it seems to

me that the evidence at hand points strongly in the other direction. It seems equally clear, however, that this evidence has not so far led to any noticeable diminution of the probability that the breakdown or persistent weakness of existing régimes will lead in many cases to the choice of the communist alternative. It may not work but it is likely to be tried.

The starting point for the difficulties may lie in the term "technical assistance" itself. While there are exceptions, technical assistance in most fields tends by its very nature to be something that governments do, either directly or indirectly, through international agencies. It involves government to government relations. And the techniques that are slowly being developed are effective to the extent that governmental machinery in supplying and receiving countries functions properly.

There are, however, inherent difficulties about attempting to provide assistance for the development of private enterprises through government machinery. The history of various efforts to support, defend and promote "small business" in the United States, for instance, does not give one much confidence that even when the political climate is highly favourable government can play more than a minor rôle as a development agent in this field. In most of the countries with which we are concerned, the political climate is not particularly favourable to private enterprise. And if governments are interested at all in promoting it, the organs of the State charged with this function are likely to be rather feeble, compared with those that for one reason or another tend to confront private enterprise as policeman, prosecutor, tax collector or general busybody.

The point is that to the extent that governments are incompetent as agents for the development of private enterprise where it does not now thrive, other governments, interested in giving technical assistance, are equally incompetent to help. It seems to me that the same applies *a fortiori* to intergovernmental agencies, with the single exception of the International Finance Corporation, which can give technical assistance to those enterprises that it finances. All other efforts to "do something" about industrial development through international agencies have proved rather frustrating. Every debate in the United Nations on the proposal to create a specialized agency for industrial development founders on the issue of what such an agency would do, where it would get staff, and where it would operate.

This has not noticeably relieved the pressure from the less-developed countries for the creation of such an agency but it has led to enough resistance from the countries who would have to provide

the major inputs, both financial and technical, so that the proposals have never been approved. In default of a specialized agency in the field, the United Nations has been making valiant efforts to build up a staff capable of advising member governments on industrialization policies and one can only wish them every success in this field. But it seems to me that the difficulties are inherent and do not stem from the absence of additional administrative machinery.

HOW TO PROMOTE PRIVATE ENTERPRISE

It is no less true for being a cliché that the one thing governments must do if they wish to promote private initiative for industrialization is to establish a climate in which private enterprise can operate and prosper. Beyond this there are probably a few other things that governments can do to promote the kind of private enterprise that they would or should consider desirable as a contribution to economic development. One such action is the establishment of industrial estates in which sites, utilities and technical advisory services can be provided to budding enterprises. A good deal is known about the techniques involved and it is clearly an area in which outside technical assistance can help the private sector in developing countries.

Another kind of action that has had some success is the establishment of what are now widely known as development banks: investment institutions which can help finance private enterprise and also provide advice and assistance with technical and management problems. In some countries such banks can be established with nothing more than government blessings for private organizers, but in most really under-developed countries considerable government financial support and possibly forms of subsidy for the technical assistance and advisory functions of the development bank seem to be required.

The World Bank believes an essential condition for the success of a development bank is that, whatever the sources of its capital, it should be privately controlled. There is a mass of evidence to indicate that development banks both financed and controlled by governments show a strong tendency to become diverted from the paths of sound development finance. Nevertheless, government-owned and -controlled development banks exist and will doubtless continue to be created. Government and intergovernmental assistance to both private and public development banks is one other area in which some beneficial effect on the development of the private sector can, at least conceivably, be expected.

One could doubtless think of other kinds of direct promotion of private enterprise by government that stand some chance of

success, but not very many. And when every possible kind of action has been surveyed, I suspect that by far the largest part of the private sector in less-developed countries would still prove unreachable by any present form of national or international technical assistance.

In fact, the man who can help one businessman with his problems is another businessman. The people who can help launch and operate industrial production in less-developed countries are people who know something about launching and operating industrial production. These people are not found to any great extent in either Western governments or international agencies. They are in business enterprises.

Nor is any way out of the difficulties with which I am concerned to be found in putting people of the sort I have in mind into governmental agencies. If they metamorphose into effective government officials, they lose their tone and colour of businessmen. If they continue to act like businessmen, the best that can happen is that they can be walled off into little units where their furious activities stand no chance of disrupting the main stream of government operations. This is fairly expensive but relatively harmless. The worst is that they be placed in positions of authority, while retaining the conviction that running government is just like running business, only easier. It would be too much to claim that the main thing wrong with American aid programmes has been the persistent preference given to third-rate businessmen over first-rate civil servants when the senior jobs were being apportioned, but there are many critics who would come very close to this position.

I suggest that the problem of technical assistance for industrialization and for the promotion of private enterprise generally in less-developed countries is primarily a problem of putting Western private enterprise directly in touch with the actual and potential managers and directors of enterprises in the less-developed countries. I suggest further that this is not likely to be accomplished through any conceivable form of intergovernmental organization—certainly not one with mixed communist and non-communist membership.

FOREIGN INVESTMENT AS EDUCATIONAL MEDIUM

There is, of course, one very important way in which Western business gets directly in touch with enterprises in less-developed countries. This is where there is an investment interest or some other direct business interest in the success of the enterprise in the less-developed country. International investment is probably by far the most effective medium for technical assistance to the private sector

of developing countries. Mr. Robert Garner, the first President of the International Finance Corporation, has often said that the contribution of foreign investment in spreading technical and management know-how was probably one of the most important aspects of foreign investment as a factor in economic development. The fact that so many less-developed countries have joined the IFC—a kind of international development bank operating with capital supplied by governments—indicates that when governments are asked directly whether they wish to favour foreign investment in their countries, there is a widespread tendency for them to answer affirmatively.

It is gradually being recognized in many countries that foreign enterprises, willy-nilly, act as training centres for the regions in which they operate. It is not really necessary to pass laws requiring the training of nationals and the gradual substitution of locally trained for imported personnel. Western companies with long experience in foreign operations have long known that foreign branches become really profitable only when it is possible to reduce the number of expatriate staff to the minimum consistent with maintaining head-office policy control. The inducement is even stronger where only licensing agreements or joint enterprises are involved. Newcomers to the field of foreign operations may start with different views but they tend to learn this lesson rapidly when brought face to face with the current costs of establishing and maintaining European or American personnel in field locations. Exportable branch managers are no longer easy to find, or cheap. Full employment and good prospects at home, not legislation designed to get rid of expatriates, are the effective forces here.

But the benefits, in a technical assistance sense, associated with foreign investment, whether private or through the IFC, are obviously going to be confined to those enterprises in which the capital is invested. And I doubt if anybody seriously believes that a very large part of the industrial or commercial sector in today's less-developed countries is likely to be developed by or with the assistance of private Western capital or the IFC. What is needed, in addition to everything that can be done to promote foreign investment, is the means of providing the technical assistance that only Western private enterprise can give to private enterprise in less-developed countries in cases in which there is no investment interest.

TRAINING FOREIGNERS IN WESTERN COUNTRIES

One fairly obvious thing that Western companies could do to help technicians and managers from the less-developed countries would be to provide opportunities for them to learn and work in

Western enterprises. Many people seem to think that a great deal of this is being done. This impression may be the result of the large number of touring groups of earnest and slightly bewildered young persons from distant parts of the world that one meets or sees pictures of. They are herded about, usually under government auspices, for a period of two, six or ten weeks, shown some factories, given lunch here, dinner there, and speeches everywhere, and very often treated with great kindness and warmth by their European or American hosts. The pattern is one which probably dates back to the touring European productivity teams that visited the United States during the high period of the Marshall Plan. It had relevance in the original context. It has almost none as technical assistance for less-developed countries.

There is, in fact, very little training of foreigners in the private sector in any Western country. Business firms will bring in a man whom they intend to use in one of their own subsidiaries or personnel from a closely associated enterprise. But it is almost impossible in the United States, at least, to find a private enterprise that is willing to take a person for two or three years in-service training without any commitment of his future services.

The resistance to accepting foreign trainees is probably more philosophical than it is a matter of pecuniary calculation. It may be based on the mercantilist logic deeply implanted in the bosom of most businessmen. They tend to see a general threat to established industrial communities in the development of industry overseas. It ought to be possible, with a modest effort on the part of industrial leaders, to mobilize enough of the overwhelming evidence of the foolishness of this doctrine to persuade the Western business community that this is something it simply need not worry about. But even where no reason based on false philosophy or calculation of competitive advantage exists, not much training of benefit to the less-developed countries is being done in Western private enterprise.

The main reason, again, is surely that the governmental machinery to which the Western technical assistance effort has been confided is not well adapted to bring together the people who need the training and those able to give it. Whatever their attitude toward aid for foreign countries as public policy may be, businessmen feel no involvement as businessmen in the technical assistance effort. In the less-developed countries, on the other hand, the kinds of persons who might welcome an opportunity to study and work in an American or European company will often be reluctant to put themselves in the hands of their own or other governments to the extent involved in fellowship programmes of the prevailing type. Besides, existing channels simply do not provide the businessman or mana-

gerial employee in an under-developed country with the kind of information he ought to have about even such opportunities as there are for this kind of training outside his own country.

Something might be done to improve this situation by attempting to delegate responsibility for this kind of "inward" technical assistance (helping people to learn new ways of doing things by bringing them into places and establishments in Western countries where those things are now done) to organized business groups in the West. I see nothing inappropriate in government financial support for a programme administered by private business organizations. There are many industrial associations, boards of trade or chambers of commerce in the United States, Canada and Europe which would be quite capable of mobilizing regional and industry support for this work and of taking good care of the trainees when they arrive. Furthermore, there is no reason why a company that happens to be the right one to train an individual or group should have to bear the cost of this training. I think there is a good deal to be said for making it moderately advantageous for small companies to contract for this work, just as they would contract under a national or international foreign aid programme for consulting services abroad.

The fundamental weakness of all inward technical assistance for the private sectors of developing economies is that the kind of person one would really like to reach is not likely to be prepared to spend from one to three years away from his business or occupation. There is too much going on in those countries for an enterprising person to want to be out of affairs for that length of time. The real leaders of the emerging business communities will have to be reached largely by bringing whatever the West has to offer to them to their home ground.

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What is really needed most in private (and for that matter in public) enterprises in the less-developed countries is continuing assistance with management and in the training of management personnel. If there is one thing we have learned in the past fifteen years, it is that it is comparatively easy to build something or even to tell a previously inexperienced person how to build it. It is much more difficult, under the conditions one faces in most under-developed countries, to operate and maintain the enterprise that has been built. And it is more difficult yet to convey from one culture to another the capacity to manage an affair. Present technical assistance programmes fail to assist significantly in this area.

It is risky, complicated and generally unattractive for public officials to spend public funds on management contracts designed

to help a private enterprise increase its profits. A clear showing of "public interest" has to be made. The processes involved in doing this are likely to be unpleasant for the proposed beneficiary. Only a few large enterprises can be helped, at best. And most national aid programmes do not provide funds specifically for the purpose of giving assistance to the private sector. The World Bank can include in loans funds to pay the foreign exchange costs of consultants for private firms or public enterprises that it finances, but this obviously touches only the very large and already highly developed enterprises in the countries that concern us. It is another link between technical assistance and external finance and this, as has been noted, is of limited effect on the larger problem. And yet any field representative of any national or international agency that is at all in touch with developments in the private sectors of aid-receiving countries could quickly produce a large number of cases in which assistance at the management level is what is really needed, and often all that is really needed, to keep a struggling enterprise alive or make a new venture go.

My argument may appear to ignore the contribution being made by the various programmes of management training that are now being carried on in many countries, notably by the International Labour Office. I have no wish to belittle the importance of this work, which may indeed soon begin to produce a new class of intelligent and adaptable managers for public and private industry. There are, however, limits to the extent to which formal training of any sort can substitute for experience gained by working under or along with competent management in a particular enterprise producing a particular line of products. Generalized management training may produce good raw material for industry but it cannot be relied upon, it seems to me, to fill the gap in technical assistance to which I have referred in the sense of meeting the immediate needs of the private sectors in the less-developed countries.

Writing from the point of view of an international civil servant, one ought perhaps to stop here and add only that, having posed the problem, it is now up to the Western business community to propose solutions. I should like, however, to put forward some suggestions as to a possible way forward.

TWO INSTRUMENTS NEEDED

I suggest that two new kinds of instruments are needed. One is a non-governmental agency operating in, and as part of, the industrial and commercial communities of the less-developed countries capable both of accepting management contracts and providing consultant services to private firms or companies. I conceive of a

kind of hybrid between the British concept of the managing agent, as exemplified particularly in India, and the essentially American concept of the independent consulting engineer as broadened during the last two decades into the management-cum-engineering consultant firms.

Such an agency could be established in certain countries with substantial immediate local participation. In others it would have to be staffed at first almost entirely by expatriate personnel. In some countries such an agency might even be profitable. In most really under-developed countries, I suspect, it would have at first to be subsidized for quite a long time—and it would be expensive. The salaries required to induce the kind of men needed to remain for several years at a time in these countries would be very high by present European or American standards. This is not a matter of sending one or two retired businessmen to the national capital as industrial wise men. It is a matter of establishing well diversified teams of men prepared to become involved for substantial periods in the life and problems of the country.

The second new instrument would be an international organization, or at least a network of national organizations, of private companies that could tackle the problem of creating conditions under which personnel could be made available to man the agencies referred to above. This would mean, in particular, getting a very large number of companies, small as well as large, to agree to adopt policies that would permit and encourage senior personnel to devote two or three years of their careers to technical assistance to enterprises in the developing countries. Company policies would have to be amended and provide long leaves without loss of seniority or retirement rights. Arrangements would have to be made for the use of public technical assistance funds to compensate private companies for some or possibly all of the costs that they would be asked to incur. Leaders of business opinion would have to be persuaded to support the programme. It may be that the International Chamber of Commerce or the national Councils associated with it could be persuaded to provide this instrument.

I believe that a large-scale effort to meet this great gap in the West's technical assistance effort would be a far more fruitful investment of the energy and ingenuity of the Western business community than the pursuit of schemes to replace governments by business groups in the administration of government to government aid, as has recently been suggested in some leading American business circles.

January, 1963.

Michael L. Hoffman

AID COORDINATION



1. Laughlin Currie has recently observed, with special reference to Colombia, that if one tried to wage a war with the diffusion and dispersion of effort that characterizes the international development effort today, the result would be calamitous. That such an observation could be made by such an observer is standing rebuke to all of us in the development field. Colombia, perhaps for longer than any other country, has been an object of the conscious and concerted international development effort that has characterized the past two decades. It is a country whose economic problems are eminently solvable in macro-economic terms. It is a country which has had the benefit, if that is the right word, of every conceivable type of advice and technical assistance, including Currie's. It is a country in which the World Bank* in addition to having invested \$450 million has endeavored to play a positive role in the field which is the subject of this paper. It is finally and unfortunately by no means the only country to which these strictures can be applied today.
2. The difficulties we face, it seems to me, are not primarily intellectual or conceptual. It is possible to dream of a model of co-ordinated external financial assistance for a developing country - Raoul Prebisch saw the vision at least as long ago as 1954. The country would produce a reasonable and internally consistent development programme to which the political leadership was clearly and deeply committed. The public investment programme for each major sector of the economy would be adorned with feasible projects, each to be carried out by competent entities. Careful phasing of financial requirements and physical inputs would yield annual sectoral investment programmes during the plan period, with appropriate provision for rounding off projects already under way and for starting up projects to be incorporated in the subsequent plan period. All this would be tied together for the whole of the public sector and placed over against realistic projections of financial resources available to the public sector from current revenues, non-inflationary domestic borrowing, non-inflationary expansion of the money supply and external finance already contracted for. Estimates of investment and production in the private sector, based on comprehensive census data and tested time series, projections of consumption patterns and the sources and uses of funds in the private sector - all these would be added to the mixture. Finally, one would be able to read off the uncovered requirements for external finance by year, by sector and by project. The country would then present its case in some international forum, its performance would be examined and evaluated,

* Here, as throughout this paper, the term World Bank is used to stand for the International Bank for Reconstruction and Development and the International Development Association, except where otherwise indicated.

and financial commitments made that would be appropriate to its requirements in both terms and amount.

3. The model remains a dream, not because there is any great disagreement among those in the business of development finance about its feasibility, given the right conditions. It remains a dream because almost none of the fundamental conditions for its functioning are present either in the developing countries or in the countries and international institutions that are the sources of development finance. The basic statistics on which to construct realistic, internally consistent development plans seldom exist in developing countries. The political commitment to development rarely has a look of convincing durability, and is seldom undiluted by other political commitments which look in other directions. All too frequently it is overwhelmed by such commitments. The capacity to translate macro-economic sector investment targets into phased investment programmes and financial requirements is limited. The ability to bring projects to the stage at which it is possible to discuss seriously their claim for finance is even more limited. The governments in the aid business are increasingly unwilling to make long-term commitments to support development programmes. Scepticism about the effectiveness, indeed even the usefulness, of comprehensive development plans is spreading. International institutions operate under explicit restraints as to the kind of finance they can provide and the terms on which they can provide it; and so on. Any of us in this business can think of a dozen more good reasons why the model remains a dream.

4. It is not useless, for all that, provided we remember that it is a dream. But it is simply not sensible to discuss the problems of aid coordination in 1966 as if we were dealing with an only slightly malfunctioning version of this development finance model which, with a few new parts here and there and a good push, could be off and running. The first point I should like to make about aid coordination, in short, is that the obstacles to rational handling of development finance are not primarily intellectual difficulties about how the process ought to work, and certainly do not arise from obtuseness on the part of responsible individuals in either developing countries, capital exporting countries or international organisations. The obstacles arise rather from deep political and constitutional incompatibilities, and the great difficulty, even after 20 years of experience and effort, of obtaining reliable, credible and persuasive numbers as the basis for analysis and decision.

5. What we need to discuss, therefore, is not how aid coordination ought to work, but what are the most important and most urgent things that might possibly be done now to make it work better. We also need to examine critically some of our experience to date.

6. Coordination can be attempted, of course, at many different levels and with many different proximate objectives. The general long-run objective, however, should always be to improve the effectiveness of aid. This seems obvious and non-controversial as stated. I am afraid, however, that one thing wrong with some efforts at coordination, including some of the major ones, is that some or all of the participants have other, usually unstated, objectives in mind which tend to divert attention and energy from what ought to be the primary objective. It is not, I think, either wise or necessary to be very specific about this. I need only mention that in some cases ostensibly coordinating machinery has been regarded by some participants as a means of aggrandizing the position of this or that international agency; other ostensibly coordinating groups have been regarded by some participants as primarily a means of getting the other fellow to put up a bigger share of the money; others have been regarded as primarily a means of getting more money in toto for a particular country or a particular programme.

7. Perhaps I should pause on this last point long enough to make my position clear on an issue that threads its way through nearly all discussion of aid coordination. It is my contention, and it is the view of the World Bank based on its experience to date, that improving the effectiveness of aid is a distinct, identifiable, and significant function or field of endeavour quite apart from the question of the amount of aid - whether one is speaking globally, regionally, with respect to a particular country or with respect to a particular economic or social sector. We believe, therefore, that aid coordination as one, but by no means the only way of improving the effectiveness of aid, can be, and ideally should be kept distinct from fund raising or burden sharing exercises. A vast amount of confusion has arisen because of failure to see or at least to accept this point. Let me also try to make clear one thing I am not saying. I am not saying that there is no relationship between making aid more effective and generating more of it. Indeed, it is a fundamental article of faith in the Bank, and has been from the very early days of its operation, that if aid can be made effective, and can be made to be seen to be effective, the problem of raising the necessary amounts of aid, however these are defined, will be very much easier to solve. This, again, is true for aid in general (looked at for example from the viewpoint of a committee of the U.S. Congress), the flow of aid to a particular country, or of aid of a particular kind or to a particular sector such as education, agriculture and so on. But this is a very different thing from saying that a coordination effort serves no useful purpose if it does not simultaneously involve new aid commitments. I shall return to this point in connection with the discussion of the specific example of consultative groups as a technique of aid coordination.

8. There are at least six levels at which, it seems to me, the problems of

aid coordination can be usefully attacked. Perhaps the most useful way of proceeding is to discuss these in turn, both with respect to what has been accomplished and with respect to what might reasonably be expected to develop in the relatively near future. The six levels or types of coordination I have in mind are:-

1. Coordination of aid by the recipient country
2. Coordination through an international financing agency
3. Coordination of aid from several sources to a particular recipient country
4. Coordination of bilateral aid policies in general among several donors
5. Coordination of aid from several donors for particularly large projects
6. Coordination of aid on a regional basis by several donors and several recipients

Coordination of Aid by the Recipient Country

9. This deserves first mention in our catalogue not because there is a great deal to be said about it in general, but because unless there is some minimum capacity within a government to control the demands for resources, including external resources, generated by the various departments of government and principal investment sectors, no other form of coordination is likely to be possible. On the other hand, one might argue that if a government were fully in command of its own economy and possessed machinery to control on a day to day basis requests for external assistance according to some feasible and enforceable programme, the need for other kinds of coordination with respect to the aid problems of that country, would certainly diminish, possibly disappear. In practice the kinds of coordination on a national scale that seem to be most essential, in order to enable coordination on an **international scale** to work, include: control over the public investment programme; some kind of machinery for producing projections of a public investment programme and its foreign exchange component over a three to five year period that can be made to appear reasonable to potential sources of external finance; a reasonable capacity for establishing priorities between different sectors of the economy and within them for major projects; enough coordination at the political level to make the priorities stick (which sets limits to the amount of corruption and purely political interference with investment decisions that can be tolerated); and some means of coordinating requests for, and the utilization of, technical assistance. Assistance to developing countries in improving their coordination efforts in these key areas should, in my opinion, be viewed as a more urgent task than tinkering with or elaborating international coordination machinery.

Coordination through an International Agency

10. The very process of creating an international financing agency is, among other things, a coordinating process. The principal issues that face any form of international coordination are either decided on a once-for-all (or once every, say, 3 - 5 years) basis or delegated to the international agency and resolved through its machinery. In the case of IDA, for instance, the troublesome issue of burden-sharing was resolved for the period of the initial government subscriptions during the negotiations that led to agreement on the initial governmental subscriptions. The problem of fixing the terms of aid was delegated to the Association, with only the general guidance in the Articles of Agreement that they should be "more flexible and bear less heavily on the balance of payments than those of conventional loans." All of the complicated questions concerning use of resources and conditions of financing were delegated to the international institution. The day-to-day coordinating process occurs, therefore, within the international staff somewhat removed from the direct influence of the member governments - both those that provide the money and those with possible claims upon it.

11. It is interesting to note that the Association was given only two positive instructions about what it should finance: namely, that it should provide financing to "further development in the less developed areas of the world included within the Association's membership," and that its financing should be "for purposes which in the opinion of the Association are of high developmental priority." The only other instructions given to the Association by the governments delegating authority to administer the money they were contributing are negative - things it may not do, such as provide financing if private finance is available on reasonable terms, provide financing if the country in whose territory the project is located objects and so on. All of the other clauses concerning the operations of the Association are simply delegating clauses which leave the Association free to form and apply its own judgement with respect to the matters covered.

12. I have used IDA as an illustration because it is one institution with which I am familiar. However, to a greater or lesser degree all of the major international financing agencies perform a coordinating function with respect to the funds they control and the countries that constitute their membership. To repeat for emphasis, the very process of creating an international financing institution requires that decisions with respect to many or most of the questions that are normally regarded as requiring coordination have to be taken in advance or the authority to make them delegated, as otherwise the institution will not come into being.

13. I do not believe I need stress for this audience the technical advantages of coordinating through international agencies. These are by now so widely

recognized that I feel no need to apologise for expressing my view that this is by far the best and most effective method of coordinating aid. I am not, however, so enamoured of the method that I am prepared to say that if we cannot do it this way, there is no point in trying to do it at all. There are strong reasons why, despite what I have called their technical advantages, international agencies cannot and should not be given the whole aid task. For one thing, there are limits to the capacity of any international organisation no matter how well conceived or how well managed. There may be enthusiasts outside the World Bank group that believe these institutions ought to be given the whole of the aid task, for the non-Communist world at least. But you will not find such people in the Bank. There are many kinds of activities being done under the heading of aid, and important things that need to be done, which the Bank recognises to be important, but which the Bank group of institutions is not now engaged in.

To name only two at random from widely different sectors I would cite primary education, and technical and financial aid to really small private wholly locally owned enterprises. And yet few, certainly not the Bank, would deny that both these sectors are vitally important for general economic development or that both can use outside aid. For many reasons governments wish to keep direct control of the bulk of their aid funds, and these reasons are not all ill founded or purely selfish. It should also be pointed out that governments are clearly not willing to devote all the resources, or delegate all the powers they wish to give to multilateral agencies to a single multilateral agency. This being so, there arises a problem of coordination between international agencies and international financing agencies in particular. Efforts at coordination between international agencies, and of course between multilateral and national agencies involve many of the problems that I am discussing under other headings. The international institution with large financial resources and broad discretion as to their use is technically the most satisfying form of aid coordination, but it does not get all the weeds out of the garden. And for a long time to come we will be working in a world where the bulk of what by any definition can be regarded as aid will be flowing through other channels and require other methods of coordination - in which, however, the international financial institutions can still play a part.

