CARGILL, I P M - Articles and speeches (1955-1968)

6

CARGILL

Mr Cargill:
outline of speech
Nov 28, 1955

(4)

THE WORLD BANK: OUTLINE

A. History: Charter drawn up at United Nations Monetary and Financial Conference, held at Bretton Woods, N.H., in July 1944. Bank started operations in June 1946 with 38 members, now has 58.

B. Purposes: To assist member countries in raising production levels and living standards by - finance - tech. advice - by stimulating international investment from other sources (to promote flow of private capital and not compete - bridge over a turbulent stream - natural fears of private capital after war.)

C. How purposes are achieved:

1. Lending

a. Facts about Bank lending

137 loans, $2.4 billion, 40 countries, 504 projects

Loans by area:

Europe	$ 940
L.A.	640
Africa	240
Australia	260
M & N East	360

b. Making a loan

(1) Statutory requirements:

Lend after other sources exhausted; cannot compete with private capital

Lend to member governments, their agencies, or with government guarantees to private borrowers

Productive projects

(2) Relation of loan project to general development of the country

Basic facilities: related to basic needs of a country

Reconstruction	$ 497 million
Electric power	666 "
Trans. & Commun.	615 "
Agric. & Forestry	227 "
Industry	245 "
General Development	140 "

(3) Creditworthiness and other factors

External debts

Balance of payments position; prospects for future

(3) (Continued)

Effectiveness of government administration and of private enterprises operating with the country.

Availability of managerial, supervisory, and technical skills

Country's traditional attitude towards its foreign debts

How much overall foreign debt the borrower can service; in what currencies can such a service obligation be met.

(4) Interest charged by the Bank consists of three elements:

(a) Estimated cost to the Bank of borrowing the funds required for a loan of a given maturity at the time the loan is made. (Determined by fluctuation in market interest rates.)

(b) Contribution towards administrative overheads (¼ of 1%)

(c) Statutory commission for the purpose of creating a special reserve against losses. (Article of Agreement provided for not less than 1% or more than 1½% on the outstanding portion of the Bank's loans. The Bank fixed the rate of the Statutory Commission at 1% at its inception. — At the end of 10 years the Bank has the option to reconsider this rate and reduce it if reserves accumulated are considered large enough; it may be likewise increased above the original limit if experience indicates this is needed.)

The rate of interest is charged only on that part of the loan that has actually been disbursed. To compensate the Bank to some extent for the cost of holding funds at the disposal of the borrower, a commitment charge is made on the undisbursed portion of a loan. Originally this was 1½%; was reduced to 3/4% in 1950 for new and undisbursed loans.

Reconstruction loans of 1947: 4-1/4%

Rate on loans of 20 years or more rose to 4-1/2% in 1948; in 1950 it fell to 4%.

From 1951, interest rates on capital markets of the U.S. tended to rise; and the interest rate on new Bank loans rose to 4-7/8% in 1952 and 5% in 1953. Since then, mkt. rates have gone down, and the Bank is making loans at the rate of 4-3/4%.

(5) Processing the loan:

Mission
Working Party
Staff Loan Committee
Negotiation
Approval
Signing

c. Following up a loan

(1) Disbursement procedure
Loans not tied
Disbursed as goods and equipment bought and projects built — Documentary evidence
$1.7 billion disbursed: $1 billion spent in the United States (approximately 60% of total disbursements) with 5,000 suppliers

$700 million outside as follows:

Europe	$540 million
Canada	90 "
Latin America	60 "
Africa	10 "
Middle East	2 "
Asia	1 "

(2) End-use reports and on-the-spot missions
Periodic reports to the Bank on the progress of projects - physical progress and expenditures shown in relation to original schedules and cost estimates.

End-use missions: supplement reports by examination of the project by Bank staff - engineers and other specialists.

2. Technical Assistance:

Although not specifically outlined in the Bank's charter, T.A. has become an important instrument in the Bank's work.

Four general categories:

a. T.A. related to loans
In the preparation and execution of loan projects

A continuing relation of Bank-borrower

b. T.A. in planning long-range economic development
The General Survey Mission: 1st to Colombia in 1949
14 General Survey Missions: Colombia, Turkey, Guatemala, Cuba, Iraq, Ceylon, Surinam, Jamaica, British Guiana, Nigeria, Malaya, Syria, Jordan and Nicaragua.

Composition: Seven to fifteen specialists — Bank staff consultants. Fields: general economics, public finance, agriculture, industry, trans., power, water resources, irrigation, social services, public administration.

