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Address by

W. A. B. ILIFF

Loan Director

of the

International Bank for Reconstruction and Development

before the

WORLD TRADE WEEK CONVENTION

Detroit, Michigan
May 20, 1948

I come among you very much as a stranger in a strange land. It is only four months ago since I landed in the United States. The whole of that four months I have spent in Washington. That short time has been enough to inspire me with an admiration and affection for your beautiful capital city. But it has been enough too to have made me come to realize that Washington, whatever else it may be, is not the United States in the sense that London is England, or Paris is France. This fact has been so continuously and emphatically impressed upon me by my American friends that I can be forgiven if I have come to believe it. I have, therefore, looked forward to my visit to Detroit not only with pleasure but also for the opportunity afforded me of seeing something of the real America. For us Europeans, the very mention of the name of your city raises up in our minds a picture . . . the picture of a pulsating hive of busy efficiency, of hundreds of thousands of working men and women tending tens of thousands of complicated machines in thousands of vast factories, and of the fruits of all this human toil and ingenuity rolling off the assembly lines in quantities only to be measured in astronomical arithmetic. To us, Detroit represents the zenith of North American industrial civilization.

Right at the start, I have to confess what some of you doubtless have suspected already. This is my very first public appearance in the United States since taking over the position of Loan Director in the International Bank. It is therefore, with some sense of trepidation and a feeling of uneasiness in the pit of my stomach that I find myself making my American début before so many distinguished citizens of such a famous city. But I do not hesitate to avail myself of the privileges of a stranger, and of a novice, and to throw myself unreservedly on the mercy of your traditional American hospitality.

I have been asked to address you today on the subject of international lending in its relation to world trade. I would not propose to deal with short-term commercial credits which are the concern of the private banks. Nor shall I discuss those aspects of international lending which make up the stock-in-trade of our sister institution, the International Monetary Fund; these are primarily concerned with temporary disequilibria in the external balance of payments position of our member countries. I propose to confine myself to those medium or long-term operations extending over the ten to thirty years' period which are the field of the International Bank.

There are a number of principles and a number of facts underlying this type of international lending which are so simple, so self-evident and so well-known that I think we are all inclined to forget them. Indeed, they are so often forgotten that it is well, I believe, to resurrect them and let them see the light of day.

What happens when an international loan is made? A borrower seeks to borrow a currency, let us say dollars, not because he prefers the appearance of a dollar bill to the look of his own currency. Indeed, in a world where new issues of currency notes are being made with almost the same frequency as new issues of postage stamps, it is my experience that the artistic appeal of a currency note tends to vary in inverse ratio with its acceptability. Actually, of course, what happens when a loan is made is this . . . The lender passes on to the borrower an immediate claim on the goods and services of the lending country equivalent to the amount of the loan. This result comes about whether the loan is subscribed privately in the market in the lending country; whether the loan is a straight transaction between the lending government and the borrowing government; whether the loan is made by a para-statal institution such as—in this country—the Export-Import Bank; or whether the loan is made by an international organization such as the International Bank. $10 million lent to Ruritania means nothing more than this: Ruritania is given the immediate means of buying turbines or agricultural machinery or electrical equipment or some other goods and services which the United States is able to produce.

And what happens when the loan comes to be repaid? A borrowing which has been made in dollars, must be repaid in dollars. But Ruritania can only lay her hands on the dollars necessary for servicing her dollar loan, if she herself is able to sell, for dollars, a quantity of her own goods and services sufficient to meet her installments of principal and payments of interest as they arise. With the best will in the world on the part of a debtor country, an international loan can never be repaid unless the creditor braces himself to accept payment in the goods and services of his debtor. There is no other way.

And now, let us consider for a moment in what circumstances a nation is able to assume the role of a lender. In this respect, a nation is subject to precisely the same limitations as an individual. If any one of us finds himself in the situation where his income just balances with his expenditures—that is to say,

where his consumption is equivalent to his production—he is in poor shape to lend even to his best friend. But if any one of us should be in the unhappy situation where his income is less than his expenditures, then he is in no shape at all to lend. When the affairs of an individual, or a nation, have been so ordered that the individual or the nation is able to produce more than it immediately wishes to consume, it is then, and only then, that the individual or the nation can become a lender.

In the world of today, with one or two unsubstantial and unimportant exceptions, there is only one nation which finds itself in that situation, and that nation is the United States of America, I need not go into the reasons underlying this state of affairs. I need merely state the fact. But the reasons are by no means discreditable to the nations concerned, in the great majority of cases anyhow.

It is this circumstance that provides the answer to the question which is so often asked me—why is it that the capital subscription of none of the member states of the International Bank is freely available for lending, except the subscription of the United States?

And now let me put to you some of the considerations with respect to international lending which arise out of an examination of past operations in this field. In times gone by, there was much bad international borrowing, but there was worse international lending, especially in the period between the two wars. Loans were made to build pretentious presidential palaces in little countries whose basic industries were languishing for want of an injection of needed capital. Loans were made, and indeed sometimes were virtually forced upon borrowing countries, in amounts which were far beyond the reasonable capacity of the country to repay. Loans were made for specific purposes, which were good enough in themselves, but no steps were taken to see that the proceeds of the loans were used to finance the projects in respect of which the loans had been made, and the proceeds were often squandered on unproductive non-essentials.

Such lending policies inevitably led to defaults . . . defaults for which the lender, as much as, and perhaps rather more than, the borrower must accept responsibility. Moreover, the effects of this situation were not confined to the financial field. Between nations as between individuals, nothing is more corruptive of friendly relations than dishonored obligations, from whatever cause they arise.

It was with some of these considerations in mind that the architects of Bretton Woods, when they planned the structure of the International Bank laid down certain principles, which under its Articles, the Bank is obliged to follow in making loans. And of these, two of the most important are: First, that in making a loan, the Bank will have regard to the extent to which the loan will serve to benefit the economic system not only of the borrowing country, but of other member states; and Secondly, that the Bank in making a loan will have regard to the capacity of the borrower or of the guarantor, if there is one, to undertake the financial obligations of interest and amortisation. As a matter of policy, the Bank has introduced procedures under which the disbursement of a loan is subject to close and continuous supervision with the object of ensuring that the proceeds of the loan are expended on the purposes for which the loan was granted, and only on those purposes. Arrangements too are made under which friendly contact is maintained between the Bank on the one hand and the responsible authorities in the borrowing country on the other throughout the life of the loan. The purpose here is to ensure that the Bank may be able to follow the effect of policies from time to time adopted by the borrowing country, and to make representations to the government of the borrowing country, if, in the view of the Bank, those policies are detrimental to the general financial and economic situation of the country, or to the servicing of the Bank's loan in particular.

By observing the principles and by following the procedures, which I have outlined, the Bank hopes to be able to steer clear of some of the pitfalls that have beset the path of international lending in the past.

There is one more general circumstance that I should like to mention, and it is this: there can be no international lending which is entirely without an element of risk. For example, there is the act of God: earthquake, flood, tempest, or drought.

Moreover, there is the regrettable propensity on the part of humanity to indulge in the convulsion of a World War about once in every generation, and it was the effects of World War II which forced default in their external debt services on several European countries whose reputation in this respect had up till then been exemplary.

Or again, take the case of some little country whose staple export is some raw material. But the march of human science

may invent a synthetic substitute, which if developed commercially, may spell that little country's ruin.

These are but some of the intangible and imponderable hazards that lie in wait in the fairway for the international lender. And the Loan Director who could insure against all of them, or, for that matter against any of them, would indeed be an adept crystal-gazer.

The International Bank, as you all know, and as the title of the institution implies, was established to operate in the field of international reconstruction and in the field of international development.

In the field of reconstruction, our operations have so far been confined to Western Europe. Up to now, the Bank has made six loans in all, amounting in total to 513 million dollars. Four of these were to Europe: to France, to The Netherlands, to Denmark and to Luxembourg. All of these loans are earmarked for definitely productive purposes. They have been, or are being used for the purchase of specific goods, primarly industrial and agricultural machinery, transportation equipment, and basic raw materials, which the borrowing countries need to step up production and which contribute to the reconstruction of Europe as a whole. I think the Bank can claim without undue complacency that these loans have made an important contribution during a vital period of the European economic resurrection.

While I am on the subject of Western Europe, I should like, if I may, to take off my International hat for a few moments, and, as a Western European myself, to make a small excursion on somewhat controversial ground. Since I have been in Washington, I have inevitably found myself engaged in a good deal of discussion, argumentation, and debate on the subject of the European Recovery Program. I have listened patiently and always, I hope, good temperedly, to candid and forceful criticism on the part of my American friends of the approach of Western Europe herself towards the solution of her own problems. Western Europe is effete and decrepit, I am told . . . Western Europe is lazy . . . Western Europe is inefficient. I am not prepared to admit that Western Europe is any of these things. True, in certain fields of human activity, and in particular in those fields in which the inhabitants of this city have so justly earned preeminence, we in Europe cannot hope to compete and could profitably learn many lessons from your experience and performance.

But I am sure you will not count me immodest if I say that in certain other fields of human activity, which are perhaps no less important, Western Europe has made, is making, and will continue to make, a contribution without which our common civilization would be very much the poorer. I have had to listen also to the criticism that within the past three or four years Western Europe has been too inclined to indulge in political ideologies whose basic philosophies are not those that are the best adapted to the urgent tasks in hand. I may say, I have heard the same criticism advanced with no less force by some of my friends in Britain. But I think that all of these criticisms ignore the simple and obvious reasons which underlie the need of a plan for European Recovery.

Twice in a human generation Western Europe has been a battle-ground. Over great areas of her surface, armies numbered in millions, have contended backward and forward through her cities, towns and villages and across her countryside. Her industrial centers have had to suffer the havoc wrought by indiscriminate aerial warfare. For five long years her civilian population lived in nightly terror of death from the skies, and on the continent itself her people were ground down under the heel of a relentless invader whose everyday sanctions were forced labor and the concentration camp.

The material destruction of the war was immense, but already it has been in great measure made good. But the psychological effects of these brutal experiences will endure longer. Since V-E Day Western Europe has already made a vigorous recovery. Production has increased to an extent that, without exaggeration, can be described as remarkable. When one considers the battering that Europe and her people have had, and what Europe is already doing, one is reminded of Dr. Johnson's remark about the women preachers, "The marvel," he said, "to me, is not that they do it badly, but that they do it at all." And there I shall leave Western Europe.

In the other branch of the Bank's activities, namely the Field of Development, a host of fascinating if difficult, problems present themselves. The underdeveloped countries of the world divide themselves conveniently into three regions: the Latin American Continent, Asia and Africa, and the Far East. All three display at least this characteristic in common: they are all highly "development-conscious." Some of these countries, realizing that Pittsburgh and Detroit were not built in a day, are laying

plans for development on prudent, orderly, and modest foundations. Other countries, however, are more ambitious; and the demands, if they were added up, of all their five-year and ten-year plans that have been received by the Bank within the last twelve months, would, in terms of finance, several times eat up the total loanable funds of the Bank, and in terms of capital equipment, would far exceed the production potential of the manufacturing countries of the world.

We are living on a planet which is much smaller than the planet on which our grandfathers lived. In their day, distances were forbidding barriers to intercourse and communications were slow. Continental, and indeed national, isolation imposed upon all but a very few an ignorance of the conditions and mode of life of his neighbor. But today with the coming of the aircraft, the radio, and above all of the movie, the Occidental way of life has become known in every corner of the globe . . . to the worker in the Chilean Copper Mine, to the coolie in the Chinese rice fields, to the peasant in the mountains of Iran. They hear about, and they see, a standard of life far exceeding anything that they themselves have ever known, or believed to exist. They cannot be blamed for imagining that what others have achieved, they themselves can achieve. But it is the difficult task of their leaders to educate them in the hard creed that Occidental standards have come about only through processes of accumulation of capital and of technical skills which must go on not merely over five years or ten years but over generations. It is not by the overnight construction of steel mills or hydraulic plants or by the widespread installation of modern telecommunications or by the erection of the most up-to-date port facilities that the economic stability of a country is to be secured. These things are important, but their importance lies not in their own sake but in the extent to which they necessarily serve the basic economic structure of the country that possesses them. It is only by a slow process of patient and unremitting effort in the less spectacular fields of building-up a country's basic resources that the foundations can be laid for economic security and progress, and for social betterment and contentment. It is against this general background that the International Bank must approach its problems in the sphere of development and formulate and develop its lending policies, keeping in mind always its obligations toward all its member states and not alone to those who are potential borrowers.

There is one other aspect of International lending that I shall mention, and it is this: For the lender virtue must be its own reward, let him not expect any gratitude from the borrower! It is a melancholy but well established fact in the story of human relationships that the lender of money has always been regarded as an unloved and unpopular figure. You will remember the repellent picture which Shakespeare paints of the money-lender in the "Merchant of Venice". In Ireland, where I come from, we have a bitter little saying which runs like this, "A Banker is the sort of fellow who hands you an umbrella when the sun is shining and asks for it back as soon as the rain comes on." In Ireland we have much more rain than we have sunshine, so you can imagine in whose custody the umbrella most often is. Doubtless some of you here may know the story that is told of one of your eminent American financiers. He was lunching one day in his club with a friend, when an acquaintance passed by his table, gave him a very cool nod, and hurried on. The financier turned to his friend and said: "I wonder why it is that so-and-so dislikes me so. I can't recollect that we've ever lent him any money."

I am reluctant, however, to finish on this note of cynicism.

After all gratitude is but a soothing syrup; and it is a poor substitute for the mental and spiritual satisfaction that is earned from the sense of a job well done.

For generations to come, perhaps even for centuries to come, the mantle of leadership of world civilization must rest upon the shoulders of the people of the United States. That mantle carries with it heavy responsibilities. Not the least of those responsibilities is the wise use of the vast material resources at your command. In its vigorous support of the International lending institution to which I belong, your government is making a magnificent contribution to world reconstruction and development and in the Economic Cooperation Act, you have not merely displayed a statesmanlike approach to the cure of the economic sickness from which the non-American world is suffering, but you have also given one more manifestation of the warm-hearted generosity of the American people. These are but two of the directions in which, if I may presume to say so, you have proved your capacity and willingness to fulfill the high destiny unto which it has pleased God to call you.

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Address by

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Loan Director, International Bank
for Reconstruction and Development

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to the Illinois Bankers Association Convention,
Chicago, Illinois, June 4, 1948

In July of 1944 the financial and economic experts of 44 nations of the world met at Bretton Woods in New Hampshire. All of them were agreed that some steps were necessary in the international field, if some degree of order and stability was to be introduced into the manner in which, for a generation past, the world had been conducting its financial and economic affairs, especially in the spheres of monetary policy and international investment.

Looking back on the period between the two wars, it is perhaps not too much to say that the germs of World War II had battened and flourished no more upon the political consequences that flowed from World War I, than they did upon the financial and monetary policies which the economic consequences of the first conflict had forced upon the nations. Prosperity, like peace, is indivisible, but prosperity and peace are inseparable.

During that summer of 1944 the Founding Fathers of Bretton Woods meditated upon and debated the disordered economic state of our modern world. And then, amid the sylvan beauty of New Hampshire, they begat a pair of lusty twins. They baptized them -- not very happily, I fear, - for their names are rather a mouthful -- The International Bank for Reconstruction and Development, and its sister institution - The International Monetary Fund.

The Primary aims of the Founding Fathers were twofold. The first was to re-establish the stability and the interchangeability of world currencies, which had been achieved by the gold standard in the good old days when the international economic set-up was less complex than it is today. It is in this field that the International Monetary Fund is called upon to operate - in effect, by providing short-term credit to member countries suffering from temporary unbalance in their foreign transactions and by providing a mechanism for dealing with exchange rate adjustments. The second aim was to make some provision for the needs of member countries for credit in the long-term field. This, all were agreed, was to be achieved, preferably by maintaining and expanding the flow of private investment capital through traditional channels, rather than by the permanent substitution of another form of institutional lending. This is the sphere of operations of the International Bank. It is this particular aspect of international lending that I propose to discuss with you today.

You may well ask, right at the beginning, why it should have been necessary at all to establish an institution such as the International Bank, to take care of a human activity which, for at least a century and a half, had plodded along quite nicely. Why not leave it, you may ask, to those who have done the job in the past, and in the way they have done it in the past?

For several generations, up to the beginning of World War I, the Western European countries, especially the United Kingdom and France, were the great lending nations. But two World Wars, and the devastation they have brought in their wake, have turned those nations from being creditors on a large scale to being debtors on a scale still larger. These traditional lenders are no longer lenders but borrowers. Today, the only substantial reservoir from which a flow of international lending can come is the United States of America. And yet, private American capital is not moving abroad to any considerable extent.

What are the reasons? I think the reasons are these — Private capital is wary of the risks to which it may be exposed abroad in view of the chastening experience of the recent past. Private capital has little inducement for leaving the safe haven of home, and venturing out into a stormy foreign sea, where in addition to normal business hazards it may be caught in the lurking rocks of expropriation and the shoals of exchange risks. Private capital feels that it can scarcely anywhere today see conditions existing where it can go in a reasonable commercial basis and with the assurance of fair and equitable treatment.

Let me give you an example of the sort of circumstances, of which, either individually or cumulatively, private capital is nervous. To avoid any possible diplomatic complications, let us speak of a mythical country which we shall call Ruritania.

An enterprising American business-man may reach the conclusion that it might be a profitable undertaking to establish in Ruritania, shall we say, a factory to manufacture much-needed textiles for the Ruritanian peasants. He succeeds in selling his idea to one of the New York financial houses, who in turn succeeds in selling it to the market and the two million or so dollars necessary to launch the enterprise are subscribed from private sources. A factory is built; machinery is purchased, shipped and installed; and, in due course, thousands of yards of cunningly designed textiles roll off the new looms in Ruritania, which prove absolutely irresistible to the teaming millions of Ruritanian peasants. The new fabrics sell like hot cakes - in exchange for Ruritanian paper francs, of course, and at the end of a year's working the company finds itself with a handsome profit. Then one fine morning, the Chancellor of the Ruritanian Exchequer, at his wits end to balance his budget, has a brilliant fiscal idea. It would be impossible, of course, to secure the passage of a law that would increase by one franc the tax burden on the ruling classes, who keep his government in power. But a bill to impose a forty percent or fifty or sixty percent tax on the profits of all textile factories in Ruritania is certain to pass through both houses of the Ruritanian Parliament with acclamation, especially as it is universally known that there are no textile manufacturing establishments in Ruritania, except those in foreign ownership.

And so it is enacted. And the next morning, the Treasurer of Ruritania Textiles Inc., rather gloomily contemplates a profit-and-loss account which looks about half as good as it did before the Ruritanian Chancellor had "his cut off the joint". However, it still looks pretty good. Even after he has drawn the large cheque to meet the new profits tax, there is still a nice little sum in Ruritanian francs standing to the company's credit in the books of the Ruritanian National Bank that he will be able to remit to New York to satisfy the divident-appetite of his stock-holders. He makes a rough pencil calculation of the conversion. For this purpose, he can't, of course, use the official rate of ten francs to the dollar; for remittances, his dollars will cost him fifteen francs apiece. However, it is not, even so, a discouraging result. He puts on his hat, walks around to the Ministry of Finance to lodge an application for a permit to purchase foreign exchange. He is received by a harassed official, who treats him with impeccable courtesy, and assures him that his request will be put before the Chancellor for sympathetic consideration. But, the official warns him, the foreign exchange situation is rather tight and there may be difficulties. In due course, the harassed official, being a man of his word, puts the case to the Chancellor...... Dollars! For the profits of these foreign devils!! Not on your life!! Haven't the Staff of the Ministry of Finance yet realized that the essential requirements of Ruritania must have first priority, before there can be any question of the remittance of foreign profits? And the Chancellor thereupon hands out a bunch of foreign exchange permits that he himself has personally authorized and that are to go at once to the National Bank for implementation -- Sixteen luxury limousines for the members of the Cabinet -- a neon lighting installation for the new down-town cabaret -- and twenty thousand dollars for the Regent's Grand Aunt, who is on the verge of a nervous breakdown and must have a prolonged holiday in California. So, a few days later, the Treasurer of Ruritanian Textiles Inc., receives a polite little note from the Ministry of Finance regretting that the requested permit to purchase foreign exchange cannot be granted.

The months and years roll by, and the Company still goes on doing a flourishing business, -- still in Ruritanian francs, of course. Then the Ruritanian Government decides that it is no longer in the best interests of Ruritania that the Ruritanian textile industry should be in foreign hands. Legislation is accordingly passed and the company is taken over by a Ruritanian Corporation, -- perhaps, if the Company is lucky, on the basis of compensation. The subsequent history of Ruritanian Textiles Incorporated contains little else of interest beyond the story of an academic debate between the U.S. Ambassador to Ruritania and the Ruritanian Minister for Foreign Affairs on the ethics of expropriation.

This is a fanciful and exaggerated picture that I have drawn. But it is not all that fanciful or all that exaggerated, and the sad story of Ruritanian Textiles Incorporated might in one respect or another, if indeed not in all respects, be the story of more than one American venture in foreign equity investment.

Let me now refer for a moment to the other established category of foreign investment, namely investment in foreign government bonds. In this field, too, the investor has something to complain of, and can, perhaps, be forgiven if he displays little disposition to take further risks. But insofar as this form of foreign investment has fallen into disrepute, the blame lies as much, perhaps, at the door of the lender as it does at the door of the borrower. In the past, and particularly in the period between the two Wars, there was much bad international borrowing, but there was worse international lending. Loans were made to construct pretentious public buildings in poor little countries who were in crying need of capital to maintain and develop their basic industries. Loans were made and, indeed, sometimes were virtually forced on borrowing countries in amounts which, on any reasonable computation, were far beyond the capacity of the country to repay. Loans were made for specific purposes, which were good enough in themselves, but no steps were taken by the lenders to see that the proceeds of the loans were used to finance the projects for which the loans had been made and the borrowed funds were often squandered on unproductive non-essentials.

Such lending policies inevitably lead to default -- defaults for which the lender as much as the borrower must accept responsibility. Moreover, the effects of this situation were not confined to the financial field. Between nations, as between individuals, nothing is more corruptive of friendly relations than dishonored obligations from whatever cause they arise. It must be admitted, however, that in some instances, certainly, default was due not so much to incapacity to repay as to unwillingness to repay on the part of the borrower. And private capital, once bitten can hardly be blamed if it is twice shy.

These are some of the circumstances, as I see them, which operate today against the movement of private American capital abroad. And, of course, behind and overshadowing all these circumstances is the general unsettlement in the world political situation. Looking round the globe today, there is unfortunately more than one country where the political situation is one into which it would be a sanguine - and indeed temerarious - investor who would venture.

Having outlined what I believe to be some of the principal reasons for the present sluggishness in the outward flow of private capital into foreign loans and into equity investments abroad, I ought not, I admit, to be allowed to leave the matter there, without giving some indication of the steps that it is desirable and that it is practicable to take if the flow of private investment is to be resumed.

Political stability and internal security within the borders of a country are the first requisite conditions for which a lender will look. Private capital, naturally, will shy away like a nervous colt from revolution or civil war. There is little nor nothing which can be done by any of us about such situations but to hope that sanity and good sense may sooner or later prevail. Certainly, the International Bank has no illusions about what it can accomplish in such countries.

But happily there are still regions of the world, and they are not a few, where these deterrents do not exist. It is to these areas, and we hope their number may go on growing, that private investment will look for its outlet provided it can find a healthy economic and financial climate. I think the International Bank can do a good deal to bring about that climate and so to achieve the purpose for which the Bank was designed, namely to promote foreign investment by private investors through the usual investment channels.

In broad general terms the Bank can do this, I believe, in two ways.

First, by itself being willing to guarantee or to make loans in situations which are too borderline to attract private capital and yet where the purposes of the loan will comply with the strictest criterion of economic desirability.

Secondly, by formulating appropriate policies and adopting appropriate procedures for any loans which it guarantees or makes. In this way the Bank can hope to build up a new standard in international lending, free of some of the blemishes which marred it in the past, and can also hope to guide the feet of international borrowers away from some of the paths into which they have been prone to stray.

Let me put to you more specifically some of the principles which the Bank observes and some of the criteria that it imposes in guaranteeing or making loans.

1. The Bank must be satisfied that a loan will serve a useful and productive economic purpose, that the loan will make two or three or four blades of grass grow where but one grew before, and, preferably, that the loan will fortify the external resources of the borrowing

country either by adding to its foreign exchange earnings or by relieving the strain on its foreign exchange outgoings. In this way the Bank aims to increase a country's capacity to receive and to service additional foreign investment, if it needs it.

2. The Bank will wish to satisfy itself that the amount of the loan is such that it is within the capacity of the borrowing country to service and to repay. Several applications which have been, or are, under consideration by the Bank, have been in amounts which in the Bank's view would have represented a burden in interest and amortization which, even in the most optimistic assumptions, would be beyond the reasonable prospects of the borrower to carry. And the Bank has not hesitated to say so. By displaying what may appear to be some hardness of heart at the stage of granting credit, I am sure the Bank is acting prudently, not only in its own interests, but in the interests of its borrower also. To act otherwise, would be to connive in an arrangement which would contain all the elements of a future default.

3. As a matter of administrative practice, the Bank has set up machinery to ensure that the proceeds of a loan are spent on the purposes for which the loan is granted. This is secured by stationing a small Bank mission in each borrowing country who remain there throughout the disbursement period of the loan and satisfy themselves by all necessary checks that the funds provided by the Bank are actually expended on the goods or services specified in the loan contract.

4. Before making a loan, the Bank examines the past record of a potential borrower in the field of external indebtedness. Where there has been default, the Bank wishes to be satisfied that the default was involuntary, and not deliberate, and requires some evidence that the debtor is using his best endeavours to come to a satisfactory arrangement with his creditors.

5. Where the internal financial situation in a borrowing country is unsatisfactory, the Bank before making a loan, expects to see that steps are being taken to put right what is wrong. Such reforms may be in the field of currency, credit policy, import control, foreign exchange policy or the budget. In this way, the Bank uses its influence as a potential lender not only for the purely selfish purpose of improving the security of any loans that the Bank itself may make, but also with the object of improving and stabilizing the credit situation of the borrower himself.

6. Throughout the life of a loan, the Bank continues to maintain a close relationship with the Governmental and financial authorities in the borrowing country. In this way, the Bank is able to keep in touch with the financial and economic policies from time to time adopted. The Bank is thus afforded an opportunity, should it think it desirable and appropriate, to make representations if such policies are likely to be detrimental to the general credit standing of the borrower in the international financial markets, or to the servicing of the Bank's loans in particular.