Coordination of Aid from Several Sources to Particular Recipient Countries

14. Whenever a country is receiving substantial external aid from several sources, there is a prima facie case for some effort at coordination. While a great deal has been said about the possibility of augmenting the flow of external assistance by playing one competing donor against another, there seems to be increasing agreement among governments of developing countries that the risk of becoming saddled with ill-conceived and unworkable projects

greatly diminishes the attractiveness of this approach. As a country's economy becomes more sophisticated and its aid requirements more complex, the advantages of having some kind of machinery whereby its case for external financial assistance can be put before several governments and international agencies at once, and in some sort of agreed format, become more and more evident.

15 There are two kinds of international coordinating machinery designed to focus attention on the problems of a particular country that have achieved prominence in recent years. The first is the consortium, of which examples now exist for India and Pakistan (organised by the Bank) and Turkey (organised by the OECD). The second is the consultative group of which one now exists for each of Colombia, Nigeria, the Sudan, Tunisia, Malaysia, Thailand, Korea and Ecuador - all but the last of these being organised under the chairmanship of the World Bank. The consultative group for Ecuador is organised by the Inter-American Development Bank.

16. The formal difference between a consortium and a consultative group is that, in joining a consortium, governments have undertaken that from time to time they will attend sessions in which specific pledges of aid will be made for a particular country. In joining a consultative group, no such commitment is made or implied; and there are no pledging sessions of a consultative group. Aid commitments by members of a consultative group are arranged bilaterally with the country that is the object of the exercise - which for want of a better term I shall refer to as the recipient. The Bank plays no part in these negotiations, except with reference to particular projects in which it and several other financing agencies are interested - a case which I discuss below.

17. While it is possible to make certain general statements about the operation of consortia and consultative groups, one thing that becomes apparent very quickly in the life history of these organisms is that each group acquires a definite personality of its own which affects the way it functions and what it accomplishes or fails to accomplish. This is partly the result of the obvious fact that no two countries' development problems are identical. It is also, however, the result of the fact that the practice to date has been that the chairman of the Bank-run consortia has been a Vice President, while the chairmen of the various consultative groups are the respective directors of the Bank's operating departments for the areas in which the recipient countries are located. As no two chairmen will wish to conduct a meeting in precisely the same manner and as the Bank's Area Departments also by now have acquired distinct "personalities" and styles of operation, there are these additional factors working against uniformity.

18. Nevertheless, insofar as consultative groups are concerned, we are

endeavouring to develop some general standards and practices as to how these groups should operate and what the Bank's role should be as chairman. As the Bank has stated that it does not propose to organise any more consortia on the India/Pakistan pattern, the following discussion will be phrased in terms of consultative groups which, at this point in time, appear to us to be the most promising method for coordinating aid from various sources to particular recipient countries. But I should stress that, insofar as their coordinating functions are concerned, what follows can also be applied to Bank-organised consortia.

19. In agreeing to organise a consultative group, the Bank assumes the following general responsibilities:

- (a) making periodic comprehensive reports on the country's development possibilities, problems and performance as a basis for the group's deliberations;
- (b) commenting on the country's estimate of its aid requirements, making recommendations as to the types and terms of aid appropriate for it, and highlighting any problems arising from unduly burdensome debt accumulation;
- (c) helping the recipient government to prepare or revise a development programme, or advising on problems of execution, where such assistance is desired;
- (d) assisting the government, as may be necessary and desired, in identifying projects, in their preliminary screening, in arranging for feasibility studies, etc., and in relating other technical assistance to the needs and priorities of the investment programme; and
- (e) advising the government and group members as to the sectors and, where adequate feasibility studies exist, the projects that deserve priority for external financing.

20. A mere listing of these functions suggests one of the principal conclusions we have so far been able to draw about how to make this kind of aid coordination effective. It is that while a consultative group must from time to time hold meetings, by far the most important part of a consultative group is not the formal sessions but the work done by the Bank staff, the government of the recipient country and the responsible ministries in the member countries between meetings. Ideally, in my view at least, a meeting of a consultative group ought to be primarily an occasion for putting a number of things on record, the groundwork for which has already been done; the recipient country's intentions with respect to major development problems; its views of its requirements for external assistance in as much detail as possible; the Bank's evaluation of the country's plans and performance; the

consensus, if one exists, among members of the group as to the recipient country's performance and prospects; any statements of general aid policy towards the recipient country that members may be prepared to make; some statement by the Bank of its own intentions; plans for financing projects in the recipient country, if any; and finally, such guidance as the members may wish to give the chairman on what the next steps should be with respect to any matters that come within the scope of the consultative group's deliberations. In order to achieve a result of this kind at a consultative group meeting, it is clearly necessary that there should be continuous contact between the staff of the Bank and the recipient country; between the Bank staff and the active members of the consultative group; and between the recipient country's ministries and those of the members of the group. It may also be that for certain problems and for certain countries it will prove useful to have less formal meetings of some members of the group with the Bank and other international financing agencies to discuss particular problems, such as terms of export credits or particular projects that are possible candidates for joint financing operations.

21. Among the Bank's major responsibilities is clearly that for being at all times prepared to provide members of the consultative group with up-to-date and authoritative information concerning the country's general economic performance and needs. One result of the Bank's assuming this responsibility is that we must do a much broader kind of economic survey and report than would be required merely for the purpose of determining whether a country is eligible for Bank loans or IDA credits. It will be readily understood that all this has major implications with respect to staff, the nature, composition and frequency of Bank missions and the timing of consultative group meetings. I would not want to give the impression that we are satisfied with the Bank's performance in any of these respects. But I can say that the President of the Bank is determined that whatever is necessary on the Bank's part to make consultative groups function effectively will be done, and we are constantly working on a number of fronts to improve our performance.

22. Finally, under this heading I should like to draw attention to two basic obstacles to the satisfactory functioning of consultative groups as a means of aid coordination. By way of preface, it should be noted that there are inherent differences in the way in which the various participants in a consultative group operation look at the enterprise. The members of the consultative group presumably are interested in assisting the claimant country's development programme. But each of them approaches the group under different legal, financial and political constraints as to what it can do. To put it a bit crudely, the potential donors are interested in getting the most for their development dollars and are, therefore, likely to approach the exercise

with a critical eye on the economic performance of the claimant country and the reasonableness of its claim for external assistance. Furthermore they can never ignore the fact that they have valuable commercial interests in the claimant country that are affected by, even if they do not determine, the shape of their aid packages. The claimant country, on the other hand, is interested in obtaining a maximum amount of external assistance to augment its own resources on terms as easy as possible. It is also, of course, extremely conscious of the political and administrative obstacles to raising the rate at which resources for development can be extracted from its own, usually very poor, population. Again, putting it rather crudely, it is interested in getting the most from the donors for the least painful effort on its own part. The Bank also operates under well-known restraints as to kinds, terms and amounts of finance it can make available but, as compared to the donor countries and the claimant country, it is almost equally concerned about both increasing the general flow of development finance to worthy countries and encouraging maximum mobilization of domestic resources in recipient countries and steadily improved general economic performance. It is also very much concerned about the terms on which finance is made available. I think conflict of interest is too strong a term to apply to the different attitudes with which the members of the group and the recipient country approach each other. It is, nevertheless, in bringing consensus out of the interplay of these various attitudes and shades of emphasis that the art of operating a consultative group lies. If, over a period of years, either the member governments, the recipient government, or the Bank feel that they are getting nothing of value from the exercise, the consultative group is not likely to endure. In particular, if over a period of years a recipient country whose performance is judged by the Bank to be satisfactory and whose utilization of external finance has proved on the whole to be effective finds that it is getting neither a larger inflow of assistance nor significantly better terms than it feels it could get on its own, it is likely to conclude that aid coordination of this particular kind is not worth the trouble.

23. Bearing in mind these conditioning factors, the first general difficulty in making a consultative group function effectively to which I would briefly draw your attention, without by any means exploring all the ramifications, is that most multilateral and bilateral financial assistance is, for what in my opinion were originally sound reasons, in the form of project finance. Projects can, of course, be very broadly defined. On the other hand, we are more and more frequently discovering, in the course of our studies-in-depth of the economies of countries, that the planning of public investment programmes, and in some cases the projections of requirements

for major inputs in the private sector, have developed to the point at which it is possible to identify and quantify with a reasonable degree of persuasiveness foreign exchange requirements that cannot be covered even if all the feasible projects receive the necessary external finance. To put the matter somewhat differently, there are cases in which it is possible for the Bank to agree with a government that during the plan period the capability exists in the country for carrying out a given total of useful development projects of the type suitable for conventional external financing. It may be possible to say that the foreign exchange component of these projects can largely be met through conventional forms of development finance plus owned external resources accruing during the period. It may be possible to assert that even if this is true, there is no likelihood that enough local currency resources can be generated in an uninflationary manner to make it possible for all these projects to go forward. In such a situation, unless there is external financial assistance which generates noninflationary local finance, development will be retarded. It is precisely countries whose economies have become sufficiently complicated, and whose economic management has become sufficiently sophisticated to fit this pattern that are likely to be the object of a consultative group exercise. For such countries, the availability of what is somewhat loosely called programme finance will have a considerable bearing on the effectiveness of a consultative group. The same kind of difficulty arises when project-tied aid is used in an effort to assist a country whose main difficulty is an unbearable concentration of debt service and repayments in a period of a few years. In many cases no conceivable amount of project-tied aid will enable such a country to avoid rescheduling or default.

24. The second unfavourable feature that I see in the climate within which consultative groups are presently operating is the reluctance, indeed, with fewer and fewer exceptions, the refusal, of governments with substantial foreign aid programmes to enter into commitments over a period of more than a year. They are not only unwilling to make long-term commitments, they are increasingly unwilling to give general statements of intent with respect to the volume of assistance they might be prepared to consider (with all appropriate qualifications) for a given country. On the one hand, consultative group members expect to be given well thought out development programmes by the recipient country to show where it thinks it is going in the course of three, four or five years and what it thinks it needs to get there. They are not content with annual budget figures. On the other hand, they refuse to tell the recipient whether they will or won't do anything over the planning period as a whole to meet its requirements. This is a dilemma from which I see no near-by exit. It does not make a consultative group exercise impossible or useless but it certainly greatly reduces the chance that it can become regarded as an

unqualified success.

Coordination of Bilateral Aid Policies in General Among Several Donors

25. This is a vital and continuing task which will never be completed. It is, of course, par excellence, the task of the Development Assistance Committee. Therefore, I speak primarily as an observer, not a participant under this heading, though of course a good deal of the raw material on which DAC works originates in the Bank and we are definitely affected by the extent to which the DAC succeeds in its task.

26. The DAC is essentially an exercise in self discipline. Governments, at the highest political levels are aware that economic development and aid are too serious and too new a business to be left entirely to the traditional ministries, following their traditional practices and reflecting their ancient conviction that there is identity between the policy that fits them most comfortably and the national interest. Governments have also realised that their long term national interests cannot in fact be served by aid policies, which, if all other principal countries in the business acted the same, would defeat the purpose of promoting economic development in the effort to make aid look financially respectable. Finally, governments, at least when they are thinking in broad terms about development, have become mature enough to realise that without the assistance of some outside agent through which the common objective and the common long-run interest in development can be expressed, their ministries and agencies are likely, in fact, to behave in a manner that will ultimately be self-defeating. They have recognised, in short, that there must be some coordination of aid policies in general.

27. The DAC is the international voice for formulating and expressing this common interest. Through the reports of its chairman and its recommendations to governments the DAC provides a frame of reference against which governments can measure their performance and against which their performance can be critically examined by political oppositions and other elements in the community. This frame of reference is in no sense an ideal aid policy. It is rather a limited set of objectives which responsible officials aware of their own and each other's aid policies and problems believe to be feasible enough in the light of all the circumstances to be worth trying to establish. Coordination under this heading, therefore, is coordination with limited objectives. In practice, apart from the problem of burden-sharing, DAC has concentrated on the improvement of the terms of aid and what is called harmonization.

28. The DAC has occasionally made more or less successful forays into other aspects of development finance and other kinds of aid coordination with varying success. Its main contribution to the whole aid effort, however, has clearly been its influence on the gradual improvement in the terms of aid and its steady

pressure on the rich countries to achieve harmonization at the level of the best and most generous aid programmes not that of the tightest and worst. In the face of rising interest rates, DAC members have achieved a small but significant and steady reduction in the weighted average interest rate on all loans and credits reported to DAC and a steady increase in the weighted average repayment period. The improvement in loan and credit terms has largely, though not entirely, offset the growth in the rate of increase of the debt burdens of developing countries caused by an equally steady reduction in the proportion of total aid made in the form of grants. DAC's efforts in this area have been strongly supported by its continued review of the debt service burdens of developing countries, based on gradually improving statistics, in the preparation of which the Bank is playing a central part. DAC has also strongly supported the Bank's insistence that tied aid is an inferior form of development finance which tends to raise costs all the way around. On the important issue of when and how it is appropriate to provide local currency finance through external borrowing, the DAC has been somewhat in advance of the Bank in urging capital exporting countries to broaden the project approach to development finance. Finally, DAC has emphasised the importance of coordinating technical assistance, particularly "on the spot."

29. It is my impression that in all these efforts to coordinate various aspects of aid policies among the principal governments in the aid business exceedingly useful though not spectacular results have been achieved. DAC, or any organism of its genus, is bound to wax and wane in effectiveness in accordance with changes in the general climate of political and economic cooperation among the principal powers. It can never move too far out in front of positions that its principal members regard as politically sound. The kind of operation it conducts by its nature will always be vulnerable to critics who become impatient with half a loaf because they believe they see how they could get three-quarters or a whole one. It would, in my view, be a serious error, however, to abandon the effort to achieve aid coordination at this level.

30. As a final note under this heading, I would make the more or less obvious point that the more effective DAC is, the easier is the task of the Bank in carrying out its responsibilities as chairman of consultative groups. The fact, for instance, that there is a DAC recommendation on financial terms and conditions which expresses views as to the appropriate terms for aid makes it unnecessary to reargue the case for generally improved terms of aid in each consultative group. Not all DAC members follow the so-called DAC standard; but it is very difficult for any of them to argue today that this standard is unreasonable or objectively wrong.

Coordination of Aid from Several Donors for Particularly Large Projects

31. This is perhaps an overlong bit of modern jargon to describe something that has been going on for centuries - namely, finding partners when you are on to a good deal that is too big to handle yourself (some might word this the other way around - finding partners when you are stuck with a bad deal and want somebody to share the risk). (This is a kind of "coordination" to which the conceptual separation between fund raising and coordination referred to above obviously does not apply because of the very nature of the problem.) There is almost no limit to the variety of schemes that might be described under this heading, from the operation of the Shrine of Apollo at Delphi to the financing of the Nam Ngum dam in Laos. I will confine myself to a few observations based on our recent experience.

32. In the first place, it is my impression that joint financing of large projects, which is what we are really talking about, is almost always more difficult than it would seem to any rational mind that it ought to be. This is mainly due, I suspect, to the fact that while it is often fairly easy to see how the package ought to look when complete, and even to get the participants to agree on how it ought to look, the putting together of the package is a process in time. And getting the various things that have to happen before the package is complete to happen at the right time is extraordinarily difficult. The timing problem may involve anything from an election or a legislative session to the absence on holiday of an executive vice president. And if important steps are taken in the wrong order, the whole package may fall apart. The upshot is that there are likely to be long and irritating delays which may involve some or all of the interested parties in very heavy expenses, for instance for maintaining in being teams of specialists who cannot get on with their work in the field because some preliminary agreements cannot be reached.

33. The effect of all this is that while joint financing is likely to appeal to boards of directors and committees of parliament, and even presidents of republics and presidents of banks, it is likely to be extremely unpopular with operating officials interested primarily in getting projects under way. Nevertheless, there have been some important successes in recent years such as the Volta River power and aluminum complex, the Nam Ngum dam, the Rosieres dam and irrigation projects, the external financing for the Mexican power industry on the order of \$145 million provided by the World Bank and a number of participating countries, and, perhaps preeminently, the Indus Basin water control project. This suggests that despite the unpleasantness involved, there are overwhelming reasons for attempting this kind of coordination in certain cases. One reason, of course, is that some projects by their sheer size are simply too big, or anyway too big in the context of any particular aid source's programme for the country in question, to be financed by one

government or institution. If these projects cannot be financed jointly, they will not be financed at all. Therefore, the effort must be made.

34. I pass over the possible political attraction to a recipient country of not being dependent on one external source of finance for large and vital projects. But there are purely economic advantages in certain kinds of joint financing which appeal to the borrower, to the World Bank, and to those elements in the capital exporting countries that are concerned about the diseconomies of tied aid but unable to do anything to eliminate them. It is possible to eliminate many of the cost raising effects of tied loans by arranging that a country's export credit or aid institutions should finance whatever contracts for a particular project are awarded to suppliers in that country as a result of international competitive bidding. Each of a number of countries will lend to finance all or a substantial portion of the cost of the equipment to be procured within the country for the project. One reason this kind of joint finance is a serious possibility in certain cases is that in countries where the Bank has had a long experience with the results of competitive international bidding for projects in various sectors, it is possible to tell in advance to a degree that always astonishes the uninitiated what contracts will go to what country or countries. The pattern of international competitiveness does not change rapidly enough to throw such estimates very far off. So given the project and its location, the Bank and the borrower can come pretty close to telling a prospective source of finance how much it will have to finance if competitive international bidding takes its normal course. The loans are still tied, but the borrower is getting the advantages of international competition all the same.

35. A second advantage arises from the fact that the World Bank can become a party to joint financing of this type. By doing so, it not only lends its good offices to the task of arranging the terms, but makes it possible for the borrower to obtain terms appropriate to the project even if the "best" terms possible for the various national lending agencies are not appropriate. It can do this by adjusting the amortization schedule of the Bank's own loan to the schedule of the other participating financing agencies in such a manner that the annual amortization payments required of the borrower will approximate those which the borrower would have made had the entire financing been done by the Bank.

36. It is not yet clear how often this combination of joint financing through several bilateral programmes combined with international competitive bidding can be used. The difficulties of putting a package together are, as noted above, horrendous. (These are special negotiating difficulties connected with this kind of joint finance discussion of which would lead into too much detail.) But for very big projects the prevalence of tied loans as a mechanism of

development finance will continue to give the idea a strong attraction to all who are concerned about getting more development per dollar of aid. It may even be possible to extend the pattern to cover groups of projects in a sector - e.g. power, or even groups of countries.

Coordination of Aid on a Regional Basis by Several Donors and Several Recipients

37. The outstanding example of this kind of coordination is the complex of organisations built up in the Western Hemisphere and now covered under the general umbrella of the Alliance for Progress. Indeed, outside the Western Hemisphere there is as yet no functioning machinery of any significance to be discussed under this heading. Even in the Western Hemisphere emphasis under this heading has to be on the "several recipients." A better heading might be "Coordination of Aid and Development Policies on a Regional Basis." For while other governments are active in the aid business in a small way in certain parts of the Western Hemisphere, and, indeed, the World Bank has formed or is in the process of forming consultative groups for certain Latin American countries, the coordinating machinery that has developed over the years is primarily concerned with relations between the United States on the one hand and Latin American countries on the other. We can still justify the "several donors" in our heading only by reason of the close relationship to this coordinating machinery of the major international financial institutions - the World Bank, the International Monetary Fund and the Inter-American Development Bank. The latter, indeed, is both an aid source and part of the formal coordinating machinery.

38. This is not the place and I am not the person to expound the rather long and very complicated history of the efforts of governments in the Western Hemisphere to find an effective means of relating U.S. efforts to assist economic development of Latin American countries to the varied aspirations and capacities of the recipients. A filmed version of such a history would somewhat resemble a minuet, with the United States on the one side alternately advancing bold proposals and withdrawing as if scorched from too close an approach to Latin realities; and on the other side 18 to 20 highly individualistic partners alternately advancing claims for greater responsibility in the allocation of aid resources and proposals for a more intimate hemispheric cooperation, then withdrawing when the consequences of either being achieved become apparent. Yet the institutions that have grown out of all this are by no means negligible and from their experience one can draw a number of lessons that are certainly relevant to our present purpose.

39. The key coordinating body today is the Inter-American Committee for the Alliance for Progress, invariably referred to by the initials of its Spanish title - CIAP. CIAP is an elected committee with a full-time chairman

appointed for three years. Its seven members are chosen for 2-year terms by the regional groups who elect executive directors of the Inter-American Development Bank. The members, however, are supposed not to defend the interests of the countries that elect them but to consider the interests of the area as a whole. Ex-officio members include the President of the Inter-American Development Bank, the Executive Secretary of the U.N. Economic Commission for Latin America, and the Secretary General of the Organisation of American States. CIAP was designed primarily to give an impulse to development and to change the Alliance for Progress from what was essentially a bilateral relationship between each Latin American country and the United States, with the power and influence all on one side, into one in which responsibility is shared.

40. The pattern of coordination being developed by CIAP is that the Latin American countries subject their own policies and programmes to high-level international review on the one hand while the United States subjects its aid programmes and its economic policies toward Latin America to review by the same body. The composition of CIAP, the way it conducts its meetings and the sense of permanence about it, compared to previous coordination efforts, have combined to raise it very quickly to a position of authority held by no other intergovernmental committee linking sources of aid and recipients. CIAP is formally an organ of the Interamerican Economic and Social Council of the Organisation of American States. Indeed it is the principal body for formulating a development strategy for Latin America and pressing for its implementation. The Inter-American Development Bank is formally designated as the technical arm of CIAP in matters concerning development finance. The principal headings under which CIAP has so far divided its work are: general questions relating to the development effort in Latin America; foreign trade; external assistance; economic integration; and the review of country programmes.

41. I have selected for comment only one aspect of the CIAP experience which seems to me especially significant in its implication for the problems of aid coordination in other parts of the world and in other frames of reference.

42. I refer to the extent to which CIAP has been able to gain acceptance of the idea that it is neither an infringement of sovereignty nor a confession of weakness for a government to submit its economic development plans and policies to examination by its peers in committee assembled. The extent to which the country review exercises of CIAP are developing into serious and objective critiques of national economic performance does not seem to be widely recognised outside circles directly involved in Western Hemisphere affairs. This development is astonishing to anyone familiar with the long history of cooperation and coordination efforts that have foundered on the rocks of Latin American sensitivity to outside criticism. Only in the OECD

is any similar collective review of national performance regularly carried out, and the circumstances there are different, although it is worth recalling that the OECD practice originated at a time when many of the then members of OEEC were also aid recipients. CIAP works in private and has developed procedures that emphasise the mutuality of the review process. As a result of its operations, I have the impression that in Latin America, more than in any other part of the world, it is increasingly accepted that performance commitments by a government to an impartial international body are not only an appropriate, but an essential part of a rational and mutually beneficial relationship between governments and agencies which are sources of development finance and recipient countries. The World Bank and the International Monetary Fund have, of course, for years sought and sometimes obtained performance commitments based on recognition by a country that its long-run interest would be thereby served. The great thing that CIAP has contributed in this domain is the simultaneous recognition by aid sources and recipient countries that not just one or two countries and not just badly performing countries, but all developing countries can benefit from objective reviews of economic performance and regular discussions in an international forum. The standing of the country whose programme is being examined is that of a member, not a petitioner. I would hope that other regions, in which there is much talk but little evidence of the desire for regional cooperation of various kinds, would not wait as long or suffer as many frustrations as the countries of the Western Hemisphere before undertaking the kind of commitments to each other that are involved in the establishment and operation of CIAP.

43. Perhaps I should note in passing that the World Bank works very closely on an informal basis with CIAP, and provides the Secretariat with a vast amount of material derived from its own economic and technical missions in the region. It is interesting, I think, to note that the establishment of the Inter-American Development Bank and the improvement in recent years in the regional coordinating machinery in the Western Hemisphere has not, as some observers expected, resulted in any diminution of either the financing or technical assistance activities of the World Bank in the Western Hemisphere. On the contrary, both have increased rather dramatically. The experience as a whole is a rather good illustration of the validity of the Bank's conviction, expressed earlier in this paper, that improvement in coordination and the effectiveness of aid operations will almost inevitable lead to increases in the amount of development finance flowing to a country or region.

44. In connection with consideration of aid coordination on a regional basis, I should perhaps pay my respects briefly to the Colombo Plan, by now a venerable institution which I am bound to confess I find it extremely

difficult to classify under any general heading. Indeed, I have the impression that the meetings, reports and committee work which together constitute the activities carried out under the aegis of the Colombo Plan overlap nearly every other national and international activity that most of us would recognise as part of the aid business. The Colombo Plan was born of the Commonwealth, but long since ceased to confine itself to the Commonwealth. Its region is south and southeastern Asia, but it includes Korea. And it does not include all non-regional countries with substantial aid programmes in its region. There was a kind of plan for a 6-year period running from July '51, but the Colombo Plan today is certainly not a plan in any ordinary sense of the word. Nevertheless, under this title a great deal of cooperation, coordination and other useful work has gone on and continues. The identification of an activity as being under the Colombo Plan loosens parliamentary purse strings and practically ensures what is generally known as a good public image in many countries. I have found in my own travels that some of the happiest relations between donors and recipients originated in the Colombo Plan. The Annual Meetings of the Consultative Committee provide a useful occasion for exchange of progress reports and plans for future activities. The Annual Report of the Committee contains, among other useful information, what is probably the most complete information available on the technical assistance programmes of the members in the various countries of the region. Whatever kind of an animal it is, and wherever it may be classified among aid coordination efforts, we in the Bank wish it long life and a prosperous future.