Purpose: Comprehensive study, formulate recommendations which government can base a concrete program of long-term development.

c. T.A. through training programs
   (1) Bank trainee program
   (2) Economic Development Institute

d. Other types of T.A.
   As requested, Bank provides wide variety of assistance in all fields. (Over 30 countries provided some type)

   Indus River Conference

3. Source of Lending Funds
   a. Government subscriptions: (2%, 18%) $954 million

   b. Sale of portions of loans: $211 million ($156 without guarantee)

   c. Sale of Bank's own bonds ($849 million outstanding)

   d. Principal repayments to Bank ($147 million)

   e. Profits and exchange adjustments ($135 million)

D. Results:

1. Operating at a profit: Making development pay for itself.
   Reserves: $193 million ($127 Supplemental; $66 Special)

   Repayments and Prepayments made by borrowers: $217 million (over $100 prepayments)

2. Effects of loans: Peru, El Salvador, India, (Kans and Damodar)

E. The Bank's Relation to Private Capital:
1. Direct borrowing from capital markets
   Outstanding: 21 bond issues: $850 million

(60% - Held in U.S.)	U.S.	9 issues	$705 million
(40% - Abroad)	Canada	2 "	36 "
	Netherlands	2 "	21 "
	U.K.	2 "	28 "
	Switzerland	6 "	60 "

2. Portfolio sales and participations in loans: $363 million

3. Joint operations with private market: Belgium $30 million
   Norway $15 million

Draft Speech - I.P.M. Cargill, Teheran, Iran, ECAFE Meeting - Week of Mar. 12, 1964 (copy to Paris)

Office of Information
February 28, 1964

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Mr. Chairman, Delegates:

The World Bank is happy to have the opportunity of being represented, and of being heard, at this Twentieth Session of the Economic Commission for Asia and the Far East. It has been our privilege to be present at these meetings over a long period of time, and we have seen them constantly grow in scope and importance. At the same time, the activities of the Bank and its affiliates in the ECAFE countries have grown beyond those in any other region.

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Let me begin these few remarks with some observations about three projects, of common concern to ECAFE and the Bank, that are still on the horizon. The first of these is the United Nations Conference on Trade and Development, which is to begin a few days from now in Geneva. The Commission has already expressed its feeling of urgency about the work to be undertaken by the Conference, and I want to assure you that the Bank shares your mood.

We ourselves have been engaged in three studies as part of the preparatory work for the Conference.

Two of them are concerned with recent trends in international indebtedness, and with the directly related matters of the terms on which debt is incurred and the capacity of the developing countries to continue to incur it. The third is a survey of the difficulties of those countries whose earnings from exports of primary products have been growing only slowly, and will also consider how the Bank serves or might in future serve to mitigate these difficulties.

As the scope of this survey confirms, there is a very close connection between the problems of trade and of development. For this reason, we are deeply interested in the subjects to be discussed at the Conference. Export earnings, rather than foreign assistance, finance most of the imports needed by our member countries to carry forward their development programs. Dependent on fluctuating prices in the world commodity markets, many of these countries have had to adapt themselves to unexpected year-to-year variations of as much as 15% in the value of their export proceeds. A few countries have been confronted by shortfalls twice as great. Over-all, an annual decline of as little as 4% in the receipts of the developing countries from exports of foodstuffs and raw materials would cost them a billion dollars -- about twice as much as the World Bank has disbursed to these countries this year. We are therefore vitally concerned with any measures that can effectively lessen the consequences of wide swings that occur in export earnings.

In addition to short-term fluctuations, the developing countries are faced by long-term problems as well. Most of them are excessively dependent on exports of primary products, at a time when the markets for such products are being threatened by protectionism, by the development of substitute materials, and by a decline in the relative importance of food purchases in a world of rising incomes. There are no simple solutions to these problems. But their magnitude, and their effect on plans for economic development, underline the importance of looking at the whole position, of examining the possibilities of reducing the excessive dependence of so many countries on imports and of diversifying their production and trade. All these things lend urgency to the work of the Conference on Trade and Development.

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A second project on your horizon concerns the possibility of creating an Asian Development Bank. Mr. Chairman, it is not for me to offer comments on this proposal. I might observe, however, that the World Bank has consistently taken a constructive interest in the creation of regional institutions for financing development.

Two years ago, the Bank's affiliate, the International Finance Corporation, gave a year's leave to one of its senior staff so that he could participate in the work preparatory to the creation of an African Development Bank; and the President of the World Bank has pledged our full cooperation to this prospective institution. Our cooperation with the development bank of the Western Hemisphere, the Inter-American Development Bank, is already a matter of voluminous record. We assisted in the staff organization of that Bank, have made loans and investments jointly with it, and in general have reached a division of labor with it that recognizes our respective talents and the differing character of our funds. At the same time, our own loans in the Hemisphere have increased; and we remain the largest international source of development finance available to the American Republics.