We in the Bank believe that these policies and practices are soundly conceived, and we believe that, if we adhere to them when we embark upon what can never be the entirely riskless adventure of international lending, we shall at least blaze a trail which will be one along which private capital will eventually be able to follow us.

While I have been talking, some of you, doubtless, may have been wondering what resources are behind the International Bank which enable us to carry out the sort of operations I have outlined. I shall try and give you a brief and simple description of these.

Each of the 46 states who are members of the International Bank makes a capital subscription. The amount of this subscription is based on a complicated formula which takes account of such factors as the national income, the extent of the country's foreign trade, and the fluctuations in its balance of payments. The amount of these capital subscriptions varies from just over $3 billion in the case of the United States of America (our largest stockholder) to $200,000 in the case of Panama (our smallest). Of the subscribed capital, 20 per cent only is available to the Bank for the purpose of making direct loans; of this 20 per cent, the first 2 per cent has been paid in gold and the remaining 18 per cent in the member's own currency. The other 80 per cent of the subscriptions is not available for lending, and is subject to call by the Bank only as and when it may be needed to meet obligations arising out of defaults which can not be met out of the Bank's general reserves or from the unutilized portion of its paid-up-capital. Under its Articles, the total amount of loans directly made or guaranteed by the Bank may not at any time exceed its total subscribed share capital plus its reserves and any undistributed profits.

As things are at present, the capital subscriptions of none of the member states of the International Bank is freely available for lending except the subscription of the United States. I am constantly being asked why this should be so and the answer is this. Let us consider for a moment in what circumstances a nation is able to assume the role of a lender. In this respect, a nation is subject to precisely the same limitations as an individual. If any one of us finds himself in the situation where his income just balances with his expenditures that is to say, where his consumption is equivalent to his production, he is in poor shape to lend even to his best friend. But if any one of us should be in the unhappy situation where his income is less than his expenditures then he is in no shape to lend at all. When the affairs of an individual or a nation have been so ordered that the individual or the nation is able to produce more than it immediately wishes to consume, it is then, and only then, that the individual or the nation can become a lender. In the world of today, with one or two unsubstantial and unimportant exceptions, there is only one nation which finds itself in this situation and that nation is the United States of America.

The International Bank for Reconstruction and Development is a peculiar institution, in at least another respect. If we achieve the purpose for which we were established, we shall have justified our existence and can go out of business. And the sooner we have achieved it, the better the job that we shall have done. But it will not, I fear, be this year or next year, or the year after, that we shall reach our goal. The road there is a long one; it will have many ups and downs; many greasy patches; and many nasty corners; there will be plenty of stop signs and roundabouts, and occasional dead-ends, and I am sure more red lights than green ones. We have just made our start, but with judicious use, sometimes of the gas-pedal sometimes of the brake, and with due observance of careful driving habits, we may eventually safely reach our journey's end.

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UNITED NATIONS SEMINAR COURSE

NEW YORK CITY

26 July 1948

W.A.B.ILIFF

In July of 1944, the financial and economic experts of forty-four nations of the world met at Bretton Woods, in New Hampshire. All of them were agreed that some steps ought to be taken if some degree of order and stability was to be introduced into the manner in which, for a generation past, the world had been conducting its financial and economic affairs, especially in the spheres of monetary policy and international investment.

If we look back on the period between the two world wars we do not need to be endowed with a lot of hindsight to perceive how the germs of World War II were hatched out of the consequences that flowed from World War I. Those germs flourished upon the wrong-headed financial and monetary policies which the nations adopted in a vain attempt to insulate themselves from the economic effects of that first world conflict. Humanity had learned the elementary lesson - that prosperity and peace were inseparable. But they had not yet learned the second lesson - that prosperity, like peace, is indivisible.

During that summer of 1944, the Founding Fathers of Bretton Woods meditated upon and debated the disordered state of our modern world. And then, amid the sylvan beauty of New Hampshire, they begat a pair of lusty twins. They baptised them, not very happily, I fear, for their names are rather a mouthful --- but they baptised them nevertheless,----
---------The International Bank for Reconstruction and Development, and its sister institution -------The International Monetary Fund.

The primary aims of the Founding Fathers were two-fold.

The first was to re-establish the stability and the interchangeability of world currencies which, in the good old days, had been achieved by the gold standard, when the international economic set-up was somewhat less complex than it is today. It is in this field that the International Monetary Fund is called upon to operate ...... in effect, by providing short term credit to member countries suffering from temporary unbalance in their foreign transactions and by providing mechanism for dealing with adjustments in foreign exchange rates.

The second aim was to make some provision to meet the needs of member countries for credit in the long-term field. This, every one agreed, was to be achieved preferably by maintaining and expanding the flow of private investment capital through the traditional channels, rather than by the permanent substitution of some form of institutional lending. And here we have the sphere of operations of the International Bank.

You may well ask why it should have been necessary at all to establish an institution such as the International Bank to take care of a human activity, which, for at least a century and a half, had plodded along quite nicely. Why could it not have been left to those who had done the job in the past, and to do it in the way that they had done it in the past?

For several generations, up to the beginning of World War I, the Western European countries, especially the United Kingdom and France, were the great lending nations. But two wars, and the devastation they brought in their wake, have turned those nations from being creditors on a large

/scale

scale into being debtors on a scale still larger. These traditional lenders are no longer lenders, but borrowers. Today, the only substantial reservoir from which a flow of international lending can come, is the United States of America. And yet, private American capital is not moving abroad to any considerable extent.

What are the reasons?.........I think the reasons are these. Private capital is inclined to be wary of the risks to which it may be exposed abroad, in view of some of its experiences in the past. Private capital feels little inducement to leave the safe haven of home, and to venture out into a stormy foreign sea where, in addition to encountering normal business hazards, it may be caught in the lurking rocks of exchange risks or the shoals of something worse. Private capital feels that it can see few places today where it can go in on a reasonable commerical basis, and with the assurance of fair and equitable treatment.

What I have just said refers to foreign equity investment. Let me now refer for a moment to the other established category of foreign investment, namely, investment in foreign bonds. In this field too, the investor displays little disposition to take risks. And in view of some sad experiences in the past, it is not impossible to understand why the investor may be reluctant. But, in so far as this form of foreign investment has fallen into disrepute, the blame lies as much perhaps at the door of the leader as it does at the door of the borrower. In the past, and in particular in the period between the two wars, there was much bad international borrowing. But there was worse international lending.

Loans were made to construct pretentious public buildings in poor little countries that were in crying need of capital to maintain and develop their basic industries.

Loans were made and indeed were sometimes virtually forced on borrowing countries in amounts which on any reasonable computation were far beyond the capacity of the country to repay.

Loans were made for specific purposes which were good enough in themselves, but no steps were taken by the lenders to see that the proceeds of the loan were used to finance the projects for which the funds had been borrowed, and the money was often squandered on unproductive non-essentials.

Such lending policies inevitably led to defaults.......defaults for which the lender, as much as the borrower, must accept responsibility. Moreover, the effects of this situation were not confined to the financial field. Between nations, as between individuals, nothing is more corruptive of friendly relations than dishonoured obligations, from whatever cause they arise. It must be admitted, however, that, in some instances certainly, default was due, not so much to incapacity to repay, as to unwillingness to repay, on the part of the borrower. And so, private capital, once bitten, cannot be blamed too much if it is twice shy.

These are some of the circumstances, as I see them, which are operating against the movement of private capital abroad.

And, of course, behind and over-shadowing all these circumstances is the general unsettlement in the world political situation.

/Looking

Looking around the globe today, there is, unfortunately, more than one country where the political situation is one into which it would be a sanguine and indeed temerarious investor who would venture.

Political stability and internal security within the borders of a country are the first requisite conditions for which a lender will look. Any investor naturally will shy away like a nervous colt from revolution or civil war. There is little or nothing that can be done by any of us about such situations, except to hope that, sooner or later, sanity and good sense may prevail. Certainly, the International Bank has no illusions about what it can accomplish in such countries.

But happily, there are still regions of the world - and they are not a few -- where these deterrent conditions do not exist. It is to these areas, and we hope that their number may go on growing, that private investment will look for its outlet, provided it can find a healthy economic and financial climate. I think the International Bank can do a good deal to bring about that climate, and so to achieve the purpose for which the Bank was designed, which is this..........to promote foreign investment by private investors through the usual investment channels.

But before I go on to tell you how I believe that the Bank can do this, let me first tell you a little about the organization of the Bank and how it gets its money.

The International Bank is an international co-operative banking institution. Its stock is held by the Governments of forty-six member countries. Its total subscribed capital is just over eight billion dollars. The amount of the capital subscription of each member country is based on a complicated formula which takes account of such factors as the national income, the extent of the country's foreign trade, and the fluctuations in its balance of payments.

The amount, of course, varies as between country and country - from just over three billion dollars in the case of the United States of America (our largest stock-holder) to $200,000. in the case of Panama, (our smallest).

The capital subscription of each member country is divided into three parts. The first 2% must be paid in gold or in United States dollars. The next 18% is payable in the currency of the member country, and can only be used by the Bank for lending with the consent of the member government concerned. The remaining 80% is not available for lending, and is subject to call by the Bank only as and when it may be needed to meet obligations of the Bank arising out of defaults. This call, if made, must be met in gold, or in U. S. dollars, or in whatever currency is necessary in order to enable the Bank to make good the obligation for which the call is made.

As things are at present, the 18% capital subscription of none of the member states of the International Bank is freely available for lending except the subscription of the United States. I am constantly being asked why this should be so, and the answer is this.

Consider for a moment the circumstances in which a nation is able to assume the role of a lender. In this respect, a nation is subject

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to precisely the same limitations as an individual.

If any one of us finds himself in the situation where his income just balances with his expenditures, that is to say, where his consumption is just equivalent to his production, he is in poor shape to lend, even to his best friend. But if any of us should be in the unhappy situation where his income is less than his expenditures, then he is in no shape to lend at all.

When the affairs of a nation or an individual have been so ordered that the nation or the individual is able to produce more than it immediately wishes to consume, it is then, and only then, that the individual or the nation can become a lender. In the world of today, with one or two unsubstantial and unimportant exceptions, there is only one nation which finds itself in this situation. And that nation is the United States of America.

Out of its subscribed stock, the Bank has, therefore, had available for lending about three quarters of a billion dollars, made up of the 2% capital subscriptions from each of the member countries, plus the 18% capital subscription of the United States of America, which amounts to about $570 million. We have had, in addition, two hundred and fifty million dollars which the Bank itself has raised through the sale of its own securities in the market.

The Bank has made two public offerings of its own bonds in the United States market........both on 15 July 1947. The first issue was in the principal amount of $100 million of Ten Year 2¼% bonds due in 1957. The other was in the principal amount of $150 million of Twenty-five Year 3% Bonds due in 1972. Both issues were sold at par, and were substantially over-subscribed.

So far as lending operations are concerned........up to date, the Bank has made loans or is committed to make loans to a total amount of 513 million dollars....$250 million to France; $195 million to the Netherlands; $40 million to Denmark; $12 million to Luxembourg, and $16 million to Chile. A number of applications for loans are now under consideration.

I have already said that the purpose for which the Bank is designed is to promote foreign investment by private investors through the usual investment channels. The Bank can do this, I believe, in two ways.

First, by itself being willing to guarantee or to make loans in situations which are too border-line to attract private capital, and yet where the purpose of the loan will comply with the strictest criterion of economic desirability.

Secondly, by formulating appropriate policies and adopting appropriate procedures in relation to any loans which it guarantees or makes. In this way, the Bank can hope to help to build up a new standard of international lending, free of some of the blemishes which marred it in the past. The Bank can thus also hope to guide the feet of international borrowers away from some of the paths into which they have hitherto been prone to stray.

Let me put to you more specifically some of the principles which

/the Bank

the Bank observes, and some of the criteria that it applies, in guaranteeing or making loans.

1. The Bank must be satisfied that the loan will serve a useful and constructive economic purpose, that the loan will make two or three or four blades of grass grow where but one grew before, and, preferably, that the loan will fortify the external resources of the borrowing country, either by adding to its foreign exchange earnings, or by relieving the strain on its foreign exchange outgoing. In this way, the Bank aims to increase a country's capacity to receive and to service additional foreign investment if the country needs it.

2. The Bank will wish to satisfy itself that the amount of a loan is such that it is within the capacity of the borrowing country to service and repay. By displaying what may appear to be some hardness of heart at the stage of granting credit, I am sure the Bank is acting prudently, not only in its own interests, but in the interests of the borrower also. To act otherwise would be to connive in an arrangement which would contain all the elements of a future default.

3. As a matter of administrative practice, the Bank has set up procedures to ensure that the proceeds of a loan are spent on the purposes for which the loan is granted. This is secured by requiring borrowers to submit in support of requests for the disbursement of loan monies, proof that goods in the agreed categories have been purchased, or have been contracted for. As part of these procedures, the cooperation of commercial banks making payment under letters of credit has been obtained.

4. In order to ensure that goods purchased out of proceeds of a loan are used for productive purposes, the Bank conducts enquiries, through field representatives located in borrowing countries, into the uses to which the goods are put.

5. Before making a loan the Bank examines the past record of a potential borrower in the field of external indebtedness. Where there has been default on foreign loans, the Bank wishes to be satisfied that the default was involuntary and not deliberate, and requires some evidence that the debtor is using his best endeavours to come to a satisfactory arrangement with his creditors.

6. Where the internal financial situation in a borrowing country is unsatisfactory, the Bank, before making a loan, expects to see that steps are being taken to put right what is wrong, whether in the field of currency or credit policy, or import control, or foreign exchange policy or the national budget. In this way, the Bank uses its influence as a potential lender not only for the purely selfish purpose of improving the security of any loan it may make, but also with the object of improving and stabilising the credit situation of the borrower himself.

7. Throughout the life of a loan, the Bank continues to maintain a close relationship with the governmental and financial authorities in the borrowing country. In this way, the Bank is able to keep in touch with the financial and economic policies from time to time adopted, and to make representations if such policies seem likely to be detrimental to the general credit standing of the borrower in the international financial markets, or, to the servicing of the banks loans in particular.

/We, in the

We, in the Bank, believe that these policies and practices are soundly conceived, and we believe, too, that if we adhere to them when we embark on what can never be the entirely riskless adventure of international lending, we shall at least blaze a trail that will be one along which private capital will eventually be able to follow us.

The International Bank, as its title implies, was intended to operate in the field of international reconstruction, and in the field of international development.

In the field of development, a host of fascinating, if difficult problems present themselves. The under-developed countries of the world divide themselves conveniently into three regions-----the Latin American continent, Asia and Africa, and the Far East. All three display at least this characteristic in common........they are all highly "development conscious". Some of these countries realize that Pittsburg and Birmingham were not built in a day, and they are laying plans for development on prudent, orderly, and modest foundations. Other countries, however, are more ambitious. And the demands, if they were added up, of all their five-year and ten-year plans would, in terms of finance, several times eat up the total loanable funds of the Bank, and, in terms of capital equipment, would far exceed the production potential of all the manufacturing countries of the world.

We are living on a planet which is much smaller than the planet on which our grandfathers lived. In their day, distances were forbidding barriers to intercourse and communications were slow. Continental, and indeed national, isolation imposed upon all but a very few, an ignorance of the conditions and mode of living of his neighbour. But, today, with the coming of the aircraft, the radio, and above all, of the movie, - all that is changed, and the occidental way of life has become known in the most remote corners of the globe....to the worker in the Chilean copper mine, to the coolie in the Chinese rice field, to the peasant in the mountains of Iran.

They hear about, and they see, a standard of life far exceeding anything that they themselves have ever known or believed to exist. They can scarcely be blamed for imagining that what others have achieved they themselves can hope to achieve.

But, it is the difficult task of their leaders to educate them in the hard creed that occidental standards have come about only through processes of accumulation of capital and of technical skills that must go on, not merely over five years, or over ten years, but over generations. It is not by the overnight construction of steel mills or hydro-electric plants or by the wide-spread installation of modern tele-communications, or by the erection of the most up-to-date port facilities that the economic stability of a country is to be secured. These things are important, but their importance lies, not in having them for their own sakes, but in the extent to which they necessarily serve.......the basic economic structure of the country that possesses them.

It is only by a slow process of patient and unremitting effort in the less spectacular fields of building up a country's basic resources that the foundations can be laid for economic security and progress, and for social betterment and contentment.

/It is against

It is against this general background that the International Bank must approach its problem in the sphere of development, and formulate and develop its lending policies.

In the field of reconstruction, the operations of the Bank have so far been confined to Western Europe, and, as I have already said, we have made four loans there. All these loans are ear-marked for definitely productive purposes. They have been, or are being, used for the purchase of specific goods, primarily industrial and agricultural machinery, transportation equipment and basic raw materials, which the borrowing countries have needed to step up production, and which contribute to the reconstruction of Europe as a whole. I think the Bank can claim, without undue complacency, that these loans have made an important contribution during a vital period of the European economic resurrection.

But the unbalance in the economies of Western Europe today is far beyond the unaided capacity of the International Bank to restore; and the hopes of the whole of the civilized world are now centred on the European Recovery Programme. Under this programme, large funds are made available to meet the needs of Western Europe for food, fuel, and raw materials, which at the moment, Western Europe has not the resources to pay for. The European Recovery Programme will also be able, to some extent, to provide items of capital equipment to enable Western Europe to rebuild, modernize and expand her industrial potential, and in this field the International Bank hopes to be able to continue to make its contribution as a supplement to the magnificent and generous contribution of the United States Government and people.

The world financial and economic outlook has undergone a transformation from the sedate scene that confronted the international lender of the first two decades of this century. The panorama of 1948 is filled with features that are unfamiliar and forbidding even to the international banker of the 1920's and 1930's.

The International Bank is a new institution -- still very much in its infancy. It has been called upon to operate in a field where there is much to learn before policies can be dogmatically enunciated, or techniques laid down with confident precision.

The operations of the Bank, up to date, have evoked in some quarters the criticism that they have been too much penny-plain and too little tuppence-coloured. We are prepared to accept that assessment of our work as a recognition of a record, during the short period of our existence, of modest and solid achievement.

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Address by W. A. B. Iliff, Loan Director,
International Bank for Reconstruction and Development,
before the
National Association of Supervisors of State Banks at Reno, Nevada
October 26, 1949

When addressing an audience as informed as the National Association of Supervisors of State Banks, I feel entitled to assume that it would be a waste of your time, and mine, if I went in any detail or at any length into a dissertation on the purposes, the constitution and the capital structure of the World Bank; and I shall deal with those matters only to the extent that may be necessary to turn what might otherwise be a disjointed and incoherent narrative into what, I hope, will be a logical story.

The World Bank or, to give it its full title, the International Bank for Reconstruction and Development can, I suppose, best be described as an international cooperative banking institution. We are not, by intention, a profit-making institution, although, if that happy result should attend our operations, no one will complain. The object of our existence is to make loans of which the proceeds will be spent on genuinely productive purposes, in situations where there are reasonable prospects of repayment, and in circumstances where private capital for those same purposes would not be available to the borrower on reasonable terms.

From what sources does the Bank derive the funds that it lends? First, there is the paid-in capital of each of our 48 member states who have adhered to the Bretton Woods Agreements. The total subscribed capital stock of the Bank, as of June 30th, 1949, amounted to approximately $8½ billion. The amount of the capital subscription of each member country is based on a complicated formula which, I confess, I do not myself understand. It varies between member state and member state, and ranges from just over $3 billion, in the case of the United States, our largest stockholder, to $200,000, in the case of Panama, which is our smallest.

But, of the total of our subscribed capital stock, only 20% is paid up, and available to the Bank for use in its lending operations. The remaining 80% is in the nature of a guarantee fund, and this I shall refer to later.

Of the 20% paid-up capital, the first 2% is payable by all our member states in gold or United States dollars. The remaining 18% is payable in the currency of the member states. Thus, of the paid-up capital of the United Kingdom, for example, the first 2% is in gold or United States dollars, and the remaining 18% is in pounds sterling.

But certain limitations are imposed upon the circumstances in which the Bank may make use of these 18%s. Under our Articles of Agreement they may be utilized only with the consent of the Government of the member state. Up to now, only one of our member countries has been able to allow us to make use of the whole amount of her 18% capital subscription, and that is the United States of America. Limited amounts have been made available to us also by the Governments of Canada, the United Kingdom and Belgium. Probably no country in the world is today in a position to be as liberal in this respect as has been the United States, because, in effect, the use by the Bank of the 18% capital subscription amounts to an export on credit, or, in the jargon that is in fashion today, to that amount of "unrequited exports". Most of our member states are today struggling with balance-of-payments situations which are grim enough to make Ministers of Finance turn a cold and unsympathetic ear to any proposals to send his country's goods abroad, except against an immediate return. Nevertheless, it has been a source of considerable disappointment to us in the Bank that, so far, our efforts to obtain permission for the utilization of these 18%s have not met with more success. We do not expect the impossible, and we realize that what the United States has done, only the United States could do. At the same time, with an eye on the substantial amount of credits which some of our member states have been able to extend as features of their bi-lateral trade and payments agreements, we feel that we need display little diffidence in pressing our stockholders for a more adequate recognition than we have had in the past of their obligations towards an international institution of which they are members. And we are continuing to do so.

So, out of the paid-up capital of the Bank, the amounts that we have had available for use in our lending operations, have been the aggregate of the 2% subscriptions payable in gold or United States dollars by all our member states, plus the 18% capital subscription payable by the United States itself in United States dollars, plus the limited amounts from the 18%'s of Canada, the United Kingdom and Belgium, to which I have referred. The aggregate of these three components is of the order of 700,000,000 United States dollars. Beyond this, the Bank must rely for its loanable resources on funds which the Bank itself can borrow on its own obligations in the money markets of the world. Up to now, the Bank has engaged in three borrowing operations. Two years ago, we made an issue in the United States of $100,000,000 of 10-year 2¼% bonds, due in 1957, and simultaneously, an issue of $150,000,000 of 25-year 3% bonds, due in 1972. Last year, we placed in Switzerland a small issue of 2½% Swiss francs serial bonds due 1953 to 1954. The principal amount was 17 million Swiss francs, or the equivalent of approximately 4 million United States dollars. In addition, the Bank has sold, with its guarantee, $28 million of bonds received under the Belgian and Dutch Ship Loan Agreements. Thus, the total amount of the outstanding obligations of the Bank today is approximately $280 million. I am frequently asked when do we expect to go to the market again. As Mr. Eugene Black, the President of the Bank, has said recently, that will depend upon a variety of circumstances, but, at the moment, we have sufficient funds available to meet probable commitments over a considerable period ahead and we do not expect to be obliged to resort to further borrowings in the immediate future.

These bonds which we issue are general obligations of the World Bank, and are not secured by pledges of any specific collateral. They are backed by the assets of the Bank, and, in addition, have the underlying guarantee of the 80%'s of the capital subscriptions of our member states. I mentioned earlier that this 80% is in the nature of a guarantee fund. It may not in any circumstances be used by the Bank for lending, and it is subject to call only if it is required to meet the Bank's obligations. As of today, this 80% uncalled portion of the Bank's capital amounts to the equivalent of approximately 6,700,000,000 United States dollars, and of this amount, $2½ billion is an obligation of the United States Government. It is worth mentioning that the obligation of each member government to meet any calls which the Bank may make is independent of the obligations of all other member governments. This means that each member government, including the Government of the United States, is liable for the full amount of its unpaid subscription irrespective of whether or not other members meet the calls for this purpose. The Bretton Woods Agreement Act, passed by the United States Legislature in July, 1945, authorizes the Secretary of the Treasury "to pay the subscription of the United States to the Bank, from time to time, when payments are required to be made by the Bank". No further action by Congress is needed for payment by the United States of any of the unpaid $2½ billions of its capital subscription, if the Bank should require it.

And now a word about the assets of the Bank.

First, there are our liquid assets in cash and marketable securities.

These include a Special Reserve Fund, built up from the 1% commission which, in addition to interest, the Bank charges on its loans. This Special Reserve Fund, is steadily growing. On September 30th, 1949, it amounted to approximately \$9,400,000. Furthermore, from the beginning of our operations up to September 30, 1949, we have accumulated an excess of income over expenses, or net profit, amounting to approximately \$16,800,000.

Then, there is, what in any investment banking institution ought to be the most significant item among its assets - its portfolio of loans. As of October 17th, 1949, the World Bank had made loans totalling approximately \$730 millions. I shall not attempt to describe to you each of the loans which go to make up that total, or to convince you of the peculiar and intrinsic merit which each one of them possesses. Their salient features have been set out extensively in the Annual Report of the Bank and in the Press Release which the Bank issues on each occasion that it enters into a loan contract.

But, it might be of some interest to you if I attempted to describe to you the sort of considerations which the Bank keeps in mind when deciding to admit paper to its portfolio. It is with this aspect of the Bank's activities that I, as Loan Director, am especially concerned.

Scarcely a day passes but that I am asked, orally or in writing, to define the Bank's loan policy, either generally or in some specific aspect.

Policy is not a matter which is susceptible of precise definition. It is something to be inferred from a series of actions, rather than something that can be declared in a statement of intention. It grows up from a succession of precedents. It may vary from year to year, or even from month to month, in the light of a variety of changing circumstances in a constantly changing world.

I shall not, therefore, try to define in precise terms the policies which guide our actions, but I shall, instead, mention, and attempt to explain, some of the considerations to which the Bank has regard in deciding, from time to time, whether or not particular investment operations should be embarked upon. I shall leave it to you to form your own impressions of the stuff of which this illusory thing called policy is made up.

First, the scope of the Bank's operations is circumscribed by the provisions of our Charter, that is to say, our Articles of Agreement. This is the legal strait-jacket into which our investment operations must fit. The private investor is not similarly circumscribed. No territorial limitations are imposed on the placing of his bans. He can invest in Ruritania or Utopia, basing himself solely on the balance between his probable return and the risk that he will run. Moreover, he has no functional limitations to hamper him. That is to say, there is no onus on him to make loans only for specific purposes. The proceeds of his investment may be devoted to the balancing of a government budget or to the construction of a swimming pool or a casino. Intergovernmental lending is also free from any restrictions of these kinds.