45. Having completed this survey of the problems of coordination of aid under the six headings which I set out to discuss, I am conscious both of the fact that this paper is already overlong and of the fact that I have only scratched the surface of the subject. I hope it will be clear that I do not consider aid coordination to be one problem to be handled in one way, by one mechanism or at one level. There are many problems in the general area loosely defined as aid coordination. **Coordinating efforts are necessary at many levels and in many places.** Nevertheless, while I do not exclude the possibility that major new pieces of coordinating machinery may be developed, it does seem to me after this review that the important problems for the immediate future lie in the area of making our existing machinery work somewhat better, which means, in effect, putting more political steam behind it in both developing and capital exporting countries. I judge this to be particularly true of the consultative group technique. I believe that we can say that we now know a good deal about how to make a consultative group work. I believe the World Bank will be able to extend its role in connection with consultative groups gradually to enable governments, if they choose, to

use this technique for coordinating aid to countries that receive 80 to 85 per cent of the total international flow of development finance from public and private sources. I have pointed to some of the present obstacles to successful functioning of consultative groups but these obstacles do not seem to me to be insuperable. I should think that a general support for policies of participating in this kind of coordinating activity would be one of the most effective ways citizens of advanced countries could help in the world-wide development effort.

46. I also believe that the application of the CIAP type of coordinating techniques to other regions would be highly desirable when the conditions are right. Unfortunately, it does not seem to me that conditions in any other readily identifiable regions are likely to be right in the near future. Perhaps one of the most important roles of the Asian and African Development Banks will be to create around their operations an atmosphere of mutual cooperation which will enable CIAP type exercises to develop in their respective regions.

COORDINACION DE LA AYUDA

Por

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y

Fomento

Trabajo presentado ante la Conferencia Ditchley sobre
la Mejora de la Efectividad de la Ayuda para el
Desarrollo de Ultramar

Ditchley Park
Inglaterra

3 de junio de 1966

La Conferencia sobre la Mejora de la Efectividad de la Ayuda para el Desarrollo de Ultramar se celebró del 3 al 6 de junio de 1966 en Ditchley Park, Enstone, Oxfordshire, Inglaterra. Fue patrocinada por la Fundación Ditchley en asociación con el Instituto para el Desarrollo de Ultramar. Michael L. Hoffman es el Director Adjunto del Departamento de Servicios para el Desarrollo del Banco Internacional de Reconstrucción y Fomento (Banco Mundial).



Recientemente, Laughlin Currie hizo notar, refiriéndose especialmente a Colombia, que si se tratara de conducir una guerra con la misma difusión y dispersión de esfuerzos que caracteriza las actuales actividades en pro del desarrollo, el resultado sería desastroso. El hecho de que un observador de su calibre haya podido hacer un comentario de esta índole constituye un vivo reproche para todos los que nos dedicamos a cuestiones de desarrollo. Tal vez durante un período mayor que ningún otro país, Colombia ha venido siendo objeto del esfuerzo consciente y concertado en materia de desarrollo internacional que ha caracterizado los dos últimos decenios. Es este un país cuyos problemas económicos son ciertamente susceptibles de solución en términos macro-económicos. Ha tenido la ventaja, si como tal puede considerarse, de contar con todo tipo posible de asesoramiento y asistencia técnica, aun del propio Currie. Es también un país en el que el Banco Mundial, además de haber invertido la suma de US\$450 millones, ha tratado de desempeñar un papel positivo en la cuestión que nos ocupa en el presente trabajo. Lamentablemente, Colombia no es el único país al que son aplicables estos comentarios hoy en día.

A mi entender, las dificultades que afrontamos no son primordialmente de índole intelectual o conceptual. Ciertamente es posible imaginar un modelo de prestación coordinada de asistencia financiera externa a un país en desarrollo; Raúl Prebisch vislumbró esta posibilidad por lo menos en 1954. El país prepararía un programa de desarrollo razonable y dotado de coherencia interna a cuya ejecución se comprometería, de forma inequívoca y enérgica, la dirección política. El programa de inversiones públicas para cada sector importante de la economía estaría compuesto de proyectos viables, y la ejecución de cada uno de dichos proyectos se dejaría a cargo de los organismos competentes. Durante el período del plan, mediante la programación cuidadosa de las necesidades financieras y los insumos físicos se obtendrían programas sectoriales de inversiones, en los que se tomaría debidamente en cuenta la necesidad de terminar los proyectos que ya estuvieran en marcha y de emprender otros que fueran a estar comprendidos en el período del próximo plan. Todas estas actividades se realizarían de forma coordinada dentro de todo el sector público, y se basarían en proyecciones realistas de los recursos financieros a disposición de ese sector por concepto de ingresos corrientes, préstamos internos no inflacionarios, el incremento no inflacionario del medio circulante y el financiamiento externo ya contratado. También se tomarían en cuenta otros elementos: estimados de las inversiones y de la producción del sector privado basados en extensos datos censales y en series cronológicas comprobadas, proyecciones de las pautas de consumo y de las fuentes y utilización de los fondos del sector privado. Por último, sería posible determinar las necesidades no satisfechas de financiamiento externo por año, por sector y por proyecto. Entonces, el país sometería su caso a la consideración de algún foro internacional, en el que se examinaría y evaluaría su actuación y se contraerían compromisos financieros adecuados a sus necesidades, tanto en lo que respecta a las condiciones como al volumen de la ayuda.

El que este modelo no haya pasado de ser un sueño no se debe a la existencia de desavenencias importantes entre los que se dedican al financiamiento del desarrollo en cuanto a su viabilidad, siempre que se cuente con las condiciones adecuadas. No ha pasado de ser un sueño porque casi ninguna de las condiciones fundamentales para su funcionamiento se encuentran en los países en desarrollo o en los países e instituciones internacionales que proporcionan el financiamiento para el desarrollo. En los países en desarrollo raramente se cuenta con las estadísticas básicas necesarias para la preparación de planes de desarrollo realistas y dotados de coherencia interna. Asimismo, la dedicación de los dirigentes políticos al proceso de desarrollo no siempre da muestras de una permanencia convincente, y rara vez está libre de otros compromisos políticos de diferente orientación. Con demasiada frecuencia, esa dedicación cede ante otros compromisos. En general, la capacidad de estos países para traducir las metas sectoriales macroeconómicas de inversión en programas de inversión y requerimientos financieros debidamente escalonados es limitada. Y todavía es más limitada su capacidad para adelantar los proyectos hasta una etapa en que sea posible celebrar conversaciones para la obtención del financiamiento necesario. Los gobiernos de países que proporcionan ayuda cada vez se muestran más renuentes a contraer compromisos a largo plazo en apoyo de programas de desarrollo. Cada vez es mayor el escepticismo sobre la efectividad, y aun la utilidad, de los planes de desarrollo globales. Asimismo, en sus operaciones los organismos internacionales tienen que observar limitaciones explícitas relativas a las características y condiciones del financiamiento que pueden proporcionar, y lo mismo sucede en varios otros casos. Cualquiera de los que nos dedicamos a actividades de desarrollo podríamos señalar muchas razones de peso para explicar por qué este modelo no ha pasado de ser un sueño.

Aun así, este modelo no resulta inútil siempre que recordemos que no es sino un sueño. Pero en 1966 no es sensato abordar los problemas que plantea la coordinación de la ayuda como si solamente constituyeran una versión algo defectuosa de este modelo de financiamiento del desarrollo que, una vez dotado de unas cuantas piezas nuevas y de un buen impulso, podría funcionar de forma satisfactoria. En suma, el primer punto que desearía dejar bien sentado respecto a la coordinación de la ayuda es que los obstáculos que entorpecen la dirección racional del financiamiento del desarrollo no constituyen, primordialmente, dificultades de índole intelectual relativas al método a seguir, y que ciertamente no son atribuibles a ineptitud por parte de los individuos responsables de los países en desarrollo, los países exportadores de capitales o los organismos internacionales. Estos obstáculos obedecen, más bien, a profundas incompatibilidades de orden político y constitucional, y a la gran dificultad, aún después de 20 años de experiencia y esfuerzos, de obtener datos estadísticos fidedignos, veraces y convincentes que sirvan de base a los análisis y las decisiones.

Por consiguiente, lo que es preciso examinar no es la forma en que debería coordinarse la ayuda, sino las medidas más importantes y apremiantes que sería viable adoptar de inmediato para mejorarla. Asimismo, es preciso realizar un examen crítico de algunas de las experiencias adquiridas hasta el presente.

Desde luego, es posible tratar de coordinar la ayuda en muchos niveles diferentes y con objetivos inmediatos muy diversos. Ahora bien, la meta general a largo plazo siempre deberá ser la mejora de la efectividad de la ayuda. Expuesto en estos términos, este objetivo expreso parece ser evidente y estar al margen de toda polémica. No obstante, me temo que uno de los problemas que afectan parte de los esfuerzos en materia de coordinación de la ayuda, incluidos algunos de los más importantes, es que muchos o todos los que en ellos participan tienen otras finalidades, generalmente no expresadas, que tienden a distraer la atención y energía de lo que debería constituir la meta principal. No me parece prudente ni necesario ser demasiado explícito a este respecto. Solamente cabe mencionar que algunos participantes en mecanismos cuyo objetivo patente es la coordinación de la ayuda, los han utilizado como un medio para exaltar la posición de algún organismo internacional, que otros los han aprovechado primordialmente como un instrumento para lograr que un tercero suministre una parte mayor de los fondos necesarios, y que otros los han considerado, básicamente, como un medio para obtener, en última instancia, más fondos para un país o programa determinado.

Tal vez debería extenderme en este último punto con el fin de aclarar mi posición con respecto a una cuestión que afecta casi todos los aspectos de la coordinación de la ayuda. Soy de opinión, y esta también es la que sustenta el Banco Mundial basándose en la experiencia que ha adquirido hasta la fecha, que la mejora de la efectividad de la ayuda constituye una actividad distinta, identificable e importante, completamente aparte de la cuestión del volumen de la ayuda, bien sea que se hable en términos globales o regionales, con respecto a un país determinado o a un sector económico o social específico. Por consiguiente, consideramos que puesto que la coordinación de la ayuda constituye un medio para mejorar su efectividad, aunque ciertamente no el único, puede y debería mantenerse como una función aparte de la obtención de fondos o de la distribución de la responsabilidad de suministrarlos. Ha habido una gran confusión debido a que no se ha reconocido, o al menos no se ha aceptado, este hecho. Desearía también dejar bien sentado que no estoy negando la existencia de una relación entre la tarea de mejorar la efectividad de la ayuda y la de incrementar su volumen. En efecto, es un principio fundamental del Banco, sustentado desde el inicio de sus actividades, que si puede lograrse que la ayuda no sólo sea efectiva, sino también que lo parezca, se facilitará considerablemente la solución del problema de obtener el volumen necesario, sea cual fuere el método utilizado para determinar dicho volumen. Este principio es aplicable también a la ayuda en general (por ejemplo, considerada desde el punto de vista de una comisión del Congreso de los Estados Unidos), a la corriente de ayuda a un país determinado, y a la ayuda de un tipo específico o a un sector determinado, como el sector educativo, el agrícola, etc. En ningún momento esto quiere decir que los esfuerzos en favor de la coordinación no sean de utilidad si no van acompañados de nuevos compromisos de ayuda. Volveré a tocar este punto cuando examine el caso específico de los grupos consultivos como una técnica para la coordinación de la ayuda.

A mi juicio, los problemas que plantea la coordinación de la ayuda pueden abordarse en seis niveles diferentes, por lo menos. Tal vez la forma más adecuada de proceder es haciendo un examen de cada uno de estos puntos, en que se considere tanto lo que se ha logrado como las perspectivas para un futuro cercano. Los seis niveles o tipos de coordinación a que me he referido son los siguientes:

1. La coordinación de la ayuda por parte del país beneficiario.
2. La coordinación de la ayuda por un organismo internacional de financiamiento.
3. La coordinación de la ayuda procedente de diversas fuentes destinada a un país beneficiario determinado.
4. La coordinación de la política general en materia de ayuda bilateral entre varios países proveedores de ayuda.
5. La coordinación de la ayuda proveniente de varios países para proyectos de gran amplitud.
6. La coordinación de la ayuda sobre una base regional por parte de varios países proveedores y de varios países beneficiarios.

Coordinación de la ayuda por parte del país beneficiario

A esta modalidad de coordinación le corresponde el primer lugar en nuestra lista, no porque haya mucho que decir, en general, respecto a ella, sino porque a menos que un gobierno cuente con una capacidad mínima para controlar la demanda de recursos, incluidos los externos, de sus diversas dependencias y los principales sectores de inversión, no es probable que resulte viable ningún otro tipo de coordinación. Por otra parte, se podría alegar que si un gobierno tuviera pleno dominio de su propia economía y contara con un mecanismo para controlar las solicitudes normales de ayuda externa con arreglo a algún programa viable de aplicación obligatoria, habría menos necesidad, y tal vez ninguna, de otras modalidades de coordinación para afrontar los problemas relativos a la ayuda a ese país. En la práctica, entre las medidas de coordinación en escala nacional que parecen ser más esenciales para permitir el funcionamiento de la coordinación en el ámbito internacional, están las siguientes: control del programa de inversiones públicas; algún tipo de mecanismo para la preparación de proyecciones relativas a un programa de inversiones públicas, y a la parte en divisas de dicho programa, correspondientes a un período de tres a cinco años, que parezcan razonables a las posibles fuentes de financiamiento externo; un mecanismo adecuado para la determinación de prioridades entre los diversos sectores de la economía y, dentro de éstos, para los diversos proyectos de gran envergadura; un grado suficiente de integración en el ámbito político que garantice el cumplimiento de las prioridades establecidas (factor que limita la corrupción e interferencia de índole exclusivamente política que puede tolerarse en las decisiones relativas a inversiones); y algún instrumento para la coordinación de las solicitudes de asistencia técnica y su utilización. Creo que debe considerarse que la prestación de ayuda a los países en desarrollo para mejorar sus esfuerzos encaminados a la coordinación de estas cuestiones claves constituye una tarea más apremiante que la de experimentar con mecanismos internacionales de coordinación o la de crearlos.

Coordinación de la ayuda por un organismo internacional

El propio acto de establecer un organismo internacional de financiamiento constituye, entre otras cosas, un proceso de coordinación. Los problemas principales que plantea cualquier tipo de coordinación internacional se deciden ya sea sobre una base permanente (o quizás cada tres o cinco años) o se delegan al organismo internacional para que los resuelva por medio de su mecanismo. Por ejemplo, en el caso de la Asociación Internacional de Fomento (AIF), el engorroso problema de la distribución de las aportaciones para el período de utilización de las suscripciones gubernamentales iniciales, se resolvió en el curso de las negociaciones que culminaron en un convenio sobre su monto. La cuestión de la determinación de las condiciones de la ayuda se delegó a la Asociación, y a este respecto solamente se le proporcionó la orientación general contenida en el Convenio Constitutivo de que las condiciones deberían ser "más flexibles y menos gravosas para la balanza de pagos que las que suelen aplicarse en los préstamos usuales". En otras palabras, se delegaron a este organismo internacional todos los complejos problemas relativos a la utilización de los recursos y a las condiciones del financiamiento. Por consiguiente, el proceso normal de coordinación está a cargo de un personal internacional, que hasta cierto punto está al margen de la influencia directa de los gobiernos miembros -- tanto de los que proporcionan la ayuda financiera como de los que podrían aspirar a recibirla.

Es interesante señalar que la Asociación solamente recibió dos indicaciones positivas sobre lo que debería ayudar, a saber, que debería proporcionar financiamiento con el fin de "impulsar el crecimiento en las zonas menos desarrolladas del mundo, comprendidas dentro de los territorios de sus miembros" y que su financiamiento debería proporcionarse "a objetivos que, en su opinión, tengan una alta prioridad en el desarrollo económico". Las únicas otras instrucciones formuladas por los gobiernos que delegaron a la Asociación la facultad de administrar los fondos que aportaron fueron negativas: actividades que no deberá realizar, tales como la provisión de financiamiento en casos en que haya disponibles fondos privados en condiciones razonables; la prestación de ayuda financiera si el país en cuyo territorio está ubicado el proyecto se opone a ello, etc. Todas las demás cláusulas relativas a las operaciones de la Asociación son exclusivamente de índole delegatoria, quedando ésta en libertad de formular y aplicar su propia política con respecto a las cuestiones de su incumbencia.

He citado la AIF como ejemplo por ser una institución que conozco a fondo. Ahora bien, todos los organismos internacionales de financiamiento importantes desempeñan, en mayor o menor medida, una función coordinadora con respecto a los fondos que administran y a sus países miembros. Desearía recalcar nuevamente que el proceso de establecer un organismo internacional de financiamiento requiere la adopción previa de decisiones relativas a mucho, o a la mayor parte, de lo que generalmente se considera que es preciso coordinar, o la delegación de la facultad para adoptarlas, ya que de lo contrario el organismo internacional no podría existir.

No me parece necesario subrayar ante este auditorio las ventajas técnicas que reporta la coordinación de la ayuda por intermedio de organismos internacionales. Puesto que el reconocimiento de estas ventajas ya es casi universal, no creo necesario disculparme por expresar mi opinión de que éste constituye, con mucho, el método más satisfactorio y efectivo para la coordinación de la ayuda. Sin embargo, no estoy tan apegado a este método como para afirmar que en los casos en que resulte imposible utilizarlo, no merezca la pena tratar de realizar esta tarea. Pese a lo que he llamado las ventajas técnicas, hay importantes razones por las que los organismos internacionales no pueden ni deben estar a cargo de la totalidad de las actividades de ayuda. Por una parte, por muy bien organizado y administrado que esté un organismo internacional, su capacidad no es ilimitada. Es posible que haya entusiastas ajenos al Grupo del Banco Mundial -- no los encontrarán dentro de él -- que consideren que las instituciones que lo integran deben encargarse de todas las actividades en materia de ayuda, por lo menos en lo que respecta al mundo no comunista. Se están desarrollando muchos tipos de actividades que pueden considerarse como ayuda, y hay varias otras que es preciso acometer y cuya importancia reconoce el Banco, pero que el grupo de instituciones que lo integran no lleva a cabo en la actualidad. Puedo citar al azar dos sectores muy diferentes entre sí, el de la enseñanza primaria y el de la ayuda técnica y financiera a pequeñas empresas privadas totalmente de propiedad local. Pero son muy pocos los que negarían que estos dos sectores revisten importancia vital para el desarrollo económico general o que ambos pueden utilizar con provecho ayuda exterior, y ciertamente el Banco no sería uno de ellos. Por muchas razones, los gobiernos desean retener el control directo de la parte más importante de los fondos que destinan a fines de ayuda, y no todas estas razones carecen de fundamentos o son enteramente egoístas. También cabe señalar que es evidente que los gobiernos no están dispuestos a proporcionar todos los recursos ni a delegar todas las facultades que desean encauzar por canales multilaterales a un solo organismo. Esto plantea el problema de la coordinación entre los diversos organismos internacionales y, especialmente, entre los organismos internacionales de financiamiento. Los esfuerzos encaminados a lograr la coordinación entre los organismos internacionales y, desde luego, entre los multilaterales y los nacionales se relacionan con muchos de los problemas que he tratado bajo otros acápites. Desde un punto de vista técnico, las instituciones internacionales dotadas de elevados recursos financieros y de amplias facultades discrecionales para su utilización constituyen el instrumento más satisfactorio de coordinación, pero en ningún momento son capaces de resolver todas las dificultades. Y es preciso reconocer que durante mucho tiempo la parte más importante de lo que se puede considerar como ayuda con arreglo a cualquier definición se encauzará por otros canales y requerirá otros medios de coordinación, aunque los organismos internacionales de financiamiento seguirán desempeñando un papel en esta actividad.

Coordinación de la ayuda procedente de diversas fuentes destinada a un país beneficiario determinado

Siempre que un país reciba importantes montos de ayuda externa de diversas fuentes, a primera vista hay necesidad de algún tipo de coordinación. Aunque se ha hablado mucho de la posibilidad de incrementar la corriente de ayuda externa manipulando a un país proveedor de ayuda contra otro, al parecer los

gobiernos de los países en desarrollo cada vez están más de acuerdo en que el riesgo de echarse a cuestras proyectos mal concebidos e inoperables hace disminuir considerablemente la atracción de este sistema. Según la economía de un país adelanta y sus necesidades en materia de ayuda se vuelven más complejas, resultan más evidentes las ventajas de contar con algún tipo de mecanismo que le permita someter sus solicitudes de ayuda externa simultáneamente a la consideración de varios gobiernos y organismos internacionales con arreglo a algún sistema convenido de antemano.

En los últimos años han alcanzado especial prominencia dos mecanismos internacionales de coordinación encaminados a concentrar la atención sobre los problemas de un país determinado. El primero es el consorcio, y en la actualidad hay en funcionamiento consorcios para la India y el Pakistán (organizados por el Banco) y para Turquía y Grecia (organizados por la OCDE). El segundo mecanismo es el grupo consultivo y los hay establecidos para Colombia, Nigeria, Sudán, Túnez, Malasia, Tailandia, Corea y Ecuador, todos organizados bajo la presidencia del Banco Mundial salvo el del Ecuador. Este último fue establecido por el Banco Interamericano de Desarrollo.

La diferencia formal que existe entre un consorcio y un grupo consultivo estriba en que, al ingresar en el primero, los gobiernos se comprometen a participar de tiempo en tiempo en sesiones para contraer compromisos específicos de ayuda a un país determinado. Por el contrario, la participación en un grupo consultivo no conlleva ningún compromiso, ni explícito ni implícito, y no se celebran sesiones sobre promesas de contribuciones. Los compromisos de ayuda por los miembros de los grupos consultivos se determinan sobre una base bilateral con el país objeto de dicho grupo, que a falta de un término más apropiado llamaré el país beneficiario. En estas negociaciones, el Banco no desempeña papel alguno, salvo en lo que se refiere a proyectos específicos en que el mismo Banco y otros organismos de financiamiento estén interesados, caso que examinaré más adelante.

Aunque es posible hacer algunas observaciones generales sobre el funcionamiento de los consorcios y grupos consultivos, en las etapas iniciales de su existencia resulta claro que cada grupo adquiere su personalidad propia, bien definida, que determina su funcionamiento y sus éxitos o fracasos. Esto obedece, en parte, al hecho evidente de que ningún país tiene problemas en materia de desarrollo idénticos a los de otro. Pero también se debe a que, hasta la fecha, se ha seguido la costumbre de que los consorcios organizados por el Banco estuvieran presididos por uno de sus Vicepresidentes, mientras que los grupos consultivos han estado bajo la presidencia de los Directores de los departamentos de operación del Banco correspondientes a la zona en que está situado el país beneficiario. El hecho de que no haya dos presidentes que deseen dirigir una reunión exactamente de la misma forma y de que en la actualidad los departamentos regionales del Banco ya han adquirido una "personalidad" y estilo de operación propios, constituyen factores que gravitan en contra de la uniformidad.

Ahora bien, en lo que a los grupos consultivos se refiere, estamos tratando de establecer normas y métodos generales de funcionamiento y de determinar cuál ha de ser el papel que desempeñe el Banco en su calidad de presidente de los mismos. Puesto que el Banco ha manifestado que no se propone organizar ningún otro consorcio del tipo de los establecidos para la India y el Pakistán, los puntos que se exponen a continuación se refieren a los grupos consultivos que, en esta coyuntura de la historia, consideramos que son el instrumento más prometedor para la coordinación de ayuda proveniente de diversas fuentes y destinada a países beneficiarios específicos. Desearía recalcar que, en lo que a las actividades de coordinación se refiere, lo que se indica a continuación sería igualmente aplicable a los consorcios organizados por el Banco.

Al convenir en organizar un grupo consultivo, el Banco asume la obligación de:

- a) preparar amplios informes periódicos sobre las posibilidades, los problemas y la actuación del país en materia de desarrollo para que sirvan de base a las deliberaciones del grupo;
- b) formular comentarios sobre el estimado del propio país de sus necesidades en materia de ayuda así como recomendaciones sobre los tipos y condiciones más adecuados de la ayuda y señalar cualquier problema que surja como consecuencia de un endeudamiento excesivo;
- c) ayudar al gobierno del país beneficiario en la preparación o revisión de su programa de desarrollo o, en los casos en que se solicite, asesorarlo sobre problemas relativos a la ejecución del mismo;
- d) ayudar al gobierno, en los casos que sea necesario y que se solicite, en la determinación de proyectos, el examen preliminar de los mismos, los arreglos para la realización de estudios de viabilidad, etc., y la coordinación de cualquier otra ayuda técnica con relación a las necesidades y prioridades del programa de inversiones; y
- e) asesorar al gobierno y los miembros del grupo en lo que corresponda a los diversos sectores de la economía y, en los casos en que se cuente con estudios de viabilidad adecuados, a los proyectos que merezcan recibir prioridad en lo que respecta al financiamiento externo.