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The third project on the horizon concerns the replenishment of the resources of the International Development Association. Last September IDA's Board of Governors framed a resolution under which 17 of the more economically developed countries of IDA's membership would agree to contribute another $750 million to IDA's resources over a period of three years. While the United States has not completed its action on the resolution, and while the arithmetic of the matter is such that the additional contributions of other members do not become effective, under the resolution, until it does so, American officials are hopeful that approval will be given in the coming months.

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Since your last meeting, the Bank and its affiliates have been more active than ever in countries of the ECAFE area. In 1963, ECAFE countries accounted for more than 40% of lending and investment by the World Bank group -- that is, the Bank, the International Development Association and the International Finance Corporation. Bank loans, IDA development credits and IFC investments totaled $430 million -- some $200 million more than in 1962. In all, the three institutions have committed very nearly $3,200 million to help finance development projects in ECAFE countries -- about two-fifths of all their commitments to date.

More of our new commitments were for the development of transportation than any other purpose. They amounted to $185 million, and among other things, will help finance a further stage of the modernization and expansion program of the Indian Railways, the construction of an additional section of the Tokyo-Kobe Expressway, the building of three high-priority higways in Thailand and the improvement of ports in New Zealand.

Bank loans and IDA development credits for power development amounted to more than $90 million. Two of them will add more than a quarter of a million kilowatts of generating capacity in Singapore and Malaya, another will bring power for the first time to towns in central Thailand, and still another will help build a thermal power station at Kothagudem in India.

Industrial loans and investments by the Bank and the International Finance Corporation, at $80 million, were the highest they had been for a number of years. The bulk of this was put at the disposal of industrial development financing companies, generally known as development banks. IFC took up shares in the Pakistan Industrial Credit and Investment Corporation, Malayan Industrial Development Finance Limited and the new Private Development Finance Corporation of The Philippines. The Bank, for its part, made loans to these institutions, and to the Industrial Credit and Investment Corporation of India as well. The Bank and IFC together are now in the course of completing still another joint operation to expand the resources of the Thai Industrial Finance Corporation.

All of IFC's commitments to invest in manufacturing industry during the year were made in India. The Corporation agreed to provide loan and share capital for a new Indian company building an alloy steel plant in Maharashtra and for another Indian company expanding its cable-manufacturing facilities in West Bengal, and will also provide loan and share capital for a new company being formed in South India for the manufacture of cotton textile machinery.

Lending to expand food production amounted to $21 million during the year. Of particular interest was the Bank's first loan for fishing vessels, made to add 16 deep-sea fishing boats to the Republic of China's tuna fleet. The remainder of lending in this general category consisted of two IDA credits for flood control and irrigation projects in East Pakistan. IDA credits in East Pakistan also financed the first water supply and sewerage projects to be assisted by the World Bank group in the ECAFE area.

To complete the account of Bank and IDA financing in the ECAFE area, I should mention that the Bank is continuing to convene meetings of the governments and institutions interested in assisting the economic development of India and Pakistan. Meetings of this kind in 1963 mustered resources for the current years of the Five-Year Plans of the two countries. Another round, looking to future years, is beginning this week (i.e., March 17, 18 and 19), with a meeting in Paris on further assistance to India.

* * * * * * *

During the year, the Bank increased the assistance it has been giving member countries by organizing and helping to finance studies of development projects and programs. Studies undertaken during the year included one of transportation needs in Taiwan. The Bank also provided technical assistance to the newly established Iranian Electricity Authority with a view to laying the groundwork for a long-range program of electric power development in Iran. The study of a waterworks and sewerage scheme for Manila was completed, as was the first part of a study looking toward the construction of a new bridge in Calcutta across the Hooghly River. Consultants assigned to study the coal transport problem in India have completed their short-range recommendations and are now turning to the longer-range aspects of their work.

The mission organized by the Bank to study the economic implications of the association of the Federation of Malaya, the State of Singapore and the British Borneo territories in the Federation of Malaysia formally submitted its report to the Governments on July 8, the day before the signing in London of the international agreement forming the new Federation. A general survey mission, organized at the request of the Government of Australia to suggest the basis of a program for the economic development of the Territory of Papua and New Guinea, has now finished its field work and is preparing its report.

The deployment of the members of the Bank's Development Advisory Service continued. The Service, established in November 1961, consists of experts of broad qualifications and experience who can be posted to member countries as advisers on planning and other major problems of development planning. One member of the Service has been seconded to be the first Director of the Asian Institute for Economic Development and Planning. A second member of the Service has just completed an assignment in Thailand, while a third is still in Pakistan.