But the Founding Fathers of Bretton Woods imposed certain frontiers, over which the World Bank may not transgress. To begin with, our operations are limited to the territories of our member states. We may not invest, for example, in Soviet Russia, or in the Argentine, or Switzerland, or Sweden, none of whom is a member of our institution. Again, we are required to be satisfied that the proceeds of our loans are used only for productive purposes which will be of economic benefit, not only to the member state in which our investment is placed, but also to our member states as a whole. Again, where a member government is not itself the borrower, any investment which the Bank may make in a member state must be fully guaranteed by the government of that state. To some extent this requirement restricts our operations, so far as loans to private corporations are concerned. If we lend to a private corporation, in Country A, with the guarantee of the Government, the Bank's ultimate recourse is against the Government. In these circumstances, it is not unnatural that a government, before extending its guarantee, should require, on the part of the borrowing corporation, a complete disclosure of its financial situation and its operating practices. It is not unnatural, also, that, in some cases, private corporations should display some reluctance about making this full disclosure to the government of the territory in which they are operating. Several attractive proposals which have been brought to the World Bank for financing, by private corporations, have been abortive because of the unwillingness of the corporation to accept the requirement imposed by our Articles that the investment should carry a government guarantee. Our Articles enjoin us also to undertake investment operations only when we are satisfied that the funds required by the borrower cannot be obtained by him from the private market on reasonable terms. Then, the proceeds of our loans must be devoted to specific projects of reconstruction and development, except in special circumstances. This provision excludes, for example, a stabilization loan from the normal pattern of the Bank's operations. Exceptional circumstances must also be adduced before the Bank may provide a borrower with his own local currency for the purposes of a loan, and it is our normal practice to advance only the foreign exchange costs of a project, leaving the local currency costs to be found from local sources. This requirement has undoubtedly acted as a brake on the speed of the Bank's operations in our underdeveloped states who, in general, not only suffer from a lack of technical and managerial skills, but also are short of local capital.

Finally, our constitution requires us to be satisfied that there is a reasonable prospect that the borrower and the guarantor will be able to meet their obligations in connection with any loan. This does not mean that the Bank does not take risks. The element of risk can never be eradicated from the practice of international lending. But the risks must be calculated risks, and we are exhorted to act prudently in the interests, not only of the borrower, but of our member states as a whole.

These are the statutory considerations which determine the pattern of our investment operations. Whether they are right or wrong; whether they are too restrictive; whether they enable the Bank to achieve the purposes for which the founders hoped, may be a matter of opinion, but they are as binding on the Executive of the Bank, as constitutional law is binding on the executive of any one of our member states.

I shall now move on to discuss some of the non-legal considerations to which we have regard in our operations. We are exhorted under our Articles to reach decisions with regard to loans basing ourselves on financial and economic considerations only. This does not mean, by any means, that we can afford to shut our eyes completely to political situations. If we did so, we should be disregarding another of our paternal exhortations, namely, that we should act in the interests of our member states as a whole. Inevitably our activities are to some extent circumscribed by unsettled political situations, both domestic and international, which prevail today, not only in the old world but also in the new. But we take account of these political situations only insofar as they may affect the financial and economic aspects of the particular operation that we may be contemplating; but that of course is a very different thing from making a loan for a political motive, which, of course, we do not do. Let us say that we are considering a loan to Ruritania. Ruritania may at that moment be on the verge of a revolution. Have we any assurance that obligations entered into by the Republic of Ruritania today will be honoured by the Kingdom of Ruritania tomorrow? Can we say what is likely to be the future financial and economic trend in a member country in such a state of unsettlement? How can we assess a country's capacity to repay standing on such shifting sands? In such circumstances we feel that we are right to proceed cautiously. The Bank, after all, is acting in the capacity more or less of a trustee and we owe it to our stockholders, that is our member states as a whole, not to go wantonly or rashly into such situations.

At the beginning I said that I thought the Bank could best be described as an international cooperative investment institution. This conception of the Bank inevitably introduces a uniformity of pattern into the conditions on which we lend. That does not, however, mean that our contracts are rigid; in fact they are constantly going through a process of change and, I hope, of improvement in the light of our experience. We lend either to Governments or on the guarantee of Governments, and we do not differentiate as between one member state and another with respect to any material condition in our loan agreements. Up to now, for example, it has been our practice to charge rates of interest which are uniform as between one member state and another. I mean by this that we lend 25-year money to country A at the same rate of interest as we lend 25-year money to country B. We have not hitherto adopted a procedure where the rate of interest that we charge reflects any shade of difference in our assessment of the risk attaching to the two investments. Our practice is to charge a rate of interest calculated as follows: We first estimate what it would cost the Bank itself to borrow 10, 15 or 20 year money, as the case may be, under prevailing market conditions. To this, we add a small spread for the Bank, plus 1% commission which is carried to the special reserve fund, and the resulting figure is the rate of interest which we charge to our borrower.

In all our loan and guarantee contracts we include what we call a "Negative Pledge" clause under which the borrower and the guarantor undertake that if they contract any further external debt and extend to the new obligation any specific security, then equal and ratable protection shall be extended to the

Bank loan, unless the Bank otherwise agrees in writing.

And, of course, our contracts always provide for free access by the Bank's staff to the territories of our borrowing member, and complete liberty to make all reasonable examination and inspection of the project in which our funds are invested. These provisions form the contractual background against which we are able to "follow-up" on our loans, and to supervise the use to which the proceeds are put - aspects of our operations to which we attach great importance.

It is in connection with provisions in our loan contracts such as those that I have mentioned that the peculiar character of the Bank is thrown into relief. I suppose we are unique in this respect - that actually we lend to, or on the guarantee of, our own stockholders. This situation may sometimes place our member states in a curious dilemma. In their capacity as borrowers, they are naturally interested in securing from the Bank the easiest possible terms. In their capacity as stockholders, they are interested in seeing that the contractual basis of our loans affords appropriate insurance against the possibility of default. We believe that our loan contracts, in their present form, on the one hand, give adequate recognition to the co-operative nature of our institution, and, on the other, give adequate protection to the interests of our stockholders.

When I made my earlier reference to the resources at the Bank's disposal for loanable funds, I said that after we had exhausted the amount of the paid-up capital of our member governments which we had been authorized to use, we were dependent for additional loanable resources on what we could borrow in the money markets of the world. There is no doubt that to some extent the quantity of the Bank's borrowing capacity is likely to be influenced by the quality of the Bank's lending. International markets are notoriously sensitive and fickle, and even at times inexplicably whimsical. The private investor has a disposition to make his own assessment of the merits of each particular investment operation which the

World Bank undertakes. This means that any flagrant or prolonged disregard of market susceptibilities could only have the effect of drying up sources of finance to which the Bank must have access if it is to continue to operate at all. The private investor lays the Golden Eggs, and it would be quite unrealistic to suppose that the Bank could follow a pattern of international investment which at any particular point of time happened to be at serious variance with the prevailing opinions and susceptibilities of the investing public in the market of the particular country where the Bank was seeking a supply of loanable funds. We have, therefore, felt it incumbent on us, in view of the coyness of private capital today in its attitude to foreign investment, to avoid novel, or flashy, or venturesome lending practices. We have leaned to the conservative rather than to the liberal. We are, after all, a new institution. People have still got to get thoroughly used to us, and it is only a lady who is well established in society who can afford to risk dressing beyond the prevailing fashion.

In conclusion, I should like to quote to you two maxims of lending, one deriving from the other side of the Atlantic, and one from this.

Walter Bagehot, an eminent British economist, once said, "Venture is the life of commerce, but caution is the life of banking."

My other maxim comes from the new world. In the early part of the present century, the Washington witch hunt of the day had as its quarry the Wall Street investment banker, and Mr. J. P. Morgan had been hailed before a Congressional Committee, known, I think, as the "Pujo" Committee to answer for the alleged sins of the banking fraternity. In cross examination, he was being attacked on the basis that it was the practice of his house, and of the Wall Street bankers in general, to extort exorbitant and unconscionable security in connection with their lending operations. In reply to one question by Treasury Counsel, Morgan gave this answer: "If I do not trust a man," he said, "he will get no money out of me, not if he gives me all the bonds in Christendom."

Those two maxims might well be printed in red, framed in gold, and find a place on the table of every investment banker.

Sept. 1950

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SUMMARIES OF STATEMENTS OF OFFICERS OF BANK AT INFORMAL PANEL DISCUSSIONS OF FIFTH ANNUAL MEETING

"LENDING POLICIES AND PROCEDURES OF THE INTERNATIONAL BANK"

W. A. B. ILIFF, *Director, Loan Department*

The policies and procedures of the Bank have not been, and cannot be, static, but are constantly going through a process of development.

There are only two criteria from which the Board and the Management of the Bank are not prepared to depart. The two criteria are these: first, the Bank is not prepared to invest in any member state more than the Bank feels that the member state has a reasonable prospect of servicing; secondly, the Bank is not prepared to invest in any program or project unless it is satisfied with the economic merits of that project. The phrase "economic merits" is used in its widest possible sense.

These two criteria are qualified by the fact that the amount the Bank can lend must of course always depend upon the availability of loanable resources. However, it has been the Bank's experience that, up to now, this is a factor which does not limit the amount of Bank lending, and there is no reason to suppose that it is likely to limit the amount the Bank can lend for some time to come.

The first of the criteria mentioned above is described by the phrase "credit-worthiness." "Credit-worthiness" means an assessment by the Bank of a member state's capacity to repay any loan which it may make. The Bank does not, however, assess that repayment capacity in terms of the capacity of the project or program in which it invests to produce the foreign exchange for the service of the loan. It adopts a much wider approach. The Bank looks at the whole balance of payments position of the member state, and on that examination it bases its calculation of the capacity to repay.

There is one point, however, which should be mentioned. The Bank has found frequently that the capacity of repayment of a member state varies in relation to the currencies which the Bank is lending. Dollars are still a scarce currency outside the dollar world today, and the capacity to repay in dollars is, generally speaking, more restricted than the capacity to repay in non-dollar currencies. For that reason the use in its operations of non-dollar currencies is of particular interest to the Bank. From time to time the Bank finds itself in the situation of having to decline to undertake an investment operation because of a country's inability to service a loan in dollars—an operation which could have been carried out if the Bank had had available to it the necessary resources of non-dollar currencies.

When the Bank applies the test of "economic merits," it does so in its widest possible connotation. The Bank does not normally expect that the program or project in which it invests will be self-liquidating either in terms of foreign exchange or indeed necessarily in terms of the local currency which the project itself may earn. The Bank looks rather to the effect that the particular program or project may have on the whole economy of the country, and an indirect benefit may be just as important, in fact even more important, than any immediate financial return that the particular project may earn.

With regard to the "specific project approach" of the Bank, the phrase "specific project" has for the Bank the widest possible significance. This is illustrated by some of the loans that the Bank has already made, and the pattern of specific projects exemplified by them.

In the early months of the Bank's existence, its operations were concentrated mainly in Western Europe, and the Bank made a number of what were called "reconstruction loans." At that time the need was urgent. Western European countries had not yet emerged from the aftermath of the war; Marshall Aid was then just being talked about; and some bridge was necessary if the gap was to be covered. The Bank can at least claim credit for having helped to bridge that gap until the time when Marshall Aid came into full effect. With the implementation of Marshall Aid the need of Western European member states for recourse to the Bank declined. Then the Bank's lending activities became concentrated in its less-developed member states. Here the Bank found itself confronted with some difficulty in the sense that with all the preoccupations of these member states during the critical years of the middle 'forties they had not had time to pay much attention to the preparation of long-term development plans. But there were certain projects which were ready for financing in certain individual member states, which by any criterion would be regarded as high in the priority of development. Some of these projects were submitted to the Bank as individual and isolated projects. If in the Bank's judgment and after consultation with the member government concerned, a particular project deserved high priority the Bank was prepared to finance it, and did indeed finance it. However, the variety of these so-called specific projects is quite striking.

The Bank has not dedicated itself solely to the financing of what might be called a single monumental affair. For example, in the case of India the Bank's loan for the rehabilitation of the railways did not involve a specific project in the monumental sense, but did involve a project providing for the purchase of equipment for the rehabilitation of the Indian railways. The Bank was prepared to regard that as a specific project.

In Colombia the Bank financed the importation of a quantity of agricultural machinery. It was prepared to regard that also as a specific project, although the amount of agricultural machinery, the importation of which the Bank financed, was only a part of the total amount of agricultural equipment which Colombia imported.

In Holland the Bank financed the purchase of a number of additional ships for the Dutch Mercantile Marine. In Mexico it financed a program of expansion of the electric power industry. There are two operating authorities in Mexico, a private corporation, the Mexican Light and Power Company, and a Government agency, the Federal Power Commission. These two operating authorities brought to the Bank a carefully worked out, well-integrated program, providing for a substantial addition to the power production of Mexico. The Bank was prepared to regard that as a specific project and financed it.

In Holland again, the Dutch authorities, through the Herstelbank, a reconstruction finance corporation established by the Government, came to the Bank with a proposal for the re-equipment of Dutch industry which had become badly run down during the war. The Bank was prepared to treat as a specific project the operation of lending to the Herstelbank an amount of foreign exchange sufficient to buy the equipment needed for about one hundred different factories across the whole Dutch economy.

In Brazil the Bank financed an electric power and telephone expansion program promoted by the Brazilian Traction, Light and Power Company, a well-established private company which had been operating in Brazil for many years.

It has sometimes been said that the Bank dislikes development programs. On the contrary, the Bank welcomes them, and it is a matter of regret that more member states so far have not been able to take the time or devote the energy to the preparation of a carefully co-ordinated integrated program, and its presentation to the Bank for discussion and for consideration. That happened in the case of the Netherlands Herstelbank loan and in the case of India. The Indian railways loan has already been mentioned, but that was only a part of the financing which the Bank did in India.

The Government of India came to the Bank and stated that, after having studied the needs of their economy, they had come to the conclusion that the three most urgent necessities were, first, the removal of the transportation bottleneck, which involved some financing of the railways; secondly, some addition to the electric power resources of the Damodar Valley in Bihar and West Bengal—the most highly industralized part of India; and, thirdly, increased food production. After some discussion with the Indian Government, the Bank was able to work out a series of loans designed to meet these three urgent priority needs.

Finally, one of the most recent loans which the Bank has made has been to Australia, where the Commonwealth Government was able to come to the Bank with a well-worked out five-year program, which involved the importation into the Commonwealth of large quantities of capital equipment for various sectors of Australia's economy. The Bank was able to work out with the Australian authorities the financing to meet that particular need.

Regarding the forms of financing which the Bank is prepared to undertake, the Bank has not hitherto found it possible in the normal case to depart from the field of financing the direct foreign exchange cost of projects or programs, but it is now engaged in discussions with the Italian Government which envisage participation by the Bank in the financing of a development program for Southern Italy. This program will be spread over ten years, and it will involve an investment of around $100 million a year by the Italian authorities. The bulk of the equipment which is needed in connection with the various enterprises can be manufactured in Italy; but the impact of an investment program of that scale on the Italian economy is bound to create indirect foreign exchange costs by way of additional raw material for Italian industry and of consumer goods. The Bank has indicated to the Italian Government its willingness to consider financing a part of the indirect as well as the direct foreign exchange costs of that program.

Certain other developments also have taken place in the Bank's lending techniques. In a number of the Bank's less-developed member states, facilities are almost completely lacking for meeting the needs of private industry for long-term financing. There are many small enterprises which have either already been established or which are in the process of being established that need long-term capital and require machinery, for example, which is not available within the country and must be imported from abroad. These small enterprises have great difficulty in securing the funds that they need, and the Bank has assisted in working out in three member states, namely, Turkey, Ethiopia and Mexico, arrangements for the establishment of what might be called industrial credit facilities, that is to say, financing through finance corporations or private banks, which will themselves be able to make equity or loan investments in private enterprises on a long-term basis. In each case a substantial amount of local capital is being put up, and the Bank has indicated its willingness to match that local capital with a proportionate amount of foreign exchange. In that way the Bank believes that small private enterprises in its less-developed member states will be assisted and that it is more appropriate for such operations to be conducted by an organization established on the spot with local knowledge and techniques at its disposal. The Bank feels that such an organization is better placed to pass upon the propriety of investment in enterprises of this character than, for example, five or six members of the Bank's staff sitting around a table in Washington.

All these operations come within the Bank's definition of specific projects. In essence, the "specific project approach," in the Bank's view, means only that the Bank wants to know, with some reasonable degree of precision, the purposes for which the Bank funds are being used.

From time to time the criticism has been heard of the Bank that it operates by applying commercial standards. Of course the Bank does not disregard prudent banking practices. But certainly the "profitability" of an enterprise is not a criterion which the Bank applies in every case, when making up its mind whether or not to engage in a particular operation. For example, one of the loans which the Bank is discussing at the moment is a loan to the Government of Ethiopia for a highway project. This will involve the importation into Ethiopia of a substantial amount of foreign road-building equipment, and that is a project that will certainly not pay out in direct earnings. The Bank wishes, however, to be satisfied in such circumstances that the project will indirectly make a contribution to the economy of the member state concerned. In the case of Ethiopia the Bank is satisfied on this score. Experts who know Ethiopia agree that the urgent need in that country is for the improvement of communications, and that, without some improvement in communications, there can be little progress in the country's economic development.

As regards interest rates, the Bank's practice is to charge borrowers what it would cost the Bank itself to replace, by borrowing, the funds which it lends, plus one per cent statutory commission which, under the Articles of Agreement, the Bank is obliged to charge, plus a small spread to meet the administrative expenses of the Bank and to enable the Bank to build up a reserve. As the Bank's credit standing has improved in the United States market, which, apart from Switzerland, is the only market where the Bank has, up to now, borrowed, the Bank has been able to pass on to its borrowers the benefit of the rates of interest which it pays on its own obligations. It is the intention of the Management and Board of the Bank to continue this policy of charging interest rates based on the rates that the Bank itself has to pay.

With regard to the commitment charge, it will be seen in the supplementary addendum issued with the Annual Report that the Executive Directors, on the recommendation of the Management, have recently decided that, in present circumstances, the commitment charge will be three-quarters of one per cent on all undisbursed amounts of a loan. This represents a very substantial reduction in the commitment charges hitherto in operation, and will apply to new loans which the Bank may make from now on and also to the undisbursed amounts of existing loans.

Those who are associated with the day-to-day working of the International Bank are fully aware that it is a new institution and still feeling its way. It is operating in a field where there are economic, social and political pitfalls which are something new in the history of international investment. It is only by a process of trial and error, by doing its best to avoid serious mistakes which might have serious consequences not only for the Bank's stockholders but also for its borrowers, and by altering its techniques from time to time to meet situations as they arise, that the Bank can really do the job for which it has been set up.

"DEVELOPMENT PROGRAMMING AND FINANCING"

L. B. RIST, *Director, Economic Department*

In dealing with the very concrete problem called the development of underdeveloped countries, the Bank's thinking has not been the result of a set of "a priori" views; it is really the outcome of the efforts which the Bank has made, in conjunction and cooperation with its borrowing members, to assimilate and interpret the practical policies and policy issues with which member countries were themselves confronted.

MR. ILIFF'S SPEECH TO THE TEXAS GOOD NEIGHBOR ASSOCIATION

Not as given

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Mr. Flores, who spoke to us earlier this afternoon, has discussed with great clarity the workings of the financing institution with which he is connected, Mr. Gaston will follow me in an explanation of the Export-Import Bank of Washington.

Nacional Financiera and the Export-Import Bank have very different functions from those of the International Bank for Reconstruction and Development, yet the three are not without relationship. So in my talk to you, I will attempt to outline a few important facts which will explain the International Bank's role in world finance; and because the interest of the Good Neighbor Commission is oriented towards Latin America, I will tell you a little later about some of our activities in that area of the world.

But first, I think we should take a look at the Bank itself; (and by the way, don't be confused if I refer to it occasionally as the World Bank -- far less of a mouthful than our official name). As you know, we came into existence as a result of the Bretton Woods Monetary and Financial Conference in 1944. The Bank began its actual operations two years later in Washington, with 38 member governments. Now there are 49.

The Bank's founders conceived it as an instrumentality to assist in the reconstruction and development of territories of its member countries by facilitating productive investment to finance productive projects out of its own capital or funds raised by it, and to promote the long-range growth of international trade.

The Bank's broad purposes are clearly set forth in its Articles of Agreement. These, however, are not confining. Within our five-year period of operation, the Bank's policies, particularly in relation to lending, have grown and developed according to the nature of the needs. The Bank is not static. Its Articles leave room for change, and its lending operations have gone through an evolution which, I believe, furnishes us with an accurate mirror of world needs and how the Bank is meeting them.

Obviously, the Bank could begin to attack these problems only if it were adequately and intelligently capitalized; and because its capital structure is unique, a quick examination of the way in which the Bank obtains funds both for lending and for its other operations will help us to understand the true nature of the institution.

The Bank, first of all, is an international body, owned by its member governments. Its founders authorized a stock issue of $10 billion dollars, divided into shares of $100,000 each, and of this total authorized capital, about 8 1/3 billion has already been subscribed. This figure of 8 1/3 billion dollars defines the possible scope of lending for the World Bank. But actually, the Bank is far more limited than that figure indicates. This is because a nation, upon joining the Bank, pays in only 20% of its capital subscription -- 2% in gold or dollars, and the remaining 18% in its own currency; and these funds, subject to certain restrictions, are available for lending purposes. The remaining 80% of each subscription, however, is actually not paid in to the Bank. It is in the nature of a guarantee fund for the Bank's obligations.

The Bank can also raise funds for lending purposes by selling certificates of indebtedness to investors, or other securities which it has received from its borrowers. And it can, and does, raise funds by selling its <u>own</u> bonds to private investors. The Bank has entered the American market twice, to float bond issues totaling $250 million, and later, to refund part of these issues at lower rates of interest. In addition we have sold two issues of bonds to banks in Switzerland, amounting to about $10.6 million.

The Bank's dollar bonds are now being traded on the Paris exchange, and are eligible investment for banks in a number of Latin American countries. Certificates issued against our bonds have begun to move in the Amsterdam exchange.

The Bank's bonds have won wide acceptance here in the United States, as well as in those countries where they are being sold abroad. This is vastly encouraging, for it is the private investor who determines, in the long run, whether the Bank as an institution will continue to grow, and perform its functions effectively. All efforts at broad economic development depend far more on the participation of individuals than on the grants of governments.

The International character of the Bank is again reflected in its internal management. It is headed by a board of 49 governors - one for each of the member nations. The Governors are usually Finance Ministers of their respective countries. They meet annually to discuss important policies and to review the year's activities.

But actually, they have delegated the bulk of their authority to a body of 14 Executive Directors, who are on duty at the Bank's Washington headquarters and who meet at regular intervals to discuss and plan the Bank's operations.

The President of the Bank, Mr. Eugene R. Black, is its operating head, and he is responsible to the Executive Directors for the Bank's activities. Our staff in Washington is composed of 27 different nationalities.

The World Bank's most important activity is lending. Since 1946, we have made 38 loans, totaling over a billion dollars, in 19 of our member countries. Our first loans, made in 1947, were primarily designed to meet the tremendous need for reconstruction in Europe's war-devastated countries. By no stretch of the imagination, however, were the Bank's resources adequate, nor was it structurally designed, to meet more than a fraction of recovery needs in Europe. With the advent of the Marshall Plan, the Bank was able to concentrate its attention on another type of problem, not as dramatic, perhaps, but fully as important -- the need for development.

Underdevelopment is a hard word to define without reference to a specific country. But actually all underdeveloped countries have certain characteristics in common. They are nations which do not have adequate systems of communication; they need more electricity; they need to harness their natural resources and learn new techniques which will facilitate progress; underdeveloped areas are not highly industrialized; often their economic life depends on a single crop; almost never does an underdeveloped country have a middle class. There are rich, and there are poor.

As in the case of the postwar reconstruction problems, however, the Bank could not undertake the problems of world development by itself. Some governments have been working on their own development programs for a number of years. Brazil and Mexico are two examples of countries where industries are growing and becoming diversified with great rapidity, and where close attention is also being given to the improvement of agriculture. These rapidly growing nations, and their neighbors, whose progress may be somewhat slower, need impetus to push ahead and grow. The Bank has, in the past, felt that it was here that it could best serve its member nations. It could not, by itself, produce national transformations. It could, however, stimulate them. The Bank has therefore sought to place its loans where they would act as stimulants to further development. Officially, this means that a prospective borrower must meet three principal conditions before the Bank can grant him a loan. First, his project must be a productive enterprise; second, he must be unable to obtain the needed funds elsewhere on reasonable terms; and, third, the project must be a key factor in the economy of the country or area involved -- it must further other types of industrial or agricultural growth.

Normally, the Bank's loans are only for the foreign exchange required for the importation of equipment for the specific projects it finances. The borrower undertakes the local currency expenditures.

In the case of a loan to private company, the Bank requires the guarantee of the government of the country where it is located. All loans are covered by such a guarantee agreement.

Now it is time to supplement these general remarks by looking a specific examples of loans.

In Latin America we find a fertile field for such an examination. The potential resouces of this vast area have remained untouched for centuries. Mountain ranges, deserts, and jungles have, until recently, made long-range economic progress difficult and in some places impossible. But modern machinery, electric power, new methods of transportation, and improved agricultural techniques have, within our lifetime, changed this picture. Eleven of the Bank's loans have been made in Latin America, in 6 different countries.

In Uruguay the Bank has loaned $33,000,000 for the expansion of power and telephone facilities.

In El Salvador we made a loan of $12 1/2 million for an hydroelectric development.

Two borrowers in Colombia have received a total of $8 1/2 million; 5 million has been used by a government financing agency for purchase of agricultural machinery, and the remainder went to an electric power company for an hydro-development.

Two agencies in Chile have borrowed a total of $16,000,000 for electric power projects and purchase of agricultural machinery.

The Brazilian Traction, Light & Power Company Limited has borrowed $75 million from the World Bank for the enlargement of their power and telephone system, serving both Rio de Janeiro and Sao Paulo, as well as a number of other smaller cities and towns.

In Northern Brazil, the Sao Francisco Hydroelectric Company has borrowed $15 million for power development and transmission lines to serve the cities of Recife, and Salvador, as well as about 40 smaller towns.

The Bank has made three loans in Mexico, amounting to $70,100,000. The first, for $34,100,000 was made to the Federal Electricity Commission for use in developing electric facilities in every part of Mexico. The second credit, for $26,000,000, was granted to Mexican Light and Power Company, Ltd. Its purpose is to finance power and transmission facilities designed to serve Mexico City and the surrounding area.