La simple enumeración de estas funciones sugiere una de las principales conclusiones a que hemos podido llegar hasta este momento sobre la forma de lograr que esta modalidad de coordinación de la ayuda sea efectiva. Esta es que aunque los grupos consultivos tengan que celebrar reuniones de tiempo en tiempo, el aspecto más importante de su labor no radica en las sesiones formales sino en la labor realizada por el personal del Banco, el gobierno del país beneficiario y los ministerios responsables de los países miembros en los períodos que median entre estas reuniones. A mi juicio, por lo menos, lo ideal sería

que las reuniones de los grupos consultivos constituyeran primordialmente una ocasión para dejar constancia de una serie de puntos cuyos aspectos fundamentales se hubieran determinado previamente, tales como las intenciones del país beneficiario frente a los problemas de desarrollo más importantes; su estimado de sus necesidades en materia de ayuda externa, de la forma más detallada que sea posible; la evaluación del Banco de los planes y actuación del país; el consenso entre los miembros del grupo en cuanto a la actuación y perspectivas del país beneficiario, si lo hubiere; cualquier declaración de política general en materia de ayuda hacia el país beneficiario que los miembros estén dispuestos a hacer; alguna declaración del propio Banco sobre sus intenciones; los planes del país beneficiario para el financiamiento de proyectos, de haber alguno; y, por último, cualquiera orientación que los miembros deseen dar al presidente con respecto a las medidas a adoptarse en el futuro sobre cualquier asunto que esté dentro del ámbito de las deliberaciones del grupo consultivo. Para poder lograr que en las reuniones del grupo consultivo se alcancen estos objetivos, es evidentemente necesario que exista un contacto permanente entre los miembros del personal del Banco y el país beneficiario, entre aquéllos y los miembros activos del grupo consultivo, y entre los ministros del país beneficiario y los de los países miembros del grupo. También es posible que, en lo que atañe a ciertos problemas y a ciertos países, resulte útil celebrar un número menor de reuniones oficiales de algunos miembros del grupo con el Banco y con otros organismos internacionales de financiamiento para tratar problemas específicos, tales como las condiciones de los créditos de exportación o proyectos determinados que posiblemente pudieran ser objeto de operaciones conjuntas de financiamiento.

Evidentemente, una de las obligaciones principales del Banco es la de estar dispuesto, en todo momento, a suministrar a los miembros de los grupos consultivos información actualizada y fidedigna sobre la actuación económica general y las necesidades del país. Una consecuencia de esta obligación del Banco es la necesidad de realizar estudios e informes económicos muchos más amplios que los que se necesitarían solamente para determinar si se considera que un país reúne las condiciones necesarias para recibir préstamos del Banco o créditos de la AIF. Como es natural, todo esto tiene repercusiones importantes sobre el personal, la naturaleza, composición y frecuencia de las misiones del Banco y la fecha de celebración de las reuniones de los grupos consultivos. En ningún momento quisiera dar la impresión de que estamos satisfechos con la actuación del Banco en ninguno de estos aspectos. Pero sí puedo afirmar que el Presidente del Banco está decidido a que no quede nada por hacer por parte de esa entidad para que los grupos consultivos funcionen de forma efectiva, y constantemente estamos trabajando en muchos frentes para lograr mejorar nuestra actuación.

Por último, bajo este acápite desearía llamar la atención sobre dos obstáculos fundamentales al funcionamiento satisfactorio de los grupos consultivos como instrumento de coordinación de la ayuda. A modo de introducción, cabe señalar que existen diferencias inherentes en la idea que de su labor tienen los diversos participantes de un grupo consultivo. Es de suponer que todos los miembros de estos grupos están interesados en coadyuvar a la ejecución del programa de desarrollo del país solicitante. Pero cada uno de ellos participa

en el grupo con diferentes limitaciones de índole legal, financiera y política. Expresándolo en términos algo crudos, los presuntos países proveedores de ayuda están interesados en obtener un rendimiento máximo del dinero que destinan a fines de desarrollo y, por lo tanto, es probable que aborden esta cuestión con un punto de vista crítico sobre la actuación económica del país solicitante y la cuestión de si su solicitud de asistencia externa es razonable. Además, estos países no pueden desconocer la existencia de los importantes intereses comerciales que suelen tener en el país solicitante, intereses que se ven afectados por las características de la ayuda proporcionada, aun cuando no constituyan el factor determinante de la misma. Por otra parte, el país solicitante está interesado en obtener el monto máximo de ayuda externa con el fin de incrementar sus recursos propios en las condiciones más favorables posibles. Desde luego, también suele estar sumamente consciente de las dificultades de orden político y administrativo que obstaculizan la aceleración del ritmo al que puede obtener de su propia población, generalmente muy pobre, recursos para fines de desarrollo. Expresándonos nuevamente en términos más bien crudos, el país solicitante está interesado en recibir de los proveedores de ayuda todo lo posible con el mínimo esfuerzo de su parte. Las operaciones del Banco también están sujetas a limitaciones bien conocidas relativas a los tipos, condiciones y monto de la ayuda que puede proporcionar; pero en su actuación vis-à-vis los países proveedores de ayuda y el país solicitante, el Banco está casi tan interesado en incrementar la corriente general de financiamiento para el desarrollo hacia países merecedores de ella como en promover la máxima movilización de los recursos internos y una actuación económica general cada vez mejor por parte de los países beneficiarios. También está muy interesado en las condiciones en que se proporciona el financiamiento. Creo que el término "conflicto de intereses" resulta demasiado fuerte para aplicarse a las diversas actitudes de los miembros del grupo hacia el país beneficiario, y viceversa. No obstante, el arte de dirigir un grupo consultivo radica en lograr el consenso mediante la interacción de diversas actitudes y de diferentes matices de política. Si al cabo de un número de años ni los gobiernos miembros, ni el gobierno del país beneficiario ni el Banco consideran que el grupo consultivo está dando resultados positivos, no es probable que perdure su existencia. En especial, si una vez transcurrido varios años, un país beneficiario cuya actuación el Banco estima satisfactoria y que, en general, ha utilizado de forma efectiva el financiamiento externo que ha recibido, considera que no está obteniendo una corriente mayor de ayuda y que las condiciones de la misma no son mucho mejores que las que, a su juicio, podría obtener por sí solo, es probable que llegue a la conclusión de que no merece la pena el esfuerzo dedicado a la coordinación de la ayuda de este tipo determinado.

Tomando en cuenta estos factores, la primera dificultad general que surge con respecto al funcionamiento efectivo de un grupo consultivo a la que desearía referirme brevemente, desde luego sin examinar todas sus ramificaciones, es que por razones que, a mi parecer, inicialmente eran satisfactorias, la mayor parte de la ayuda financiera que se concede sobre una base multilateral y bilateral se destina a proyectos específicos. Desde luego, es posible definir de forma muy amplia un proyecto. Por otra parte, al realizar estudios a fondo de las economías de los diversos países, descubrimos cada vez con mayor frecuencia que la planificación de los programas de inversiones públicas y,

algunos casos, las proyecciones de las necesidades de los principales insumos del sector privado, se han desarrollado a tal punto que es posible determinar y cuantificar con un grado razonable de exactitud las necesidades de divisas que no podrán satisfacerse, aun cuando se obtenga el financiamiento externo necesario para todos los proyectos viables. En otras palabras, hay casos en que es posible que el Banco convenga con un gobierno en que durante el período del plan el país tiene la capacidad necesaria para desarrollar un número determinado de proyectos útiles de desarrollo del tipo adecuado para recibir financiamiento externo en las condiciones normales. Tal vez sea posible determinar que la parte correspondiente a divisas de estos proyectos podría obtenerse, en gran medida, mediante las transacciones normales de financiamiento para el desarrollo, conjuntamente con los recursos externos propios que se acumulen durante el período. También tal vez sea posible afirmar que, aun cuando ese sea el caso, no hay probabilidad de que se genere un volumen suficiente de recursos internos de forma no inflacionaria para ejecutar todos estos proyectos. En una situación de esta índole se retrasará el proceso de desarrollo a menos que se cuente con ayuda financiera externa que permita la generación de recursos internos de forma no inflacionaria. Son precisamente los países cuyas economías ya son lo suficientemente complejas y cuya administración económica está lo bastante refinada para ajustarse a este modelo los que constituyen el objeto probable de grupos consultivos. En lo que respecta a estos países, la disponibilidad de lo que, con cierta imprecisión, se denomina financiamiento para programas, afectará considerablemente la efectividad de los grupos consultivos. Una dificultad semejante surge cuando se concede ayuda condicionada para proyectos específicos a un país cuyo problema más importante estriba en una concentración excesiva del servicio por concepto de la deuda y de los reembolsos en un período de unos cuantos años. En muchos casos, ningún monto posible de ayuda condicionada permitirá al país evitar el refinanciamiento de sus deudas o el incumplimiento de las mismas.

La segunda característica desfavorable que, a mi juicio, existe en el ambiente en que actualmente se desenvuelven los grupos consultivos, es que los gobiernos que tienen programas importantes de ayuda externa se muestran reacios, más bien se niegan -- cada vez con menos excepciones -- a contraer compromisos por un período de tiempo superior a un año. Estos países no sólo no están dispuestos a contraer compromisos a largo plazo, sino que cada vez están más reacios a formular una declaración general de intención, con todas las reservas adecuadas, respecto al volumen de ayuda que estarían preparados a considerar para un país determinado. Por una parte, los miembros de los grupos consultivos esperan que el país beneficiario presente un programa de desarrollo debidamente preparado, en que se indiquen los objetivos que espera alcanzar en el curso de tres, cuatro o cinco años, así como los elementos que crea necesarios para lograrlos, no conformándose con las cifras presupuestarias anuales. Por otra parte, esos países se niegan a informar al beneficiario si mientras el plan esté en vigencia recibirá ayuda para hacer frente a sus necesidades. No vislumbro solución alguna a corto plazo para este problema. Aunque en ningún momento impide el funcionamiento de los grupos consultivos ni hace que resulten inútiles, ciertamente reduce considerablemente las posibilidades de que puedan considerarse como un éxito absoluto.

Coordinación de la política general en materia de ayuda bilateral entre varios países proveedores de ayuda

Esta es una tarea de importancia vital que nunca quedará terminada y que, desde luego, corresponde por excelencia al Comité de Ayuda para el Desarrollo. Por consiguiente, a este respecto he de expresarme primordialmente en calidad de observador, y no de participante, aunque naturalmente una gran parte de la materia prima que el CAD utiliza en su labor se origina en el Banco y, sin duda alguna, nos afecta el grado de éxito que tengan sus actividades.

El CAD es, básicamente, un ejercicio de autodisciplina. En las esferas políticas superiores de los gobiernos hay conciencia de que el desarrollo económico y la prestación de ayuda constituyen actividades demasiado importantes y novedosas para dejarlas enteramente a cargo de los ministerios tradicionales, que siguen sus sistemas consuetudinarios y reflejan su secular convicción de que existe una estrecha correspondencia entre la política que más les conviene y los intereses del país. Los gobiernos también han reconocido que, en efecto, sus intereses nacionales a largo plazo no se benefician con una política en materia de ayuda que, de ser adoptada por los principales países que se dedican a esta actividad, sería lesiva para el desarrollo económico debido a la tentativa de presentar la prestación de ayuda como una empresa respetable desde el punto de vista financiero. Por último, los gobiernos, por lo menos cuando reflexionan sobre el desarrollo en sentido amplio, ya tienen la madurez necesaria para reconocer que, de no contarse con la ayuda de algún agente externo que sirva como medio para expresar el objetivo e interés a largo plazo comunes en materia del desarrollo, es probable que sus ministerios y dependencias adopten una línea de acción que en última instancia resultará contraproducente. En suma, han reconocido la necesidad de algún grado de coordinación general de la política de ayuda.

El CAD es un foro internacional para la formulación y expresión de este interés común. Por medio de los informes de su Presidente y de las recomendaciones que formula a los gobiernos, proporciona un marco de referencia que puede servir de base a los gobiernos para evaluar su propia actuación, y a la oposición política y otros elementos de la comunidad, para realizar un examen crítico de la misma. Este marco de referencia no constituye, en ningún sentido, una política ideal en cuanto a la ayuda. Más bien, es una serie limitada de objetivos que los funcionarios responsables, conscientes de su propia política y problemas en materia de ayuda y de los de terceros, estiman que, dentro de las circunstancias, son lo bastante viables como para merecer la pena tratar de alcanzarlos. Por consiguiente, según se considera bajo este acápite, la coordinación constituye una actividad que tiene objetivos limitados. En la práctica, aparte del problema de la distribución de la responsabilidad de la prestación de ayuda, el CAD se ha concentrado en tratar de mejorar las condiciones de la ayuda y en su armonización.

En algunas ocasiones, el CAD, con diversos grados de éxito, ha abordado otros aspectos del financiamiento para el desarrollo y ha experimentado con otros tipos de coordinación de la ayuda. Ahora bien, su principal contribución al esfuerzo en materia de ayuda evidentemente ha sido su influencia sobre la

mejora paulatina de las condiciones de la ayuda y la presión constante que ha ejercido sobre los países más ricos para lograr la armonización al nivel de los programas de ayuda mejores y más generosos, y no al de los más escasos y peor organizados. Frente al alza continua de las tasas de interés, los miembros del CAD han obtenido una reducción pequeña, pero importante, en el promedio ponderado del tipo de interés sobre todos los préstamos y créditos notificados a dicho Comité, y un incremento constante en el promedio ponderado del período de reembolso. La mejora de las condiciones de los préstamos y créditos ha compensado en gran medida, aunque no completamente, la aceleración del aumento de la carga por concepto de la deuda de los países en desarrollo, producida por una reducción igualmente constante de la proporción de la ayuda total concedida en forma de donaciones. Los esfuerzos del CAD en este sentido se han visto reforzados considerablemente por su examen continuo de las cargas por servicio de la deuda de los países en desarrollo, basado en datos estadísticos que se han ido mejorando paulatinamente y en cuya preparación el Banco desempeña un papel fundamental. El CAD también ha apoyado enérgicamente el punto sobre el que tanto ha insistido el Banco, de que la ayuda condicionada constituye una forma menos satisfactoria de financiamiento para el desarrollo, que tiende a elevar los costos en general. En lo que respecta a la importante cuestión de la oportunidad y la forma en que resulta adecuado suministrar financiamiento en moneda nacional de fuentes externas, el CAD ha estado algo a la vanguardia del Banco al instar a los países exportadores de capital a ampliar su enfoque de financiamiento para proyectos para convertirlo en financiamiento para el desarrollo. Por último, el CAD ha recalcado la importancia de coordinar la asistencia técnica, especialmente "sobre el terreno".

Tengo la impresión de que todos los esfuerzos encaminados a coordinar los diversos aspectos de la política en materia de ayuda de los principales gobiernos que la proporcionan han producido resultados sumamente satisfactorios, aunque no espectaculares. Es inevitable que la efectividad del CAD, o de cualquier otro organismo de esa índole, aumente y disminuya de acuerdo con los cambios en el clima general de cooperación política y económica entre las principales potencias. Nunca puede sustentar posiciones mucho más avanzadas que las que sus principales miembros consideran satisfactorias desde un punto de vista político. Por su propia naturaleza, el tipo de operaciones que realiza siempre será vulnerable a las críticas de los que se impacientan al obtener la mitad de lo que esperan cuando creen que podrían tener tres cuartas partes o todo. No obstante, considero que sería un grave error abandonar los esfuerzos para lograr la coordinación de la ayuda en este nivel.

Como punto final bajo este acápite, desearía referirme al hecho más o menos evidente de que cuanto mayor sea la efectividad del CAD, más fácil le resultará al Banco desempeñar sus obligaciones como presidente de grupos consultivos. Por ejemplo, la existencia de una recomendación del CAD relativa a las condiciones y términos adecuados de la ayuda evita la necesidad de exponer nuevamente las razones en pro de condiciones más favorables para la ayuda en cada grupo consultivo. Aunque no todos sus miembros observan las llamadas normas del CAD, a cualquiera de ellos les resulta difícil alegar que esas normas son irrazonables o desacertadas desde un punto de vista objetivo.

Coordinación de la ayuda proveniente de varios países para proyectos de gran amplitud

El encabezamiento de esta sección tal vez constituya un ejemplo de una jerga moderna utilizada para describir un fenómeno que se viene produciendo desde hace siglos, a saber: la búsqueda de asociados para participar en una buena transacción cuyo volumen es demasiado considerable para poderla acometer uno solo (algunos tal vez expresarían este punto en los términos opuestos, es decir, la búsqueda de asociados cuando uno se ve atascado con una mala transacción y desea conseguir que alguien comparta los riesgos). (Se trata de un tipo de "coordinación" a la que no es aplicable el tipo de separación conceptual entre la obtención de los fondos y la coordinación a que se hizo referencia anteriormente debido a la naturaleza misma del problema.) Es casi ilimitada la variedad de planes que podrían enumerarse bajo este acápite, desde el funcionamiento del templo de Apolo en Delfos hasta el financiamiento de la presa de Nam Ngum en Laos. Sólo haré unas cuantas observaciones basadas en nuestra experiencia más reciente.

En primer lugar, tengo la impresión de que el financiamiento conjunto de proyectos de gran envergadura, el tema que nos ocupa en estos momentos, casi siempre resulta mucho más complicado de lo que se podría prever. Sospecho que ésto se debe, en gran medida, a que aunque suele ser bastante fácil determinar las características que debería tener la transacción conjunta, la determinación de los detalles es un proceso que toma tiempo. Y lograr la culminación oportuna de los trámites que han de preceder a la conclusión de la transacción es una cuestión sumamente difícil, que lo mismo puede verse afectada por unas elecciones o una sesión legislativa, que por las vacaciones de un vicepresidente ejecutivo. Si las medidas importantes se adoptan en un orden erróneo, toda la transacción puede fracasar. Como consecuencia de ello, es probable que haya prolongadas e irritantes demoras que pueden dar lugar a gastos importantes para algunas o todas las partes interesadas, como por ejemplo, por concepto del sostenimiento de grupos de especialistas que no pueden adelantar su labor sobre el terreno por no haberse celebrado algún acuerdo preliminar.

Como consecuencia, aunque probablemente el financiamiento conjunto resulte atractivo para los consejos de directores y los comités parlamentarios, y aun para los presidentes de repúblicas y directores de bancos, es probable que sea muy poco popular con los funcionarios de operaciones cuyo interés primordial es la ejecución de proyectos. No obstante, en los últimos años se han logrado éxitos importantes, tales como el programa de energía eléctrica y aluminio del Río Volta, la presa de Nam Ngum, la presa y programa de regadío de Rosières. el financiamiento externo para la industria eléctrica mexicana por valor de US\$145 millones suministrado por el Banco Mundial y varios países y, tal vez el principal, el proyecto para el control de las aguas de la Cuenca del Indo. Estos éxitos sugieren que, pese a las dificultades existentes, hay razones abrumadoras que justifican el tratar de aplicar este tipo de coordinación en algunos casos. Naturalmente, una de estas razones es que algunos proyectos son de dimensiones demasiado considerables, o su volumen es excesivo dentro del contexto de un programa de ayuda de un proveedor determinado con destino al país en cuestión, para ser financiado por un solo gobierno o institución. Si estos proyectos no se financian de forma conjunta, sencillamente no se ejecutarán. Por lo tanto, es preciso realizar todos los esfuerzos posibles en este sentido.

No voy a referirme a la atracción política que para un país beneficiario puede tener el no depender de una fuente externa de financiamiento para la ejecución de proyectos muy grandes y de importancia vital. Pero hay ciertas ventajas exclusivamente económicas en ciertos tipos de financiamiento conjunto que los hacen atractivos para el prestatario, para el Banco Mundial y para los elementos de los países exportadores de capitales que se preocupan por las desventajas económicas de la ayuda condicionada, pero que no pueden hacer nada para evitarlas. Es posible eliminar muchos de los efectos de los préstamos condicionados que dan lugar a costos más elevados, adoptando las medidas necesarias para que los créditos de exportación otorgados a un país o las instituciones de ayuda financien todo contrato relativo a un proyecto determinado que se adjudique a proveedores de ese país por medio de licitación internacional. Varios países proporcionarían préstamos para financiar la totalidad o una parte importante del costo del equipo que haya de adquirirse dentro del país con destino al proyecto. Una razón que explica por qué este tipo de financiamiento conjunto tiene importantes posibilidades de éxito en ciertos casos, es que en los países en los que el Banco ha tenido una large experiencia con los resultados de las licitaciones internacionales para proyectos de diversos sectores, se puede determinar por anticipado, con un grado de exactitud que siempre resulta sorprendente para los no iniciados, qué contratos se adjudicarán a qué países. La pauta de la situación de competencia internacional no cambia tan rápidamente que la validez de estos estimados se vea afectada de forma considerable. Por consiguiente, una vez conocidos el proyecto y su ubicación, el Banco y el prestatario pueden dar al presunto proveedor una idea muy aproximada del monto de financiamiento que tendrá que proporcionar si la licitación internacional sigue su curso normal. Aunque en este caso los préstamos no dejan de estar condicionados, el prestatario obtiene los beneficios que supone la licitación internacional.

Una segunda ventaja es que el Banco Mundial puede participar en el financiamiento conjunto de este tipo. Al hacerlo, no sólo proporciona sus buenos oficios para concertar las condiciones, sino que también contribuye a que sean adecuadas para el proyecto, aun cuando las "mejores" condiciones que puedan obtener los diversos organismos nacionales de financiamiento no sean adecuadas. El Banco puede lograr este objetivo ajustando el programa de amortización de su propio préstamo al de los otros organismos de financiamiento participantes, de tal forma que los pagos anuales por aquel concepto que haya de realizar el prestatario se aproximen a los que hubiera tenido que hacer si todo el financiamiento hubiera sido concedido por el Banco.

Todavía no se conoce con exactitud la frecuencia con que es posible utilizar este tipo de financiamiento conjunto por medio de varios programas bilaterales combinados con licitación internacional. Como se ha indicado anteriormente, las dificultades que supone la tramitación de una transacción de esta índole son enormes. (Las negociaciones relativas a este tipo de financiamiento conjunto plantean problemas cuyo tratamiento en ese punto exigiría entrar en demasiado detalle.) Pero en lo que respecta a proyectos de gran envergadura, el predominio de los préstamos condicionados como un instrumento de financiamiento para el desarrollo continuará haciendo que dicho sistema

resulte muy atractivo para todos los interesados en conseguir el máximo rendimiento en materia de desarrollo con los fondos destinados a ese fin. Tal vez hasta sea posible ampliar este sistema, de forma que abarque grupos de proyectos dentro de un sector, por ejemplo, el sector de energía eléctrica, o aun grupos de países.

Coordinación de la ayuda sobre una base regional por parte de varios proveedores y de varios países beneficiarios

El ejemplo más sobresaliente de este tipo de coordinación es el conjunto de organizaciones establecido en el Hemisferio Occidental, que actualmente forma parte de la Alianza para el Progreso. Efectivamente, fuera de esa región no hay en funcionamiento ningún mecanismo importante que pueda tratarse bajo este acápite. Aun en lo que a ella se refiere, es preciso hacer hincapié en la parte relativa a "varios países beneficiarios". Tal vez un encabezamiento más adecuado para esta sección sería "Coordinación de la política en materia de ayuda y de desarrollo sobre una base regional". Y es que, pese a que otros gobiernos proporcionan ayuda en pequeña escala a ciertas partes del Hemisferio Occidental y a que también el Banco Mundial ha establecido o está organizando grupos consultivos para algunos países de la América Latina, el mecanismo de coordinación que se ha desarrollado a través de los años se centra primordialmente en las relaciones entre los Estados Unidos, por una parte, y los países de la América Latina, por otra. La única justificación del empleo del término "varios proveedores" en nuestro encabezamiento se funda en las estrechas relaciones existentes entre este mecanismo de coordinación y los principales organismos internacionales de financiamiento -- el Banco Mundial, el Fondo Monetario Internacional y el Banco Interamericano de Desarrollo. En efecto, el último organismo citado es a la vez una fuente de financiamiento y parte de este mecanismo oficial de coordinación.

No es este el lugar ni soy yo la persona indicada para relatar la larga y muy complicada historia de los esfuerzos de los gobiernos del Hemisferio Occidental por encontrar un medio efectivo para lograr que las actividades de los Estados Unidos encaminadas a promover el desarrollo económico de los países latinoamericanos respondan a las diversas aspiraciones y capacidades de los países beneficiarios. Si se hiciera una película de esta historia se obtendrían escenas semejantes a un minué, con los Estados Unidos en uno de los lados, alternativamente formulando propuestas audaces y retirándose como si se quemaran al entrar en contacto demasiado estrecho con las realidades de Latinoamérica; y en el otro, 18 ó 20 países altamente individualistas, alternativamente reclamando un papel más importante en la asignación de los recursos destinados a la ayuda y en la formulación de propuestas para lograr una mayor cooperación hemisférica, y retirándose al resultar aparentes las consecuencias si se alcanzaran esos propósitos. No obstante lo expuesto, las instituciones que han surgido de todas estas negociaciones son ciertamente importantes, y de su experiencia se pueden sacar muchas lecciones pertinentes para nuestro objetivo.