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Mr. Chairman, since last March, 27 new countries have joined the Bank, increasing our membership by more than a third, from 75 to 102, and increasing the variety and weight of the problems which we must now consider. The Bank's response to this new circumstance has been a thoroughgoing review of its policies and a resolution to broaden those policies in order to make the Bank group still more useful to its members. This will not involve any sharp or radical change in direction. The financing of basic services which has been the bulk of the business of the Bank and IDA in the past will continue to be the bulk of our business in the future.

Nevertheless, we are now prepared to take up new efforts in several respects. I would like to mention some that are likely to be of particular interest to developing countries in the ECAFE region.

In the field of agriculture, most of the Bank's lending has been for large-scale projects for irrigation, flood control or land clearance. We now hope to do more by helping to finance comprehensive agricultural programs more directly reaching the farm -- for instance, by strengthening organizations that extend credit and technical help to the farmer. An example can be seen in a new IDA credit to provide additional resources for the lending program of the Agricultural Credit Corporation of Jordan, a semi-autonomous government agency. This will enable the Corporation to make loans to individual farmers and cooperatives for land improvement, new tools, better seed and the like.

In the field of industry, the Bank and IDA hope to spread their help more broadly, in appropriate cases, by financing the import of pieces of equipment and spare parts when the shortage of foreign exchange for such imports has prevented the full use of existing industrial capacity. One such transaction may take place in the case of India, where we are considering the possibility of an IDA credit to maintain capacity in industries producing commercial vehicles, construction equipment and industrial machinery.

It also is agreed that the Bank should now follow IDA into a field which is fundamental to economic growth in all sectors. I am referring to education -- especially technical education. We have for some time been investigating a project to expand an agricultural college in the Philippines, and this may prove to be the object of the first Bank loan for an educational project. I also want to report, Mr. Chairman, that IDA has agreed to extend two credits to Pakistan to help in financing the expansion of that country's capacity for the education and training of professional agriculturalists, technical teachers, and industrial technicians.

I have already said, and let me repeat, that these new kinds of lending would supplement, not supplant, the kinds of lending the World Bank group already does. Let me add one other thing: in new fields, as in the old ones, the Bank is not going to try to supply all the capital needed -- that of course would be far beyond our resources in any case. What we are going to try to do, as we already have done in other instances, is to develop techniques of organization and finance that will encourage others to follow the way. In any case, our evolution in these new directions has now begun, and we believe that the ECAFE countries will rank high among the beneficiaries of what we expect to accomplish.

DRAFT

2 nd draft - address by Mr Cargill
(Mr Strobe to Mr Melmoth) Recd Oct 24, 1968
think Nov 4, 1968
Pakistan

Mr. President, Excellencies, Ladies and Gentlemen ---

The groundbreaking ceremonies here at Tarbela today are a matter of great satisfaction to me personally and to my colleagues at the World Bank.

The Bank is honored to be the Administrator of the Tarbela Fund, the agreement for which was signed in Washington early in May of this year.

Mr. McNamara regrets that he is unable to be present, but he has asked me to convey his warm personal greetings and congratulations on this occasion. He will, as you know, be coming to Pakistan later this month and he particularly wanted me to assure you, Mr. President, of his great interest in the progress of Tarbela.

Less than a year ago we gathered here in Pakistan to witness the inauguration of the Mangla Dam, which marked the completion of most of the main works of the huge Indus Basin development scheme.

And only two years ago hardly anyone would have believed that today Pakistan would be in a position to embark on an even bigger project: the multi-million dollar Tarbela Dam, which many people believed to be an impractical and visionary engineering scheme. The fact that we are here today amply refutes that argument.

Tarbela has come to be considered as the most vital element in the overall development of the water and power resources of West Pakistan, and hence a vital contributor to the welfare of agriculture -- the most important single sector in Pakistan's economy.

Completion of this dam by 1975 is a critical element in your Government's strategy for meeting West Pakistan's need for additional supplies of irrigation water and electric power. Economic studies indicate that the net increase in agricultural output will be worth Rs8,400 million by ten years after the completion of the dam. So important and urgent is the completion of the project in the context of Pakistan's national economy that, according to World Bank calculations, each year's delay in its completion would cost the country Rs1,000 million (Rs. 100 crores).

There is a very big job ahead. The dam's dimensions are truly staggering: 142 million cubic meters of earth will need to be moved during the next two years, three times as much as for the Aswan Dam in Egypt. The main embankment and auxiliary dam crests will stretch to a total of 12,300 feet. With a height of 470 feet, the dam will dwarf all comparable structures around the world. It will form a reservoir 50 miles long, 450 feet deep, which will cover an area of 60,000 acres.