The third loan to Mexico, which was signed only a month and half ago, is interesting because it represents a new technique in international financing. It further illustrates a point I made earlier: The Bank is not a static organization. Its lending operations can be adapted to the peculiar needs of its borrowers. Within the framework of its Articles of Agreement the Bank is allowed to exercise a large measure of freedom and judgement.

This third loan to Mexico was for $10,000,000. It is a line of credit to a consortium of 8 Mexican banks, and these Banks will, in turn, re-lend the money to a variety of small and medium-sized industries which are anxious to expand or modernize themselves and need foreign capital to do so. The Bank has recently made two similar loans in other parts of the world: One for a development bank in Ethiopia and another to a development bank in Turkey. Through these loans, the World Bank is becoming a significant reality for small businessmen and factory owners, as well as for governments and large scale private borrowers.

You are probably interested in knowing how we make a loan. Although the Bank is, by its very nature, obliged to assume risks which private investors cannot afford to undertake, the risk factor in only one of the elements we must take into consideration. After a preliminary loan application is made, the Bank usually sends a mission of qualified experts to the country where the application has originated. These experts examine, with great care, the project under consideration. Often their investigations lead them into other fields. The nation's credit position must be thoroughly studied, and so must its ability to absorb additional foreign debt. The economic implications of the project also need careful scrutiny to determine as far as possible what will be affected by the proposed loan, and what kind of an effect that will be. Often the mission will come up with recommendations for improving the project, the general development plan of the country, or even the economic policies of the government. Many governments have profited from this objective analysis, because the missions have a perspective untainted by partiality to a particular culture, political structure, or economic system. Particularly is this true of smaller nations where technical experts are at a premium. But even in more highly developed states, the perspective of an outside group is always valuable.

The loan to El Salvador, which I mentioned a few moments ago, is a particularly interesting example of cooperation between a government and the World Bank. El Salvador is a comparatively tiny nation. Even today its economic livelihood depends almost entirely on the export of one crop -- coffee. Its imports, however, have included even the most basic goods. Its people have been unable, principally because of a lack of capital, to develop its manufacturing potential so that basic consumer goods may be home-made. One of the keys to this development lies in the availability of more power. The principal industries which could reasonably be expected to use an increase of power are coffee-milling, textiles, mining, and food producing. But in addition, the lighting system in the nation as a whole is inadequate. Even where abundant water supplies are within easy reach, lack of power prevents water from being distributed to towns and villages. Installation of pumps would not only help to meet the needs of these communities, it would also make irrigation possible, and would help increase agricultural production. The International Bank recognized the need. Late in 1949 we granted a loan of $12,545,000 to the Rio Lempa Hydroelectric Commission, a semi-autonomous agency of the Government of El Salvador, to finance foreign exchange for a dam and power station which will, upon completion, have a generating capacity of 30,000 kw. This may not sound like much in terms of Boulder Dam or the Grand Coulee. Placed in the framework of El Salvador, which is about one twentieth the size of the state of Texas, it is a tremendous step forward.

The Bank's help to El Salvador did not stop with the signing of the loan. In addition to the foreign exchange required for the project, the Rio Lempa Commission needed funds to pay the local currency costs of the project. A bond issue had never before been floated in El Salvador. The Government came to the Bank for advice as to how an issue could be sold; and the Bank sent its own Director of Marketing to El Salvador early last spring. The results of his visit were highly successful. The bond issue was fully subscribed; and to a large degree by individual investors. At least one national magazine here in the United States hailed the occasion as "the discovery of a middle class in El Salvador". I daresay the Bank would be somewhat more cautious in its claims.

At this very moment, construction on the project is underway. Just a week ago one of our engineers went down to El Salvador on an end-use mission. His job is to inspect the project - to see that the machinery and supplies for it are properly delivered, and to suggest means of improving its efficiency, if this seems advisable. This is part of the regular procedure for all loans after they have been made. The Bank maintains a staff of engineers and accountants who regularly visit projects to check on progress and the administration of a loan.

We have talked about the Bank's primary function - the granting of loans. But within the past two years we have developed another type of service to our member countries which, though not unrelated to lending, is a separate and distinct operation. We feel that this service -- technical assistance -- is of great importance to our member countries.

Perhaps we can best understand the workings of technical assistance through the examination of a mission. In July 1949 a mission headed by Dr. Lauchlin Currie, a well-known economist and formerly administrative assistant to Presidents Roosevelt and Truman, left for Colombia, at the request of that government, to undertake a comprehensive survey of Colombia's economy. It remained there for about four months, and virtually dissected every segment of the social and industrial life of the nation.

The result of their investigations was, first, a voluminous report and a set of recommendations including Colombia's agriculture, industry, electric power, transportation, and public health. The report, which has been published in English and Spanish, is entitled "The Basis for a Development Program in Colombia". Significantly enough the Bogota papers reported recently that it was currently one of the three best-selling books in Colombia. Further, it has furnished all persons and organizations interested in development with a model for other such investigations, and it is a valuable social document for the use of scholars, economists, and bankers.

But reports and recommendations, taken by themselves are actually not very important. I am happy to tell you that the Colombian government has accepted the report, and is now taking steps to carry out some of its recommendations. The real fruition of the Bank's work is in action, not words and studies.

It is interesting to note the composition of this mission to Colombia. It was headed by a special consultant, and most of its personnel was drawn from outside sources. In addition to men from the International Bank, they came, from the United States government, the FAO, the International Monetary Fund, and the World Health Organization. The same is true of a similar mission which recently returned from a three-month stay in Cuba; and at the present time there is a mission jointly sponsored by the International Bank and the FAO, making a detailed survey of the agricultural problems and requirements of Uruguay.

These missions were sent at the request of the governments involved; and in all cases, the Bank bore half of the costs, while the government of the countries which the missions have visited have matched our contribution.

The Bank is an intricately constructed international institution, and in the space of half an hour it is obviously impossible to describe it adequately. Certainly, however, we can draw some conclusions from what has been said here this afternoon. The International Bank for Reconstruction and Development is concerned with using its admittedly limited resources for a concrete realization of its purposes. Economically that means creation of a prosperous, stable community of nations. Socially, it can be interpreted in terms of fuller employment, better wages, and higher living standards. Adhering to high but flexible loan standards which require the making of loans only for productive enterprises; the careful study of conditions before a loan is made; and the careful inspection of its progress afterwards--these are the standards which we feel contribute to the successful achievement of our aims. Through choosing only key projects for investment, we avoid "spreading ourselves thin", and achieve the fullest possible usefulness.

Economic surveys and technical assistance missions further contribute to the Bank's aim of helping member nations to help themselves.

But perhaps the most important thought I can leave with you is that the International Bank has taken the problems of progress and development out of the realm of the visionary and the idealist. The Bank is proving that through cooperation with governments and private business, its sound and businesslike methods can, and will, contribute to the building of a stronger and better world.

Staff - December 3, 1950

GOOD NEIGHBOR COMMISSION OF TEXAS

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Minutes

of the

Corpus Christi Meeting

December 3 & 4, 1950

HOST CITY - CORPUS CHRISTI

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LESLIE WASSERMAN

Mayor

GUY I. WARREN

Corpus Christi Chamber of Commerce

HEADQUARTERS - HOTEL DRISCOLL

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Ramon Guerra, McAllen
Hugh A. L. Halff, San Antonio
C. W. Meadows, Sr., San Angelo
Dorrance D. Roderick, E. Paso
Dr. Julian T. Saldivar, Dallas
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Thomas S. Sutherland, Executive Secretary

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STUDY OF HUMAN RELATIONS

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Dr. Umphrey Lee, Dallas
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Henderson Coquat, San Antonio

PREFACE

"The Good Neighbor Commission of Texas, a State Agency devoted to the betterment of relations between Anglo-Americans and Latin-Americans, wherever they reside, herein presents the minutes and proceedings of its meeting held in Corpus Christi, Texas, December 3 and 4, 1950, its guest speakers on the occasion being Honorable Herbert E. Gaston, Chairman, Export-Import Bank, Washington, D.C.; Lic. Antonio Carrillo Flores, Director General, Nacional Financiera, Mexico, D.F.; Hon. W.A.B. Iliff, Loan Director, International Bank for Reconstruction and Development, Washington, D.C.; and Dr. W. H. Irons, Vice President, Dallas Federal Reserve Bank.

"We feel that this meeting was notable for the high character of the addresses delivered, and for the excellent spirit of friendship shown in the discussions which were participated in by Anglo-Americans and Latin-Americans alike.

"May you, as you read this book, catch a broader vision of the possibilities of real understanding and mutual good will as underlying factors of World Peace."

Neville G. Penrose

SPEAKERS

Antonio Carrillo Flores
Herbert E. Gaston
Watrous H. Irons
W. A. B. Illiff

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PANEL MEMBERS

GOVERNMENTAL FUNCTIONS

Thomas S. Sutherland, Discussion Leader
Forney A. Rankin, Department of State
Harry B. Crozier, Texas Employment Commission
J. W. Edgar, Texas Educational Agency
Capt. Boyd Sinclair, Selective Service
John Van Cronkhite, Executive Department
Frank S. Maddox, Highway Department
Joe Caldwell, Welfare Department
Frank Kelly, Local Relations

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PANEL MEMBERS

JOURNALISTS

Dorrance D. Roderick, El Paso, Discussion Leader
Virginia Snow, Laredo Times, Mexico, D. F.
Prof. Samuel J. Treviño, La Prensa of San Antonio, Edinburg, Texas
J. H. Plenn, San Antonio Express, San Antonio, Texas
Señor Agustín Basave, El Norte Newspaper, Monterrey, Mexico
Patricio Healy, Novedades, Mexico, D. F.
Robert B. McCracken, Caller-Times, Corpus Christi, Texas
E. L. Wall, Houston Chronicle, Austin, Texas
W. H. Gardner, Houston Post, Austin, Texas
Mynatt Smith, Valley Evening Monitor, McAllen, Texas
Archibald MacPhail, Valley Morning Star, Harlingen, Texas

PROGRAM

BANKER'S DAY - December 3

Information and Registration, mezzanine, Driscoll Hotel

2:00 PM International Bankers' Forum, Neville G. Penrose presiding

Key speakers:

Watrous H. Irons, Vice-President, Dallas Federal Reserve Bank

Antonio Carrillo Flores, Director General, Nacional Financiers

Herbert E. Gaston, Chairman, Export-Import Bank

W. A. B. Illiff, Director of Loans, International Bank for Reconstruction and Development

Discussions

6:30 Reception, mezzanine, Driscoll Hotel

8:00 Banquet. Guy I. Warren, Toastmaster, Ballroom, Driscoll Hotel

JOURNALISTS' DAY - December 4

9:30 AM	Panel Discussion on Federal, State and local services in the field of inter-American relations. Thomas S. Sutherland presiding. Deck, Plaza Hotel Question and answer period
12:00	Luncheon, Zodiac Room, Dragon Grill
3:00	Journalists' Round Table. Journalism in the Field of International Relations. Dorrance Roderick, Publisher, El Paso Times, presiding
5:00	Reception, Guy I. Warren residence, Corpus Christi member of the Good Neighbor Commission

The fiscal progress since then has been extraordinary. Government revenues have been increased, expenditures have been brought into balance with receipts and a budgetary surplus has been achieved. The Government of Mexico has repaid its stabilization loans from the U. S. Treasury and the Monetary Fund and the Bank of Mexico was showing, a couple of days ago, dollar reserves of 226 millions.

These are wholesome evidences of the acumen of Mexican leaders and their ability to meet a crisis; but the real gains of recent years should not be obscured. These real gains lie in new factories, new homes, new schools and greatly increased production. Even more important, perhaps, these gains are a further demonstration of the efficiency of the processes of democratic self-government.

It is a very comforting fact to reflect upon that we have to the south of us as our friendly neighbor a democracy sovereign in its own land and not a democratic mask painted on a Chinese lantern held in alien hands.

This is the sort of situation that by steady and patient effort and example may be created in other lands. It will certainly not be done as a one-sided operation.

Dictators can rule but democracies can play only the more modest but more useful role of becoming partners in a common effort.

There are plenty of opportunities. They lie in many lands outside the pale where the one great iron-handed tyranny reigns. The land-hungry, half-starved, diseased and exploited peoples of many regions can be shown the way to make effective use of their resources. The alternative might easily be that they fall prey to the power that promises liberty and bestows slavery.

It is good business for us to support freedom -- freedom from want and freedom from chains -- and the union of peoples to support these freedoms.

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Mr. Penrose:

Now it is my great pleasure to introduce Mr. W. A. B. Iliff of the International Bank. We are glad to welcome him, and are deeply honored to have him come to take Mr. Garner's place on the program.

Mr. Iliff:

Thank you, Mr. Penrose.

Ladies and gentlemen: I have first of all to make an apology. The original invitation from the Good Neighbor Commission to the World Bank was sent to and accepted by Mr. Robert Garner, our vice-president. We hold the Good Neighbor Commission in such esteem that we were prepared to sacrifice the work of the bank for such a distinguished official of our organization as our vice-president.

Mr. Garner unfortunately had an accident. One Sunday afternoon about a month ago he was following a golf ball around a golf course with the vigor that he imparts to all his operations inside and outside the bank, and he slipped and he broke one of the tendons in his kneecap. At the present moment Mr. Garner's right leg is encased in plaster, and he is immobilized in Washington. But Mr. Garner's misfortune has been my good luck, and I was able to take this opportunity of paying my first visit to Texas.

When I was proposed to this committee as the substitute speaker for Mr. Garner, this committee displayed all that spirit of Texan enterprise of being willing to try something quite new and quite unknown. As a non-United States citizen but as someone who has always regarded Texas as a sort of a mythical land, a young, energetic, and vigorous community struggling forward and struggling with great success in the direction of a wonderful development, and certainly since I have come here, I have seen evidence of that on every side.

I have also noticed what you also referred to yourself, Mr. Penrose, in the earlier part of your remarks, and that is your disposition not to treat visitors as strangers. And I must say that in the short time I have been here, I have certainly nothing to complain about so far as the cordiality of my welcome is concerned.

Incidentally, let me tell you a little incident that happened last night. I was in my bedroom in the hotel, and I had a visit from two members of your reception committee. I happened to comment on the beautiful view of Corpus Christi from my window. A member of the reception committee said to me that he was very sorry; that he might have done even better for me, but the rooms with the view across the bay were reserved for distinguished foreigners. I afterwards discovered that those particular rooms had been allocated to distinguished visitors from more obscure States of the Union.

I'd just like at the start of my remarks to point out something about which in my travels over the United States, I constantly find that there is a good deal of misconception, and that is this; that the opinion seems to be quite generally held that the International Bank is an agency of the United

States Government. The organization over which Mr. Gaston presides with such distinction--that is an agency of the United States Government. It relies solely on United States capital; it operates under United States direction and management; and it normally requires that the proceeds of any loans which it may make shall be spent within the United States.

Now if I've got to apologize for the institution to which I belong, myself, I must say that it is an international institution. Its capital is international; its operations are controlled by a board of directors of 14 different nationalities; its operations are carried out by an international staff in which 27 different nationalities are represented, and the proceeds of our loans are not tied to any particular country, but may be spent anywhere. These may be spent where the borrower thinks--where he can get the best value for his money. I don't mean to say by that that he will not get the best value for his money in the United States. On the contrary, out of all the loans that we have made since we started spending operations, by far the bulk of the proceeds are being spent in this country.

The United States Government is one of the member governments of the bank. The United States are the largest of those contributors. She, therefore, possesses the largest voting power. She has given us the freest use of her part of the funds. She has allowed us to float our own securities in the capital markets in this country, and so enabled us to acquire additional funds for our lending.

Now what is the purpose of this international institution? We are not a profit-making organization--not by design or intention--but if that happy result should attend our operations, I don't suppose any of us will complain. We were established as a result of the Bretton Woods Conference in 1944 when the financial and economic experts of, I think, 44 nations met together and drew up our Articles of Incorporation.

To paraphrase them, the purposes of the bank set out in our articles come to something like this: to assist in the reconstruction and development of its member states by facilitating productive investment; to finance productive projects out of its own capital and out of funds raised by it; and to promote the long-range flow of international trade.

I guess some of you here will remember--or most of you will, I hope, Admiral Lord Nelson's famous signal before the Battle of Trafalgar when he sent out the signals to the fleet, "England expects that every man this day will do his duty."

No doubt had there been a body of program experts working as a committee to outline the purposes of the Battle of Trafalgar, they would have brought forth a statement as boastfully and logically stated as the exposition of the purposes of the International Bank which I have just read to you.

But the effects on the sailors of the fleet would, I fear, have been less impressive than the words that Nelson used. So I will try and get over to you something of the underlying purposes of the World Bank rather in the manner of the Nelson signal than in the words of the experts who sat at the elbows of the founding fathers at Bretton Woods. And in an effort to do this I would ask you to accompany me on an excursion of thought in which I indulged yesterday as I arrived here in your city.

Before coming to the United States about 3 years ago I had spent almost 10 years in Asia and in the Middle East. And my job there required me to travel extensively over the whole of that vast area. Most of my travel was inevitably by airplane. Now making that eventful flight day before yesterday over Corpus Christi, it made me think and reflect over hundreds of similar landings that I had made in India, in Egypt, in Palestine, in Assyria, in Turkey, and in Iran. But it was in the mere mechanics of the landing of the aircraft that there was any similarity. Otherwise, what a contrast there was!

Yesterday I could see below me a neat, clean, handsome, well-planned, well-ordered city with trimmed-in houses set up by well-built highways along which there were many automobiles and trucks going about their business. And when I landed, I found myself in a community of well-dressed, prosperous-looking, healthy, vigorous citizens. Obviously and rightly they are proud of their city and of their lot.

Now what about those similar arrivals of mine at many of those cities in Asia and in the Middle East? In a regular display of mud houses linked by roads which in dry weather were dust pools, and in wet weather were impossible troughs of mire. Camels, mules, and donkeys are the main means of transportation. Automobiles, yes; but almost entirely for the locomotion of the privileged few--everywhere death and hunger and diseases. And the least sensible observer couldn't but be impressed by the conditions of misery and want under which the vast masses of the peoples of those parts of this globe live out their lives.

Now today we are living in a planet that's much smaller than the planet on which our grandfathers lived. In their days distances and restriction of communications were forbidding barriers of intercourse. Isolation brought uncrossed borders and truly one-half of the world did not know how the other half lived, nor did they care. But today, how all that's changed! The airplane, the radio, and above all, the movies have destroyed distances and penetrated isolated areas. Today the coolies in the China rice fields, and the peasants in the mountains of Iran, and the miner in the mines of Chile--each thinks and hears about a way of life and a standard of life that he never knew or thought could exist. And he says to himself, "If the so-called developed nations can have those things, why can't I?" So throughout those teaming millions of underfed, under-clothed people in the under-developed parts of the world today--and they are literally measured in millions in the Middle East, Southern Asia, Southeast Asia, in China, and even in parts of the southern mass of this great hemisphere--throughout those teaming millions there has been a tremendous up-surge of a desire for change. Any change must be for the better. That's their philosophy. Nothing could be less endurable than their present lot.

Now the citizen of Corpus Christi or of any of the hundreds of other cities in the United States, happy and contented, is always encouraged by the possibility that next year he may be even better off than this year. He's unimpressed by the use of violence as a means of bringing about social and economic change. He has everything to lose. He'll fight, yes, to keep what he's got; but he will not be disposed to fight to get them. But the Indonesian, or the Chinese, have nothing to lose except not very worthwhile lives. Violence to them can be represented as a shortcut to economic and social betterment.

That's the situation that the evil forces that are abroad in the world today are doing their utmost to exploit. They know that the spirit of democracy recoils from aggressive violence. They know that we know that peace is the basis on which our Western civilization and prosperity are founded, and that war can only retard it, if it cannot destroy it all together. These people can hold out promises to the down-trodden millions, and the down-trodden millions with so little to lose can easily bring themselves to resort to force in a vain search for the promised millennium.

So whatever can be done anywhere any time by any individual or any organization to take anything off that desire of change that has surged out all over the world today, is something done for the cause of decency in the field of prosperity.

Another 10,000 acres of land brought under cultivation in India; and now it takes 10 million in Palestine; another 10 thousand kilowatts of electric power in Brazil to provide the energy for the development of Brazilian manufacturing potentials; another 100-mile stretch of highway in Ethopia. Those are the things that slowly but surely will bring about the betterment of conditions and standards of living which is the antidote now for humanity's disease.

Now I don't say that the causes of war are always economic. But I do say that if you would eliminate the economic causes of war, you would have gone a very long way to establishing lasting peace.

Now you may ask, "What have we done?" Well, to put it in terms of figures, we have provided in loans just over one billion dollars during the three years of our early existence. Our loans have been made in Europe, in Asia, in Africa, in Australia, and in this continent also.

We have invested in land reformation projects in India, in hydro-electrical developments in many of our Latin-American member states, in agricultural development in many countries. During the earlier years of our existence we invested some substantial sums in Western Europe, for we regarded it as a number one priority that the industrial potentials of Western Europe should be restored from the ravages of war as quickly as possible, to provide resources of capital equipment so sorely needed throughout the world.

Now this is a tremendous job that confronts humanity. Can the International Bank do it all? Our answer to that is most certainly, "No", Private Capital has got to make its contribution. There are certainly situations that may only be solved by governmental grants from those governments of the world which may be able to make contributions of that character.

But I think that we in the bank are convinced that when it is proper, that the situation should be handled on a loan basis; that the resources at our disposal, or likely to be at our disposal, will be sufficient to do the job. We are, after all, a banking institution. We are not a philanthropic organization in the sense that we give money away. We apply prudent banking tests to each operation in which we engage. Some of our potential borrowers are inclined to think that we are too prudent. Well, that may be; and in that connection I'd like to quote the words of a famous British economist when he said, "Venture is the life of commerce, but caution is the life of banking."

Now I said that I would try and get the purposes of this inter-national institution across to you in rather more concrete words than were used by our founding fathers, and which I read to you. And I think if I tried to summarize in simple language what we are trying to do and what Mr. Gaston is trying to do, I think it would be in these words, "We are trying to bring some little glimmer of light to those that sit in darkness, and to do our little bit to guide their feet into the way of peace."

Thanks.

Mr. Penrose:

Thank you very much Mr. Iliff.

Have you ever met anybody, and after you had known him about 5 or 10 minutes, you sorta felt like you had known him all your life?

That's the impression that I got last night about the gentleman I'm going to introduce to you. I feel as if I'd known him forever. I've heard a lot about him, but he just has one of those fortunate personalities that, as soon as you meet him, you want to call him "Joe" or "Harry", although

Mr. Holmes

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STATEMENT FOR MR. WILLIAM A. B. ILIFF

INFORMATION CONFERENCE FOR AMERICAN
FIELD SERVICE STUDENTS
June 19, 1951

Mr. Black, the president of the Bank, wanted to be here to talk to you for a few minutes this afternoon, but unfortunately he could not be in Washington today. So it is my good fortune to greet you and welcome you to the International Bank.

We are beginning to feel like old friends of the American Field Service Students. This is the third Field Service group in as many years which has visited the Bank to learn something about what it does, and why. At first, the Bank can seem complicated and highly specialized, but when you understand its basic aim, its organization and operations become simple and clear-cut. Mr. Graves has explained to you that the Bank was formed to help raise standards of living in its member countries. It does this by making loans which promote economic development, and by the granting of technical aid and advice to those of its members which request it. These are the most important facts to remember about the International Bank.

We are always glad when students come to the Bank, particularly when they represent several different countries. We hope each of you will leave here with an increased understanding not only of the Bank, but of the whole philosophy which motivates the development of the world's less-favored areas. You will take this knowledge to your countries, cities, and homes. We hope that soon, when you begin to participate in the affairs of your own countries and your own communities, you will be able to put it to work.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

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THE WORLD TODAY

BANKING FOR NATIONS

by

William A.B. Iliff

WAB ILLIF - BBC Broadcast 12/4/51

Transmission: Tuesday, December 4th, 1951 at 9.15-9.30 pm. Home Service.
Recorded repeat of G.O.S. talk - 28.11.51 at 16.15.
Disc No: CDOX 66582.
Duration: 14'47"

SHONFIELD: Well, Mr. Iliff, the International Bank has been the target for so much criticism and appreciation, though I think the criticism does predominate, that perhaps you could tell us what you regard the real function of--of the Bank to be.

ILIFF: Well, I think it's one of the failings of the human race that when any institution is under consideration it's always the criticism rather than the appreciation which dominates. But to answer your question, I think that it doesn't over-simplify the matter if I put the function of the International Bank in these terms: as I conceive it, our job is to channel capital out of those member States of the Bank where from time to time it happens to be surplus; that is to say, where a country can afford to export more than it produces; to channel that surplus capital into those member States where from time to time capital happens to be in deficiency.

SHONFIELD: So then how does that fit in with the fact that one of your last borrowings was from the London Capital Market--I would hardly have thought that we were in surplus much these days.

ILIFF: Well, at that particular point of time the Government of the United Kingdom did feel it possible to allow the International Bank to have a claim on British production, and to channel it out into the underdeveloped parts of the world. I may say that that was a most useful contribution to the resources of the International Bank.

SHONFIELD: Are you going to do another one?

ILIFF: Well, it's been a great disappointment to us that on that occasion we were not able to do more than we actually did do, but we are very, very aware of the circumstances which limitate us--which limited the authorities here at home.

SHONFIELD: And why do you want the sterling, particularly?

ILIFF: Well, that is not a very easy question to answer in non-technical terms. But let me put it this way: there's one thing from which the world is suffering today, and has been suffering for a long time, and that is a shortage of dollars. Now, looking round the world today, the only country that satisfies the criterion, to any general extent, anyway, that I mentioned earlier - namely, that she's in capital surplus - is the United States of America.

SHONFIELD: True!

ILIFF: But if we lend dollars we naturally wish to be repaid in dollars. It would be a--a very imprudent banking operation for us to lend dollars and be content to accept repayment in another currency, especially in these days of non-convertibility of currencies. But, looking at the thing from the angle of our borrowers, as I said earlier, there's a great dollar shortage throughout the world today which means in fact that the dollar repayment capacity of a great part of the world is very limited. Consequently, above all, we would hope to have available to us resources of non-dollar currencies, because the repayment capacity of the world in non-dollar currencies is much higher than it is in dollars.

SHONFIELD: Yes, I can see that. But isn't there another problem? Even if you could get the non-dollar currencies, isn't there the problem of physical availability of capital goods? Could the non-dollar countries--say, Britain, at this moment, provide you with the capital equipment that you require for the development projects in Asia and Africa?