Hoy en día, el organismo coordinador clave es el Comité Interamericano de la Alianza para el Progreso, conocido como el CIAP. Los miembros del CIAP son elegidos, mientras que su presidente, que se dedica exclusivamente a las actividades del mismo, es nombrado por un período de tres años. Los siete miembros que lo integran son elegidos para períodos de dos años por los grupos regionales que tienen derecho a designar los directores ejecutivos del Banco Interamericano de Desarrollo. No obstante, los miembros están obligados a promover los intereses de toda la región, y no solamente los de los países que representan. Son miembros ex officio de dicho Comité el presidente del Banco Interamericano de Desarrollo, el Secretario Ejecutivo de la Comisión Económica para la América Latina de las Naciones Unidas, y el Secretario General de la Organización de los Estados Americanos. El CIAP se estableció primordialmente, para impulsar el proceso de desarrollo y transformar la Alianza para el Progreso, que básicamente no era sino una relación bilateral entre cada país latinoamericano y los Estados Unidos, en que todo el poder y la influencia estaban en un solo lado, en un sistema de responsabilidad compartida.

El sistema de coordinación que está desarrollando el CIAP consiste, por una parte, en la presentación por los países latinoamericanos de su propia política y programas a un examen internacional de alto nivel y, por otra, en la presentación por los Estados Unidos de sus programas de ayuda y su política económica hacia la América Latina a una inspección por el mismo organismo. Las ventajas de que goza el CIAP en lo que respecta a su composición, la forma en que dirige sus reuniones y el sentido de permanencia de que está dotado, en comparación con otros esfuerzos en materia de coordinación, le han colocado rápidamente en una posición de autoridad que no tiene ningún otro comité intergubernamental de enlace entre los proveedores y los beneficiarios de la ayuda. El CIAP es parte oficial del Consejo Interamericano Económico y Social de la Organización de los Estados Americanos, y realmente constituye el principal órgano para la formulación y ejecución de una estrategia de desarrollo para toda la región. El Banco Interamericano de Desarrollo ha sido designado oficialmente como la rama técnica del CIAP en las cuestiones relativas al financiamiento para el desarrollo. Hasta la fecha, la división de las funciones del CIAP ha correspondido a los siguientes encabezamientos: cuestiones de interés general respecto a los esfuerzos en pro del desarrollo de la América Latina; comercio exterior; ayuda externa; integración económica, y examen de los programas por países.

Al tratar del CIAP, me he limitado a examinar un aspecto de su experiencia que, a mi entender, reviste especial importancia por las repercusiones que tiene sobre los problemas que plantea la ayuda en otras partes del mundo y en circunstancias distintas.

Me refiero a la medida en que el CIAP ha logrado que se acepte la idea de que la presentación por parte de un gobierno de sus planes y política de desarrollo económico a la consideración de sus iguales reunidos en comisión, no constituye una violación de su soberanía ni una confesión de debilidad. Al parecer, no se reconoce generalmente fuera de los círculos directamente vinculados con los asuntos del Hemisferio Occidental, el grado en que los exámenes por países del CIAP se están convirtiendo en una crítica seria y objetiva de la actuación económica de los mismos. Este proceso resulta sorprendente para

cualquiera que esté familiarizado con los muchos esfuerzos en materia de cooperación y coordinación que han zozobrado al contacto con la roca de la sensibilidad latinoamericana frente a la crítica del exterior. Solamente en la OCDE se celebra, periódicamente, un examen colectivo de este tipo de la actuación de los diversos países, y las circunstancias son diferentes, aunque merece la pena recordar que estos exámenes se iniciaron en momentos en que muchos de sus miembros también recibían ayuda. El CIAP desenvuelve sus actividades en privado, y ha desarrollado procedimientos que recalcan el elemento mutuo del proceso de examen. Como consecuencia de sus actividades, tengo la impresión de que en la América Latina, en mayor medida que en ninguna otra parte del mundo, se acepta cada vez más el concepto de que los compromisos de actuación económica satisfactoria de un gobierno con un organismo internacional imparcial constituyen una práctica satisfactoria y, también, una parte fundamental de las relaciones racionales y mutuamente ventajosas entre los gobiernos y organismos que proporcionan financiamiento para el desarrollo y los países beneficiarios. Naturalmente, el Banco Mundial y el Fondo Monetario Internacional hace años han estado promoviendo la contratación de compromisos relativos a la actuación de un país, basados en el reconocimiento por parte de éste de que redundaría en beneficio de sus intereses a largo plazo, y en ocasiones han tenido éxito en sus gestiones. La aportación importante del CIAP en este sentido es el reconocimiento, tanto por parte de los proveedores de ayuda como de los beneficiarios, de que no solamente uno o dos países ni únicamente aquéllos cuya actuación no es satisfactoria, sino todos los países en desarrollo, pueden beneficiarse del examen objetivo y periódico de su actuación económica en un foro internacional. En dicho examen, el país cuyo programa es objeto de este procedimiento se considera como un miembro, y no como un solicitante. Es mi esperanza que otras regiones, en las que se habla mucho -- pero se hace poco -- del deseo de cooperación regional de diversos tipos, no esperen tanto ni sufran tantas frustraciones como los países del Hemisferio Occidental antes de contraer compromisos mutuos similares a los que son parte integral del concepto del CIAP.

Tal vez cabe señalar que el Banco Mundial trabaja en estrecha colaboración con el CIAP sobre una base oficiosa, y proporciona a su Secretaría una gran cantidad de material obtenido por las misiones económicas y técnicas que envía a dicha región. Considero que es interesante poner de manifiesto que la creación del Banco Interamericano de Desarrollo y la mejora registrada en los últimos años en el mecanismo de coordinación regional del Hemisferio Occidental, no han dado lugar a disminución alguna en las actividades de financiamiento o asistencia técnica del Banco Mundial en dicha región, como lo habían previsto algunos observadores. Por el contrario, ambas clases de ayuda han registrado un crecimiento impresionante. En general, esta experiencia constituye un buen ejemplo de la validez de la convicción del Banco, expuesta en otra parte de esta charla, de que la mejora de la coordinación y la efectividad de la ayuda casi inevitablemente dará lugar a un aumento del monto de financiamiento para el desarrollo que se canaliza a un país o región.

Con respecto a la coordinación de la ayuda sobre una base regional, tal vez deba referirme brevemente al Plan Colombo, que es ya una institución venerable que, debo confesar, me resulta sumamente difícil clasificar bajo ningún

epígrafe general. En efecto, tengo la impresión de que las reuniones, informes y labor de comités que, en conjunto, constituyen las actividades desarrolladas bajo los auspicios del Plan Colombo, coinciden parcialmente con casi todas las otras actividades nacionales e internacionales que la mayor parte de nosotros consideraríamos como de ayuda. El Plan Colombo tuvo su origen en la Comunidad Británica, pero hace mucho tiempo que cesó de limitarse a la misma. Su campo de acción es el sur y el sudeste de Asia, pero también comprende a Corea. Al propio tiempo, no abarca todos los países de fuera de la región que tienen programas importantes de ayuda en ella. Aunque hubo una especie de plan para un período de seis años que se inició en julio de 1951, en la actualidad el Plan Colombo ciertamente no es un plan en ningún sentido ordinario de dicho término. No obstante, bajo ese nombre se han realizado y se están llevando a cabo muchas actividades útiles en materia de coordinación, cooperación, etc. La identificación de una actividad como parte del Plan Colombo, facilita la obtención de fondos de los diversos parlamentos y prácticamente garantiza la existencia de lo que comúnmente se conoce como una "buena imagen pública" en muchos países. En el curso de mis viajes, he podido comprobar que algunas de las relaciones más satisfactorias entre países proveedores de ayuda y países beneficiarios se originaron en el Plan Colombo. Las Reuniones Anuales de su Comité Consultivo proporcionan una ocasión útil para el intercambio de informes sobre la marcha de las actividades y la formulación de planes para el futuro. Aparte de datos útiles de otra índole, el Informe Anual de este Comité contiene probablemente la información más completa de que se dispone sobre los programas de asistencia técnica de sus miembros en los diversos países de la región. Sea cual fuere la categoría a que pertenece y su clasificación en lo que respecta a los esfuerzos en materia de coordinación, en el Banco le deseamos una larga vida y un próspero futuro.

Una vez terminado este examen de los problemas que plantea la coordinación de la ayuda bajo los seis acápites enumerados inicialmente, me doy perfecta cuenta de que este trabajo no sólo es excesivamente largo, sino que no he hecho más que tocar los aspectos superficiales de este tema. Espero que haya quedado debidamente sentado que no considero la coordinación de la ayuda un problema que pueda atacarse de una sola manera, ni por un solo mecanismo o a un solo nivel. Son muchas las dificultades que plantea la actividad general que se define, imprecisamente, como coordinación de la ayuda. Por consiguiente, es necesario realizar esfuerzos en materia de coordinación en muchos niveles y en muchos lugares. No obstante, aunque no excluyo la posibilidad de que se desarrollen nuevos e importantes mecanismos de coordinación, me parece, basándome en este examen, que los problemas importantes del futuro inmediato radican en lograr que el mecanismo actual funcione de forma más efectiva, para lo que se necesita que tanto en los países en desarrollo como en los exportadores de capitales se dé a estas actividades más apoyo político. A mi entender, ésto es aplicable de manera muy especial a los grupos consultivos. Creo que se puede afirmar que ya conocemos bastante bien la forma en que pueden funcionar satisfactoriamente. Y estimo que el Banco Mundial podrá ampliar sus actividades en lo que atañe a estos grupos de modo de permitir que los gobiernos, si así lo desean, utilicen cada vez en mayor medida esta técnica para coordinar la ayuda a los países que reciben entre el 80 y el 85 por ciento de toda la corriente internacional de financiamiento para el desarrollo de fuentes públicas

y privadas. Me he referido a algunos de los obstáculos que actualmente afectan el funcionamiento satisfactorio de los grupos consultivos, y a este respecto debo señalar que no los considero insuperables. A mi juicio, la prestación de un apoyo general a la política de participar en esta actividad de coordinación constituiría una de las formas más efectivas en que los ciudadanos de los países más adelantados podrían contribuir a los esfuerzos mundiales en favor del desarrollo.

También estimo que sería muy conveniente que se aplicaran a otras regiones técnicas de coordinación del tipo utilizado por el CIAP, en los casos en que las condiciones sean adecuadas. Lamentablemente, no parece probable que ninguna de las regiones más o menos definidas reúnan esas condiciones en un futuro próximo. Tal vez una de las funciones más importantes del Banco Asiático de Desarrollo y el Banco Africano de Desarrollo sea la de desenvolver sus actividades en un clima de cooperación mutua que permita que en sus respectivas regiones se desarrollen actividades semejantes a las del CIAP.

AID COORDINATION

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Paper presented to the
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of Aid for Overseas Development

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AID COORDINATION

The Conference on Improving the Effectiveness of Aid for Overseas Development, was held June 3-6, 1966, at Ditchley Park, Enstone, Oxfordshire, England. The Conference was sponsored by the Ditchley Foundation, in association with the Overseas Development Institute. Michael L. Hoffman is the Associate Director of the Development Services Department of the International Bank for Reconstruction and Development.

LAUGHLIN CURRIE has recently observed, with special reference to Colombia, that if one tried to wage a war with the diffusion and dispersion of effort that characterizes the international development effort today, the result would be calamitous. That such an observation could be made by such an observer is standing rebuke to all of us in the development field. Colombia, perhaps for longer than any other country, has been an object of the conscious and concerted international development effort that has characterized the past two decades. It is a country whose economic problems are eminently solvable in macro-economic terms. It is a country which has had the benefit, if that is the right word, of every conceivable type of advice and technical assistance, including Currie's. It is a country in which the World Bank, in addition to having invested \$450 million, has endeavored to play a positive role in the field which is the subject of this paper. It is, finally and unfortunately, by no means the only country to which these strictures can be applied today.

The difficulties we face, it seems to me, are not primarily intellectual or conceptual. It is possible to dream of a model of coordinated external financial assistance for a developing country—Raoul Prebisch saw the vision at least as long ago as 1954. The country would produce a reasonable and internally consistent development program to which the political leadership was clearly and deeply committed. The public investment program for each major sector of the economy would be adorned with feasible projects, each to be carried out by competent entities. Careful phasing of financial requirements and physical inputs would yield annual sectoral investment programs during the plan period, with appropriate provision for rounding off projects already under way and for starting up projects to be incorporated in the subsequent plan period. All this would be tied together for the whole of the public

sector and placed over against realistic projections of financial resources available to the public sector from current revenues, non-inflationary domestic borrowing, non-inflationary expansion of the money supply and external finance already contracted for. Estimates of investment and production in the private sector, based on comprehensive census data and tested time series, projections of consumption patterns and the sources and uses of funds in the private sector—all these would be added to the mixture. Finally, one would be able to read off the uncovered requirements for external finance by year, by sector and by project. The country would then present its case in some international forum; its performance would be examined and evaluated; and financial commitments made that would be appropriate to its requirements in both terms and amount.

The model remains a dream, not because there is any great disagreement among those in the business of development finance about its feasibility, given the right conditions. It remains a dream because almost none of the fundamental conditions for its functioning are present, either in the developing countries or in the countries and international institutions that are the sources of development finance. The basic statistics on which to construct realistic, internally consistent development plans seldom exist in developing countries. The political commitment to development rarely has a look of convincing durability, and is seldom undiluted by other political commitments which look in other directions. All too frequently it is overwhelmed by such commitments. The capacity to translate macro-economic sector investment targets into phased investment programs and financial requirements is limited. The ability to bring projects to the stage at which it is possible to discuss seriously their claim for finance is even more limited. The governments in the aid business are increasingly unwilling to make long-term commitments to support development programs. Scepticism about the effectiveness, indeed even the usefulness, of comprehensive development plans is spreading.

International institutions operate under explicit restraints as to the kind of finance they can provide and the terms on which they can provide it; and so on. Any of us in this business can think of a dozen more good reasons why the model remains a dream.

It is not useless, for all that, provided we remember that it is a dream. But it is simply not sensible to discuss the problems of aid coordination in 1966 as if we were dealing with an only slightly malfunctioning version of this development finance model which, with a few new parts here and there and a good push, could be off and running. The first point I should like to make about aid coordination, in short, is that the obstacles to rational handling of development finance are not primarily intellectual difficulties about how the process ought to work, and certainly do not arise from obtuseness on the part of responsible individuals in either developing countries, capital exporting countries or international organizations. The obstacles rise rather from deep political and constitutional incompatibilities, and the great difficulty, even after 20 years of experience and effort, of obtaining reliable, credible and persuasive numbers as the basis for analysis and decision.

What we need to discuss, therefore, is not how aid coordination ought to work, but what are the most important and most urgent things that might possibly be done now to make it work better. We also need to examine critically some of our experience to date.

Coordination can be attempted, of course, at many different levels and with many different proximate objectives. The general long-run objective, however, should always be to improve the effectiveness of aid. This seems obvious and non-controversial as stated. I am afraid, however, that one thing wrong with some efforts at coordination, including some of the major ones, is that some or all of the participants have other, usually unstated, objectives in mind which tend to divert attention and energy from what ought to be the primary objective. It is not, I think, either wise or necessary to be very

specific about this. I need only mention that in some cases ostensibly coordinating machinery has been regarded by some participants as a means of aggrandizing the position of this or that international agency; other ostensibly coordinating groups have been regarded by some participants as primarily a means of getting the other fellow to put a bigger share of the money; others have been regarded as primarily a means of getting more money *in toto* for a particular country or a particular program.

Perhaps I should pause on this last point long enough to make my position clear on an issue that threads its way through nearly all discussion of aid coordination. It is my contention, and it is the view of the World Bank based on its experience to date, that improving the effectiveness of aid is a distinct, identifiable, and significant function or field of endeavor quite apart from the question of the amount of aid—whether one is speaking globally, regionally, with respect to a particular country, or with respect to a particular economic or social sector. We believe, therefore, that aid coordination as one, but by no means the only way of improving the effectiveness of aid, can be, and ideally should be kept distinct from fund-raising or burden-sharing exercises. A vast amount of confusion has arisen because of failure to see or at least to accept this point. Let me also try to make clear one thing I am not saying. I am not saying that there is no relationship between making aid more effective and generating more of it. Indeed, it is a fundamental article of faith in the Bank, and has been from the very early days of its operation, that if aid can be made effective, and can be made to be seen to be effective, the problem of raising the necessary amounts of aid, however these are defined, will be very much easier to solve. This, again, is true for aid in general (looked at, for example, from the viewpoint of a committee of the U.S. Congress), the flow of aid to a particular country, or of aid of a particular kind or to a particular sector such as education, agriculture and so on. But this is a very different thing from saying that a coordina-

tion effort serves no useful purpose if it does not simultaneously involve new aid commitments. I shall return to this point in connection with the discussion of the specific example of consultative groups as a technique of aid coordination.

There are at least six levels at which, it seems to me, the problems of aid coordination can be usefully attacked. Perhaps the most useful way of proceeding is to discuss these in turn, both with respect to what has been accomplished and with respect to what might reasonably be expected to develop in the relatively near future. The six levels or types of coordination I have in mind are:

1. Coordination of aid by the recipient country
2. Coordination through an international financing agency
3. Coordination of aid from several sources to a particular recipient country
4. Coordination of bilateral aid policies in general among several donors
5. Coordination of aid from several donors for particularly large projects
6. Coordination of aid on a regional basis by several donors and several recipients

Coordination of Aid by the Recipient Country

This deserves first mention in our catalogue not because there is a great deal to be said about it in general, but because unless there is some minimum capacity within a government to control the demands for resources, including external resources, generated by the various departments of government and principal investment sectors, no other form of coordination is likely to be possible. On the other hand, one might argue that if a government were fully in command of its own economy and possessed machinery to control, on a day-to-day basis, requests for external assistance according to some feasible and enforceable program, the need for other kinds of coordina-

tion with respect to the aid problems of that country would certainly diminish, possibly disappear. In practice the kinds of coordination on a national scale that seem to be most essential, in order to enable coordination on an international scale to work, include: control over the public investment program; some kind of machinery for producing projections of a public investment program and its foreign exchange component over a three- to five-year period that can be made to appear reasonable to potential sources of external finance; a reasonable capacity for establishing priorities between different sectors of the economy and within them for major projects; enough coordination at the political level to make the priorities stick (which sets limits to the amount of corruption and purely political interference with investment decisions that can be tolerated); and some means of coordinating requests for, and the utilization of, technical assistance. Assistance to developing countries in improving their coordination efforts in these key areas should, in my opinion, be viewed as a more urgent task than tinkering with or elaborating international coordination machinery.

Coordination through an International Agency

The very process of creating an international financing agency is, among other things, a coordinating process. The principal issues that face any form of international coordination are either decided on a once-for-all (or once every, say, 3-5 years) basis or delegated to the international agency and resolved through its machinery. In the case of IDA, for instance, the troublesome issue of burden-sharing was resolved for the period of the initial government subscriptions during the negotiations that led to agreement on the initial governmental subscriptions. The problem of fixing the terms of aid was delegated to the Association, with only the general guidance in the Articles of Agreement that they should be "more flexible and bear less heavily on the balance of payments than those of conventional loans." All of the complicated questions

concerning use of resources and conditions of financing were delegated to the international institution. The day-to-day coordinating process occurs, therefore, *within the international staff* somewhat removed from the direct influence of the member governments—both those that provide the money and those with possible claims upon it.

It is interesting to note that the Association was given only two positive instructions about what it should finance: namely, that it should provide financing to "further development in the less developed areas of the world included within the Association's membership," and that its financing should be "for purposes which in the opinion of the Association are of high developmental priority." The only other instructions given to the Association by the governments delegating authority to administer the money they were contributing are negative—things it may not do, such as provide financing if private finance is available on reasonable terms, provide financing if the country in whose territory the project is located objects and so on. All of the other clauses concerning the operations of the Association are simply delegating clauses which leave the Association free to form and apply its own judgment with respect to the matters covered.

I have used IDA as an illustration because it is one institution with which I am familiar. However, to a greater or lesser degree all of the major international financing agencies perform a coordinating function with respect to the funds they control and the countries that constitute their membership. To repeat for emphasis, the very process of creating an international financing institution requires that decisions with respect to many or most of the questions that are normally regarded as requiring coordination have to be taken in advance or the authority to make them delegated, as otherwise the institution will not come into being.

I do not believe I need stress for this audience the technical advantages of coordinating through international agencies. These are by now so widely recognized that I feel no need to

apologize for expressing my view that this is by far the best and most effective method of coordinating aid. I am not, however, so enamored of the method that I am prepared to say that if we cannot do it this way, there is no point in trying to do it at all. There are strong reasons why, despite what I have called their technical advantages, international agencies cannot and should not be given the whole aid task. For one thing, there are limits to the capacity of any international organization no matter how well conceived or how well managed. There may be enthusiasts outside the World Bank group who believe these institutions ought to be given the whole of the aid task, for the non-Communist world at least. But you will not find such people in the Bank. There are many kinds of activities being done under the heading of aid, and important things that need to be done, which the Bank recognizes to be important, but which the Bank group of institutions is not now engaged in. To name only two at random from widely different sectors, I would cite primary education, and technical and financial aid to really small, private, wholly locally-owned enterprises. And yet few, certainly not the Bank, would deny that both these sectors are vitally important for general economic development or that both can use outside aid. For many reasons governments wish to keep direct control of the bulk of their aid funds, and these reasons are not all ill-founded or purely selfish. It should also be pointed out that governments are clearly not willing to devote all the resources, or delegate all the powers they wish to give to multilateral agencies to a single multilateral agency. This being so, there arises a problem of coordination between international agencies and international financing agencies in particular. Efforts at coordination between international agencies, and of course between multilateral and national agencies involve many of the problems that I am discussing under other headings. The international institution with large financial resources and broad discretion as to their use is technically the most satisfying form of aid coordination, but it does not get all the weeds out of the garden. And for a long time to come we

will be working in a world where the bulk of what, by any definition, can be regarded as aid will be flowing through other channels and require other methods of coordination—in which, however, the international financial institutions can still play a part.

Coordination of Aid from Several Sources to Particular Recipient Countries

Whenever a country is receiving substantial external aid from several sources, there is a prima facie case for some effort at coordination. While a great deal has been said about the possibility of augmenting the flow of external assistance by playing one competing donor against another, there seems to be increasing agreement among governments of developing countries that the risk of becoming saddled with ill-conceived and unworkable projects greatly diminishes the attractiveness of this approach. As a country's economy becomes more sophisticated and its aid requirements more complex, the advantages of having some kind of machinery whereby its case for external financial assistance can be put before several governments and international agencies at once, and in some sort of agreed format, become more and more evident.

There are two kinds of international coordinating machinery designed to focus attention on the problems of a particular country that have achieved prominence in recent years. The first is the consortium, of which examples now exist for India and Pakistan (organized by the Bank) and Turkey and Greece (organized by the OECD). The second is the consultative group of which one now exists for each of Colombia, Nigeria, the Sudan, Tunisia, Malaysia, Thailand, Korea and Ecuador—all but the last of these being organized under the chairmanship of the World Bank. The consultative group for Ecuador is organized by the Inter-American Development Bank.

The formal difference between a consortium and a consultative group is that, in joining a consortium, governments

have undertaken that from time to time they will attend sessions in which specific pledges of aid will be made for a particular country. In joining a consultative group, no such commitment is made or implied, and there are no pledging sessions of a consultative group. Aid commitments by members of a consultative group are arranged bilaterally with the country that is the object of the exercise—which for want of a better term I shall refer to as the recipient. The Bank plays no part in these negotiations, except with reference to particular projects in which it and several other financing agencies are interested—a case which I discuss below.

While it is possible to make certain general statements about the operation of consortia and consultative groups, one thing that becomes apparent very quickly in the life history of these organisms is that each group acquires a definite personality of its own which affects the way it functions and what it accomplishes or fails to accomplish. This is partly the result of the obvious fact that no two countries' development problems are identical. It is also, however, the result of the fact that the practice to date has been that the chairman of the Bank-run consortia has been a Vice President, while the chairmen of the various consultative groups are the respective directors of the Bank's operating departments for the areas in which the recipient countries are located. As no two chairmen will wish to conduct a meeting in precisely the same manner and as the Bank's Area Departments also by now have acquired distinct "personalities" and styles of operations, there are these additional factors working against uniformity.

Nevertheless, insofar as consultative groups are concerned, we are endeavoring to develop some general standards and practices as to how these groups should operate and what the Bank's role should be as chairman. As the Bank has stated that it does not propose to organize any more consortia on the India/Pakistan pattern, the following discussion will be phrased in terms of consultative groups which, at this point in time, appear to us to be the most promising method for coordi-

nating aid from various sources to particular recipient countries. But I should stress that, insofar as their coordinating functions are concerned, what follows can also be applied to Bank-organized consortia.

In agreeing to organize a consultative group, the Bank assumes the following general responsibilities:

- (a) making periodic comprehensive reports on the country's development possibilities, problems and performance as a basis for the group's deliberations;
- (b) commenting on the country's estimate of its aid requirements, making recommendations as to the types and terms of aid appropriate for it, and highlighting any problems arising from unduly burdensome debt accumulation;
- (c) helping the recipient government to prepare or revise a development program, or advising on problems of execution, where such assistance is desired;
- (d) assisting the government, as may be necessary and desired, in identifying projects, in their preliminary screening, in arranging for feasibility studies, etc., and in relating other technical assistance to the needs and priorities of the investment program; and
- (e) advising the government and group members as to the sectors and, where adequate feasibility studies exist, the projects that deserve priority for external financing.