The total cost of the dam has been estimated at some 950 million dollars -- of which some 490 million is in foreign exchange. Pledges of some 150 million dollars have been received from Italy, France, England, Canada and the United States. To this will be added 25 million dollars from the World Bank itself, plus 325 million dollars carried over from the Indus Basin Fund.

The contributor countries to this Fund -- Australia, Canada, France, Germany, India, Italy, New Zealand, the United Kingdom and the United States of America -- merit the special gratitude of all who are interested in seeing Tarbela built and contribute its share to the country's development. Pakistan's own contribution of the rupee equivalent of another 460 million dollars will round out the financing. Moreover, by virtue of the diversified sources of financing, it will be possible to execute subcontracts and procurement of materials on a competitive basis.

As Mr. Aldewereld, Vice President of the World Bank, observed at the Mangla ceremonies last year, if the history of that project is anything to go by, we can be confident that Tarbela will also be carried out expeditiously and that it will be marked by the same spirit of cooperation as has existed between WAPDA and its international partners in the past. The builders' consortium, "Tarbela Joint Venture", comprises contractors who have a long history of outstanding successes in dam building in many parts of the globe.

Today's groundbreaking, Mr. President, marks another milestone in the development of Pakistan and in the rewarding relationship of your country with the World Bank. Allow me to wish you, your great nation, and the engineers and workers connected with Tarbela construction the best of success in the great undertaking on which you are embarked.

(5)

THE INTERNATIONAL FINANCE CORPORATION

I. The need for an I.F.C. and how it evolved
Need to strengthen the private sector in undeveloped countries

A. Lack of private capital that is ready and willing to go abroad
(No confidence and experience)

B. Bank is limited in its capacity to help private enterprise.

1. Charter requires governmental guarantee - a deterent to private borrowers.

   Also governments reluctant to give guarantee.

2. Few operators in the field the Bank works: basic facilities. Too big for private operators.

3. Bank not ideally set up for a broad range of operations with private enterprise.

C. Needed a supplement to the Bank
A corporation to operate directly with private people in both developed and undeveloped countries without a government guarantee.

A corporation that would be a partner to private capital and a stimulant on both sides.

Couldn't use Bank funds legally: Bad policy; undermine confidence in Bank's bonds and would be chipping away at the strict requirements of the Bank.

D. Development of a proposal:

January 1949:	International Development Advisory Board report on development problems.
March 1951:	Rockefeller Report: Partners in progress - IFC in part.
May 1951:	ECOSOC requested the Bank explore situation. This is the formal basis for discussion.
April 1952:	Bank submitted report on proposal.
May 1953:	Bank submitted a status report on IFC.
June 1954:	Bank submitted second report on IFC.
November 1954:	U.S. approval.
May 1955:	President's recommendation to Congress.
August 1955:	Following Congressional approval, President signed bill authorizing U.S. participation.
Sept. 30, 1955:	49 governments indicated their intention to accept membership in I.F.C.; their proposed subscriptions total over $88 million.

II. Purposes:

To help increase the flow of private capital, particularly foreign private capital, into productive investment in underdeveloped areas, by helping to remove or lower some of the varriers obstructing it.

Provisions of I.F.C.'s charter:

1. Financing must be limited to investment in productive and essentially private enterprises.

2. May use resources only in association with private investors. (Never provide the entire capital for an enterprise.)

3. Cannot undertake financing where sufficient private capital could be obtained on reasonable terms.

4. Cannot assume responsibility for managing any enterprise in which it has invested.

5. Investments of I.F.C. are not to be on bargain terms or cut rates.

6. Cannot own any capital stock.

III. Membership and Capitalization:

Authorized capital: $100 million. Corporation will come into existence when 30 members, whose subscription totals at least $75 million, have joined. The entire capital will be paid in gold or U.S. dollars. Each member's subscription based on its subscription to the capital stock of the Bank. A country must be a Bank member to be eligible to join I.F.C.

For meeting with Royal Institute of International Affairs, Chatham House, London

Love for Cargill

India ~~May 1969~~ June 2

Notes as Background for an Address:

"An Informal History of the World Bank Group's Relations with India and Pakistan."

1. Introduction

Within the total pattern of the Bank Group's activities as a catalyst for development, the Indian sub-continent stands out -- not just in the amount of financial support committed, but in the nature of the relationship between developers and developing. Something of a dialectic has operated in this relationship: as a result of it, significant changes have occurred in the developing agency itself as well as in the recipients of development assistance. The Bank's efforts to increase the impact and effectiveness of its assistance to India -- and to a lesser extent Pakistan -- in recent years have played an important part in the evolution of the Bank itself, and have certainly left it a more sophisticated and effective body than it would otherwise have been.