ILIFF: Well, I--I think you've--you've made a very good point there, Mr. Shonfield, and that is true, not only of the non-dollar world but also of the dollar world. I mean here we have got to take into consideration the impact of this rearmament programme, which naturally has got to be a first charge on the productive resources, not only of the dollar world, but also of the non-dollar world. And undoubtedly, the effect of the rearmament programme has created these physical difficulties that you refer to about deliveries of the kind of equipment which is needed in the underdeveloped countries. But in the case of the non-dollar world, for example the United Kingdom, the acquisition of dollars is a very high priority, probably second only to rearmament --

SHONFIELD: Hear! Hear!

ILIFF: -- and if a situation could be developed, or can be developed, anywhere where we the Bank can acquire sterling from the United Kingdom against dollars, lend that sterling to a third country who uses it in order to purchase equipment in the United Kingdom, the effect of that triangular operation, of course, is that the United Kingdom in fact exports her equipment against dollars.

SHONFIELD: Yes, but then the country, which borrowed from you, still has to pay in dollars and presumably some countries you judge as being able to pay in dollars and some not. Which countries would you say could pay in dollars?

ILIFF: Well, I'd--I'd prefer not to give you a catalogue of our estimation of the dollar credit-worthiness of the various countries of the world,--

SHONFIELD: Well which couldn't pay in dollars, for instance?

ILIFF: Well, let me take a recent loan, which we made; we made a loan to Jugoslavia, and the Jugoslav Government would itself be the first to admit that their dollar situation is by no means easy. We were able in that particular case to make a loan entirely in non-dollar currencies, and the service of that particular loan being in non-dollar currencies presents a much less intractable problem to Jugoslavia than if we had made a loan in dollars. And that situation is not peculiar to Jugoslavia, it exists throughout, unfortunately, quite a large part of the non-dollar world.

SHONFIELD: Well what currencies did you make the loan to Jugoslavia in? I don't want the whole list - were there many?

ILIFF: I think there were—there were seven different currencies altogether, yes.

SHONFIELD: And was there any dollar element in it at all?

ILIFF: There was a--there was a--there was no dollar element, so far as Jugoslavia was concerned. The--some purchases were made in the United States, but we were able to finance that through Swiss francs, which we had borrowed in Switzerland. And with our Swiss francs we were able to acquire dollars from the United States, which put the Jugoslavs in a position to buy their United States requirements while at the same time being under a Swiss franc obligation to us, which is much less difficult for them to meet, or considerably less difficult for them to meet, than a dollar obligation.

SHONFIELD: That was a very neat operation, I must say.

ILIFF: Well--

SHONFIELD: I wonder if we could come back to the investor's position since Britain is now particularly interested in that; people who've invested in the International Bank at a rate of three-and-a-half percent, the last one that was issued in London was, I believe, well now, how--at what sort of rates are you lending that money to your clients?

ILIFF: Well, we have had—you started off by saying that the International Bank had been under a good deal of criticism from time to time, and I think that one of the most vocal criticisms, anyway, that has been made of us has been that we're usurious in our rates and that we really ought to lend at rates very much lower than the rates at which in fact we do lend. We are not, I ought to say, a philanthropic institution,--

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SHONFIELD: In spite of being a member of the United Nations,--

ILIFF: ---being part of the United Nations, in spite of being a specialised agency of the United Nations.

SHONFIELD: (inaudible)

ILIFF: I ought to say here, by the way, that our membership is not coterminous with the membership of the United Nations, some countries are members of the United Nations and are not members of the Bank, and conversely some member States are members of the Bank and are not members of the United Nations. We have, however, a working arrangement with the United Nations in our category of a specialised agent.

SHONFIELD: But no philanthropy?

ILIFF: But there is no philanthropy so far as we are concerned. We are not, by design, a profit-making organisation although if that happy result should attend our operations we shall be the last to complain.

SHONFIELD: I suppose you make a a fair profit each year?

ILIFF: A fair profit, and I underline fair.

SHONFIELD: Yes.

ILIFF: But, I should say this, that our profit is being carried now into reserve and we're a new institution, after all, and I think it's nothing more--I think I can claim that it's nothing more than prudent banking practice that we should build up a reserve against our future liabilities.

SHONFIELD: Yes. And how about this accusation of usury, which I've heard myself?

ILIFF: Well, on that our--so far as our interest rates are concerned we base ourselves on this formula: we have got to borrow ourselves in the capital markets of the world, the money that we lend to our borrowers; when we borrow we have got to pay a certain rate of interest; so if we're making, shall we say, a fifty million dollar loan today to Ruritania the first thing that we do is, we calculate what it would cost us to borrow that money in the New York market today. Let us say that the answer is three-and-threequarters percent. That's rather high - let's say three-and-a-half percent. To that we add a quarter percent for our administrative costs and to produce something which will go also towards our reserve, and to that we add one percent which we--a special commission which goes into a special reserve which we are required by our Articles of Agreement to charge for the first ten years of our existence,

SHONFIELD: So you're coming on to a rate of five percent, are you?

ILIFF: It would be--we have not yet lent so expensively as five, as a matter of fact. I think the highest rate that we have so far charged has been four-and-a-half.

SHONFIELD: But it's going up all the time, isn't it, with world long-term interest rates?

ILIFF: There certainly has been a tendency for--in that direction, for long-term interest rates throughout the world to increase.

SHONFIELD: Yes. Well, the other criticism, which you hear particularly from Asian delegates at United Nations meetings, is that your total of lending, apart from the rate at which you lend being too high, but your total of lending is too low, they suggest. Now, do you think that you could increase it very greatly?

ILIFF: We have, of course, been doing so, and if my recollection serves me aright, during the--our last financial year we lent more money than we had done at any time in our existence. But, of course, we are subject to two limitations: one is, the capacity of our member-countries to carry a burden of debt, and the other is, the fact that we always look for a bankable proposition and so often things come to us in what I might call a not properly cooked condition. (laughter) And that undoubtedly has acted as a brake on our lending.

SHONFIELD: In any case, I suppose the function of the International Bank in speeding up the development of--the economic development of underdeveloped areas, shouldn't be exaggerated. It must be a limited function because you are lenders, there must be--lenders not people prepared to risk in the way that Equity holders did in the past. So, do you see the International Bank as being supplemented by some other institution, to do this job in a larger way?

ILIFF: Well, I think if economic development is going to get to where everybody would like to see it get it must be appreciated that the International Bank can only do part of the job, and that the bulk of the job, in future as in the past, must be done by Equity capital.

SHONFIELD: In any case, I suppose that one's got to recognise that the International Bank itself is only one of the possible sources of finance for speeding up the development of economically underdeveloped countries. In the past, surely, most of this has been done by risk-bearing capital, whereas you're lending at a fixed rate of interest and the interest has to be met, come what may, year after year, and that makes the job more difficult, doesn't it?

ILIFF: Well, it's not that it makes the job more difficult, but for the reason that you have mentioned, that if you base your--your--the financing of your development on a loan basis you've got not only to meet the interest of course as a contractual obligation but you've also got to repay the loan.

SHONFIELD: Can't you modify the situation? Or at any rate, do you think this, Mr.Iliff, that there ought to be some supplemental organisation in addition to the International Bank which will do this job more in the way that it's been done in the past, where you'll participate in the risk of the investment?

ILIFF: Well, in the past, of course, there was no institution that, to my knowledge, anyway, went into the risk capital field; there has, as you probably know, been-some consideration has recently been given to the formation of an institution of that particular kind, and as a matter of fact, at the request of the United Nations the International Bank is now studying a proposal for an International Development Corporation, which would have that very job of making Equity investments, in other words, investing risk capital.

SHONFIELD: So you live and change all the time?

ILIFF: We live and change all the time.

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5-13-52

Speech/Iliff/St. Louis

Iliff Mo. State Bankers Assoc.

IBRD/IDA WBG ARCHIVES Box 86

Mr. Chairman, etc.: I am very grateful for the opportunity to appear before this meeting of the Missouri State Bankers Association today and to talk to you about the International Bank for Reconstruction and Development, and the place it occupies in the field of international investment. Before discussing the activities of the Bank, however, I should like to touch on some of the major trends in international investment since the end of World War II, which period roughly covers the active life of the Bank.

The dominant factor in international investment during the postwar years has been exports of capital in the form of grants and long-term loans by governments, government agencies and other public institutions such as the International Bank, or the World Bank as it is usually called. Before the war public exports of capital were the exception, rather than the rule, though throughout the 1930's we witnessed a definite trend toward foreign lending by governments.

Private investment, on the other hand, has relinquished its place as the principal exporter of capital. In the United States, for example, private investors have accounted for only 10% to about 16% of the country's annual exports of capital during the last six or seven years. In addition, equity investment abroad, once a major interest of private US capital, has diminished proportionately at a faster rate than has private foreign lending.

The range and direction of private foreign investment has narrowed sharply as well. In the heyday of the 1920's US private investment was interested in all forms of business ventures abroad and also purchased large amounts of foreign government and municipal securities. Now, with the possible exception of Canada, private US investors seek only those fields which promise a relatively quick return. As a result, more than 2/3rds of privately-owned dollars sent abroad go into the oil and other extractive industries.

One of the sharpest contrasts between public foreign investment and similar private investment lies in the motives behind the two different types of investment. The underlying motives influencing private foreign investment have, of course, remained the same as in the past. These are profits or earnings in the form of dividends, interest and capital gains discounted by the degree of risk involved in prospects for repayment.

The motives underlying public foreign investment, however, are more varied and often more subtle. In general they may be divided into two principal categories. First we have the strictly strategic or political loans and grants, in which repayment in the case of loans is welcomed but is not a primary consideration in the making of the loans. Instead, if a strategic or political situation advantageous to both parties is maintained or improved then that constitutes profit or repayment enough.

Then we have public foreign investment whose objective is the financing of reconstruction or development. In these instances repayment of loans is not only welcomed but is definitely required. The World Bank's operations fall wholly within this second category, as by statute and by policy the Bank cannot and will not lend unless reasonable prospects for repayment exist. Also, although I need hardly remind you, the World Bank is not a philanthropic institution and is barred from the business of making grants.

Private capital has been sternly taken to task in recent years for its reluctance to leave the domestic fold, and some of the sternest critics along these lines have, oddly enough, been private investors themselves. Yet to an unbiased observer private capital's reasons for refusing to resume its historic role in foreign investment are valid. Certainly, it is difficult to blame private capital for failing to have confidence in the foreseeable future, in the light of the current world political situation. And until a political balance promising peace for years to come is achieved, I do not believe that private capital will or can be expected to go all out for direct foreign investment.

So long as current political conditions remain, the best we can hope for from private capital is that it will continue to invest in the extractive industries abroad and that as favorable opportunities become available that it will extend foreign investment into other fields.

To more fully understand the hesitant attitude of private capital in regard to foreign investment, it is necessary to go beyond today's political tensions and to look at past experiences, as well. What we find over the last twenty-five years is a long list of expropriations, without sufficient compensation; discriminatory taxes; and transfer restrictions that have wiped out or solidly frozen millions of dollars in private foreign investment. These governmental actions have been justified on a number of counts including: uneconomic and high cost loans, interference in domestic politics, and, in the case of transfer restrictions, adverse trade conditions which have curtailed the availability of foreign exchange to meet payments to foreign investors of profits, interest or capital funds.

That in particular cases all of these difficulties have a basis in fact cannot be denied. But the fact that they happened, whether or not for valid reasons, does not engender confidence in the breast of our postwar private investor. This is particularly true where the private foreign capitalist was used as the "whipping boy" for purposes of making political capital.

Many countries which formerly penalized private foreign investment have gone a long way toward retrieving their credit in recent years, and I am happy to say that in several instances the World Bank had a hand in bringing about mutually agreeable settlements between countries and investors. But, two developments of the past year - the Iranian oil seizures and the Brazilian decree restricting transfers of capital and profits - are grim reminders of the vulnerable position of the private investor once he sends his funds abroad.

Perhaps I have used darker tones than the situation warrants in describing the outlook for foreign investment by private capital. Still the question remains, what are the opportunities for such capital in foreign fields, in view of current uncertainties, past history and the entry of public investment on an unprecedented scale.

There are, of course, the perfectionists or traditionalists who claim there is no future abroad for the private investor so long as present conditions continue. This group maintains that only a return to sound pre-World War I principles, including the gold standard and full convertibility of currencies, can make possible useful and healthy foreign investment by private capital. The traditionalists further maintain that governmental and other public interests compete unfairly in the foreign field against private interests; that public investment is "a priori" political in character and therefore unsound; and that in the light of these conclusions public interests must get out of foreign investment.

There is, I believe, a more realistic viewpoint concerning the problem. It holds that the events of the last three decades and more make it impossible to return to World War I standards and conditions within a short period of time, and that meanwhile the world cannot wait on investment until those standards and conditions materialize again. Certainly you would not expect a patient recovering from a long and serious illness to at once adopt the diet of a healthy man, instead you would impose special measures to insure a continuing recovery. One of the measures we must take for this still ailing world of ours is public investment in development where private capital cannot and will not go to the extent needed.

In discussing the role of public investment in the present world economy, I shall refer only to that type which is concerned with economic development, as the purely strategic and political forms of loans and grants, while they perform a useful function, are outside what might be termed the "scope of true investment."

At this point you well may ask, how can public international investment possibly aid in a renewal of private international investment on a broad scale? The answer is that public international investment is today busily laying the groundwork or foundation on which future private investors will help to rebuild and expand the world economy. This is especially true in the so-called "underdeveloped" countries of the world where the basic requirements for a modern economy are inadequate or non-existent.

To incorporate such facilities into an underdeveloped country requires not only large amounts of local investment but very substantial amounts of investment from the outside as well. Unfortunately, most of the required facilities can roughly be classified under the heading of services such as electric power, transportation, communications and irrigation, all of which have little to offer in the way of an immediate direct return to private investment. Thus, the initial impetus must come from public institutions designed to handle long-term risks on a large scale.

Once the basic facilities have been installed and put to work in an underdeveloped country, then opportunities in enterprises serviced and spurred by them are opened up to private foreign investment.

A number of organizations have been founded to channel public funds into overseas investment and to help in financing the pre-conditions or requirements for development. They include the Colombo Plan for South Asia, Colonial Development Corporation for Britain's overseas territories, and the Caisse Centrale de la France d'Outre Mer which aids in development of France's possessions. There is, however, only one truly international organization to aid in the financing of development on what is practically a worldwide scale, and that is the World Bank.

Too often the fundamental purpose for which the World Bank was founded is lost amidst talk about its loans or bond offerings or its latest action in the field of technical assistance. Forgotten is the fact that these activities are means rather than ends, and that the whole picture of our operations is the creation of a basis for economic development within whose framework private capital will again be able to move freely and at reasonable risks across the borders of the world.

In hewing to our fundamental purpose we have found that the Bank must follow three principal lines of action. It must help in the creation of conditions in underdeveloped countries which will permit of a satisfactory rate of investment; it must stimulate the investment of local capital in the development of underdeveloped countries; and finally the Bank, through its operations, must act as a catalyst for private international or foreign investment in development

If the Bank through its investments and other activities can help to produce, on a broad scale, these three requisites for a sounder world economy, then it will indeed have been worth its salt. But, there are indirect results arising from our investment that are perhaps more important than are the direct economic returns.

Through our investments we are offering the underdeveloped parts of the world a chance to improve the incomes, in real terms, of their peoples and to diminish gradually the inequalities in per capita incomes between the developed and underdeveloped countries. In addition, through sound investments we seek to overcome these inequalities not by redistribution, or the lowering of incomes in the richer nations, but rather by raising incomes in the poorer ones which still comprise two-thirds of the globe.

To those of you who have never witnessed the grinding and hopeless poverty common to many parts of the world, it is difficult to realize how vital it is to world peace and the relieving of international social tensions that something be done to improve the physical lot of this depressed two-thirds.

These people have little or nothing to lose from change, and they are fair game for any ideology that seeks to stir their resentment against the established order through promises, however empty, of better conditions. If we of the West are not willing to help these peoples help themselves by aiding them through sound investment and sound advice, then we could very easily lose much more of the world to Communism by simple default.

Leaving aside social and political implications and possibilities, there are also selfish dollar and cents gains to be considered in the enrichment of the poorer areas. I am sure that the advanced countries will find greater opportunities for trade and investment than ever before as a result of economic development. And that trade with and investment in prosperous and developing countries will be more profitable and secure than it ever was when the same countries were poor and economically stagnant.

Now I shall turn to a brief discussion of the World Bank and attempt to demonstrate for you how it is helping to establish conditions under which private international investment on a broad worldwide scale will again become possible.

The Bank as you know was founded at the Bretton Woods Conference in July 1944, and since then fifty-one countries have become members. It was not until the spring of 1947, however, that the Bank became a factor in international investment. At that time it made its first loans, all of which went to Western Europe, in an amount of about $500,000,000 to help in financing a part of the dollar gap in that area's post-war reconstruction programs. It was not until the spring of 1948 that the Bank was able to lend for development purposes, but since that time all of our loans have been primarily developmental in character.

Since the start of the Bank's lending operations five years ago we have made 64 loans amounting to $1,350,000,000 in 26 of our member countries plus two overseas territories of members. Our borrowers have been mainly governments and their agencies though a sprinkling of the Bank's loans have gone directly to private enterprise. Private enterprise has also benefited indirectly through the fact that many of our governmental borrowers have re-lent or otherwise made available the proceeds of our loans to privately-owned industry and trade.

The number and amount of loans made by the World Bank have risen to considerable proportions even in this day when it seems as though all things are measured. by the billion. I feel, however, that the true measure of the Bank's operations should be not how often and how much it has loaned for reconstruction or development, but rather what are the international investments we have made contributing toward a better world economy.

To describe a typical World Bank loan and its effect on a typically underdeveloped country would be an impossibility. This is due to the fact that our loans differ widely in purpose while the economies of our borrowers differ even more widely. On one hand you have our $100,000,000 loan to Australia, which already possesses an economy of a high order, the proceeds of which are helping to finance the foreign exchange costs of a large and complicated development program reaching into all sectors of the Commonwealth's economy. On the other hand you have a series of three small loans amounting to $8,500,000 to Ethiopia, one of the most primitive countries in the world, for what we in the US would deem the relatively simple purposes of financing the foreign exchange costs of road rehabilitation, telecommunications and a small development bank.

Thus, instead of attempting to describe a typical World Bank loan for development, I have chosen two loans at random to serve as examples of what we have done or expect to do through the medium of our lending operations.

As my first example, I have picked the Bank's most recent loan, which was made on April 30 to the Bank of Finland for $20,000,000. The Bank of Finland will in turn re-lend the proceeds of our loan to both governmental and private enterprise in Finland.

The Finnish people are perhaps the prototype of the ambitious and industrious spirit and will needed for successful development. Here you have a country which suffered disastrously from two wars over a period of five or six years and which, as the loser in both of them, has had to pay heavy indemnities to Russia in the form of goods, money, services and about 10% of her original territory. Yet despite these blows Finland has almost wholly recovered and she has achieved this recovery almost entirely on her own.

Now the Finns wish to expand and develop their economy still further and again the effort and the will and the investment will be almost entirely their own. The country needs, however, a relatively small amount of outside capital to meet the costs of key equipment which must be imported largely from the dollar area, and as on two previous occasions the country has turned to the World Bank for a loan.

Without the dollars supplied by us through our latest loan, the Finns undoubtedly would still go ahead with their plans for development. But, by being able to import equipment which cannot be produced domestically, and which is urgently needed, the Finns will be able to invest their own resources more effectively and their development program will move forward at a more rapid pace.

Two industries - wood-products and electric power - will be the principal beneficiaries of the Bank's $20,000,000 loan. The wood-products industry is the keystone of Finland's economy, and shipments of wood, wood pulp and related items account for 90% of exports and make possible the country's favorable trade balance with the rest of the world. As a means of further strengthening their economy and trade position, the Finns are currently busy expanding and developing their wood-products industry. When the program is completed, output of chemical pulp will be up 20%, newsprint 25% and paperboard and cardboard by more than 100%.

The amount of local public and private capital involved in the program is indicated by the fact that the Finns will meet 90% of the cost of this program, while the Bank's share amounting to $9,500,000 will meet the remaining 10%.

An additional $9,500,000 of our loan will go to the electric power industry, which will be expanded by 30% or 275,000 K.W. in capacity. In this case also, the Finns will supply 90% of the investment required from their own resources, while the Bank's part is to meet the cost of imports of key equipment.

Finland must increase her power output for two reasons. The success of her plans for the wood-products industry hinges on the availability of sufficient additional electric power. Also, the Finns recognize the dangers inherent in an economy that depends for its support on one principal industry - in this case the wood-products industry. Consequently, Finland is seeking to diversify her industrial plant and the success of this venture rests on adequate sources of electric power.

The remaining $1,000,000 of the World Bank's loan will be used for the improvement of farm lands and for the construction of roads in Finland's vast forest reserves.

From Northern Europe I shall now move to the Belgian Congo in the heart of Africa. The Congo is in many respects diametrically the opposite of Finland, but each have in common a burning desire to improve and develop their economies. The Congo, with the aid of Belgium, is undertaking a "Ten Year Plan" for development, and the World Bank has made two loans - $40,000,000 to the Congo and $30,000,000 to Belgium - to finance a substantial part of the foreign exchange costs of the plan. Unlike Finland where the proceeds of our loan will be spent for two particular industries, Belgium and the Congo will use our funds on a program which covers public utilities such as roads, waterways, ports, railroads and electric power; and social services such as housing, health and education.

The ultimate purpose of the Congo's "Ten Year Plan" is to increase the self-sufficiency of the colony by expanding industrial and agricultural productivity to a degree which will relieve its extreme dependence on imports of consumer goods and raise the level of exports. What increased exports mean not only to the Congo but to us here in the United States can readily be demonstrated by current statistics. Already the Congo produces more than half of the world's supplies of cobalt and industrial diamonds; it is the fourth of fifth largest source of copper and tin; and it is a leading producer of uranium.

The Bank's share in financing the foreign exchange costs of this program amounts to $70,000,000. But this figure becomes almost insignificant on realization that various Belgian and Congolese government agencies will spend the equivalent of more than $600,000,000 to meet local and other costs of development. In addition, private capital, as a result of the Ten Year Plan, has shown an increasing interest in the potentialities of the Congo for investment. And over the next ten years both local and foreign private investment in the industrialization of the Congo is expected to reach a total of at least $500,000,000.

Neither time nor your patience will permit me to talk in detail about other loans made by the World Bank. But I should like to point out that there are trains running and food crops growing in India that would not have been possible without investment by our organization; there are new power sources and new private industries using them in Brazil as a result of two loans amounting to $90,000,000 which we made to the privately-owned Brazilian Traction, Light & Power Company. In Mexico and Turkey private investment, both local and foreign, is being spurred by privately-owned institutions which received a part of their reserves of foreign exchange through the medium of World Bank loans, and this listing of things done could be extended to country after country.

In the two loans which I discussed at length, as well as in all of our other loans, there are certain effects which we have been able to produce which indicate how the Bank is helping both its member countries and private investment.

You have noted that through supplying urgently needed foreign exchange for development, the Bank has enabled underdeveloped countries to effectively marshal and utilize local capital resources to meet local development costs. This, I believe, is the most important influence the Bank has brought to bear on development. For it is local capital and the will on the part of the holders of such capital to invest it in the future which ultimately determines whether or not a country will progress economically.

Another major effect of the World Bank's loans is that they are helping to create the services and environment essential to modern industry and modern agriculture. Often we hear the underdeveloped countries criticized for failing to develop along lines used in the early days of the US when the job was done with an axe, a plow or with other simple tools. Why the job was not done years ago in this manner by the underdeveloped countries it is impossible to say, but undoubtedly different health, climatic and cultural conditions lie at the root of this failure.

Whatever the causes of delay may have been they are no longer of any consequence, because in recent years the peoples of the underdeveloped areas have been thoroughly sold on the wonders and benefits of the industrial and agricultural revolutions. And I am afraid that the most assiduous salesmen have been the United States and Great Britain.

Unfortunately, development today has become a vastly more complicated process than it was years ago due to advances in the means and techniques of production and to the pressures of vastly increased populations on productive capacity. The axe and the plow, though still important, are not enough and basic development now consists of the construction of whole road systems, hydroelectric power dams and plants, massive irrigation works and all of the other services which constitute the environment in which modern industry and modern agriculture must live. It is these services and that environment that the Bank is creating through its loans.

The nature of modern development and the size of the projects required to achieve it make failure due to improper planning or execution more costly than ever before. More costly not only in monetary terms but also in terms of psychology, labor and resources expended. In recognition of this fact the Bank has undertaken to include technical assistance as a part of its lending operations. Through studies made both in Washington and the field we determine the extent of our borrowers' credit, that the ideas behind the proposed loans are sound, that the technical aspects of the projects or programs have been properly worked out, and in each particular case we make sure that the project or program to be financed will produce sound and lasting benefits for the borrower.

As a further protection in its own and its borrowers' interest, and in the interest of the holders of our bonds, the Bank carefully supervises the disbursement of loan proceeds and the use of the items that the borrowers purchase with them. In supervising disbursement on loans we maintain control of all proceeds until we receive documentary evidence that they are to be spent on items covered by the loan agreement. As to end-use of items purchased with our funds, we determine through regular engineers' reports and by on-the-spot investigation that they have been installed properly, that the project is proceeding satisfactorily toward completion, that management of the project is satisfactory, and that local capital and local resources are sufficient to enable completion of the project.

I have talked at length about what the Bank is doing to aid the cause of development and private investment. I think it is now time to mention two very important things we cannot do. The Bank under its charter is barred from making equity investment and it cannot make loans to private industry with a governmental guarantee. These two restrictions are logical and should remain in force in view of our dependence on the private investment market for the greater part of the funds which we lend. They do, however, limit sharply the scope of the investments which we may make.

Often as a part of our activities we run into excellent investment opportunities which we cannot tough because what is needed is equity investment. Again we meet opportunities for loans to private enterprise but usually find that the concern is reluctant to have the government put its foot in the door through the granting of a guarantee. In addition, we have had cases where private enterprise was willing to apply for a guarantee but the government has refused for fear of being accused of favoring one concern against another.

There is little that the World Bank can do to meet the need for equity capital save to refer such opportunities to private investors and hope that they will risk sending their money abroad. To overcome the guarantee difficulty we have used the device of a development bank or a consortium of private banks to which we make a loan with the required government guarantee. The development bank or the consortium is then free to re-lend to private enterprises without need of further guarantees. This latter device has worked out quite well in Turkey, Mexico and Ethiopia, but it would become rather involved if we made similar loans in thirty or forty countries.