A mere listing of these functions suggests one of the principal conclusions we have so far been able to draw about how to make this kind of aid coordination effective. It is that while a consultative group must from time to time hold meetings, by far the most important part of a consultative group is not the formal sessions but the work done by the Bank staff, the government of the recipient country and the responsible ministries in the member countries between meetings. Ideally,

in my view at least, a meeting of a consultative group ought to be primarily an occasion for putting a number of things on record, the groundwork for which has already been done; the recipient country's intentions with respect to major development problems; its views of its requirements for external assistance in as much detail as possible; the Bank's evaluation of the country's plans and performance; the consensus, if one exists, among members of the group as to the recipient country's performance and prospects; any statements of general aid policy towards the recipient country that members may be prepared to make; some statement by the Bank of its own intentions; plans for financing projects in the recipient country, if any; and finally, such guidance as the members may wish to give the chairman on what the next steps should be with respect to any matters that come within the scope of the consultative group's deliberations. In order to achieve a result of this kind at a consultative group meeting, it is clearly necessary that there should be continuous contact between the staff of the Bank and the recipient country; between the Bank staff and the active members of the consultative group; and between the recipient country's ministries and those of the members of the group. It may also be that for certain problems and for certain countries, it will prove useful to have less formal meetings of some members of the group with the Bank and other international financing agencies to discuss particular problems, such as terms of export credits or particular projects that are possible candidates for joint financing operations.

Among the Bank's major responsibilities is clearly that for being at all times prepared to provide members of the consultative group with up-to-date and authoritative information concerning the country's general economic performance and needs. One result of the Bank's assuming this responsibility is that we must do a much broader kind of economic survey and report than would be required merely for the purpose of determining whether a country is eligible for Bank loans or IDA credits. It will be readily understood that all this has major

implications with respect to staff, the nature, composition and frequency of Bank missions and the timing of consultative group meetings. I would not want to give the impression that we are satisfied with the Bank's performance in any of these respects. But I can say that the President of the Bank is determined that whatever is necessary on the Bank's part to make consultative groups function effectively will be done, and we are constantly working on a number of fronts to improve our performance.

Finally, under this heading I should like to draw attention to two basic obstacles to the satisfactory functioning of consultative groups as a means of aid coordination. By way of preface, it should be noted that there are inherent differences in the way in which the various participants in a consultative group operation look at the enterprise. The members of the consultative group presumably are interested in assisting the claimant country's development program. But each of them approaches the group under different legal, financial and political constraints as to what it can do. To put it a bit crudely, the potential donors are interested in getting the most for their development dollars and are, therefore, likely to approach the exercise with a critical eye on the economic performance of the claimant country and the reasonableness of its claim for external assistance. Furthermore, they can never ignore the fact that they have valuable commercial interests in the claimant country that are affected by, even if they do not determine, the shape of their aid packages. The claimant country, on the other hand, is interested in obtaining a maximum amount of external assistance to augment its own resources on terms as easy as possible. It is also, of course, extremely conscious of the political and administrative obstacles to raising the rate at which resources for development can be extracted from its own, usually very poor, population. Again, putting it rather crudely, it is interested in getting the most from the donors for the least painful effort on its own part. The Bank also operates under well-known restraints as to kinds,

terms and amounts of finance it can make available but, as compared to the donor countries and the claimant country, it is almost equally concerned about both increasing the general flow of development finance to worthy countries and encouraging maximum mobilization of domestic resources in recipient countries and steadily improved general economic performance. It is also very much concerned about the terms on which finance is made available. I think conflict of interest is too strong a term to apply to the different attitudes with which the members of the group and the recipient country approach each other. It is, nevertheless, in bringing consensus out of the interplay of these various attitudes and shades of emphasis that the art of operating a consultative group lies. If, over a period of years, either the member governments, the recipient government, or the Bank feel that they are getting nothing of value from the exercise, the consultative group is not likely to endure. In particular, if over a period of years a recipient country whose performance is judged by the Bank to be satisfactory and whose utilization of external finance has proved, on the whole, to be effective finds that it is getting neither a larger inflow of assistance nor significantly better terms than it feels it could get on its own, it is likely to conclude that aid coordination of this particular kind is not worth the trouble.

Bearing in mind these conditioning factors, the first general difficulty in making a consultative group function effectively to which I would briefly draw your attention, without by any means exploring all the ramifications, is that most multilateral and bilateral financial assistance is, for what in my opinion were originally sound reasons, in the form of project finance. Projects can, of course, be very broadly defined. On the other hand, we are more and more frequently discovering, in the course of our studies-in-depth of the economies of countries, that the planning of public investment programs, and in some cases the projections of requirements for major inputs in the private sector, have developed to the point at which it is possible to identify and quantify with a reasonable degree of

persuasiveness foreign exchange requirements that cannot be covered, even if all the feasible projects receive the necessary external finance. To put the matter somewhat differently, there are cases in which it is possible for the Bank to agree with a government that during the plan period the capability exists in the country for carrying out a given total of useful development projects of the type suitable for conventional external financing. It may be possible to say that the foreign exchange component of these projects can largely be met through conventional forms of development finance plus owned external resources accruing during the period. It may be possible to assert that even if this is true, there is no likelihood that enough local currency resources can be generated in an uninflationary manner to make it possible for all these projects to go forward. In such a situation, unless there is external financial assistance which generates noninflationary local finance, development will be retarded. It is precisely countries whose economies have become sufficiently complicated, and whose economic management has become sufficiently sophisticated to fit this pattern that are likely to be the objects of a consultative group exercise. For such countries, the availability of what is somewhat loosely called program finance will have a considerable bearing on the effectiveness of a consultative group. The same kind of difficulty arises when project-tied aid is used in an effort to assist a country whose main difficulty is an unbearable concentration of debt service and repayments in a period of a few years. In many cases no conceivable amount of project-tied aid will enable such a country to avoid rescheduling or default.

The second unfavorable feature that I see in the climate within which consultative groups are presently operating is the reluctance, indeed, with fewer and fewer exceptions, the refusal, of governments with substantial foreign aid programs to enter into commitments over a period of more than a year. They are not only unwilling to make long-term commitments, they are increasingly unwilling to give general statements of

intent with respect to the volume of assistance they might be prepared to consider (with all appropriate qualifications) for a given country. On the one hand, consultative group members expect to be given well thought out development programs by the recipient country to show where it thinks it is going in the course of three, four or five years and what it thinks it needs to get there. They are not content with annual budget figures. On the other hand, they refuse to tell the recipient whether they will or won't do anything over the planning period as a whole to meet its requirements. This is a dilemma from which I see no nearby exit. It does not make a consultative group exercise impossible or useless, but it certainly greatly reduces the chance that it can become regarded as an unqualified success.

*Coordination of Bilateral Aid Policies in General
Among Several Donors*

This is a vital and continuing task which will never be completed. It is, of course, par excellence, the task of the Development Assistance Committee. Therefore, I speak primarily as an observer, not a participant under this heading, though of course a good deal of the raw material on which DAC works originates in the Bank, and we are definitely affected by the extent to which the DAC succeeds in its task.

The DAC is essentially an exercise in self-discipline. Governments, at the highest political levels, are aware that economic development and aid are too serious and too new a business to be left entirely to the traditional ministries, following their traditional practices and reflecting their ancient conviction that there is identity between the policy that fits them most comfortably and the national interest. Governments have also realized that their long-term national interests cannot in fact be served by aid policies, which, if all other principal countries in the business acted the same, would defeat the purpose of promoting economic development in the effort to make aid look financially respectable. Finally, governments, at least

when they are thinking in broad terms about development, have become mature enough to realize that without the assistance of some outside agent through which the common objective and the common long-run interest in development can be expressed, their ministries and agencies are likely, in fact, to behave in a manner that will ultimately be self-defeating. They have recognized, in short, that there must be some coordination of aid policies in general.

The DAC is the international voice for formulating and expressing this common interest. Through the reports of its chairman and its recommendations to governments, the DAC provides a frame of reference against which governments can measure their performance and against which their performance can be critically examined by political oppositions and other elements in the community. This frame of reference is in no sense an ideal aid policy. It is rather a limited set of objectives which responsible officials aware of their own and each other's aid policies and problems believe to be feasible enough, in the light of all the circumstances, to be worth trying to establish. Coordination under this heading, therefore, is coordination with limited objectives. In practice, apart from the problem of burden-sharing, DAC has concentrated on the improvement of the terms of aid and what is called harmonization.

The DAC has occasionally made more or less successful forays into other aspects of development finance and other kinds of aid coordination with varying success. Its main contribution to the whole aid effort, however, has clearly been its influence on the gradual improvement in the terms of aid and its steady pressure on the rich countries to achieve harmonization at the level of the best and most generous aid programs, not that of the tightest and worst. In the face of rising interest rates, DAC members have achieved a small but significant and steady reduction in the weighted average interest rate on all loans and credits reported to DAC and a steady increase in the weighted average repayment period. The improvement in loan and credit terms has largely, though not entirely, offset the

growth in the rate of increase of the debt burdens of developing countries caused by an equally steady reduction in the proportion of total aid made in the form of grants. DAC's efforts in this area have been strongly supported by its continued review of the debt service burdens of developing countries, based on gradually improving statistics, in the preparation of which the Bank is playing a central part. DAC has also strongly supported the Bank's insistence that tied aid is an inferior form of development finance which tends to raise costs all the way around. On the important issue of when and how it is appropriate to provide local currency finance through external borrowing, the DAC has been somewhat in advance of the Bank in urging capital exporting countries to broaden the project approach to development finance. Finally, DAC has emphasized the importance of coordinating technical assistance, particularly "on the spot."

It is my impression that in all these efforts to coordinate various aspects of aid policies among the principal governments in the aid business, exceedingly useful though not spectacular results have been achieved. DAC, or any organism of its genus, is bound to wax and wane in effectiveness in accordance with changes in the general climate of political and economic cooperation among the principal powers. It can never move too far out in front of positions that its principal members regard as politically sound. The kind of operation it conducts by its nature will always be vulnerable to critics who become impatient with half a loaf because they believe they see how they could get three-quarters or a whole one. It would, in my view, be a serious error, however, to abandon the effort to achieve aid coordination at this level.

As a final note under this heading, I would make the more or less obvious point that the more effective DAC is, the easier is the task of the Bank in carrying out its responsibilities as chairman of consultative groups. The fact, for instance, that there is a DAC recommendation on financial terms and conditions which expresses views as to the appropriate terms for aid

makes it unnecessary to reargue the case for generally improved terms of aid in each consultative group. Not all DAC members follow the so-called DAC standard; but it is very difficult for any of them to argue today that this standard is unreasonable or objectively wrong.

Coordination of Aid from Several Donors for Particularly Large Projects

This is perhaps an overlong bit of modern jargon to describe something that has been going on for centuries—namely, finding partners when you are on to a good deal that is too big to handle yourself (some might word this the other way around—finding partners when you are stuck with a bad deal and want somebody to share the risk). (This is a kind of "coordination" to which the conceptual separation between fund-raising and coordination referred to above obviously does not apply because of the very nature of the problem.) There is almost no limit to the variety of schemes that might be described under this heading, from the operation of the Shrine of Apollo at Delphi to the financing of the Nam Ngum dam in Laos. I will confine myself to a few observations based on our recent experience.

In the first place, it is my impression that joint financing of large projects, which is what we are really talking about, is almost always more difficult than it would seem to any rational mind that it ought to be. This is mainly due, I suspect, to the fact that while it is often fairly easy to see how the package ought to look when complete, and even to get the participants to agree on how it ought to look; the putting together of the package is a process in time. And getting the various things that have to happen before the package is complete to happen at the right time is extraordinarily difficult. The timing problem may involve anything from an election or a legislative session to the absence on holiday of an executive vice president. And if important steps are taken in the wrong order, the whole package may fall apart. The upshot is that there are

likely to be long and irritating delays which may involve some or all of the interested parties in very heavy expenses, for instance, for maintaining in being teams of specialists who cannot get on with their work in the field because some preliminary agreements cannot be reached.

The effect of all this is that while joint financing is likely to appeal to boards of directors and committees of parliament, and even presidents of republics and presidents of banks, it is likely to be extremely unpopular with operating officials interested primarily in getting projects under way. Nevertheless, there have been some important successes in recent years such as the Volta River power and aluminum complex, the Nam Ngum dam, the Rosieres dam and irrigation projects, the external financing for the Mexican power industry on the order of \$145 million provided by the World Bank and a number of participating countries, and, perhaps preeminently, the Indus Basin water control project. This suggests that despite the unpleasantness involved, there are overwhelming reasons for attempting this kind of coordination in certain cases. One reason, of course, is that some projects by their sheer size are simply too big, or anyway too big in the context of any particular aid source's program for the country in question, to be financed by one government or institution. If these projects cannot be financed jointly, they will not be financed at all. Therefore, the effort must be made.

I pass over the possible political attraction to a recipient country of not being dependent on one external source of finance for large and vital projects. But there are purely economic advantages in certain kinds of joint financing which appeal to the borrower, to the World Bank, and to those elements in the capital exporting countries that are concerned about the diseconomies of tied aid but unable to do anything to eliminate them. It is possible to eliminate many of the cost raising effects of tied loans by arranging that a country's export credit or aid institutions should finance whatever contracts for a particular project are awarded to suppliers in that country

as a result of international competitive bidding. Each of a number of countries will lend to finance all or a substantial portion of the cost of the equipment to be procured within the country for the project. One reason this kind of joint finance is a serious possibility in certain cases is that in countries where the Bank has had a long experience with the results of competitive international bidding for projects in various sectors, it is possible to tell in advance to a degree that always astonishes the uninitiated what contracts will go to what country or countries. The pattern of international competitiveness does not change rapidly enough to throw such estimates very far off. So, given the project and its location, the Bank and the borrower can come pretty close to telling a prospective source of finance how much it will have to finance if competitive international bidding takes its normal course. The loans are still tied, but the borrower is getting the advantages of international competition all the same.

A second advantage arises from the fact that the World Bank can become a party to joint financing of this type. By doing so, it not only lends its good offices to the task of arranging the terms, but makes it possible for the borrower to obtain terms appropriate to the project even if the "best" terms possible for the various national lending agencies are not appropriate. It can do this by adjusting the amortization schedule of the Bank's own loan to the schedule of the other participating financing agencies in such a manner that the annual amortization payments required of the borrower will approximate those which the borrower would have made, had the entire financing been done by the Bank.

It is not yet clear how often this combination of joint financing through several bilateral programs combined with international competitive bidding can be used. The difficulties of putting a package together are, as noted above, horrendous. (These are special negotiating difficulties connected with this kind of joint finance, discussion of which would lead into too much detail.) But for very big projects the prevalence of tied

loans as a mechanism of development finance will continue to give the idea a strong attraction to all who are concerned about getting more development per dollar of aid. It may even be possible to extend the pattern to cover groups of projects in a sector—e.g. power, or even groups of countries.

Coordination of Aid on a Regional Basis by Several Donors and Several Recipients

The outstanding example of this kind of coordination is the complex of organizations built up in the Western Hemisphere and now covered under the general umbrella of the Alliance for Progress. Indeed, outside the Western Hemisphere there is as yet no functioning machinery of any significance to be discussed under this heading. Even in the Western Hemisphere, emphasis under this heading has to be on the "several recipients." A better heading might be "Coordination of Aid and Development Policies on a Regional Basis." For, while other governments are active in the aid business in a small way in certain parts of the Western Hemisphere, and, indeed the World Bank has formed or is in the process of forming consultative groups for certain Latin American countries, the coordinating machinery that has developed over the years is primarily concerned with relations between the United States, on the one hand, and Latin American countries on the other. We can still justify the "several donors" in our heading only by reason of the close relationship to this coordinating machinery of the major international financial institutions—the World Bank, the International Monetary Fund and the Inter-American Development Bank. The latter, indeed, is both an aid source and part of the formal coordinating machinery.

This is not the place and I am not the person to expound the rather long and very complicated history of the efforts of governments in the Western Hemisphere to find an effective means of relating U.S. efforts to assist economic development of Latin American countries to the varied aspirations and capacities of the recipients. A filmed version of such a history

would somewhat resemble a minuet, with the United States on the one side alternately advancing bold proposals and withdrawing as if scorched from too close an approach to Latin realities, and on the other side, 18 to 20 highly individualistic partners alternately advancing claims for greater responsibility in the allocation of aid resources and proposals for a more intimate hemispheric cooperation, then withdrawing when the consequences of either being achieved become apparent. Yet the institutions that have grown out of all this are by no means negligible and from their experience one can draw a number of lessons that are certainly relevant to our present purpose.

The key coordinating body today is the Inter-American Committee for the Alliance for Progress, invariably referred to by the initials of its Spanish title—CIAP. CIAP is an elected committee with a full-time chairman appointed for three years. Its seven members are chosen for two-year terms by the regional groups who elect executive directors of the Inter-American Development Bank. The members, however, are not supposed to defend the interests of the countries that elect them but to consider the interests of the area as a whole. Ex officio members include the President of the Inter-American Development Bank, the Executive Secretary of the U.N. Economic Commission for Latin America, and the Secretary General of the Organization of American States. CIAP was designed primarily to give an impulse to development and to change the Alliance for Progress from what was essentially a bilateral relationship between each Latin American country and the United States, with the power and influence all on one side, into one in which responsibility is shared.

The pattern of coordination being developed by CIAP is that the Latin American countries subject their own policies and programs to high-level international review, on the one hand, while the United States subjects its aid programs and its economic policies toward Latin America to review by the same body. The composition of CIAP, the way it conducts its meetings and the sense of permanence about it, compared to

previous coordination efforts, have combined to raise it very quickly to a position of authority held by no other intergovernmental committee linking sources of aid and recipients. CIAP is formally an organ of the Inter-American Economic and Social Council of the Organization of American States. Indeed it is the principal body for formulating a development strategy for Latin America and pressing for its implementation. The Inter-American Development Bank is formally designated as the technical arm of CIAP in matters concerning development finance. The principal headings under which CIAP has so far divided its work are: general questions relating to the development effort in Latin America, foreign trade, external assistance, economic integration, and the review of country programs.

I have selected for comment only one aspect of the CIAP experience which seems to me especially significant in its implication for the problems of aid coordination in other parts of the world and in other frames of reference.

I refer to the extent to which CIAP has been able to gain acceptance of the idea that it is neither an infringement of sovereignty nor a confession of weakness for a government to submit its economic development plans and policies to examination by its peers in committee assembled. The extent to which the country review exercises of CIAP are developing into serious and objective critiques of national economic performance does not seem to be widely recognized outside circles directly involved in Western Hemisphere affairs. This development is astonishing to anyone familiar with the long history of cooperation and coordination efforts that have foundered on the rocks of Latin American sensitivity to outside criticism. Only in the OECD is any similar collective review of national performance regularly carried out, and the circumstances there are different, although it is worth recalling that the OECD practice originated at a time when many of the then members of OEEC were also aid recipients. CIAP works in private and has developed procedures that emphasize the

mutuality of the review process. As a result of its operations, I have the impression that in Latin America, more than in any other part of the world, it is increasingly accepted that performance commitments by a government to an impartial international body are not only an appropriate, but an essential part of a rational and mutually beneficial relationship between governments and agencies which are sources of development finance and recipient countries. The World Bank and the International Monetary Fund have, of course, for years sought and sometimes obtained performance commitments based on recognition by a country that its long-run interest would be thereby served. The great thing that CIAP has contributed in this domain is the simultaneous recognition by aid sources and recipient countries that not just one or two countries and not just badly performing countries, but *all* developing countries can benefit from objective reviews of economic performance and regular discussions in an international forum. The standing of the country whose program is being examined is that of a member, not a petitioner. I would hope that other regions, in which there is much talk but little evidence of the desire for regional cooperation of various kinds, would not wait as long or suffer as many frustrations as the countries of the Western Hemisphere before undertaking the kind of commitments to each other that are involved in the establishment and operation of CIAP.

Perhaps I should note in passing that the World Bank works very closely on an informal basis with CIAP, and provides the Secretariat with a vast amount of material derived from its own economic and technical missions in the region. It is interesting, I think, to note that the establishment of the Inter-American Development Bank and the improvement in recent years in the regional coordinating machinery in the Western Hemisphere has not, as some observers expected, resulted in any diminution of either the financing or technical assistance activities of the World Bank in the Western Hemisphere. On the contrary, both have increased rather

dramatically. The experience as a whole is a rather good illustration of the validity of the Bank's conviction, expressed earlier in this paper, that improvement in coordination and the effectiveness of aid operations will almost inevitably lead to increases in the amount of development finance flowing to a country or region.

In connection with consideration of aid coordination on a regional basis, I should perhaps pay my respects briefly to the Colombo Plan, by now a venerable institution which I am bound to confess I find it extremely difficult to classify under any general heading. Indeed, I have the impression that the meetings, reports and committee work which together constitute the activities carried out under the aegis of the Colombo Plan overlap nearly every other national and international activity that most of us would recognize as part of the aid business. The Colombo Plan was born of the Commonwealth, but long since ceased to confine itself to the Commonwealth. Its region is south and southeastern Asia, but it includes Korea. And it does not include all non-regional countries with substantial aid programs in its region. There was a kind of plan for a six-year period running from July '51, but the Colombo Plan today is certainly not a plan in any ordinary sense of the word. Nevertheless, under this title a great deal of cooperation, coordination and other useful work has gone on and continues. The identification of an activity as being under the Colombo Plan loosens parliamentary purse strings and practically ensures what is generally known as a good public image in many countries. I have found in my own travels that some of the happiest relations between donors and recipients originated in the Colombo Plan. The Annual Meetings of the Consultative Committee provide a useful occasion for exchange of progress reports and plans for future activities. The Annual Report of the Committee contains, among other useful information, what is probably the most complete information available on the technical assistance programs of the members in the various countries of the region. Whatever kind of an animal it is, and

wherever it may be classified among aid coordination efforts, we in the Bank wish it long life and a prosperous future.

Having completed this survey of the problems of coordination of aid under the six headings which I set out to discuss, I am conscious both of the fact that this paper is already overlong and of the fact that I have only scratched the surface of the subject. I hope it will be clear that I do not consider aid coordination to be one problem to be handled in one way, by one mechanism or at one level. There are many problems in the general area loosely defined as aid coordination. Coordinating efforts are necessary at many levels and in many places. Nevertheless, while I do not exclude the possibility that major new pieces of coordinating machinery may be developed, it does seem to me after this review that the important problems for the immediate future lie in the area of making our existing machinery work somewhat better, which means, in effect, putting more political steam behind it in both developing and capital exporting countries. I judge this to be particularly true of the consultative group technique. I believe that we can say that we now know a good deal about how to make a consultative group work. I believe the World Bank will be able to extend its role in connection with consultative groups gradually to enable governments, if they choose, to use this technique for coordinating aid to countries that receive 80 to 85 per cent of the total international flow of development finance from public and private sources. I have pointed to some of the present obstacles to successful functioning of consultative groups, but these obstacles do not seem to me to be insuperable. I should think that a general support for policies of participating in this kind of coordinating activity would be one of the most effective ways citizens of advanced countries could help in the worldwide development effort.

I also believe that the application of the CIAP type of coordinating techniques to other regions would be highly desirable when the conditions are right. Unfortunately, it does not

seem to me that conditions in any other readily identifiable regions are likely to be right in the near future. Perhaps one of the most important roles of the Asian and African Development Banks will be to create around their operations an atmosphere of mutual cooperation which will enable CIAP-type exercises to develop in their respective regions.



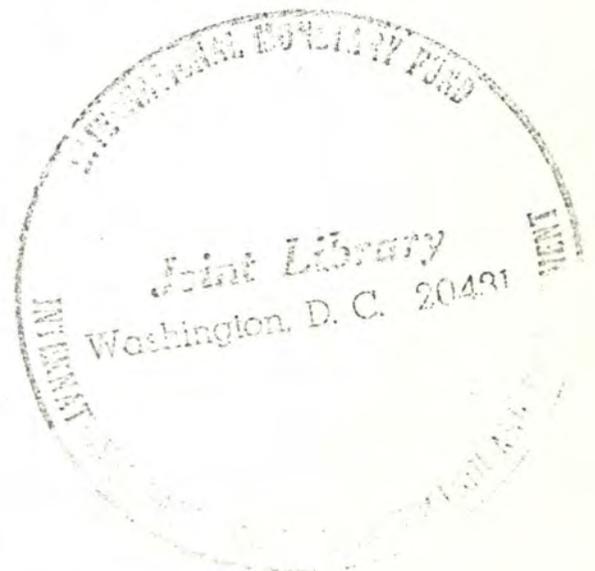
GERMAN FOUNDATION FOR DEVELOPING COUNTRIES
Department of Conferences and Documentation

Conference on methods and procedures of evaluation
in development aid, Berlin, 1966.