Two examples:

The Indian Consortium -- which first emerged on an ad hoc basis to deal with a balance of payments crisis, and grew then into a body working to rationally connect the total flow of development assistance with development needs -- provided the practical genesis for what has become a fundamental part of the Bank Group's work generally: the coordination of total aid from several sources to particular recipient countries.

Next, it was largely in response to the special problems of India -- and to a lesser extent of Pakistan -- that the International Development Association (IDA) emerged. Here was an area whose capacity to use capital was greater than its ability to assume and repay conventional debt.

IDA provided the channel through which a flow of non-market funds could be combined with the Bank's objectivity, flexibility, discipline and special experience, without affecting the Bank's own standing in the capital markets. This was a step of fundamental importance in the art of development diplomacy.

2. The Beginnings

i. India is one of the 35 original charter members of the Bank. She was among the 17 that met in Atlantic City in mid-June 1944 to formulate proposals for a wider conference at Bretton Woods. And she was, of course, a leading member of the group of 44 nations which drew up the Bank's Articles of Agreement about a month later at Bretton Woods. Subsequently, due to her senior position in the hierarchy of subscribers to the Bank's capital, she became one of five nations with the right to appoint their own executive directors to the Bank's Board. She is now the only underdeveloped nation with such a right. (Until 1960/61, the Republic of China was also one of the five; in that year, China's position was taken by Germany. The five are now the United States, the United Kingdom, Germany, France and India.)

Pakistan became a World Bank member in July 1950, some three years after it emerged as an independent nation. Pakistan's representative is among the 15 current elected Executive Directors, who, together with the senior five appointed by their respective nations, make up the Bank's Board.

ii. Active economic development relations between the Bank and the Indian economy date from August 1949, when the Bank committed a $34 million loan to allow the Indian railways to overcome deterioration resulting from the war. This was, as well, the Bank's first loan in Asia. This original loan fits more readily with the "war reconstruction" period of the Bank's history than with its later evolution as a catalyst for basic development. About six weeks after this initial loan, a second loan was committed to finance part of the cost of agricultural machinery for a land reclamation project in Central India.

The Bank's initial lending in Pakistan followed an almost identical pattern to the firsts in India -- a portent of a similarity in the framework of approach which has continued, with variations, ever since. The Bank's first loan to Pakistan in March 1952, was largely for the rehabilitation and improvement of a railway system overworked and undermaintained during the war. A few months later a second loan was committed for the reclamation of waste land in the Thal desert between the Indus and Jhelum Rivers.

iii. Since August 1949, the World Bank itself has now provided 35 loans for India, totaling $999.2 million (net of cancellations), or some 10 per cent of its total lending. In addition, IDA has provided 21 separate credits for India totaling $889.4 million net, or about 53 per cent of all IDA lending. The Bank's other affiliate, the International Finance Corporation (IFC), formed in 1956 to foster private enterprise, has made investments in India totaling $12 million in 10 industrial ventures. India is, by far, the largest single recipient of development finance from the World Bank Group taken as a whole.

In Pakistan since March 1952, the World Bank itself has now committed a net $412 million in 22 separate loans; IDA has committed a net $329 million in 22 credits; IFC has made investments totaling $12.6 million in 7 industrial ventures. In total, Pakistan is the World Bank Group's third largest client after India and Japan.

3. The Framework for the Bank's Relationship

After the initial loans, the Bank's relationship with the Indian economy roughly corresponds with the period covered by India's successive development

Plans (1951-56, 1956-1961, 1961-66). The one forms something of a framework for the other, and it seems useful to view the Bank's work in India -- and its dialogue with India -- as an accelerating function seen against the broader background of the evolution of the Plans. The Bell Mission's main report (March 7, 1967, p.8) points out:

"With the first Plan the Government of India set out on a course of action which, with minor variations in emphasis, has remained consistent throughout the fifteen years of the three Plans. . . ."

If this view is taken, the Bank's relationship with India can be seen as progressing from something relatively low key and offstage, involving separate project-by-project contributions to basic infrastructure and industrial projects (conforming with the Plans' emphasis on industrialization), moving then -- as the philosophy running through the Plans began to run increasingly into difficulties -- to deeper involvement in the total development pattern and its implications for the external balance of payments, and finally moving to the present era where the degree of the Bank's involvement is partially reflected in the following sentences from the latest Bank report:

"For more than a year prior to the publication of the Draft Outline of the Fourth Plan (in August 1966), the need for alteration in policies and programs had been under discussion within the Government of India and, following submission of the Bell Mission Report, between the Government of India and the Bank . . . . Finally, in May 1966 the Government of India in discussions in Washington informed the Bank of the changed policies the Government of India intended to pursue in a number of critical areas, and of the amount and type of aid which it estimated would be required in 1966/67 in order for these new policies to be instituted . . . ."