The Bank has made an intensive study of the possibilities for aiding private equity investment or of making loans without the necessity for guarantees by governments. Recently it issued a study and report on a proposed organization called the "International Finance Corporation." In brief, this corporation would be founded to promote economic development through the stimulation of private investment. It would perform this function by bringing together investment opportunities, domestic and foreign capital and experienced management with the objective of financing private enterprise through equity investment or non-guaranteed loans.

As a matter of policy the International Finance Corporation would not take a controlling interest in the enterprises in which it invests nor would it accept management responsibility. A further policy of the Corporation would be the sale, as soon as possible and at fair prices, of equities and securities held in its portfolio.

The report envisions the IFC as an affiliate of the World Bank and it would make the fullest possible use of the technical and administrative staff of the Bank. Affiliation, however, would not apply to finances and the funds and capital of the corporation and the Bank would be kept completely distinct from each other. The capital of the IFC would be derived from the contributions of countries accepting membership in it, and such membership would be open to all who hold membership in the Bank.

Whether or not the IFC is the answer to many of the problems arising from the need for international equity investment or unguaranteed loans is at the present moment academic. At best the organization cannot come into existence for months and possibly years to come, as it would have to be approved by a number of governments and then its organization and scope would have to be set up and defined. I do believe that it would prove a useful medium for channelling additional private investment into the foreign field.

There are a number of objections to the foundation of the IFC which will have to be met before it can possibly come into being. Some observers consider it too complicated, while others believe that its ownership by governments may cause private enterprise to shie away. Others consider that a guarantee by the United States and other governments of the transfer risks involved in investment would be a simpler and more efficient way of overcoming the fears of private capital.

CONCLUSION:

Aside from loans and technical assistance, the World Bank is extending the range of private investment in other ways. As you all know, the Bank must acquire the major part of the funds which it will lend in the future from the investment market. In fact, up to the present we have sold $450,000,000 of bonds in the United States market and the equivalent of an additional $50,000,000 have been sold in the United Kingdom, Canada and Switzerland. The Bank has also sold, with or without its guarantee, more than $40,000,000 of the securities it has received from borrowers in connection with its loans.

Through sales of bonds and other securities the Bank is helping to keep alive contact between the private investor and the foreign market, and is channeling substantial amounts of private capital into foreign lending.

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Before closing, I should like to re-emphasize that while the work of the Bank is essential, we recognize that it cannot possibly meet the overall requirements for capital for development purposes. What we hope to do is to prepare the way for private capital to take over the main job by demonstrating to the underdeveloped countries and to private investors how they can join together for the mutual benefit of all.

5/13/52 - W. A. B. Iliff
Missouri Bankers Assn.

WBG 84 ARCHIVES

Late Draft -- Dont know what Mr Iliff actually said

5/13-Iliff-Missouri Bankers - DRAFT copy -

New/Iliff/St. Louis

Mr. Chairman, etc.: I am grateful for the opportunity to appear before this meeting to talk to you about the International Bank for Reconstruction and Development, and its place in international investment. Before discussing the Bank I shall touch on some of the major trends in international investment in the postwar period, which roughly covers the active life of the Bank.

One of the great changes in international investment is the fact that fewer nations than ever before are in a position to permit exports of capital. Nations, like individuals, are controlled in their capital exports by their ability to produce more than they consume, and the United States and Switzerland are the only nations at the present time whose surplus production allows them to send capital abroad.

Many traditional capital exporters, and particularly the United Kingdom and France, are strictly limited in their ability to permit foreign investment. Whatever surpluses or capital they can create are urgently needed for domestic reconstruction and rehabilitation and for development of their overseas territories.

In the Sterling area, however, there is a good deal of investment activity between the various members. British private and public capital are investing on a large scale in colonial development. Private capital is investing heavily in some of the independent Sterling countries such as Australia and South Africa. Releases by Britain of Sterling balances built up by members of the Commonwealth during the war are also swelling exports of capital.

Because of the domestic needs of the United Kingdom and the added needs of the Commonwealth, British overseas investment is limited principally to the Sterling area and it crosses few currency frontiers. One of the characteristics of the Sterling area is freedom of capital movements between the members. But, to go elsewhere, private capital runs into the problem of convertibility and must obtain official permission to invest in other than Sterling countries.

The United States, as I pointed out, is one of the two countries which can support large capital exports. Yet, since the war, the marketing of foreign securities here has been at a low ebb. Private investors in the United States generally refuse to take the risk of foreign investment and have turned almost exclusively to domestically issued securities.

State and Federal restrictions on investment in foreign securities by institutional investors have been another factor in reducing private exports of capital. These legal restrictions, which are a legacy of the defaults of the 1920's and 1930's, have reduced the market for foreign issues in the US almost to the vanishing point.

The market for foreign equities has narrowed more sharply than that for foreign securities. Boundless opportunities for domestic equities appear to be almost the sole interest of the American investor, with the exception of various Canadian equities. Private investors in the United States also have long memories. They look back over the last twenty-five years to a long list of expropriations, discriminatory taxes and transfer difficulties which have wiped out or solidly frozen millions of dollars in foreign equities and securities.

In particular cases these penalties against US investors abroad may have been justified. But the fact that they were imposed, whether or not for valid reasons, does not engender confidence in the breast of our postwar private investor. This is particularly true, where the private investor was used as the "whipping boy" for purposes of making political capital.

Many countries which formerly penalized private foreign investment have gone a long way toward restoring their credit. I am happy to say that on several occasions the World Bank had a hand in bringing about mutually agreeable settlements between countries and investors. But, two developments in the last year - the Iranian oil seizures and transfer restrictions imposed by Brazil - are grim reminders of the vulnerable positions of the private investor abroad.

Because of the difficulties I have described, what private US capital is invested in the foreign field covers only a very narrow range. More than 2/3rds of privately-owned dollars sent abroad as investments are put into the oil industry and the remainder goes principally into the other extractive industries.

Since private capital in the United States and elsewhere has relinquished its place as the principal exporter of capital, other sources of capital had to be developed to meet the world's investment needs. Governments and public institutions such as the World Bank had to step in, and they have been the dominant factor in foreign investment since the war. Private foreign investment by investors in the United States, in the last six or seven years, has accounted for only 10% to 16% of annual exports of capital from this country. Which means that in terms of gross national product, private foreign investment is equal to only 1/3rd of 1% of what the US will produce this year. Public US investment abroad will account for from 1-2/3rds to about 2% of the gross national product in 1951-52.

Profits have been the underlying motive behind private investment and will continue to be so as long as we have private investors. The motives behind public investment, on the other hand, are quite different and may be divided into two categories. One is composed of strictly strategic or political loans and grants, in which repayment in the case of loans is welcomed, but is not a primary consideration. Instead, if a strategic or political situation advantageous to both parties can be maintained or improved, then that is profit ore repayment enough. But, I hasten to emphasize that grants and political loans are not the business of the World Bank and that by statute and policy we are barred from entering into such transactions.

The World Bank, along with certain other public institutions, comes under a second category of public private investment which is concerned with making sound loans for reconstruction and development. By sound loans, I mean not only sound in economic and technical objectives, but also sound in that reasonable prospects for repayment exist.

Private capital has been taken to task for its reluctance to leave the domestic fold, and some of the sternest critics have been private investors. Yet its reasons for refusing to resume its historic role in foreign investment is valid. It is difficult to blame private capital for failing to have much confidence in the future in view of the world political situation. And until this situation clears up, I do not believe that private capital will or can be expected to go all out for direct foreign investment.

So long as current political conditions remain, the best we can hope for from private capital is that it will continue to invest in the extractive industries abroad and that as favorable conditions and opportunities arise it will extend foreign investment into other fields.

Perhaps I have used darker tones than the situation warrants in describing the outlook for foreign investment by private capital. Still the question remains, what are prospects for private capital in other countries.

(Pick up first full paragraph on page 4 of old copy)

~~the outlook for foreign investment by private capital. Still the question remains, what are the opportunities for such capital in foreign fields, in view of current uncertainties, past history and the entry of public investment on an unprecedented scale.~~

There are, of course, the perfectionists or traditionalists who claim there is no future abroad for the private investor unless we ~~so long as present conditions continue.~~ ~~This group maintains that only a~~ return to sound pre-World War I conditions
And principles, ~~including the gold standard and full convertibility of currencies, can make possible useful and healthy foreign investment by private capital. The traditionalists further maintain that governmental and other public interests compete unfairly in the foreign field against private interests; that public investment is "a priori" political in character and therefore unsound; and that in the light of these conclusions public interests must get out of foreign investment.~~

There is, I believe, a more realistic viewpoint concerning the problem. It holds that the events of the last three decades and more make it impossible to return to World War I standards and conditions within a short period of time, and that meanwhile the world cannot wait on investment until those standards and conditions materialize, ~~again.~~ Certainly you would not expect a patient recovering from a long and serious illness to at once adopt the diet of a healthy man, instead you would impose special measures to insure a continuing recovery. One of the measures we must take for this still ailing world of ours is public investment in development where private capital cannot and will not go to the extent needed.

In discussing the role of public investment in the present world economy, I shall refer only to that type which is concerned with economic development, ~~as the~~ purely strategic and political ~~forms of~~ loans and grants, while they perform a useful function, are outside what might be termed the "scope of true investment," and therefore are excluded from my subject

At this point you well may ask, how can public international investment possibly aid in ~~a renewal of~~ reviving private international investment on a broad scale? The answer is that public international investment is today ~~busily~~ laying the groundwork or foundation on ~~which future~~ (stet) private investors ~~will~~ can help to rebuild and expand the world economy. This is especially true in the so-called "underdeveloped" countries ~~of the world~~ where the basic requirements or facilities for a modern economy are inadequate or non-existent.

To incorporate such facilities into an underdeveloped country requires ~~not only~~ large amounts of local and foreign investment~~, but very substantial amounts of investment from the outside as well.~~ Unfortunately, most of the ~~required facilities~~ them can ~~roughly~~ be classified under the heading of services such as electric power, transportation, communications and irrigation, all of which have little to offer in the way of an immediate direct return to ~~private investment~~ the private foreign investor. Thus, the initial impetus must come from public institutions designed to handle long-term overhead risks on a large scale.

Once the basic facilities have been installed and put to work in an underdeveloped country, then opportunities in enterprises serviced and spurred by them are opened up to private foreign investment.

~~A number of organizations have been founded to channel public funds into overseas investment and to help in financing the pre-conditions or requirements for development. They include the Colombo Plan for South Asia, Colonial Development Corporation for Britain's overseas territories, and the Caisse Centrale de la France d'Outre Mer which aids in development of France's possessions. There is, however, only one truly international organization to aid in the financing of development on what is practically a worldwide scale, and that is the World Bank.~~

Too often the fundamental purpose for which the World Bank was founded is lost amidst talk about its loans or bond offerings or its latest action in the field of technical assistance. Forgotten is the fact that these activities are means rather than ends, and that the ~~whole picture~~ main purpose of our operations is the creation of a basis for economic development within whose framework private capital will again be able to move freely and at reasonable risks across the borders of the world.

In hewing to our fundamental purpose we have found that the Bank must follow three principal lines of action. It must help in the creation of conditions in underdeveloped countries which will permit of a satisfactory rate of investment; it must stimulate the investment of local capital in the development of underdeveloped countries; and finally the Bank, through its operations, must act as a catalyst for private international or foreign investment in development.

If the Bank through its investments and other activities can help to produce, on a broad scale, these three requisites for a sounder world economy, then it will indeed have been worth its salt. But, there are indirect results arising from our investments that are perhaps more important than are the direct economic returns.

~~Through our investments~~ we are offering the underdeveloped parts of the world a chance to improve the incomes, in real terms, of their peoples and to diminish gradually the inequalities in per capita incomes between the developed and underdeveloped ~~countries~~ areas. In addition, through sound investments we seek to overcome these inequalities not by redistribution, or the lowering of incomes in the richer nations, but rather by raising incomes in the poorer ones which still comprise two-thirds of the globe.

To those of you who have never witnessed the grinding and hopeless poverty common to many parts of the world, it is difficult to realize how vital it is to world peace and the relieving of international social tensions that something be done to improve the physical lot of this depressed two-thirds.

~~These people have little or nothing to lose from change, and they are fair game for any ideology that seeks to stir their resentment against the established order through promises, however empty, of better conditions. If we of the West are not willing to help these peoples help themselves by aiding them through sound investment and sound advice, then we could very easily lose much more of the world to Communism by simple default.~~

Leaving aside social and political implications ~~and possibilities~~, there are also ~~selfish~~ dollar and cents gains to be considered in the enrichment of the poorer areas. ~~I am sure that~~ the advanced countries will find greater opportunities for trade and investment than ever before as a result of economic development. And I am sure that trade with and investment in prosperous and developing countries will be more profitable and secure than it ~~ever~~ was when the same countries were poor and economically stagnant. Now I believe it is time

~~Now I shall turn to a brief discussion of the World Bank and attempt to demonstrate for you how it is helping to establish conditions under which private international investment on a broad worldwide scale will again become possible.~~ to talk about the World Bank and what it is doing to speed the return of private foreign investment.

The Bank as you know was founded at the Bretton Woods Conference in July 1944, and since then fifty-one countries have become members. It was not until the spring of 1947, however, that the Bank became a factor in international investment. At that time it made its first loans, all of which went to Western Europe, in an amount of about $500,000,000 to help in financing a part of the dollar gap in that area's post-war reconstruction programs. It was not until the spring of 1948 that the Bank was able to lend for development purposes, but since that time all of our loans have been primarily developmental in character.

Since the start of the Bank's lending operations ~~five years ago we have~~ it has made 64 loans amounting to $1,350,000,000 in 26 of our member countries plus two overseas territories of members. Our borrowers have been mainly governments and their agencies, though a sprinkling of the Bank's loans have gone directly to private enterprise. Private enterprise has also benefited indirectly through the fact that many of our governmental borrowers have re-lent or otherwise made available the proceeds of our loans to privately-owned industry and trade.

~~The number and amount of loans made by the World Bank have risen to considerable proportions even in this day when it seems as though all things are measured by the billion. I feel, however, that the true measure of the Bank's operations should be not how often and how much it has loaned for reconstruction or development, but rather what are the international investments we have made contributing toward a better world economy.~~

To describe a typical World Bank loan and its effect on a typically underdeveloped country would be an impossibility. Each loan is an entity in itself and the stage of economic growth differs widely from country to country. ~~This is due to the fact that our loans differ widely in purpose while the economies of our borrowers~~ differ even more widely. On one hand you have our $100,000,000 loan to Australia, which already possesses an economy of a high order, the proceeds of which are helping to finance the foreign exchange costs of a large and complicated development program reaching into all sectors of the Commonwealth's economy. On the other hand you have a series of three small loans amounting to $8,500,000 to Ethiopia, one of the most primitive countries in the world, for what we in the US would deem the relatively simple purposes of financing the foreign exchange costs of road rehabilitation, telecommunications and a small development bank.

Thus, ~~instead of attempting to describe a typical World Bank loan for development~~, I have chosen two loans at random to serve as examples of what we have done or expect to do through the medium of our lending operations.

As my first example, I have picked the Bank's most recent loan, which was made on April 30 to the Bank of Finland for $20,000,000. The Bank of Finland will in turn re-lend the proceeds of our loan to both governmental and private enterprise in Finland.

The Finnish people are perhaps the archetype ~~prototype~~ of the ambitious and industrious spirit ~~and will~~ needed for successful development. Here you have a country which suffered disastrously from two wars over a period of five or six years and which, as the loser in both of them, has had to pay heavy indemnities to Russia in the form of goods, money, services and about 10% of her original territory. ~~Yet~~ despite these blows Finland has almost wholly recovered and she has achieved this recovery almost entirely on her own.

~~Now~~ the Finns wish to expand and develop their economy still further and again the effort, ~~and~~ the will and the investment will be almost entirely their own. The country needs, however, a relatively small amount of outside capital to meet the costs of key equipment which must be imported largely from the dollar area, and as on two previous occasions it ~~the country~~ has turned to the World Bank for a loan.

Without the dollars supplied by the Bank ~~us through our latest loan,~~ the Finns undoubtedly would ~~still~~ go ahead with their plans for development. But, by being able to import equipment which cannot be produced domestically, and which is urgently needed, the Finns will be able to invest their own resources more effectively and their development program will move forward at a more rapid pace.

Two industries - wood-products and electric power - will be the principal beneficiaries of the Bank's $20,000,000 loan. The wood-products industry is the keystone of Finland's economy, and shipments of wood, wood pulp and related items account for 90% of exports and make possible the country's favorable trade balance with the rest of the world. As a means of further strengthening their economy and trade position, the Finns are ~~currently busy~~ expanding and developing their wood-products industry. When the program is completed, output of chemical pulp will be up 20%, newsprint 25% and paperboard and cardboard by more than 100%.

The amount of local public and private capital involved in the program is indicated by the fact that the Finns will meet 90% of the cost of this program, while the Bank's share amounting to $9,500,000 will meet the remaining 10%.

An additional $9,500,000 of our loan will go to the electric power industry, which will be expanded by 30% or 275,000 K.W. in capacity. In this case also, the Finns will supply 90% of the investment required from their own resources, while the Bank's part is to meet the cost of imports of key equipment.

Finland must increase her power output for two reasons. The success of her plans for the wood-products industry hinges on the availability of sufficient additional electric power. Also, the Finns recognize the dangers inherent in an economy that depends for its support on one principal industry - in this case the wood-products industry. Consequently, Finland is seeking to diversify her industrial plant and the success of this venture rests on adequate sources of electric power.

The remaining $1,000,000 of the World Bank's loan will be used for the improvement of farm lands and for the construction of roads in Finland's vast forest reserves.

From Northern Europe I shall now move to the Belgian Congo in the heart of Africa. The Congo is in many respects diametrically the opposite of Finland, but ~~each~~ they have in common a burning desire to improve and develop their economies. The Congo, with the aid of Belgium, is undertaking a "Ten Year Plan" for development, and the World Bank has made two loans - $40,000,000 to the Congo and $30,000,000 to Belgium - to finance a substantial part of the foreign exchange costs of the plan. Unlike Finland where the proceeds of our loan will be spent for two particular industries, Belgium and the Congo will use our funds on a program which covers public utilities such as roads, waterways, ports, railroads and electric power; and social services such as housing, health and education.

The ultimate purpose of the Congo's "Ten Year Plan" is to increase the self-sufficiency of the colony by expanding industrial and agricultural productivity to a degree which will relieve its extreme dependence on imports of consumer goods and raise the level of exports. What increased exports mean not only to the Congo but to us here in the United States can readily be demonstrated by current statistics. Already the Congo produces more than half of the world's supplies of cobalt and industrial diamonds; it is the fourth of fifth largest source of copper and tin; and it is a leading producer of uranium.

The Bank's share in financing the foreign exchange costs of this program amounts to $70,000,000. But this figure becomes almost insignificant on realization that various Belgian and Congolese government agencies will spend the equivalent of more than $600,000,000 to meet local and other costs of development. In addition, private capital, as a result of the Ten Year Plan, has shown an increasing interest in the potentialities of the Congo for investment. And over the next ten years both local and foreign private investment in the industrialization of the Congo is expected to reach a total of at least $500,000,000.

~~Neither time nor your patience will permit me to talk in detail about other loans made by the World Bank. But I should like to point out that there are trains running and food crops growing in India that would not have been possible without investment by our organization; there are new power sources and new private industries using them in Brazil as a result of two loans amounting to $90,000,000 which we made to the privately-owned Brazilian Traction, Light & Power Company. In Mexico and Turkey private investment, both local and foreign,~~

~~is being spurred by privately-owned institutions which received a part of their reserves of foreign exchange through the medium of World Bank loans, and this listing of things done could be extended to country after country.~~

In the two loans which I discussed ~~at length~~, as well as in all of our other loans, there are certain effects which we have been able to produce which indicate how the Bank is helping both its member countries and private investment.

You have noted that through supplying urgently needed foreign exchange for development, the Bank has enabled underdeveloped countries to effectively marshal and utilize local capital resources to meet local development costs. This, I believe, is the most important influence the Bank has brought to bear on development. For it is local capital and the will on the part of the holders of such capital to invest it in the future which ultimately determines whether or not a country will progress economically.

Another major effect of the World Bank's loans is that they are helping to create the services and environment essential to modern industry and modern agriculture. Often we hear the underdeveloped countries criticized for failing to develop along lines ~~used in the~~ similar to those of early days of the US when the job was done with an axe, a plow or with other simple tools. Why the job was not done years ago in this manner by the underdeveloped countries it is impossible to say, but undoubtedly different health, climatic and cultural conditions lie at the root of this failure.

Whatever the causes of delay may have been they are no longer of any consequence, ~~because~~ in recent years the peoples of the underdeveloped areas have been thoroughly sold on the wonders and benefits of the industrial and agricultural revolutions. And I am afraid that the most assiduous salesmen have been the United States and Great Britain.

Unfortunately, development today has become a vastly more complicated process than it was years ago due to advances in the means and techniques of production and to the pressures of vastly increased populations on productive capacity. The axe and the plow, though still important, are not enough and basic development now consists of the construction of whole road systems, hydroelectric power dams and plants, massive irrigation works and all of the other services which constitute the environment in which modern industry and modern agriculture must live. It is these services and that environment that the Bank is creating through its loans.

The nature of modern development and the size of the projects required to achieve it make failure due to improper planning or execution more costly than ever before. More costly not only in monetary terms but also in terms of psychology, labor and resources expended. In recognition of this fact the Bank has undertaken to include technical assistance as a part of its lending operations. Through studies made both in Washington and the field we determine the extent of our borrowers' credit, that the ideas behind the proposed loans are sound, that the technical aspects of the projects or programs have been properly worked out, and in each particular case we make sure that the project or program to be financed will produce sound and lasting benefits for the borrower.

As a further protection in its own and its borrowers' interest, and in the interest of the holders of our bonds, the Bank carefully supervises the disbursement of loan proceeds and the use of the items that the borrowers purchase with them. In supervising disbursement on loans we maintain control of all proceeds until we receive documentary evidence that they are to be spent on items covered by the loan agreement. As to end-use supervision ~~of items purchased with our funds~~, we determine through regular engineers' reports and by on-the-spot investigation that equipment and goods purchased with loan proceeds ~~they~~ have been installed properly, that the project is proceeding satisfactorily toward completion, that management of the project is satisfactory, and that local capital and local resources are sufficient to enable completion of the project.

I have talked at length about what the Bank is doing to aid the cause of development and private investment. ~~I think~~ It is ~~now~~ time I ~~to~~ mentioned two very important things we cannot do. The Bank under its charter is barred from making equity investment and it cannot make loans to private industry with a governmental guarantee. These two restrictions are logical and should remain in force in view of our dependence on the private investment market for the greater part of the funds which we lend. They do, however, limit sharply the scope of the investments which we may make.

Frequently ~~Often as a part of our activities~~ we run into excellent investment opportunities which we cannot touch because what is needed is equity investment. Again we meet opportunities for loans to private enterprise but usually find that the concern is reluctant to have the government put its foot in the door through the granting of a guarantee. ~~In addition,~~ we also have had cases where private enterprise was willing to apply for a guarantee but the government ~~has~~ refused for fear of being accused of favoring one concern against another.

There is little that the World Bank can do to meet the need for equity capital save to refer such opportunities to private investors and hope that they will risk sending their money abroad. To overcome the guarantee difficulty we have used the device of a development bank or a consortium of private banks to which we have lent ~~make a loan~~ with the required government guarantee. The development bank or the consortium is then free to re-lend to private enterprises without need of further guarantees. This latter device has worked out quite well in Turkey, Mexico and Ethiopia, but it would become rather involved if we made similar loans in thirty or forty countries.

The Bank has made an intensive study of the possibilities for aiding private equity investment or of making loans without the necessity for guarantees by governments. Recently it issued a study and report on a proposed organization called the "International Finance Corporation." In brief, this corporation would be founded to promote economic development through the stimulation of private investment. It would perform this function by bringing together investment opportunities, domestic and foreign capital and experienced management with the objective of financing private enterprise through equity investment or non-guaranteed loans.

As a matter of policy the International Finance Corporation would not take a controlling interest in the enterprises in which it invests nor would it accept management responsibility. A further policy of the Corporation would be the sale, as soon as possible and at fair prices, of equities and securities held in its portfolio.

The report envisions the IFC as an affiliate of the World Bank and it would make the fullest possible use of the technical and administrative staff of the Bank. Affiliation, however, would not apply to finances and the funds and capital of the corporation and the Bank would be kept completely distinct from each other. The capital of the IFC would be derived from the contributions of countries accepting membership in it, and such membership would be open to all who hold membership in the Bank.

Whether or not the IFC is the answer to many of the problems arising from the need for international equity investment or unguaranteed loans is at the present moment academic. At best the organization cannot come into existence for months and possibly years ~~to come~~, as it would have to be approved by a number of governments and then its organization and scope would have to be set up and defined. I do believe however that it would prove a useful medium for channelling additional private investment into the foreign field.

There are a number of objections to ~~the foundation of~~ the IFC which will have to be met before it can possibly come into being. Some observers consider it too complicated, a ~~while others~~ believe that its ownership by governments may cause private enterprise to shie away. Others consider that a guarantee by the United States and other governments of the transfer risks involved in investment would be a simpler and more efficient way of overcoming the fears of private capital.

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In re-lending the funds of those who invest in its securities the Bank is able to stand between the private investor and the risks inherent to foreign investment in a number of ways. By statute, in all of its fifty-one member nations, the Bank's investments are secure from expropriation and taxation and from transfer risks. Further, as a non-political, international organization, in which each member nation has a financial stake, it is unlikely that the Bank will become embroiled in politics or that a memb r will endanger its credit by acting illegally against us.

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Before closing, I should like to re-emphasize that while the work of the Bank is essential, we recognize that it cannot possibly meet the overall requirements for capital for development purposes. What we hope to do is to prepare the way for private capital to take over the main job by demonstrating to the underdeveloped countries and to private investors how they can join together for the mutual benefit of all.

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Address to the Municipal Finance Officers Association
by
William A. B. Iliff
Assistant to the President
International Bank for Reconstruction and Development
in Miami, Florida - 2:15 P.M., June 3, 1953

It is a special pleasure to me to be with you this afternoon in this delightful city. The object of such a large and distinguished gathering as yours may be more serious and sober than that which brings most visitors here. But I am sure you will be finding that the salt breezes of Miami add an extra tang to the stimulation of meeting with old friends and exchanging new ideas, and that the beaches nearby are an asset which many Municipal Finance Officers would be only too glad to see added to the balance sheet of their own municipality.