METHODS AND PROCEDURES OF EVALUATION
IN DEVELOPMENT AID

Conference Report

18 - 22 November 1966
in
Berlin



95737

Summary of
report given by: Mr. M. L. HOFFMAN, Associate Director,
International Bank for
Reconstruction and
Development (IBRD)
WASHINGTON

IBRD considers technical assistance as an integral auxiliary to capital assistance. Both these forms of aid are equally evaluated and it is believed that the same methods can be applied.

The Bank's approach to evaluation has a significant similarity to that of the Specialized Agencies. It can be summarized as follows:

- (1) main emphasis on pre-evaluation (appraisal studies)
- (2) working towards built-in evaluation along with the implementation of projects
- (3) experience that special evaluation procedures, which the Bank tried occasionally proved to be too costly for use across the board. They cannot be carried through and often lack value for feed-back purposes.
- (4) relating all evaluation procedures of specific projects to the larger framework of the general development of the country.

The concept of the Banks evaluation procedures

- (1) Pre-evaluation in form of a preliminary survey of the entire economic situation of a country (management, infrastructure, political stability, natural resources, etc.) to identify the problems.
- (2) Investigation of the Bank's role in the country's development goals and assessment of project possibi-

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ities. Estimation of priority of projects.

- 3) Evaluation of the contribution of various projects to the whole economy of the country, and, where appropriate, for financial return.
- 4) "End-use review" to evaluate whether a project has been effectively carried out and managed.
- 5) Feed-back of evaluation results for further planning.

The methods applied:

Internal procedure:

- 1) Missions of experts sent for preliminary investigations.
 - 2) Analysis of the results by appropriate expert groups.
 - 3) Review by the Economic Committee of the Bank and recommendations to the Loan Committee (or feedback to other points of activities, if the action is other than loan).
 - 4) Suggestions by the Economic Committee for the Bank's rôle in the country's programme (e.g. regarding the special sectors in which the Bank should invest).
 - 5) Recommendations by the Projects Department on soundness and feasibility.
 - 6) Decisions of the Area-Department on priority of the project, timing, political implication and other aspects, that often determine whether a project is rejected or not - in spite of approval from other Departments.
- Approval by the President (or not) and presentation to the Directors.

Different project-fields follow the same procedure but include

External support

For projects in agriculture and education the Bank has formal agreements with FAO and UNESCO for evaluation procedures in their particular operational fields. In education for instance the Bank relies on the findings of UNESCO and has a commitment from UNESCO to make staff available for:

- (1) Identifying priority education projects in the countries whole investment programme. (This has created the demand for educational planning.)
- (2) Envisaging the necessary technical assistance for the preparation of a capital assistance project for the Bank.
- (3) Assisting the borrower to take part in the preparation of a project for financing.

The Bank retains the final responsibility for appraisal and for the decisions on finance.

Clients of the Bank's evaluation efforts are its members. (The Bank has 105 stockholders.) Therefore the Bank's evaluation needs - essentially - to go over the same points that the borrower's own evaluation should cover with regard to the project itself, and pre-investment - and performance - evaluation. At times the local situation may hinder these intentions. The Bank tries to conduct the evaluation in such a way that the findings are mainly for the benefit of the borrower. In some cases, however, the Bank and the borrower do not start from the same point of interest. But an effort is made to come to agreement by maintaining an active dialogue between the Bank and the country.

In some cases political forces may prevent a country from taking a position which is agreed as mutually acceptable

and this may also result in different evaluation criteria.
(See; the Iran highway evaluation done by the Economic
Department of IBRD, which is highly negative.)

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A P P E N D I X VIII

SELECTED BIBLIOGRAPHY OF
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Information for the Press



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NATIONAL INDUSTRIAL CONFERENCE BOARD

For Release after 9:30 a.m. (EST) Tuesday, November 22, 1966 Conference Release

THE DEVELOPING COUNTRIES IN INTERNATIONAL FINANCE

A talk by Michael L. Hoffman, Associate Director
Development Services Department

International Bank for Reconstruction and Development
before a session on: "The Shaping of the Future"

at a special one-day meeting on "International Financing 1966"
conducted by the National Industrial Conference Board
November 22, 1966 at The Waldorf-Astoria, New York City

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In the parlance of international development finance -- as in other areas of modern living -- we are, I am afraid, tending to fulfill the Orwellian prophecy of a language fashioned to provoke appropriate reactions rather than to convey clear and precise meaning. This rather somber thought occurred to me when I came to consider my subject for this morning's gathering: The Developing Countries in International Finance. The term "developing countries" is familiar to everyone by now. It can be relied upon fairly consistently to provoke appropriate images: an ancient plough, perhaps, skimming the surface of leached earth in the shadow of a new World Bank dam a-building.

But when -- for the purpose of constructive and meaningful discussion in this area -- one looks for a conceptual boundary line between the developing and the "non-developing," the intellectual carelessness of the phrase becomes apparent. For in the strictest sense of the word, all countries are developing; the so-called developed countries often more so than most. However, for the purposes of discussion in this necessarily brief consideration of the subject,

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I have chosen a limiting definition which I think provides a reasonably neat and functional framework for exposition here. A developing country I shall define as one still short of the goal of "self-sustained growth," meaning by self-sustained growth a rate of real national income increase of, say 3-5 per cent per annum, financed out of domestically generated funds and out of foreign capital flowing to the country concerned because it finds the investment climate there so attractive that it wants to be there, regardless of official aid and lending programs.

We are in the business of official international development finance largely because we believe there is a discernible and negotiable bridge between the extreme material poverty represented today by some nations in Africa and Asia and the relatively green shores of self-sustained growth as represented today, say, by Japan or Italy. It is not difficult to construct plausible theoretical models of the bridge between these two points. In work done on this subject within the Bank recently, for the purposes of hypothetical illustration, and on the basis of certain stylized -- but by no means unreasonable -- assumptions, we constructed a model on which the process of conversion from poverty to self-sustained growth took approximately 36 years. Of course this was on the basis of a lot of "ifs." What we call the development business consists largely of trying to make those "ifs" come true.

Let me stress at this point the error in the disenchanting view that, because of the human intangibles, it is a forlorn hope to contemplate significant further Japanese-style crossing of the bridge from low and stagnant productivity to prosperous, self-sustained growth. At the present time, there are in fact a number of countries impressively on their way toward the kind of success which Japan represents. Mexico, with an average growth rate of about six per cent in recent years, is one. Thailand, starting from one of the lowest per capita

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income levels in Asia, has maintained a recent growth rate of 7.5 per cent, and by 1965 real income per head in this country was approximately one quarter higher than it had been in 1957. Taiwan, or the Republic of China, is moving impressively with an annual growth rate between six and seven per cent, and so is Malaysia. Pakistan, too, has sustained an encouraging growth rate in recent years. Colombia, Peru and Venezuela are demonstrably on the right road.

Indeed, it would be surprising if these things were not so. For more than a decade, through the injection of what is broadly known as technical assistance, the United Nations, its specialized agencies, the Western industrial governments, Western international business, the World Bank and others have been working diligently to expand the capacity of the developing countries to use capital effectively. Through many trials, with many errors, and in the face of occasional disastrous slippages, we have in fact developed techniques for identifying, preparing and carrying through investment projects at a steadily increasing rate. Whereas ten or even five years ago one could say that the shortage of sound and feasible projects was a principal constraint on the rate of growth in the developing countries, this is no longer obvious. Thoroughly vetted projects ready for finance are now coming out of the pre-investment pipeline at a steady and increasing rate. It is, as Mr. Woods has recently pointed out, a "matter of high irony" that just at this point in time the development effort is threatened by a slow down as a result of a shortage of development finance.

A constructive appreciation of the role of international financing in the equation for the path toward self-sustained growth requires us to go first to the heart of the matter, which is the savings and investment mechanism within the developing country itself. The process cannot begin in any lasting way until the country has a political leadership with a relatively undiluted commitment to

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economic development; until it has an internal environment in which sound investment opportunities may be identified and prepared in appropriate balance as between the public and private sectors of the economy, and until it may pursue a total investment program with an overall economic and social yield high enough to produce a continuing growth in real product per head of population of the order of some three per cent per annum at least.

Creating the environment for such an investment program and identifying and preparing the projects necessary to pursue it efficiently is one thing, acquiring the resources to fulfill it -- to feed it with imported materials, machinery and equipment -- is another. By definition there is a considerable gap between the level of resources for investment which a developing country can command and mobilize from its savings and the level of resources required to sustain a five per cent annual growth in gross national product. Spontaneously flowing private venture capital from abroad may make a contribution toward filling part of this gap, especially if the country concerned is wise enough to pursue policies hospitable to external private funds and attractive to funds from home which might otherwise have gone overseas. Of enormous importance, too, to the growth of these countries is the transfer of skills and know-how which accompanies private investment, particularly direct investment. The number of technical and managerial personnel employed in developing countries by private foreign companies is something like 2 1/2 times the total number of experts supplied to those countries under Western bilateral technical assistance programs. However, by definition again, the flow of private capital is not going to be sufficient to fill the resource gap of a country still short of the goal of self-sustained growth.

It is perfectly clear -- as a moment's reflection on the "success stories" among the developing countries will suggest -- that apart from a few

enclave-type investments, it is only when the public sector has become able effectively to do its part of the job of building and operating the infrastructure of power, transport, communications and education, and when the economy functions so that the population can be fed, that a developing country begins to hold substantial long-range attraction for private industrial capital. In the early stages of the process of balanced growth these countries must -- of necessity -- rely on an officially generated flow of development finance. But, regardless of its source, if development finance is to be effective, it must be strictly related to what we have come to call economic performance.

One important test of a country's capacity to use a greater flow of long-term development finance, for instance, is the trend in its marginal savings rate -- the proportion it saves out of increased income generated by development. A rising savings rate serves as an indication that -- provided the resource gap can be financed and significant growth per capita maintained -- the developing country eventually is going to get where it should be aiming: to a situation of self-sustained growth where it can stand up, economically independent -- an unqualified asset in the international spectrum.

Conversely, a ~~company~~^{country} which lacks the political and administrative capacity to achieve, fairly consistently, a rising savings rate is a dubious proposition for the international development finance business, no matter how inviting its resource potential may appear. If savings out of extra income do no more, say, than equal the established average rate of savings, then a country importing development capital may find itself rather quickly in a position of viciously rising indebtedness, where borrowing has to increase continuously merely to meet interest. And with the new borrowings also carrying interest, the unfortunate country finds itself dropping further and further behind in the self-sustained growth stakes and fighting an unmanageable debt burden.

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It is no coincidence that among the more outstanding current candidates for the self-sustained growth merit badge a high marginal savings rate is -- allowing for inevitable aberrations due to special circumstances -- a prominent characteristic of their economic performance. Thailand, as I have said, in the first half of the 1960's maintained a real output growth rate of 7.5 per cent. But more impressive than this for the long haul was its capacity to save about a third of additional income earned -- a marginal rate more than two-thirds as high again as the country's average rate of 19 per cent during this period. Taiwan -- another substantial success story -- has a current marginal savings rate approximately half as high again as her average rate. This country has increased its capacity to mobilize domestic resources for investment from 10 per cent of GNP in the mid-fifties to approximately 20 per cent of considerably expanded current GNP.

Once a country has increased its capacity to incur debt productively, a vital need is to coordinate the available supply of development finance with objectively assessed investment priorities. Indeed, if the effectiveness of aid can be demonstrably increased through improved coordination in the flow of development funds, then I believe we will be on our way to countering a good deal of the skepticism which is a significant factor in the current resistance to increasing its total supply. Multilateral institutions such as the World Bank have acquired some seasoned expertise over the years in this matter of coordinating the availability of development funds with objectively assessed investment priorities in the developing countries. But these institutions currently have the resources to supply only a fraction of the external finance needed to fill efficiently identified resource gaps. We have thus been urged with increasing frequency and insistence to employ our experience and expertise in offering guidance to other sources of development finance as to the financial

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terms most appropriate for various developing countries, and as to the most effective uses of the funds available.

There are, after all relatively few countries at any one time ready for, and in need of substantial external financial assistance from a variety of sources. In most such countries it is likely that the World Bank will already have established a presence and won some degree of confidence through its own lending operations. Because of the strict and totally objective criteria which the Bank must apply to its own direct operations, it will -- of necessity -- have a fairly intimate knowledge of the country's economy and the investment priorities, and balance required to maximize its growth. As I have said, the Bank itself does not have at its disposal anything like the resources required to pursue all of these priorities represented in the resource gap. But it is in a position -- if it has the cooperation and the confidence of the "recipient" country on the one hand and the "contributing" countries on the other -- to act as an objective "go-between," endeavoring to ensure that the highest possible development mileage is wrung from the fuel mix of total bilateral and multilateral funds available.

For some of these countries with good development potential, the Bank has organized Consultative Groups, the members of which are those advanced countries -- broadly speaking, members of the OECD -- with an actual or potential interest in supporting the development effort of the country in question. The establishment of a Consultative Group in itself is no guarantee that the country which is the object of its deliberations will receive all the assistance it needs, or assistance of exactly the right kinds, to meet its objectively determined resources gap. But through the mechanism of these Groups it is possible for the various aid and other financing agencies to get a clearer view of what the real problems of the country are and, to the extent they are able, to adapt their financing and technical assistance programs to meet those needs.

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CGs are coordinating mechanisms, with many of the weaknesses inherent in any such grouping of sovereign governments. They do not involve any pledging such as those held by the two Consortia organized by the Bank, namely, those for India and Pakistan. Despite a number of weaknesses in the mechanism, it is fairly clear that if we are to have a Western development effort at all, something like the CG approach will become increasingly necessary to avoid overlapping efforts and serious misdirection of resources.

I hope that in a modest way I have been able to suggest that the countries that we know today as the developing countries -- not en masse, not without exception, and not all at once -- but one by one, gradually, and in many parts of the globe -- can become useful and financially interesting members of a world economy. I have also tried to suggest that we now know a good deal about how to use external financial assistance in ways that encourage this evolution, which is surely in the interests of the Western community.

There is, however, a financial precondition for continued progress in what we would all, I believe, consider to be the "right" direction, at which I have only hinted. It is that the bankers in the case, the governments and development assistance institutions of the advanced nations, must adapt the terms of their credits to the realities of their clients' economic and financial positions. It is contrary to all the rules of good banking, which in this case march arm-in-arm with common sense, to lend a client money on terms he obviously cannot comply with. One important corollary of this rule is that, in general, the terms of credit should bear some relation to the time dimension and other characteristics of the project or enterprise that is being financed. No good banker would be happy about financing the construction of a skyscraper on a six months' note unless he saw pretty clearly where the 20 or 30 year mortgage money was going to come from. Nor would he look kindly on a corporation that seemed to

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be relying largely on commercial bank money to finance plant expansion. He would advise that company to arrange for finance appropriate to its requirements and, if he were a good banker, he would try to help them find that kind of money.

I suggest that the industrialized world as a whole, at the moment, is in somewhat the position of an imprudent banker in its financial relations with the developing countries -- not because it has extended too much credit, but because it has not found the means of adapting the terms of its credits sufficiently to fit the financial capabilities of its clients. It has been trying to finance too big a share of what is certainly a very long-run project with what are essentially short-term credits.

The result, as has repeatedly been pointed out by the Bank, the DAC and indeed by individual bankers and finance officials when they look at these problems as a whole, is that the mounting debt burden in many developing countries threatens to frustrate the very real progress of their development efforts.

World Bank estimates indicate that total service payments on public and publicly guaranteed debt of 96 developing countries rose from about \$2.6 billion in 1962 to \$4.25 billion in 1965. The debt service burden of a few of the developing countries in recent years, in fact, reached such proportions that it seemed virtually impossible for these countries to maintain payments unless debts were refinanced or rescheduled. In each of these cases conferences were arranged and rescheduling and refinancing was achieved. In each case, too, the debtors undertook to limit the assumption of additional debt for a year or more.

This tendency toward an international liquidity squeeze upon investment potential in the developing countries is heightened by the part played by relatively high interest, short-term suppliers' credit in their total external financing pattern. While statistics on the subject are far from complete, it

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would appear that this type of credit accounts now for roughly a quarter of the developing countries' total outstanding debt and, because of the nature of the finance -- high interest, short maturity -- its share in their current annual debt service burden may be as high as almost half the total service requirements. Quite apart from their capacity to exacerbate the tendency toward debt crises, past experience demonstrates all too clearly that there are additional dangers in suppliers' credits. Such debt is often assumed to finance projects of low development priority, and often at exceedingly high prices.

Constructive operation of Consultative Group type machinery in this area of the international development task may limit to healthier proportions, and to more appropriate timing, the extent to which the developing countries use credit of this nature to fill their needs for external finance. But I can assure you that it is precisely in those vigorously expanding countries with good long-range development potential that borrowers, if they cannot obtain the right kind of external finance, are going to obtain, by hook or by crook, more of the wrong kind. From where the individual borrower sits, this machine or that piece of equipment is so critical that it will be obtained at almost any cost. The project can afford the cost, but the economy cannot. We recognize this in the policies of the IDA in cases in which the full cost of capital is charged to the project, while the country gets the benefit of the concessional terms IDA is able to offer, thus spreading the burden on the balance of payments over a period long enough to enable the economy to achieve self-sustained growth.

This is not the place, and I am not the person, to argue the general case for increasing the flow of what is loosely called development aid from the comparatively rich West to the poor countries of the world. But I would like to leave with you the suggestion that on strictly financial grounds there is a very strong case for working out arrangements so that the developing countries can

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obtain more of their finance on more appropriate terms. Broadly speaking, this means that ways must be found to stretch out over a much longer time period the interest and amortization schedules these countries are asked to meet.

I am not in the least interested in trying to allocate the blame for the present dangerous overdependence of certain countries on short-term suppliers' credits for financing what are essentially long-term development projects. Certainly the individual financial institutions in the West cannot be blamed for doing the kind of financing they were set up to do. Each private financial organization has to extend credits in the light of what is at best imperfect knowledge of what the others are doing in a particular situation. And no private lending agency can establish terms on the basis of the creditworthiness of an entire economy, which is essentially what IDA and the World Bank do. Yet all too often it is the private lending institutions which suffer when over-accumulation of short-term debt leads to payments restrictions followed by long negotiations to lay the basis for a new start.

Remedies are not, therefore, to be sought in preaching to the private financial community about the evils of suppliers' credits, but in the re-organization of government guarantee systems, and increased support of the bilateral and multilateral agencies that are able to provide long-term development finance on appropriate terms. The more resources these agencies have available, the more surely and the more quickly will additional developing countries move out of the shadow of repeated debt crises and into the group of countries able to use steadily increasing amounts of conventional private finance without undue risk. I would suppose, therefore, that the present tendency of Western governments to harden the terms and reduce the amounts of development finance flowing through official channels would be a matter of grave concern to the private business and financial community. I would also suppose, and hope,

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that the Western financial community will strongly support the proposal of the President of the World Bank, who is, of course, also President of IDA, that the rich countries make available to IDA additional resources on a scale commensurate with the abilities and needs of the developing countries.

- 30 -

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THE DEVELOPING COUNTRIES IN INTERNATIONAL FINANCE



[Third Annual]

Speech to the 1966 International Finance Conference
sponsored by the National Industrial Conference Board, Inc.
New York

November 22, 1966

by

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Development Services Department
World Bank

In the parlance of international development finance -- as in other areas of modern living -- we are, I am afraid, tending to fulfill the Orwellian prophecy of a language fashioned to provoke appropriate reactions rather than to convey clear and precise meaning. This rather somber thought occurred to me when I came to consider my subject for this morning's gathering: The Developing Countries in International Finance. The term "developing countries" is familiar to everyone by now. It can be relied upon fairly consistently to provoke appropriate images: an ancient plough, perhaps, skimming the surface of leached earth in the shadow of a new World Bank dam a-building.

But when -- for the purpose of constructive and meaningful discussion in this area -- one looks for a conceptual boundary line between the developing and the "non-developing," the intellectual carelessness of the phrase becomes apparent. For in the strictest sense of the word, all countries are developing; the so-called developed countries often more so than most. However, for the purposes of discussion in this necessarily brief consideration of the subject, I have chosen a limiting definition which I think provides a reasonably neat and functional framework for exposition here. A developing country I shall define as one still short of the goal of "self-sustained growth," meaning by self-sustained growth a rate of real national income increase of, say 3-5 per cent per annum, financed out of domestically generated funds and out of foreign capital flowing to the country concerned because it finds the investment climate there so attractive that it wants to be there, regardless of official aid and lending programs.

We are in the business of official international development finance largely because we believe there is a discernible and negotiable bridge between the extreme material poverty represented today by some nations in Africa and Asia and the relatively green shores of self-sustained growth as represented today, say, by Japan or Italy. It is not difficult to construct plausible theoretical models of the bridge between these two points. In work done on this subject within the Bank recently, for the purposes of hypothetical illustration, and on the basis of certain stylized -- but by no means unreasonable -- assumptions, we constructed a model on which the process of conversion from poverty to self-sustained growth took approximately 36 years. Of course this was on the basis of a lot of "ifs." What we call the development business consists largely of trying to make those "ifs" come true.

Let me stress at this point the error in the disenchanted view that, because of the human intangibles, it is a forlorn hope to contemplate significant further Japanese-style crossing of the bridge from low and stagnant productivity to prosperous, self-sustained growth. At the present time, there are in fact a number of countries impressively on their way toward the kind of success which Japan represents. Mexico, with an average growth rate of about six per cent in recent years, is one. Thailand, starting from one of the lowest per capita income levels in Asia, has maintained a recent growth rate of 7.5 per cent, and by 1965 real income per head in this country was approximately one quarter higher than it had been in 1957. Taiwan, or the Republic of China, is moving impressively with an annual growth rate between six and seven per cent, and so is Malaysia. Pakistan, too, has sustained an encouraging growth rate in recent years. Colombia, Peru and Venezuela are demonstrably on the right road.

Indeed, it would be surprising if these things were not so. For more than a decade, through the injection of what is broadly known as technical assistance, the United Nations, its specialized agencies, the Western industrial governments, Western international business, the World Bank and others have been working diligently to expand the capacity of the developing countries to use capital effectively. Through many trials, with many errors, and in the face of occasional disastrous slippages, we have in fact developed techniques for identifying, preparing and carrying through investment projects at a steadily increasing rate. Whereas ten or even five years ago one could say that the shortage of sound and feasible projects was a principal constraint on the rate of growth in the developing countries, this is no longer obvious. Thoroughly vetted projects ready for finance are now coming out of the pre-investment pipeline at a steady and increasing rate. It is, as Mr. Woods has recently pointed out, a "matter of high irony" that just at this point in time the development effort is threatened by a slow down as a result of a shortage of development finance.

A constructive appreciation of the role of international financing in the equation for the path toward self-sustained growth requires us to go first to the heart of the matter, which is the savings and investment mechanism within the developing country itself. The process cannot begin in any lasting way until the country has a political leadership with a relatively undiluted commitment to economic development; until it has an internal environment in which sound investment opportunities may be identified and prepared in appropriate balance as between the public and private sectors of the economy, and until it may pursue a total investment program with an overall economic and social yield high enough to produce a continuing growth in real product per head of population of the order of some three per cent per annum at least.

Creating the environment for such an investment program and identifying and preparing the projects necessary to pursue it efficiently is one thing, acquiring the resources to fulfill it -- to feed it with imported materials, machinery and equipment -- is another. By definition there is a considerable gap between the level of resources for investment which a developing country can command and mobilize from its savings and the level of resources required to sustain a five per cent annual growth in gross national product. Spontaneously flowing private venture capital from abroad may make a contribution toward filling part of this gap, especially if the country concerned is wise enough to pursue policies hospitable to external private funds and attractive to funds from home which might otherwise have gone overseas. Of enormous importance, too, to the growth of these countries is the transfer of skills and know-how which accompanies private investment, particularly direct investment. The number of technical and managerial personnel employed in developing countries by private foreign companies is something like $2\frac{1}{2}$ times the total number of experts supplied to those countries under Western bilateral technical assistance programs. However, by definition again, the flow of private capital is not going to be sufficient to fill the resource gap of a country still short of the goal of self-sustained growth.

It is perfectly clear -- as a moment's reflection on the "success stories" among the developing countries will suggest -- that apart from a few enclave-type investments, it is only when the public sector has become able effectively to do its part of the job of building and operating the infrastructure of power, transport, communications and education, and when the economy functions so that the population can be fed, that a developing

country begins to hold substantial long-range attraction for private industrial capital. In the early stages of the process of balanced growth these countries must -- of necessity -- rely on an officially generated flow of development finance. But, regardless of its source, if development finance is to be effective, it must be strictly related to what we have come to call economic performance.

One important test of a country's capacity to use a greater flow of long-term development finance, for instance, is the trend in its marginal savings rate -- the proportion it saves out of increased income generated by development. A rising savings rate serves as an indication that -- provided the resource gap can be financed and significant growth per capita maintained -- the developing country eventually is going to get where it should be aiming: to a situation of self-sustained growth where it can stand up, economically independent -- an unqualified asset in the international spectrum.

Conversely, a country which lacks the political and administrative capacity to achieve, fairly consistently, a rising savings rate is a dubious proposition for the international development finance business, no matter how inviting its resource potential may appear. If savings out of extra income do no more, say, than equal the established average rate of savings, then a country importing development capital may find itself rather quickly in a position of viciously rising indebtedness, where borrowing has to increase continuously merely to meet interest. And with the new borrowings also carrying interest, the unfortunate country finds itself dropping further and further behind in the self-sustained growth stakes and fighting an unmanageable debt burden.