With a somewhat greater overlap than in the Indian case, the Bank's relationship as a development agency with Pakistan also corresponds roughly with the period covered by Pakistan's economic plans. Pakistan's first Five Year Plan was launched in 1955; the country is now in its Third Five Year Plan period, 1965-70. As with India, the Bank Group's work in Pakistan can be seen as an accelerating function against the background of the evolution of the Plans, without, however, the enormity and administrative complexity of the Indian case.

4. The Dimensions of the Bank's Relationship

Against the framework outlined above, data on the Bank Group's place in this area's struggle toward economic take-off falls roughly into two functional dimensions: (a) project lending running more or less right through the period of the relationship; (b) an extra dimension created by the consortia, dating from about 1958 in the case of India.

(a) In the project lending compartment the Bank's role has been largely its traditional one--assessing specific projects put up by the Indian authorities; checking out their feasibility and their technical and financial soundness, their seniority in the scale of the country's economic priorities, finally endorsing a great many of them and committing funds to finance mainly their foreign exchange components, and following them through to a successful operating conclusion.

For the most part, this project compartment of the Bank's relationship identifies fairly neatly with the success side of the Indian story over the past 16 or 17 years. There were, of course, some projects/--significantly, one might say even ominously, including the first agricultural project in 1949 --

that turned out to be less than first rate. But the great majority of Bank Group projects in India have been important contributions to a significant growth in productive efficiency and capacity, which has been tragically obscured and distorted by other pressures.

A brief reference to some of these obscured results might be fitting here:

* The structure of the industrial sector has been largely transformed -- In 1950 more than 60 per cent of value added by manufacturing was from small scale, family type operations. Now the proportions are reversed: 65 per cent comes from factories with fixed assets worth Rs. 2.5 million or more . . . production of metals, machinery and chemicals have increased since the mid-fifties from about 15 per cent of industrial production to about 40 per cent.

* Crude steel production has increased to more than 7 million tons, coal production to 70 million tons, petroleum product refining to almost 10 million tons and machinery output of all types has grown dramatically. Installed electric power generating capacity has increased to 10 million kwh, originating freight on the railways to 200 million tons and the number of commercial vehicles in operation to more than 300,000.

A breakdown of Bank and IDA project lending in India (as of April 30, 1967) illustrates the Bank Group's relevance in this:

Sector	Amount	Proportion of Bank/IDA Total
Electric Power	$255 million	13%
Industry	$779 million	41%
Transport (Ports Highways, Railways etc.)	$719 million	38%
Agriculture	$62.6 million	3%

Note: Within the total for Industry about $208 million has been for private sector steel companies and $140 million for the Industrial Credit and Investment Corporation of India Ltd.,(ICICI), a private development finance corporation which the Bank largely organized in 1954. Mr. Woods was a consultant to the Bank in 1952 on Indian steel industry prospects and a member of the original Bank Mission on ICICI in February 1954. This was when he was with the First Boston Corporation, well before he joined the Bank. Since then, ICICI has mobilized a great deal more capital for Indian industrial investment than that actually channeled through it by the Bank.

A similar breakdown of main Bank/IDA project lending for Pakistan is as follows:

Sector	Amount	Proportion of Bank/IDA Total
Electric Power	$ 52 million	7%
Industry	$ 169.5 million	23%
Transport	$ 235.4 million	31%
Agriculture	$ 227.2 million	30%

Note: The significantly larger proportion going to agricultural projects in the case of Pakistan is something of a distortion. A large part of it is explained by Bank/IDA contributions to the Indus Basin Development Fund, stemming from the 1960 water sharing treaty between India and Pakistan. The first charge on the Development Fund has been the Mangla Dam, largely intended for agricultural use in Pakistan.

(b) Before dealing with the special dimensions of the Indian Consortium, it might be as well to make clear the basic strategy running through the Indian development plans, and what happened to distort that strategy. Quoting here from the latest Bank report:

"The basic strategy of the Plans called for the maximum possible allocation of resources to the expansion of industrial capacity and of the related power and transport facilities. The hope, or expectation, had been that food and other agricultural production would grow adequately without requiring significant allocation of scarce material resources. . . ."