We all know that, with the growing urbanization of this country and the increasing complexity of the affairs handled by municipalities, you have more than enough to keep you busy in your own immediate areas without concerning yourselves with conditions on the world horizon. World civilization no longer depends, as it did in the great days of Athens and Rome, on the activities of a single city administration. But, on the other hand, the progress of world trade and world communications has thrown the opposite ends of the world together as never before. Today, a bankruptcy - like an atom bomb - in one country can echo all round the globe.

No city or township represented here this afternoon can in these days hope to escape repercussions from developments many thousands of miles away. In particular, it is now generally recognized that the level of employment in this continent cannot be fully maintained if other regions of the world have to struggle with the problems of a new depression and new impoverishment. And I do not need to remind you here that a municipality's power to collect taxes and to maintain its finances in a sound condition must inevitably be impaired if its area is suffering from lack of employment and sagging production.

You have already shown your keen awareness of this problem in the discussion which you have held on the lines of action needed to ensure that there are in each community as many jobs as there are workers. I, therefore, make no apology for speaking to you for a short time on the activities of an institution whose objective is to stimulate production and increase opportunities for useful work wherever the need is greatest. The institution I refer to is the International Bank for Reconstruction and Development.

The International Bank, or the "World Bank" as it is commonly called, was founded at the United Nations Monetary and Financial Conference, held at Bretton Woods, New Hampshire, in July 1944. The Conference set out to discover, among other things, a way of satisfying the terrific hunger for foreign capital which would arise in a world devastated by war but determined to raise the living standards of the masses everywhere. To meet this investment need, the conference adopted the device of an institution supported by governmental credit, that would employ both public and private funds in the financing of postwar reconstruction and in stimulating development in its member countries.

Fifty-four countries now hold membership in the Bank and have a voice in its affairs. Our largest shareholder is the United States with 31,750 shares out of a total of approximately 90,000. The United Kingdom is second with more than 13,000 shares. Based on the size of its shareholding, the U.S. has about 31 per cent of total voting power. The United Kingdom has about 13 per cent and Canada more than 3 per cent.

The Bank's total subscribed capital amounts to over $9 billion. But not all of this is available for lending. Sums amounting to 2 per cent of each member's subscription are paid in to the Bank by its members in gold or U.S. dollars and may be freely used for loans. In addition, 18 per cent of the member's subscription is paid in in the currency of each member country, but may only be used for lending with the consent of the member. The remaining 80 per cent is unpaid, but can be called for certain special purposes which I shall touch on later.

Although much less than our total capital of $9 billion, the capital sum available for lending by the Bank at present stands at nearly $870 million. About $750 million of this consists of U.S. dollars, including the 2 per cent paid in by all members in gold or U.S. dollars, and this country's entire 18 per cent contribution. About $120 million in non-dollar funds has been released from the 18 per cent contributions of other member countries including Canada, the United Kingdom, France, Sweden and other Western European nations.

All of this capital sum comes from the governments of member countries. But over the long term the Bank was intended to rely increasingly on the private investor to finance its activities. That is why very early in its history it began floating its own bonds on the capital markets of its leading members. It has by now fully established its reputation with private investors and has successfully sold its bonds in four countries.

The present total of World Bank bonds outstanding is $556 million. Of this total $500 million is in bonds sold on the U.S. market. The equivalent of $13.6 million is in Canadian dollar bonds. Successful issues have also been made on the Swiss and United Kingdom markets. In addition, the Bank's portfolio has begun to turn over, through the receipt of loan repayments, and through selling to private investors, the securities received from borrowers in connection with loans. In these ways the Bank has already replenished its capital funds to the extent of $80 million.

If I give you a breakdown of the present holding of the bonds floated in this country, you will see still more clearly how firmly the market in Bank bonds has established itself since the first flotation in July 1947. Life insurance companies here hold about 22 per cent of our bonds and of the securities sold from our portfolio with our guarantee. Savings banks, and pension and trust funds hold another 20 per cent each. Commercial banks and other investors' holdings amount to about 10 per cent. The remainder - amounting to 28 per cent - is held outside this country, not only by private institutions, but by central banks which hold them as reserves.

Particularly in the early stages, the successful establishment of a market for the Bank's issues was very greatly helped by the existence of the 80 per cent of subscribed capital which, as I have already said, remains unpaid. This in effect constitutes a reserve which can be called upon for the purpose of meeting obligations arising from sale of the Bank's bonds or from its guarantees. The buyer of our bonds thus enjoys the backing of a reserve fund totalling more than $7 billion. Our bonds are further secured by the reserves we have built up over seven years of profitable operation. These now amount to over $100 million. They have thus risen to almost 20 per cent of our market liabilities outstanding. And they are now accumulating at a rate of about $30 million a year.

It is not surprising in the light of the Bank's massive capital reserve, that its bonds have been recognized as legal investment in all of the U.S. States where large sums of capital are available. Commercial banks in 45 States can now buy World Bank bonds. Insurance companies and Trust funds can invest in the bonds in over 30 States. Savings banks in 27 States can buy our bonds. Apart from these institutional investors, public funds can also in some cases be invested in the Bank. Work is now going ahead in extending the legality of our bonds to public funds, whether of States or of municipalities.

The Bank's loans to date amount to $1.6 billion. This sum covers only the foreign exchange cost of the projects financed. The raising of the remainder of the capital is the responsibility of the borrowing country. Taking account of these local resources, the value of the projects with which the Bank is concerned is probably \$3 - \$4 billion. You may care to know in what fields these investments have been made.

Our first loans, totalling nearly \$1/2 billion, were for the reconstruction of Europe. Since then, Bank lending has been directed to the less developed countries of the world, where it has been helping to provide the backbone for further economic growth. More than \$400 million of our investment in development has been devoted to electric power. Nearly \$250 million has gone to transportation - for railways, roads and ports. The third major field of our lending has been agriculture: we have lent over \$150 million for irrigation schemes, for projects to clear and rehabilitate land, and for farm equipment. Industry, mining and communications have received a similar amount. General programs of development affecting many aspects of the borrower's economy have benefited from our loans to the extent of \$100 million.

I know that the daily work of many of you will often bring you up against reminders that it is only within about the last century that large cities, with populations sometimes running into millions, began to spring up in Europe and America. This phenomenon has been still more recent in other regions of the globe, and in most of the countries to which the Bank lends the life of the people is still essentially rural. But the loans which I have just outlined are doing much to overcome the problems which arise when members of an agricultural population begin to break loose from their rural surroundings and to throng together in towns. They are helping to provide transport to supply food for the towns and to carry manufactures to the countryside. They are helping to ease the growing pains of the cities in these regions by supplying light, power, transport and communications.

In Colombia, several cities are benefiting from three loans totalling \$8.5

million,

made to that country for electric power projects. These will provide a new source of supply for the cities of Cali, Manizales and Bucaramanga, all of which are badly in need of more power to ease domestic and industrial shortages and to provide for future growth.

Land transportation has also presented a particularly difficult problem for Colombia, with its rugged, mountainous terrain. The Bank has made loans to improve both roads and railroads. One for $25 million is now helping to build a line which will link the country's eastern and western rail networks. Then, for the first time, passengers and freight will be transported by railroad between Buenaventura, the principal port on the Pacific, Bogota, the capital, and other important interior cities. In addition, a fast and reliable river-rail route will then connect central Colombia with the Caribbean, since the new railroad will supplant river transport on sections of the Magdalena River where navigation is subject to frequent interruptions in dry seasons. Another loan of $16.5 million is improving Colombia's principal trunk highways and closing two gaps in the network of cross-country roads.

Thanks to the Bank's lending to Mexico, new power stations are coming to the assistance of Mexico City and Monterrey, in both of which cities industrial growth has tended to outrun the supply of power. Mexico, as you know, is now developing at a tremendous pace. To meet the growing needs of industry, agriculture, offices and homes, more electricity is urgently needed. The Bank has lent nearly $80 million to increase Mexico's supplies of electric power. The Bank-financed projects will serve tiny towns which have never before known the wonders of electric light, as well as larger centers such as the two which I mentioned.

Increased electric power is also needed to keep pace with the growth of the main cities of Brazil, where the Bank has lent $130 million. The projects will increase power supplies in the areas of Rio de Janeiro and Sao Paulo, the most highly industrialized and densely populated part of Brazil, and in the port cities of Recife and Salvador. The provision of more power in these ports has had an interesting side effect. Because of it, two completely new communities have emerged, with modern houses, a hospital, school, church, theater and recreation halls. They are sizeable settlements, each with a population of about 5,000. They have sprung up deep in the heart of northeastern Brazil, at the side of the falls from which power is being drawn for use at the ports.

I need not tell this audience of the importance of good docks, cranes and other facilities to maritime cities. We have so far made three loans for port improvements in widely separated areas of the world. With the aid of a $4.4 million loan from the Bank, Thailand is cutting a wide, deep channel through a sandbar at the mouth of the Chao Phya River. This will permit large ocean-going vessels to dock at the port of Bangkok. The scale of operations of the Bangkok Port Authority will thus be decisively enlarged. The links between Thailand and the free world will be strengthened.

The main port of Peru is also being modernized with the help of a Bank loan. The sum of $2.6 million has been lent to improve cargo-handling equipment at Callao. The new equipment will speed up the turn-around time of ships by 7 or 8 days.

In Turkey, a loan of $12.5 million is being used to improve several ports which have always been over-crowded, inadequate and badly equipped.

To all of its loans the Bank brings fully as much care and prudence as would be appropriate for a private investor in these fruitful but unfamiliar fields. It lends only to its own members, all of which (with the exception of Czechoslovakia) lie this side of the Iron Curtain. Within this wide boundary, it is guided only by financial soundness and not at all by political reckonings. Before any commitment is entered into, we make a detailed study of the technical merits of the borrower's plan. We satisfy ourselves that the project has high priority to the borrower, and will make a real contribution to its economy. We investigate the ability and willingness of the borrower to fulfill its obligations. As an added security, we demand, if a government is not itself the borrower, a guarantee of both capital and interest from the government in whose territory the loan is to be made.

Having decided to make a loan, we do not at once turn the proceeds over to the borrower. Instead, we maintain close control by making disbursements only on receipt of documents showing the nature of the payments to be made, and after satisfying ourselves that the expenditure is both reasonably priced and necessary to the project. Periodic reports are rendered to us, and our staff make periodic inspections on the site.

Even after the completion of the project, we continue to keep in contact with the borrower. We also remain abreast of changes in economic and financial conditions in the country where the project is located. By this means we provide ourselves with a further safeguard against possible defaults or other difficulties affecting our loans.

I think I have now said enough to convince you that the World Bank is not an economic oddity, still less a political pipedream. It can look back on a record of seven years of careful lending and controlled spending, unmarred by a single default on interest or on capital. It has already been in existence long enough not only to establish itself financially, but to bring benefit to many groups of people.

It is obvious, of course, that our borrowers benefit. They would not come to us if they did not expect to benefit. By the terms of our Articles of Agreement, we make loans only when private capital is not available on reasonable terms. In such circumstances, many useful and urgent projects of the kind which

I have mentioned could not go forward at all without the Bank's partnership. Progress in the underdeveloped regions would be limited to the sometimes painfully slow pace at which local capital could be mustered or private foreign capital attracted.

Coming nearer home, the United States investor, like the investor in Canada and in other countries which may have capital to invest abroad, also stands to benefit from the Bank's activities. As you all know, the United States invested a great deal of money in foreign countries in the decade following the First World War. Much of this money was never seen again by those who lent it. Now, in this new postwar decade in which we are living, the Bank is helping to dig the channel for a new flow of productive - and profitable - foreign investment. The Bank's lending is having the effect of building economic foundations on which private investors can base their own enterprises. We hope, too, that a taste of the fruits of this lending will encourage underdeveloped countries to introduce internal reforms which may be necessary in order to make conditions really attractive to foreign investors. Meanwhile, the Bank is gathering experience of the special requirements of a successful program of investment in underdeveloped countries, and is amassing data which should be very valuable to investors seeking new opportunities in this field.

But if the benefit to the United States investor still lies mainly in the future, the gain to the American economy can already be seen. Engineers and surveyors, men from finance, farming and forestry, and experts from many other fields, are travelling on behalf of the Bank from this country to the savannas of Africa and the jungles of Asia as well as to more familiar areas of Europe, Latin America and Australasia. There they are finding new ways in which United States equipment and techniques can be used to the advantage of borrowing countries. The Bank has already done much to swell the flow of goods and services from North

America to other countries. Of the loans so far approved by the Bank, slightly over \$1 billion has actually been disbursed. Out of this sum \$724 million, or 68 per cent, has been spent in the United States. The sum of \$69 million, or 6.5 per cent of the total disbursements, has been spent in Canada.

I should stress, however, that the choice of supplier is left to the borrower and not dictated by the Bank. As supplies and staff become easier to find in Europe, they will be used increasingly in the work of the Bank. Even so, the Bank's projects will certainly continue to lean heavily upon resources which only the United States and Canada can offer.

Another benefit of the Bank's lending comes from the fact that development projects often have the effect of increasing the borrower's power to export the minerals, foodstuffs, or agricultural raw materials needed in international trade. Or they may reduce the borrower's need for imports of scarce materials from other countries. In either case, the supplies available to other buyers on the world market are increased. In either case, the United States and other importers find it easier to buy raw materials and foodstuffs to supply their factories and feed their people.

Nor are these various economic benefits without their political counterpart. I think all of us here this afternoon would agree that one of the most serious political problems which the war left unsolved is the sharp contrast between the living standards of the masses in different parts of the globe. Acute poverty provides a standing invitation to agitators and extremists in the underdeveloped countries, where quack political remedies can be put forward as a cure for economic weakness. By helping to fashion practicable development projects, and by cooperating with local resources in carrying them out, the Bank can bring hope to take the place of despair. It can thus help achieve one of the principal objectives of the foreign policy of the United States and its Allies - that of keeping the underdeveloped regions open to Western trade and Western ideas.

It is sometimes said that, in relation to the possible needs of the underdeveloped world, the Bank's total lending to date is small. A concerted international approach to the problems of economic development is something new in the history of the world, and an enormous amount of work certainly remains to be done in this field. But the keynote of the Bank's policy has been, as I have aleady emphasized, that money lent must be money effectively lent. The Bank is therefore providing, in relation to its scale of operations, the greatest possible contribution to progress in the underdeveloped regions.

The Bank has, in fact, forged an entirely new link between the capital-hungry areas of the globe and the private savings of industrialized countries. By their interest in our loans, banks and other privately-owned institutions have already shown their support for this effort to build the postwar world economy on a firm foundation. I believe that, as the years go by, the adoption of this new type of foreign investment will bring greater and greater advantages, both to the borrowing countries and to the lenders.

# # # #

of the situation and presented to the Executive Council a very masterly report which would seem to eliminate all the bugs. This report was accepted by the council. In a few instances, this revised schedule results in a reduction of dues of members and in cases where there is an increase, it is small, dollar wise. This revised dues schedule results in increased dues income to the association without hardship to any one bank or class of banks.

A Better Day

The most noticeable change since last year is the change in Federal and State Administration. Most of us are pleased with the change and we are looking forward to better days. There is one important thing which we should bear in mind, however, and that is, that we must be patient. It is extremely difficult and as a matter of fact impossible to reverse a trend in a short time. We should all by sympathetic with the tremendous problems confronting our Governor and President and if the old order of things seems to have prevailed too long let us all have patience, offer our support and withhold caustic comments. No one doubts the sincerity of our present administration. Let us work along with it hoping for a better day.

One thing that Governor Herter is trying to originate is a Business Development Corp. Banks will be asked to participate in this program. This is an important step in lending and more important legislative-wise. A little later in the program it will be my privilege to introduce Governor Herter to this group and he will explain the Business Development Corp. and urge your support. I hope you will give it to him wholeheartedly.

This year has been particularly pleasant for me. It has been possible for me to renew many old acquaintances and become acquainted with many members of the association who are going to be the association in years to come. Without the help and guidance of everyone connected with the association this administration would have been far from effective, but I pass along to Clarence McDavitt an organization of which I know he will be justifiably proud. There is no selfishness in the minds of anyone with whom I have been in contact. The purpose of everyone seems to have been that of rendering assistance without material personal gain.

I hope you all realize how effective and capable Eddie Tufts is. His energies are tremendous and his grasp of problems effecting the members even now amazes me. He is really good and I know that under his guidance and the guidance of your elective officers, an outstanding future is in store for the association.

FROM THE UNITED STATES INVESTOR

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The World Bank and Its Function

By W. A. Iliff, Assistant to President, International Bank For Reconstruction and Development, Washington, D. C.

I AM pleased to have the chance to appear before this meeting of the Massachusetts Bankers Association today.

I propose to talk to you about the World Bank and what it is doing in the way of international investment. Before discussing the bank's activities, I shall digress for a few minutes and touch on some of the considerations that led to its founding, and which strongly influence its policies and operations.

Our field is medium and long-term international investment, and it is one that was very popular not so many years ago, but which now is almost wholly ignored or avoided by the private individual or institutional investor.

Despite the fact that the bank is an international organization and its loans are all related to reconstruction and development, it must meet the same challenges that any other foreign or international investor must meet. And the principles underlying the bank's operations underlie all other foreign investment operations as well.

These principles are so simple and so obvious that I think we are inclined to forget about them, or perhaps due to the low volume of private foreign investment over the last two decades many of us have never had occasion to study them. It is a good thing, I believe, to resurrect them from time to time and let them see the light of day.

What happens when an international loan is made? When a borrower seeks to borrow, let us say, dollars, he does not do so merely because he prefers the look of a dollar bill to the look of his own currency. (Indeed in a world where new issues of currency notes are being made with almost the same frequency as new issues of postage stamps, it is my experience that the acceptability

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W. A. B. Iliff

of a currency note tends to vary in inverse ratio with the prettiness of its appearance.) Actually, what happens when a loan is made is this: The lender passes on to the borrower an immediate claim on the goods and services of the lending country equivalent to the amount of the loan. This result comes about whether the loan is subscribed privately in the market in the lending country; whether the loan is a straight transaction between the lending government and the borrowing government; whether the loan is made by a para-statal institution such as, in this country, the Export-Import Bank; or whether the loan is made by an international organization such as the World Bank.

If $10 million is lent to, say, Uruguay, it means just this . . . Uruguay is given the immediate means to buy turbines, or agricultural machinery, or electrical equipment, or some other goods and services that Uruguay wants, and that the United States is able to supply her with.

But now let us consider for a moment in what circumstances a nation is able to play the role of a lender. In this respect, a nation is subject to precisely the same limitations as an individual. If any one of us finds himself in a situation where he is just able to balance his income and his expenditures, that is to say, where his production is just equivalent to his consumption, he is in poor shape to lend, even to his best friend. But if the affairs of an individual, or a nation, are in such a state that the individual, or the nation, is able to produce more than it immediately wishes to consume, it is then (and only then) that the individual, or the nation, can become a lender. In the world of today there are few nations that find themselves in that situation. Switzerland is one. Canada has become another. But it is the United States of America which is the only source to which the rest of the world can look today for an outflow of long-term capital on any substantial scale.

It is this circumstance that provides the answer to two questions that I am often asked . . . Why is it that the capital subscription of none of the member states of the International Bank has been freely available to the bank for lending, except the subscriptions of the United States and Canada, and why is it that the bank, although an international institution, has mainly relied on the capital market in the United States to raise funds through the issues of its bonds?

A Case History

Let us say that Uruguay has borrowed her $10 million. Now let us move on a few steps and think about what happens when the loan comes to be repaid. When a lender lends dollars, he expects to be repaid in dollars. But Uruguay can only lay her hands on the dollars necessary for servicing her dollar loan if she herself is able to sell, for dollars, a quantity of her own goods and services sufficient to meet her installments of principal and payments of interest as they arise. Even with the best will in the world on the part of the debtor country, an international loan can never be repaid unless the creditor braces himself to accept goods and services from his debtor sufficient to provide the debtor with the financial means of settling his debt. There is no other way.

And now let me put to you some of the considerations about international lending which arise out of an examination of past operations in this field. In times gone by, there was much bad international borrowing. But there was also bad international lending, especially in the period between the two great wars.

Loans were made to build pretentious presidential palaces in little countries whose basic industries were languishing for want of an injection of needed capital. Loans were made to—and, indeed, sometimes were almost forced on—borrowing countries in amounts which were

ERNEST S. JOHNSON
Treasurer

far beyond the reasonable capacity of the country to repay. Loans were made for specific purposes which were good enough in themselves, but no steps were taken by the lenders to see that the proceeds of the loans were used to finance the projects for which the loans had been made, and the proceeds were often squandered on unproductive non-essentials, or on something worse.

Such lending policies inevitably led to defaults . . . defaults for which the lender, as well as the borrower, cannot escape his share of responsibility. Moreover, the consequences of these situations were not confined to the financial field. Between nations, as between individuals, nothing is more corruptive of good relations than dishonored obligations, from whatever cause they arise.

Certain Principles

The founders of the World Bank had some of these considerations in mind when they planned the bank's structure. They laid down certain principles which, under its articles, the bank is obliged to follow in making loans.

Of these, the three most important are: First, that the bank, in making a loan, will make a prudent assessment of the capacity of the borrower to meet the financial obligations of interest and amortization; secondly, that the bank, in making a loan, will have regard to the extent to which the loan will benefit the economic situation not only of the borrowing country but of all the bank's member states; and, thirdly, that the bank, in making a loan, will concern itself only with the financial and economic merits, and exclude completely political considerations.

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Moreover, as part of its policy, the bank has introduced procedures under which the disbursement of a loan and the use of the proceeds are subject to careful supervision. We do this to ensure that the proceeds are used for the purposes for which the loan was granted, and only for those purposes. Arrangements are made, too, under which friendly contact is maintained between the bank, on the one hand, and the responsible authorities in the

EDWARD R. TUFTS
Executive Secretary

borrowing country, on the other, throughout the life of the loan. The purpose here is to ensure that the bank may be able to follow the effect of the financial and economic policies from time to time adopted by the borrowing country. If those policies should seem to be detrimental to the general financial and economic situation of the country, or, in particular, to the prospects of the regular service of the bank's loan, we are in a position to make our views known in the appropriate quarters.

By observing these principles and following these procedures, the bank hopes to be able to steer clear of some of the pitfalls that have beset the path of international lending in the past.

Element of Risk

But there is one general circumstance that I should like to mention, and it is this: there can be no international lending which is entirely without an element of risk.

For example, there is the "act of God" . . . earthquake, flood, tempest, or drought. It was the physical destruction and the economic chaos caused by the great earthquake in Chile in the early 1930's which largely contributed to Chile's default on her external obligations.

Again, there is the regrettable disposition on the part of the human race to indulge in the convulsion of a great war about once in every generation. It was the effects of World War II that forced default in its external debt service on at least one European country whose record in that respect had, up 'till then, been exemplary.

Or again, take the case of some small country whose staple export is some raw material. But the march of human science may invent a synthetic substitute which, if developed commercially, may spell that little country's ruin.

These are but some of the intangible and imponderable hazards that lie in wait in the fairway for the international lender. The international banker who could insure against all of them or, for that matter, against any of them, would, indeed, be an adept crystal gazer!

Bretton Woods Conference

The bank, as you know, was founded at the Bretton Woods Conference in July, 1944. Since then, 54 countries have become members and have made their subscriptions to the bank's capital. It was not, however, until the spring of 1947 that the bank actually started its lending operations. At that time, it made its first loans. All of them went to Western Europe. They amounted to about half a billion dollars. They helped to finance part of the financial gap in Western Europe's post-war reconstruction program.

It was in the spring of 1948 that we began to lend for development purposes. In that field, a host of fascinating, if difficult, problems present themselves.

The underdeveloped countries of the world divide themselves conveniently into three great geographical regions: the Latin American Continent, the Middle East and Africa, and the Far East. Each of the regions presents its own problems; and so, indeed, does each individual country in each of the regions. But most of the 30-odd countries in the underdeveloped world have at least one characteristic in common: they are highly "development-conscious."

We, today, are living on a planet which is much smaller than the planet on which our grandfathers lived. In their day, distances were forbidding barriers, and communications were slow. There was a continental and, indeed a national isolation. And this imposed upon all but a very few an ignorance of the social, political and economic circumstances of his neighbor. In truth, one-half of the world did not know how the other half lived.

Material Comfort

But today, with the coming of the aircraft, of the radio, and, above all, of the movie, what we call the western way of life has become known in every corner of the globe ... to the worker in the Chilean copper mine, to the coolie in the rice fields of Thailand, to the peasant in the mountains of Iran. They hear about, and they see for themselves a standard of life and of material comfort that far exceeds anything that

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they have ever known or could even have believed to exist. They cannot be blamed for wanting these things for themselves, or for imagining that, what others have achieved, they themselves can achieve.

In the early years of the bank's existence it was our experience that countries, in their determination to strive after this ideal of "economic development," had thrown together, hasty, ill-conceived, five-year, seven-year, ten-

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ELMER O. CAPPERS
Member Executive Council

year, so called "development programs," and expected the bank to finance them. In aggregate, these programs, in terms of finance, would have several times eaten up the total lendable funds of the bank. In terms of capital equipment, they would have made demands that would have far exceeded the production potential of the manufacturing countries of the world. In terms of human resources, their implementation would have required a reservoir of technicians and artisans, compared with which the supply actually available would have been a mere trickle.

However, as the years have gone by, and as the magnitude and complexity of the task have come to be appreciated, a more rational approach to this grand design for the betterment of half the world's people has begun to take shape. Our member states in search of development have begun to realize that Boston, Pittsburgh and Detroit were not built in a day, but that western standards have only come about through processes of accumulation of capital and of technical skills, and through continuity of human effort that must go on, not merely for five years, or ten years, but over generations. Our member states are still laying their plans for development, sometimes with bank assistance in both the physical and financial programing. And it is well that they should plan, lest effort should be dissipated and scarce resources be wasted. But their planning more and more begins to show an appreciation of the need to build in an orderly fashion and on a firm and durable foundation.

Every Continent

Since the start of the bank's lending operations we have made 78 loans amounting to more than one and a half billion dollars. These investments have been made in 26 countries, and in every continent on the globe.