It is no coincidence that among the more outstanding current candidates for the self-sustained growth merit badge a high marginal savings rate is -- allowing for inevitable aberrations due to special circumstances -- a prominent characteristic of their economic performance. Thailand, as I have said, in

the first half of the 1960's maintained a real output growth rate of 7.5 per cent. But more impressive than this for the long haul was its capacity to save about a third of additional income earned -- a marginal rate more than two-thirds as high again as the country's average rate of 19 per cent during this period. Taiwan -- another substantial success story -- has a current marginal savings rate approximately half as high again as her average rate. This country has increased its capacity to mobilize domestic resources for investment from 10 per cent of GNP in the mid-fifties to approximately 20 per cent of considerably expanded current GNP.

Once a country has increased its capacity to incur debt productively, a vital need is to coordinate the available supply of development finance with objectively assessed investment priorities. Indeed, if the effectiveness of aid can be demonstrably increased through improved coordination in the flow of development funds, then I believe we will be on our way to countering a good deal of the skepticism which is a significant factor in the current resistance to increasing its total supply. Multilateral institutions such as the World Bank have acquired some seasoned expertise over the years in this matter of coordinating the availability of development funds with objectively assessed investment priorities in the developing countries. But these institutions currently have the resources to supply only a fraction of the external finance needed to fill efficiently identified resource gaps. We have thus been urged with increasing frequency and insistence to employ our experience and expertise in offering guidance to other sources of development finance as to the financial terms most appropriate for various developing countries, and as to the most effective uses of the funds available.

There are, after all relatively few countries at any one time ready for, and in need of substantial external financial assistance from a variety

of sources. In such a country it is likely that an institution like the World Bank -- or, say, the Inter-American Development Bank -- has already established a presence and won some degree of confidence through its own direct lending operations. Because of the strict and totally objective criteria which the Bank must apply to its own direct operations, it will -- of necessity -- have a fairly intimate knowledge of the country's economy and the investment priorities, and balance required to maximize its growth. As I have said, the Bank itself does not have at its disposal anything like the resources required to pursue all of these priorities represented in the resource gap. But it is in a position -- if it has the cooperation and the confidence of the "recipient" country on the one hand and the "contributing" countries on the other -- to act as an objective "go-between," endeavoring to ensure that the highest possible development mileage is wrung from the fuel mix of total bilateral and multilateral funds available.

For some of these countries with good development potential, the Bank has organized Consultative Groups, the members of which are those advanced countries -- broadly speaking, members of the OECD -- with an actual or potential interest in supporting the development effort of the country in question. The establishment of a Consultative Group in itself is no guarantee that the country which is the object of its deliberations will receive all the assistance it needs, or assistance of exactly the right kinds, to meet its objectively determined resources gap. But through the mechanism of these Groups it is possible for the various aid and other financing agencies to get a clearer view of what the real problems of the country are and, to the extent they are able, to adapt their financing and technical assistance programs to meet those needs. CGs are coordinating mechanisms, with many of the weaknesses inherent in any such grouping of sovereign governments. They do not

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The result, as has repeatedly been pointed out by the Bank, the DAC and indeed by individual bankers and finance officials when they look at these problems as a whole, is that the mounting debt burden in many developing countries threatens to frustrate the very real progress of their development efforts.

World Bank estimates indicate that total service payments on public and publicly guaranteed debt of 96 developing countries rose from about \$2.6 billion in 1962 to \$4.25 billion in 1965. The debt service burden of a few of the developing countries in recent years, in fact, reached such proportions that it seemed virtually impossible for these countries to maintain payments unless debts were refinanced or rescheduled. In each of these cases conferences were arranged and rescheduling and refinancing was achieved. In each case, too, the debtors undertook to limit the assumption of additional debt for a year or more.

This tendency toward an international liquidity squeeze upon investment potential in the developing countries is heightened by the part played by relatively high interest, short-term suppliers' credit in their total external financing pattern. While statistics on the subject are far from complete, it

would appear that this type of credit accounts now for roughly a quarter of the developing countries' total outstanding debt and, because of the nature of the finance -- high interest, short maturity -- its share in their current annual debt service burden may be as high as almost half the total service requirements. Quite apart from their capacity to exacerbate the tendency toward debt crises, past experience demonstrates all too clearly that there are additional dangers in suppliers' credits. Such debt is often assumed to finance projects of little or no value to development, and often at exceedingly high prices.

Constructive operation of Consultative Group type machinery in this area of the international development task may limit to healthier proportions, and to more appropriate timing, the extent to which the developing countries are prepared to use credit of this nature to fill their needs for external finance. But I can assure you that it is precisely in those vigorously expanding countries with good long-range development potential that borrowers, if they cannot obtain the right kind of external finance, are going to obtain, by hook or by crook, more of the wrong kind. From where the individual borrower sits, this machine or that piece of equipment is so critical that it will be obtained at almost any cost. The project can afford the cost, but the economy cannot. We recognize this in the policies of the IDA in cases in which the full cost of capital is charged to the project, while the country gets the benefit of the concessional terms IDA is able to offer, thus spreading the burden on the balance of payments over a period long enough to enable the economy to achieve self-sustained growth.

This is not the place, and I am not the person, to argue the general case for increasing the flow of what is loosely called development aid from the

comparatively rich West to the poor countries of the world. But I would like to leave with you the suggestion that on strictly financial grounds there is a very strong case for working out arrangements so that what I would call the more promising of the developing countries can obtain more of their finance on more appropriate terms. Broadly speaking, this means that ways must be found to stretch out over a much longer time period the interest and amortization schedules these countries are asked to meet.

I am not in the least interested in trying to allocate the blame for the present dangerous overdependence of certain countries on short-term suppliers' credits for financing what are essentially long-term development projects. Certainly the individual financial institutions in the West cannot be blamed for doing the kind of financing they were set up to do. Each private financial organization has to extend credits in the light of what is at best imperfect knowledge of what the others are doing in a particular situation. And no private lending agency can establish terms on the basis of the creditworthiness of an entire economy, which is essentially what IDA and the World Bank do. Yet all too often it is the private lending institutions which suffer when over-accumulation of short-term debt brings the developing country to financial grief.

Remedies are not, therefore, to be sought in preaching to the private financial community about the evils of suppliers' credits, but in the reorganization of government guarantee systems, and increased support of the bilateral and multilateral agencies that are able to provide long-term development finance on appropriate terms. The more resources these agencies have available, the more surely and the more quickly will additional developing countries move out of the shadow of repeated debt crises and into the group of countries able to use steadily increasing amounts of conventional private finance without undue risk.

I would suppose, therefore, that the present tendency of Western governments to harden the terms and reduce the amounts of development finance flowing through official channels would be a matter of grave concern to the private business and financial community. I would also suppose, and hope, that the Western financial community will strongly support the proposal of the President of the World Bank, who is, of course, also President of IDA, that the rich countries make available to IDA additional resources on a scale commensurate with the abilities and needs of the developing countries.

1971

A retrospective look at the first great development report, nearly two decades before the Pearson Commission.



Were the Experts Wrong Twenty Years Ago?

Michael L. Hoffman

World Bank

□ In 1950 Trygve Lie, the Secretary-General of the United Nations, appointed a group of experts to examine the conditions of the "under-developed countries" and to recommend "measures" for their "economic development."¹ At the time the experts submitted their Report there were 60 states members of the United Nations, of which perhaps 39 would then have been regarded as under-developed. As this is written, twenty years later, there are 126 states members of the United Nations, the states which have joined since 1950 being, with few exceptions, countries which would have been classified, in the language of the 1950's, as under-developed. And the number of reports produced since 1950 on the condition and needs of what we now call the less developed countries is beyond reckoning.

I have found it instructive, twenty years after, to review the Report submitted by the group of experts in May 1951, the full title of which was: "Measures for the Economic Development of Under-Developed Countries." It is conducive both to humility, which is surely a virtue in this context, and to confidence that brain power applied to problems can sometimes set things going in the right direction.

It can be said at once that the experts were remarkably perceptive. The fundamental problems that they identified are still the fundamental problems of the less developed countries. Indeed, in some areas we are only beginning to grasp the significance of the points made by the United Nations experts.

To take only one out of many possible illustrations, the report of the Chairman of the Development Assistance Committee of the Organization for Economic Cooperation and Development covering the year 1969, published in 1970, says, concerning unemployment in

the less developed countries: "The problem has come to the forefront of attention too recently and is too complex and varied for generally accepted answers to be available." Too complex—yes. But too recently? The very first substantive chapter of the 1951 report was entitled "Unemployment and Economic Development." The United Nations experts told us 20 years ago that unemployment would be the major social problem for the less developed countries during the coming decades. But few of those responsible for the development effort during the ensuing 20 years heard what they said.

I have gone through the experts' report line by line making notes—here they are right; there they are wrong; here they could not have foreseen developments; etc. This is a profitable experience and I recommend it to any professional in the development business. The experts of 1950, with a frankness that probably would not be duplicated by any similar group today, put their judgments on the counter for all to see and criticize. And it may be an institutional sensitivity in an official of the World Bank, but I find it tremendously interesting that it was not until they got to chapter 11 that the experts considered the relationship of "external capital" to the process of development. All of the previous chapters dealt with policies and institutions not dependent on what has come to be known as "aid" or on foreign investment. It was not long after the submission of this report that concern about the prospects for the developing countries began to concentrate increasingly on, and eventually

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¹ The group was composed of Alberto Baltra Cortez, Professor of Economics, National University of Chile; D. R. Gadgil, Director, Gokhale Institute of Politics and Economics, Poona, India; George Hakim, Counselor, Legation of Lebanon, Washington, D. C.; Arthur Lewis, Professor of Political Economy, University of Manchester, England; and Theodore W. Schultz, Chairman, Department of Economics, University of Chicago, U.S.A. At the request of the group, George Hakim served as Chairman.

to become almost obsessed with, the problems of mobilizing and transferring resources from the rich to the poor countries.

In the twenty intervening years, however, we have come almost full circle, and now there would be very general agreement that what can be done from the outside is, in the not so long run, almost wholly dependent on what each country does for itself. Filling a resource gap, derived from macro-economic calculations, is not the primary requirement for a successful development strategy or even the major contribution of what has come to be known as development assistance. It is a marginal or peripheral activity which can be tremendously productive in certain situations and a total loss in others. And the keys to success are not held mainly in Paris, London, Washington or the World Bank. They are in the less developed countries themselves. So much we might have learned in 1951 had we listened carefully.

While, as suggested, a paragraph by paragraph commentary would be an instructive exercise for any professional in the development field, it would be tedious in an article. I choose rather to give one professional's view on two sets of judgments and recommendations of the 1950 experts. The first includes policies and actions on which it would be generally agreed today that they were right, but on many of which nothing very much has happened. The second set includes a few matters on which they were wrong, in my 1971 opinion.

Where the Experts were Right Institutions

"Economic progress will not occur unless the atmosphere is favorable to it. The people of a country must desire progress and their social, economic, legal and political institutions must be favorable to it." Who could possibly disagree with this judgment? Yet, how little, in retrospect, has really been changed in 20 years. In many parts of the world institutions inherited from colonial times and designed for purposes quite different from those implied by any definition of "development" have remained largely unchanged. In countries not under colonial rule in 1950, with few exceptions, very little modernization of laws and institutions has occurred. In still other countries, radical or

revolutionary governments have endeavored to change institutions, but, almost without exception, in ways that have inhibited rather than encouraged the forces of development. In a few cases (one outstanding), revolutionary governments have succeeded in destroying a good deal of what existed in 1950 only to find themselves more heavily dependent economically than before on one large industrial power.

Some of the most poignant examples of institutional atrophy are to be found in the field of statistics. Mountains of data that would be very useful for policing subject populations or levying taxation by an imperial power continue to be amassed by countries that have been independent for many years, while basic data needed for intelligent planning of development are unavailable or inadequate. Many tax systems and customs tariffs inherited from the imperial period are wholly irrelevant to the development objectives of governments, but are still in force. The tremendous power of the modern corporation for generating taxable revenues has seldom been effectively mobilized under the laws and tax systems of the less developed countries.

The role of the property mortgage, and the financial institutions that can be built upon it, has rarely been appreciated. Systems of land tenure and land taxation that discourage productive uses of land or perpetuate great social and income inequalities, or both, are largely unchanged. And one could go on. The resistance to adapting "social, economic, legal and political institutions" to the purposes of development has turned out to be one of the most stubborn obstacles to progress. And it is an obstacle that shows no clear sign of diminishing. Very little claim can be made, moreover, that the necessary adaptations of institutions have been more evident in countries with freely elected parliamentary governments than in countries that for some period of time have been ruled by the military.

This is curious. One would have thought that the wholly understandable drive for self-assertion in the newly independent countries would have accelerated change in the institutional field. But almost the only general visible change is the spread of government ownership of industrial, commercial and financial enterprises, which in itself is a neutral factor with re-

spect to development. Government ownership may lead to a more effective use of resources—or it may not. It would be very difficult to support the thesis that the spread of government ownership and the expropriation of foreign owned enterprises have generally been motivated by a concern for efficiency in implementing development objectives. And the decades intervening between the experts' report and the present are littered with examples of colossal waste and inefficiency in the public sectors of countries heavily committed to public ownership of enterprises on ideological grounds.

Population

One whole chapter of the report is devoted to population. It might be argued that this is one field in which the experts should be graded "wrong" because the percentage growth rates which they assumed appear, in retrospect, to be ridiculously low, ranging from .75% per annum in South Asia and the Far East to 2.25% per annum in Latin America. But the experts had to accept the best estimates of which the United Nations demographers of the period were capable. And on the relationship between population growth and development the experts were mostly right, though their language was constrained by the circumstance that up to that time, and for many years thereafter, the international community, as exemplified in the United Nations and its associated organizations, had not generally or formally recognized that population growth was a problem that should legitimately concern international organizations.

The experts recognized that there were some countries where a growth in population could be a positive factor in raising the standard of living and others where it could be neutral, given a reasonable rate of economic growth. But they were quite clear that even with the rates of population growth which they assumed, grossly underestimated as we now know, most less developed countries would have great difficulty in generating the savings required to support the capital investment necessary to maintain, much less increase, the standard of living. "It is therefore important," they noted, "that thought be given to discovering ways and means which are consistent with the values and cultures of each of the peoples concerned,

of speeding up the reduction of fertility rates." To write these words in 1950 required both prescience and courage. On this matter the experts get very high marks.

Training and Expertise

At several points in the report, the experts emphasized the problems involved in staffing governments and public and private organizations with persons able to carry out the tasks of development. Their views on these matters were not sanguine, and they have been proved right. "No development is lasting or self-generating," they observed, "which is merely imposed from above or imported from abroad. The new education and techniques will show large results only when they are completely assimilated and begin to develop on the lines of a national tradition." And, again: "There is no way of learning administration except by practicing it."

Of course, the experts did not deny that training, properly conceived, can be helpful. But they came down very firmly against the notion that technicians in the less developed countries need to be given the full and expensive training demanded of their opposite numbers in the developed countries. One of their bluntest comments is that "economic development will be held up if under-developed countries are compelled to adopt the expensive standards of the more advanced countries." This comment, if made today by a spokesman from a "donor" country, would be suspect and subject to the charge of "neocolonialism." But the clear statement of the experts of 1950, who could hardly be charged with a desire to perpetuate dependence, must be counted, in my view, as another judgment in which experience has proved them right.

Inflation

I do not know whether the experts took counsel from the International Monetary Fund in formulating their comments on inflation. Probably they did not. But it is striking that, writing in 1950, they foresaw so clearly the futility of inflation as a stimulus to development, a lesson that is not yet built into the political fabric of many countries, not all under-developed. The report's authors recognized that "it is probably not possible to have rapid economic development without some inflation." But they immediately added: "It is also clear

that under-developed countries have much to lose from inflation. This disease is even more dangerous to them than it is to industrial countries in so far as the output of the under-developed countries is less responsive to increases in purchasing power."

Development Planning: Priorities and Techniques

On balance, the interesting sections on this subject (Chapters 8 and 9) must be regarded, in retrospect, as among the "right" judgments of the experts. They were troubled by the inadequacy of the marginal principle for dealing with the kinds of changes with which the less developed countries were faced. Being economists, they could not neglect it, but they had wise words of caution about its applicability. They were rightly skeptical about the utility of setting goals in circumstances in which there is no national or political will for meeting them. They anticipated and warned against the neglect of agriculture by planners, a neglect which was not generally acknowledged until fifteen years later. Many of their comments on the pitfalls in the financing of public works ("infrastructure" was still a rather obscure French term in 1950) have long been accepted doctrine in the World Bank.

On the other hand, I think few planners would say today that the first question before them is the delineation of the spheres of public and private enterprises. This question has become somewhat obsolete, in large part because decisions in this area of policy are seldom much influenced by the reasoning of professional planners. They are political decisions to which planners must adapt. On the whole, the influence of plans on what actually goes on has been less than the experts envisaged. But they were less naive in this area than many others of the period.

Where the Experts were Wrong (or at least Questionable as of 1971)

Industrialization and Employment

I think there is no point on which opinion in 1971 differs from the views of the experts of 1950 more than on the relationship between industrialization and employment in the developing countries. Their key paragraph is worth quoting: "The main remedy for under-development is to create more employment

opportunities. Where more land can be brought in cultivation this will afford some relief. But in most countries where under-employment is acute, nearly all the cultivatable land is already cultivated. Effort then has to be concentrated upon creating new industries off the land of which manufacturing industries comprise the largest and usually the most promising category. Thus, the most urgent problem of these countries is industrialization."

Here it must be said that the experts were almost totally wrong. Their concept of "cultivatable land . . . already cultivated" is not apt. The big question is how it is cultivated. The great changes in agricultural technology, especially those leading to intensive cultivation, have proved to be far more effective in providing employment than the industrial policies of most countries. Substantial employment through industrialization has been achieved in countries in which the land problem is non-existent (Singapore, Hong Kong) or in which it is irrelevant (South Korea, Taiwan, after land reform). These countries are also those that have followed export-oriented economic policies.

Thus today, for most of the less developed countries, the recent judgment of Gunnar Myrdal appears valid: "In the short run—over a couple of decades at least—industrialization does not ordinarily offer many new employment opportunities. For a time, it might even decrease total labor demand in manufacturing as a whole, including traditional industry and crafts."² This judgment, if accepted, means, of course, that the problem of employment in the LDC's is even more perplexing than the experts of 1950 recognized. And this would surely be the general judgment of development professionals today.

National Savings and Government Share of National Income

Throughout the report, implicitly, and explicitly in paragraph 113, it is taken for granted that to "siphon off the increase in production [associated with economic growth] into the hands of the Government" would lead to an increase in national savings. The experts did not anticipate the "Please effect," so named for Stanley Please of the World Bank, who has

² Paper for the International Association of Agriculture Economists Conference, held in Minsk, USSR, August-September, 1970.

demonstrated that in most developing countries an increase in the fiscal bite of government has been associated with an increase in current expenditures of government, not with an increase in national savings.³ The Please effect is not a law of nature. It merely records the policy decisions of governments. But the least one can say is that the experience of the last 20 years is not encouraging with respect to the correlation between the proportion of national income pre-empted by government and the proportion of national income devoted to development. The growth of the military budgets in the less developed countries provides, of course, the outstanding illustration of why this is true. While it remains true that most less developed countries need to channel larger proportions of national income through the government, the focus of attention has shifted to what the government does with its share of the national income rather than just the size of that share.

Unused Capacity

The experts judged that it "is seldom the case in under-developed countries" that there is unemployed factory equipment to match unemployed labor. As a statement about the situation in 1950 this was not inaccurate. One cannot say they were wrong on the evidence they had. But, in contrast to the great foresight which they showed on many problems, they did not foresee the possibility that the emphasis on industrialization, which they endorsed, would lead to situations in which industrial capacity greatly outstripped the effective demand for industrial products, the supply of resources of management and labor, and the capability of industrializing countries to finance imports of raw materials and intermediate products. In fact, rates of utilization of industrial capacity as low as 40-50% are distressingly common in less developed countries.

How Views Have Altered

One could go on mining this rich vein. On a great many matters one's interest in the report, with the hindsight of 1971, is not that the experts were either right or wrong, but that what they said and did not say reminds us so sharply of how much our views on certain factors in development have altered. This is

³ Stanley Please, "Savings Through Taxation—Mirage or Reality," *Finance and Development*, March 1969.

notably true with respect to education as a factor in development. It is quite inconceivable that a group of experts preparing such a report today would not include a full chapter on education. And yet the 1950 report devotes only a few paragraphs to education, under the general heading of development planning, and a few on "training" in connection with technology. It identified three priority headings for education: the training of agricultural extension workers; the training of development planners and high level administrative officers; and the training of skilled technicians of all kinds.

Any or all of these might well appear in an education strategy for a developing country today. But they would hardly be regarded as an adequate definition of development objectives in the education sector. The 1950 experts simply did not see education in developing countries as a "systems" problem. Naturally, therefore, they did not think in terms of the efficiency of the system or raise the kinds of questions that are flooding in today about hierarchies of schools, drop-out rates, curricula, the basic objectives of schools, teaching methods, non-formal education and, above all, costs. They did not foresee the consequences of a situation in which public expenditures on education would be growing at 13-18% a year, while government revenue grew at only 5-7% a year—as has been true during the past decade in many developing countries.

Thus it seems almost certain that the experts would have considered it rather on the radical side to state that "economic growth, in even the narrow sense, depends at least as much on educational output as on financial and investment policies in sectors traditionally considered economically productive." They would surely never have imagined that such a statement would reflect the accepted view in the World Bank on the importance of education for economic development—and yet in 1970 such a statement from a World Bank source surprised no one.⁴

Toward the end of their report the experts had some harsh things to say about the clauses in the Articles of Agreement of the World Bank that "seemed to con-

⁴ "The World Bank Group and Educational Development," paper presented by Mats Hultin to the Council of Europe's Conference on Development, Rome, November 26-27, 1970.

fine it to lending the sums of foreign exchange needed to purchase equipment and materials for specific projects." In their view, this was far too limited a role for the major multilateral financial institution, in the face of the kinds of problems they had found in examining the condition and prospects of the developing countries.

Fortunately for the World Bank and its member countries, these clauses have not proved to be as restrictive as the experts feared. But they rightly spotted one issue concerning techniques of lending by international institutions that has been a live issue for 25 years in the World Bank and is still very much alive. "In our judgment," said the experts, "what is important is to build up the capacities of the under-developed countries to produce goods and services. The Bank should start from this point rather than from a measurement of foreign currency needs." Every World Bank economist will agree with these words; and every World Bank economist, drawing on 25 years of experience in operating a development finance institution, would be able to cite half a dozen or more complications affecting the choice of techniques of lending that the experts had not thought of in 1951. But they had a "judgment" on a basic policy for development finance and wrote it down in clear prose. Like many other parts of the experts' report, this shines in contrast to the muddled language of innumerable resolutions on development issues accumulated in the archives of the United Nations and other international agencies during the past quarter of a century.

Because they were concerned about what they regarded as restrictive clauses in the Articles of Agreement of the World Bank, and about the fact that the Bank had to charge interest on its loans related to the cost of its borrowings in world capital markets, the experts recommended the creation of an International Development Authority with power to make grants to under-developed countries for certain purposes. Their vision of this "Authority" was not the clearest part of their report. They were clear that it should not dish out money "unconditionally" and that each grant should be linked to a specific function, with the International Authority verifying that the funds were so used. But they said nothing about the government of the pro-

posed Authority or about just how it should be related to the United Nations.

In fact, of course, the international community created during the ensuing decade not one but two institutions with substantial financial resources to meet the needs identified by the experts. The International Development Association even has the same initials as their proposed institution, but it is one of the Bretton Woods group of institutions intimately related to the World Bank, which they do not appear to have contemplated. Also, while IDA extends credits on very easy terms, it is not a grant institution. The other institution began as the United Nations Special Fund and is now the United Nations Development Programme. This is an integral part of the UN's own system and is a grant institution. In fact, between them, IDA and the UNDP cover a far greater range of financing on "soft" terms than the experts suggested for their International Development Authority.

Eighteen years were to pass before the world community was presented with a report on development in any way comparable in style, penetration, freedom from political preconceptions, and general quality to the Experts Report of 1951. In August 1968, the Right Honorable Lester B. Pearson accepted an invitation from the President of the World Bank to form a Commission "of stature and experience" to "meet together, study the consequences of 20 years of development assistance, assess the results, clarify the errors and propose the policies which will work better in the future." Sir Arthur Lewis was a member both of the Experts Group of 1950 and of the Pearson Commission which produced its report in 1969. It would be interesting and instructive if Sir Arthur, in his spare time from his functions as President of the Caribbean Development Bank, could give us his retrospective comparison of the work and impact of these two groups.

But however they may be compared, I would myself hazard one conclusion—that the needs of the developing countries for guidance and advice are probably better served by the occasional publication of the considered judgments of groups like the Experts of 1951 or the Pearson Commission than by multitudes of neglected resolutions adopted by majority votes of governments. □ □ □