This strategy ran into increasingly serious difficulty for three main reasons:

i. The hope that agricultural production would increase with little investment input, and the belief that food demand could, if necessary, be restrained, proved wrong and this miscalculation led to serious imbalances aggravated by two successive years of severe drought.

ii. The conceptions which governed public sector investment and production operations -- and government controls and influences over private sector operations -- created an environment not at all conducive to export. At the same time imports exceed anticipations. A large trade gap has thus tended continually to appear. (Mr. Votaw points out that the gap is about what was foreseen in Plan III; the problem has been rather that aid disbursements to fill the gap were far below India's forecasts.)

iii. . . . "The results achieved . . . are much obscured and in part vitiated by the enormous growth of population. . . in fact, it has been a triumph simply to feed and clothe, however poorly, an additional population of 130 million and to provide some productive employment for perhaps 40 to 50 million additional persons." (March 7, 1967 report p.10.)

Against this background the stages of the <u>Consortium</u> can be considered:

i. It was formed in 1958 at the request of the U.S. and U.K. to meet a balance of payments crisis. India's accumulated reserves had been drawn down and from this point on the balance of payments gap had to be met by aid. India's use of aid prior to this had been relatively small. Thus it had little administrative familiarity with aid procedures.

ii. Having weathered this initial crisis, by 1960 India and the Consortium were looking ahead to the Third Plan. Bank vetting of development plans on behalf of aid coordinating groups -- now a basic part of the Consortia/Consultative Group mechanism wherever practiced -- had its birth here. (The Hoffman report.)

But the Third Plan underestimated maintenance import needs, and failed to examine implications for type and disbursement-timing of aid. Looking back now, we see that although the Consortium <u>pledged</u> roughly the amount called for in the Plan, disbursements of aid fell far short. Through, say, 1964, the Consortium's main effort was to keep <u>pledges</u> above $1,000 million per year, partly by including suppliers' credits from Europe, and other poor quality aid.

iii. In the light of experience, since 1964 the Bank's emphasis within the Consortium has been on quality -----

(1) On quality of Indian performance. This stress is embodied in the Bell missions' recommendations for such steps as decontrol, devaluation, export growth, a new agricultural production strategy, improved project preparation and implementation.

(2) On the quality of aid. Flexibility and special qualities of aid are needed:

* To pay for commodities needed by India but not usually financed by a "conventional" development aid. Non-project, program and commodity aid etc., are the only forms suitable to cover a large portion of India's import requirements.

* To keep the burden of debt within bounds that do not squeeze the life out of development prospects. This requires special terms of interest and repayment; rearrangement of payment on existing debts.

Debt relief serves both these purposes, as does IDA-type money -- funds that are freely usable for a wide range of programs, local expenditures on projects and so on.

The Pakistan Consortium emerged in October 1960. This was the second such aid coordinating group to be sponsored by the Bank after the initial Indian Consortium in 1958. It has largely followed the pattern of evolution outlined above, though without the same burden of problems. The Bank has had to develop its role as a "go-between" organizing suitable bilateral and multilateral assistance and endeavoring to get this flexible enough to coordinate with Pakistan's priorities.

5. A Comparison and Conclusion

Despite the similarities in the pattern of the Bank Group's relations with India and Pakistan, their overall economic experience has tended to be in contrast. During the 1950's India's progress was relatively satisfactory while Pakistan's was less than satisfactory. So far during the 1960's these trends tend to have been reversed.

In contrast to the points annotated earlier as sources of current imbalance in India, these points about Pakistan stand out:

* In the Second Plan 1960-65, Pakistan significantly shifted emphasis toward agriculture. Edward S. Mason in his book "Economic Development in India and Pakistan" comments: "If Pakistan's agriculture has, during the first half of the 1960's shown greater progress than India, it is largely because disaster, or the threat of disaster, raised its head earlier in Pakistan." (Mason p.8.)

Perhaps one could equally argue that they were more willing to take advice from objective observers like the Bank. Whatever the reason, Pakistan authorities followed strong policies of price support, free availability and subsidization of fertilizers, pesticides etc., support of tubewell irrigation; also, emphasis was given to exportable items.

* A freer attitude was taken towards private investment in Pakistan, and this, combined with a relatively easy access to essential capital components for industrial investment, led to a rapid and profitable growth in Pakistan private enterprise and a relatively high rate of domestic savings. This freer availability of industrial imports was due partly to Pakistan's greater emphasis on exports and -- probably more important -- Mason points out that foreign aid to Pakistan, on a per capita basis, was at times approaching twice that of India.

Concluding: In recent years the Bank's role as an auxiliary endeavoring to assist India's somewhat tortured development aspirations has been a difficult one:

* In some cases, the Bank has found it difficult to get from the Government of India the policies it would recommend.

* At the same time, the Bank has found it difficult -- if not impossible -- to get from donor countries the type and amount of aid that it considers necessary to meet India's needs.