Our borrowers have been mostly governments and their agencies. But some of our loans have gone directly to private corporations. Private enterprise has also benefited indirectly; many of our governmental borrowers have re-lent, or otherwise made available, the proceeds of our loans to privately-owned industry; moreover, bank investments in undertakings like railways, telecommunications, ports and electric power, have brought to private enterprise basic facilities that were not there before.

To describe a typical World Bank loan and its effect on a typical underdeveloped country would not be easy. Each loan is an entity by itself, and the stage of economic progress that has been attained differs widely between country and country.

Instead, it may interest you if I choose two loans at random to serve as examples of what we have done, or expect to do, through the medium of our lending operations to help in this effort of economic development.

Loans to Finland

As my first example, I have picked one of the bank's loans in Finland. About a year ago we lent $20,000,000 to the Bank of Finland which, in turn, is relending the proceeds to governmental and private industrial undertakings in Finland.

Two industries—wood-products and electric power—will be the principal beneficiaries of the bank's $20,000,-000 loan.

The wood-products industry is the rock on which Finland's economy is built. Shipments of wood, wood pulp

ROGER L. CURRANT
Member Executive Council

and derived products account for 90 per cent of her exports and give her a favorable trade balance with the rest of the world. In the expansion and development of their wood-products industry, the Finns see a means of further strengthening their economy and their trading position. When the present expansion program is completed, output of chemical pulp will be up by 20 per cent, newsprint by 25 per cent, and paperboard and cardboard by more than 100 per cent.

This program calls for an investment of something like $95 million. Of this, 90 per cent will be met by the Finns themselves by investment of domestic public and private capital. The bank's investment will meet the remaining 10 per cent, amounting to nine and a half million dollars.

Another nine and a half million dollars of our loan will go to the electric power industry. Power output

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BRUCE H. MacLEOD
Member Executive Council

will be expanded by 30 per cent (or 275,000 K.W.) by 1957. Here too, the Finns will provide from their own resources 90 per cent of the needed investment. The bank's loan will provide the balance in the form of foreign exchange to meet the cost of imports of key equipment.

There are two reasons why Finland wishes to increase her power output. First, the success of her expansion plans for the wood-products industry depends on the availability of additional electric power. But, as well, the Finns recognize the vulnerability of an economy that depends to such an extent for its support on one single industry—the wood-products industry. Consequently, Finland plans to diversify the industries in her economy. But to do this she must have adequate resources of electric power.

The $1,000,000 balance of the bank's loan will be used for the improvement of farm lands and for the construction of road's in Finland's vast forest reserves. So, the three projects which the bank's $20 million loan will help to finance are complementary.

To the Congo

I shall now ask you to come away from the sub-Arctic regions into the heart of tropical Africa—to the Congo. The Congo is a colony of Belgium. With the aid of the metropolitan country, she has embarked on a "Ten-Year Plan" for economic development. The World Bank is already participating in financing this plan to the extent of $70 million, of which $40 million has been lent to the Congo and $30 million to Belgium. The bank's loan will be used to help to finance the direct and indirect foreign exchange costs of this program. The program provides for the construction or expansion of public utilities such as roads, waterways, ports, railroads and electric power; and social services such as housing, health and education.

The ultimate purpose of the Congo's "Ten-Year Plan" (as of all other plans of economic development) is to increase the standard of living of the people of the colony. How will the plan contribute to this? By expanding industrial and agricultural productivity to a degree which will not only relieve the Congo's extreme dependence on imports of consumer goods but raise the volume of its exports. And increased exports from the Congo have a significance not only for the Congo but for the whole of the western world. Already, the Congo produces more than half of the world's supplies of cobalt and industrial diamonds; it is the fourth or fifth largest producer of copper and tin, and it is a leading producer of uranium.

As I have said, the bank is sharing in financing the foreign exchange costs of this program in an amount of $70,000,000. But here, as in the case of Finland, the bank is bearing a relatively small part of the total investment. Various Belgian and Congolese government agencies will provide the equivalent of more than $600,-000,000, mainly for domestic but partly for the foreign exchange costs of the program. In addition, private capital—domestic and foreign—is expected to invest $500,000,000, in industrialization of the Congo.

I shall not weary you by talking in detail about other loans that the bank has made. But let me say just this: Because of investment by our organization, more trains are running in India and more food crops are growing

RODNEY M. LELAND
Member Stockholders Advisory Committee

there; there is more electric power in Brazil, and more industries using it; so it is in Mexico; so it will be, in a matter of months, in El Salvador, in Uruguay and in Iceland. One of our loans is at work to protect Baghdad from the catastrophic Tigris floods; another to save Turkish grain from rot and vermin; another to rehabilitate the highway system in primitive, but potentially productive, Ethiopia.

A Grand Design

This enterprise of "economic development" is, as I have already called it, a grand design—nothing less than the raising of the living standards of two-thirds of the world's peoples from a level of bare subsistence to a level where they can have enough food, decent housing, adequate clothing, and enjoy something of the benefits of even an elementary education.

The task is as formidable as the design is grand. Money will not do it all; capital is necessary, but without the application of human effort and human skills—both local and imported—the country in search of development will not get 25 cents of value out of every dollar invested. It is for that reason that the World Bank has married its programs of financial assistance with a program of technical assistance, so that each dollar that we invest may do the maximum work.

But even so far as money can do it, World Bank money cannot do it all. We are a lending organization. We are not, by design, a profit-making institution. Nor yet, on the other hand, are we a philanthropic society. When we lend money we lend only in circumstances where we have a reasonable expectation of getting it back and of earning a fair rate of interest in the meantime. But the debt-carrying capacity of every country has a limit. So must our contribution to the development effort be limited.

The rest must come, in the long run, from the same sources as the sources from which it came in the process of development of this country of yours: from the savings, however slender, of those who were ready to have faith in the future of their own country, and from the savings of the stranger outside the gates who felt he could embark upon a risk venture with the confidence that his investment would have hospitable treatment and would be given the chance to earn an equitable return.

This is one of the lessons of the old-fashioned past that the brave new world has forgotten—or has yet to learn.

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Bennett

Speech by Mr. W. A. B. Iliff, Assistant to the President of the International Bank for Reconstruction and Development, before the 48th Annual Convention of the Massachusetts Bankers Association in Swampscott, Massachusetts, June 12, 1953.

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THE WORLD BANK AND ITS FUNCTIONS

I am pleased to have the chance to appear before this meeting of the Massachusetts Bankers Association today.

I propose to talk to you about the World Bank and what it is doing in the way of international investment. Before discussing the Bank's activities, I shall digress for a few minutes and touch on some of the considerations that led to its founding, and which strongly influence its policies and operations.

Our field is medium and long-term international investment, and it is one that was very popular not so many years ago, but which now is almost wholly ignored or avoided by the private individual or institutional investor.

Despite the fact that the Bank is an international organization and its loans are all related to reconstruction and development, it must meet the same challenges, the same frustrations and the same risks that confront any other foreign or international investor. ~~must meet.~~ And the principles underlying the Bank's operations underlie all other foreign investment operations as well.

These principles are so simple and so obvious that I think we are sometimes inclined to forget about them. It is a good thing, I believe, to resurrect them from time to time and let them see the light of day.

What happens when an international loan is made? When a borrower seeks to borrow, let us say, dollars, he does not do so merely because he prefers the look of a dollar bill to the look of his own currency. (Indeed in a world where new issues of currency notes are being made with almost the same frequency as new issues of postage stamps, it is my experience that the acceptability of a currency note tends to vary in inverse ratio with the prettiness of its appearance.) Actually, what happens when a loan is made is this: the lender passes on to the borrower an immediate claim on the goods and services of the lending country equivalent to the amount of the loan. This result comes about whether the loan is subscribed privately in the market in the lending country; whether the loan is a straight transaction between a lending government and a borrowing government; whether the loan is made by a government agency such as, in this country, the Export-Import Bank; or whether the loan is made by an international organization such as the World Bank.

If $10 million is lent to, say, Uruguay, it means just this .... Uruguay is given the immediate means to buy turbines, or agricultural machinery, or electrical equipment, or some other goods and services that Uruguay wants, and that the United States is able to supply her with.

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But now let us consider for a moment in what circumstances a nation is able to play the role of a lender. In this respect, a nation is subject to precisely the same limitations as an individual. If any one of us finds himself in a situation where he is just able to balance his income and his expenditures, that is to say, where his production is just equivalent to his consumption, he is in poor shape to lend, even to his best friend. But if the affairs of an individual, or a nation, are in such a state that the individual, or the nation, is able to produce more than it immediately wishes to consume, it is then (and only then) that the individual, or the nation, can become a lender. In the world of today there are few nations that find themselves in that situation. Switzerland is one. Canada has become another. But it is the United States of America which is the only source to which the rest of the world can look today for an outflow of long-term capital on any substantial scale.

It is this circumstance that provides the answer to two questions that I am often asked .... Why is it that the capital subscription of none of the member states of the International Bank has been freely available to the Bank for lending, except the subscriptions of the United States and Canada, and why is it that the Bank, although an international institution, has mainly relied on the capital market in the United States to raise funds through the issues of its bonds?

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Let us say that Uruguay has borrowed her $10 million. Now let us move on a few steps and think about what happens when the loan comes to be repaid. When a lender lends dollars, he expects to be repaid in dollars. But Uruguay can only lay her hands on the dollars necessary for servicing her dollar loan if she herself is able to sell, for dollars, a quantity of her own goods and services sufficient to meet her installments of principal and payments of interest as they arise. Even with the best will in the world on the part of a debtor country, an international loan can never be repaid unless the creditor braces himself to accept goods and services from his debtor sufficient to provide the debtor with the financial means of settling his debt. There is no other way.

And now let me put to you some of the considerations about international lending which arise out of an examination of past operations in this field. In times gone by, there was much bad international borrowing. But there was also bad international lending, especially in the period between the two Great Wars.

Loans were made to build pretentious presidential palaces in little countries whose basic industries were languishing for want of an injection of needed capital. Loans were made to - and, indeed, sometimes were almost forced on - borrowing countries in amounts which were far beyond the reasonable capacity of the country to repay. Loans were made for specific purposes which were good enough in themselves, but no steps were taken by the lenders to see that the proceeds of the loans were used to finance the projects for which the loans had been made, and the proceeds were often squandered on unproductive nonessentials, or on something worse.

Such lending policies inevitably led to defaults ..... defaults for which the lender, as well as the borrower, cannot escape his share of responsibility.

Moreover, the consequences of these default situations were not confined to the financial field. Between nations, as between individuals, nothing is more corruptive of good relations than dishonored obligations, from whatever cause they arise.

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The founders of the World Bank had some of these considerations in mind when they planned the Bank's structure. They laid down certain principles which, under its Articles, the Bank is obliged to follow in making loans.

Of these, the three most important are: first, that the Bank, in making a loan, will make a prudent assessment of the capacity of the borrower to meet the financial obligations of interest and amortization; secondly, that the Bank, in making a loan, will have regard to the extent to which the loan will benefit the economic situation not only of the borrowing country but of all the Bank's member states; and, thirdly, that the Bank, in making a loan, will concern itself only with the financial and economic merits, and exclude completely political considerations.

Moreover, as part of its policy, the Bank has introduced procedures under which the disbursement of a loan and the use of the proceeds are subject to careful supervision. We do this to ensure that the proceeds are used for the purposes for which the loan was granted, and only for those purposes. Arrangements are made, too, under which friendly contact is maintained between the Bank, on the one hand, and the responsible authorities in the borrowing country, on the other, throughout the life of the loan. The purpose here is to ensure that the Bank may be able to follow the effect of the financial and economic policies from time to time adopted by the borrowing country. If those policies should seem to be detrimental to the general financial and economic situation of the country, or, in particular, to the prospects of the regular service of the Bank's loan, we are in a position to make our views known in the appropriate quarters.

By observing these principles and following these procedures, the Bank hopes to be able to steer clear of some of the pitfalls that have beset the path of international lending in the past.

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But there is one general circumstance that I should like to mention, and it is this: there can be no international lending which is entirely without an element of risk.

For example, there is the "act of God" .... earthquake, flood, tempest, or drought. It was the physical destruction and the economic chaos caused by the great earthquake in Chile in the early 1930's which largely contributed to Chile's default on her external obligations.

Again, there is the regrettable disposition on the part of the human race to indulge in the convulsion of a great war about once in every generation. It was the effects of World War II that forced default in its external debt service on at least one European country whose record in that respect had, up 'till then, been exemplary.

Or again, take the case of some small country whose staple export is some raw material. But the march of human science may invent a synthetic substitute which, if developed commercially, may spell that little country's ruin.

These are but some of the intangible and imponderable hazards that lie in wait in the fairway for the international lender. The international banker who could insure against all of them or, for that matter, against any of them, would, indeed, be an adept crystal gazer!

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The Bank, as you know, was founded at the Bretton Woods Conference in July 1944. Since then, fifty-four countries have become members and have made their subscriptions to the Bank's capital. It was not, however, until the Spring of 1947 that the Bank actually started its lending operations. At that time, it made its first loans. All of them went to Western Europe. They amounted to about half a billion dollars. They helped to finance part of the financial gap in Western Europe's post-war reconstruction program.

It was in the Spring of 1948 that we began to lend for development purposes. In that field, a host of fascinating, if difficult, problems present themselves.

The underdeveloped countries of the world divide themselves conveniently into three great geographical regions: the Latin American continent, the Middle East and Africa, and the Far East. Each of the regions presents its own problems; and so, indeed, does each individual country in each of the regions. But most of the thirty-odd countries in the underdeveloped world have at least one characteristic in common: they are highly "development-conscious."

We, today, are living on a planet which is much smaller than the planet on which our grandfathers lived. In their day, distances were forbidding barriers, and communications were slow. There was a continental and, indeed a national isolation. And this imposed upon all but a very few an ignorance of the social, political and economic circumstances of his neighbour. In truth, one-half of the world did not know how the other half lived.

But today, with the coming of the aircraft, of the radio, and, above all, of the movie, what we call the Western way of life has become known in every corner of the globe .... to the worker in the Chilean copper mine, to the coolie in the rice fields of Thailand, to the peasant in the mountains of Iran. They hear about, and they see for themselves a standard of life and of material comfort that far exceeds anything that they have ever known or could even have believed to exist. They cannot be blamed for wanting these things for themselves, or for imagining that, what others have achieved, they themselves can achieve.

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In the early years of the Bank's existence it was our experience that countries, in their determination to strive after this ideal of "economic development," had thrown together, hasty, ill-conceived, five-year, seven-year, ten-year, so called "development programs," and expected the Bank to finance them. In aggregate, these programs, in terms of finance, would have several times eaten up the total lendable funds of the Bank. In terms of capital equipment, they would have made demands that would have far exceeded the production potential of the manufacturing countries of the world. In terms of human resources, their implementation would have required a reservoir of technicians and artisans, compared with which the supply actually available would have been a mere trickle.

However, as the years have gone by, and as the magnitude and complexity of the task have come to be appreciated, a more rational approach to this grand design for the betterment of half the world's people has begun to take shape. Our member states in search of development have begun to realize that Boston, Pittsburgh and Detroit were not built in a day, but that western standards have only come about through processes of accumulation of capital and of technical skills, and through continuity of human effort that must go on, not merely for five years, or ten years, but over generations. Our member states are still laying their plans for development, sometimes with Bank assistance in both the physical and financial programing. And it is well that they should plan, lest effort should be dissipated and scarce resources be wasted. But their planning more and more begins to show an appreciation of the need to build in an orderly fashion and on a firm and durable foundation.

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Since the start of the Bank's lending operations we have made 78 loans amounting to more than one and a half billion dollars. These investments have been made in 26 countries, and in every continent on the globe.

Our borrowers have been mostly governments and their agencies. But some of our loans have gone directly to private corporations. Private enterprise has also benefited indirectly; many of our governmental borrowers have re-lent, or otherwise made available, the proceeds of our loans to privately-owned industry; moreover, Bank investments in undertakings like railways, telecommunications, ports and electric power, have brought to private enterprise basic facilities that were not there before.

To describe a typical World Bank loan and its effect on a typical underdeveloped country would not be easy. Each loan is an entity by itself, and the stage of economic progress that has been attained differs widely between country and country.

Instead, it may interest you if I choose two loans at random to serve as examples of what we have done, or expect to do, through the medium of our lending operations to help in this effort of economic development.

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As my first example, I have picked one of the Bank's loans in Finland. About a year ago we lent $20,000,000 to the Bank of Finland which, in turn, is relending the proceeds to governmental and private industrial undertakings in Finland.

Two industries -- wood-products and electric power -- will be the principal beneficiaries of the Bank's $20,000,000 loan.

The wood-products industry is the rock on which Finland's economy is built. Shipments of wood, wood pulp and derived products account for 90% of her exports and give her a favorable trade balance with the rest of the world. In the expansion and development of their wood-products industry, the Finns see a means of further strengthening their economy and their trading position. When the present expansion program is completed, output of chemical pulp will be up by 20%, newsprint by 25%, and paperboard and cardboard by more than 100%.

This program calls for an investment of something like $95 million. Of this, 90% will be met by the Finns themselves by investment of domestic public and private capital. The Bank's investment will meet the remaining 10%, amounting to nine and a half million dollars.

Another nine and a half million dollars of our loan will go to the electric power industry. Power output will be expanded by 30% (or 275,000 K.W.) by 1957. Here too, the Finns will provide from their own resources 90% of the needed investment. The Bank's loan will provide the balance in the form of foreign exchange to meet the cost of imports of key equipment.

There are two reasons why Finland wishes to increase her power output. First, the success of her expansion plans for the wood-products industry depends on the availability of additional electric power. But, as well, the Finns recognize the vulnerability of an economy that depends to such an extent for its support on one single industry - the wood-products industry. Consequently, Finland plans to diversify the industries in her economy. But to do this she must have adequate resources of electric power.

The $1,000,000 balance of the Bank's loan will be used for the improvement of farm lands and for the construction of roads in Finland's vast forest reserves. So, the three projects which the Bank's $20 million loan will help to finance are complementary.

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I shall now ask you to come away from the sub-Artic regions into the heart of tropical Africa -- to the Congo. The Congo is a colony of Belgium. With the aid of the metropolitan country, she has embarked on a "Ten Year Plan" for economic development. The World Bank is already participating in financing this plan to the extent of $70 million, of which $40 million has been lent to the Congo and $30 million to Belgium. The Bank's loan will be used to help to finance the direct and indirect foreign exchange costs of this program. The program provides for the construction or expansion of public utilities such as roads, waterways, ports, railroads and electric power; and social services such as housing, health and education.

The ultimate purpose of the Congo's "Ten Year Plan" (as of all other plans of economic development) is to increase the standard of living of the people of the colony. How will the Plan contribute to this? By expanding industrial and agricultural productivity to a degree which will not only relieve the Congo's extreme dependence on imports of consumer goods but raise the volume of its exports. And increased exports from the Congo have a significance not only for the Congo but for the whole of the Western world. Already, the Congo produces more than half of the world's supplies of cobalt and industrial diamonds; it is the fourth or fifth largest producer of copper and tin; and it is a leading producer of uranium.

As I have said, the Bank is sharing in financing the foreign exchange costs of this program in an amount of $70,000,000. But here, as in the case of Finland, the Bank is bearing a relatively small part of the total investment. Various Belgian and Congolese government agencies will provide the equivalent of more than $600,000,000, mainly for domestic but partly for the foreign exchange costs of the program. In addition, private capital - domestic and foreign - is expected to invest $500,000,000, in industrialization of the Congo.

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I shall not weary you by talking in detail about other loans that the Bank has made. But let me say just this: Because of investment by our organization, more trains are running in India and more food crops are growing there; there is more electric power in Brazil, and more industries using it; so it is in Mexico; so it will be, in a matter of months, in El Salvador, in Uruguay and in Iceland. One of our loans is at work to protect Baghdad from the catastrophic Tigris floods; another to save Turkish grain from rot and vermin; another to rehabilitate the highway system in primitive, but potentially productive, Ethiopia.

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This is one of the lessons of the old-fashioned past that the brave new world has forgotten -- or has yet to learn.

Oct 3, 1956 - Mr Iliff

Speech for Harvard Business School Finance Club

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"Paving the Way for Private Investment"

Your President asked me to come here today to talk about the World Bank and how it helps to promote private investment. You could not have presented me with a subject which would bring out more of the varied operations that the Bank engages in.

When the architects of the Bank drew up our Articles of Agreement at the International Financial Conference held at Bretton Woods in 1944, they saw the dilemma of the postwar world very largely in terms of private capital.

In order to get the world economy straight again after the war -- and in order to keep it straight -- productive foreign investment was needed.

Yet until the world economy looked straight -- and looked like keeping straight -- the potential foreign investor was unlikely to put his money abroad.

The Bank was set up in large part to solve this dilemma -- not just in the immediate days of post-war reconstruction, but in <u>these</u> days when, in the less developed countries of the world, the need and desire of so many millions of people for economic development looms up as one of the most significant facts of modern life.

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To show what the Bank is doing to stimulate the flow of private capital, I must first give you a few salient facts about the Bank itself.

The Bank was set up to operate in situations where long-term development finance was not available from private sources on reasonable terms.

It was obvious from the beginning that some public money was needed to prime the pump of private investment in this field.

The Bank's initial capital was therefore subscribed by its member governments -- now numbering 60 -- up to an authorized limit of $10 billion. Of these subscriptions, 80% is withheld in the form of a reserve of unpaid subscriptions, subject to call only if needed to meet the Bank's own obligations. This reserve, amounting to about $7 billion, is itself an important assurance for private investors subscribing to Bank securities.

Each member government was required to put up 2% of its subscription in gold or dollars and 18% in its own currency. This 18% was to be released by the member government for use by the Bank as soon as economic conditions in the particular member country permitted. As of today, the equivalent of $900 million has been released from these 18% subscriptions, two-thirds of it coming from the United States and Canada, and about $180 million has been made available from the 2% subscriptions.

In all, therefore, a bit over one billion dollars has been made available to the Bank from the capital subscribed by our member governments.

A slightly larger sum has been made available from the sale of Bank bonds and the sale of portions of Bank loans.

With all this money, the Bank has

loaned just short of \$3 billion in its ten years of operations; and we have had a hand in the financing of more than 500 development projects in 44 different countries. With repayments and prepayments on its loans, the Bank has turned over a considerable portion of its funds already.

Up to now, we have had no defaults on our borrowers' obligations. And in each of the past ten years we have shown a profit on our operations; last year we registered a record net income of more than \$29 million. Together with proceeds from a 1% commission which, in addition to interest, we charge on all our loans, our profit has been set aside in reserves, and these reserves now amount to almost \$250 million.

This capsule picture of the Bank's finances shows an international organization, subsisting more and more on private funds -- today more than half of our funds available for lending come from private investors -- operating at a steady profit and doing a respectable volume of business.

That in itself, I think, is something to arouse the interest of prospective foreign investors. But it is only the beginning of the story.

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While laying down in our charter some definite ground rules for the conduct of the Bank's business, the conference at Bretton Woods, very wisely I think, left plenty of elbow room for the Bank management to experiment with its own ideas for increasing the flow of private capital to member countries, and within them.

The obstacles restricting the flow of private capital today -- particularly to and within the less developed countries of the world -- are many and varied. A wide variety of measures is needed to remove these obstacles. I'd like to discuss, with illustrations, what the Bank is contributing to this end through its borrowing and its lending, through its technical assistance program, and even just by using its imagination.

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First, let me take up our sales of bonds. It is through selling our own securities in the international capital markets that we have attracted most of the private capital which directly participates in Bank operations. To be sure, holders of Bank bonds are not, strictly speaking, taking the risks which private investors take when they buy for their portfolios the direct obligations of foreign governments or institutions. The existence of $7 billion in unpaid subscriptions from member governments -- about $2.5 billion representing the U.S. share -- constitutes a very special sort of guarantee behind World Bank bonds. But, nonetheless, the money we raise from the sale of bonds represents a very important addition to the supply of private capital going into development projects overseas.

So far, we have sold 26 issues of bonds totalling the equivalent of more than $1 billion. These consist of 11 issues in United States dollars, 3 in Canadian dollars; 2 in sterling; 2 in Dutch guilders and 8 in Swiss francs.

Of our bonds outstanding today, we

estimate that 55% are held by investors in the United States, with the rest scattered through the world but mostly in Western Europe.

About one-third of our dollar bonds -- including two whole issues -- have been taken up by investors outside the U.S.

Who invests in these bonds of ours? In the United States, pension and trust funds hold more than 40% of them, with insurance companies and savings banks holding about 25% apiece. The balance is held by commercial banks and other investors. The same sorts of investors, as well as central banks and government agencies, hold our bonds overseas.

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The private investor not only buys Bank bonds; he also participates directly in our lending. The Bank sells parts of its loans out of its portfolio, either with or without its guarantee, and invites private interests to take up part of a loan at the time of signing. Since 1953 these portfolio sales and participations have become a very important part of our operations.

In all, we have sold nearly $200 million out of our loan portfolio, almost all of it in the past three years. In addition, private investors have taken up the equivalent of nearly $85 million of our loans at the time of signing -- again almost all of it in the past three years. In all but a very few of these cases, sales have been made without our guarantee; participations are now always without our guarantee. This increasing willingness on the part of the private investor to share with the Bank the full risks of international lending is, I think, a very heartening sign.

Commercial banks and investment houses, of course, make up most of the investors who participate directly in our lending. However, we have had some interesting new investors lately -- a company pension fund and a private foundation. Of our total loan sales, 57% have been to purchasers outside the U.S.

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I might mention, too, that we have pioneered a new device for sharing the risks of international lending between the Bank and the private market. On three occasions in the recent past we have arranged a joint operation with the private capital market in the United States whereby an investment banking group has arranged a public sale of foreign government bonds co-incidentally with a Bank loan. For example, last fall we loaned South Africa £ 9 million for railway improvements. At the same time a public issue of $25 million of South African bonds was successfully sold in the New York markets, and the proceeds applied to the project to which the Bank financing was devoted. Previously, we had employed the device to help finance development projects in Norway and in Belgium.

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We regard Bank lending in general as laying the foundations for sustained growth based on private enterprise in our member countries. You can see this from the character of the loans the Bank makes.

If a country is to develop a healthy, expanding economy based on private enterprise, it must first have certain basic services. There must be roads to get farm products to the market; railroads to get raw materials from the mine to ships; ports for the ships to pick up and discharge their cargoes. And, of course, if there is to be industry, there must first be power. The Bank makes loans to help provide these basic services.

The Bank has loaned $819 million for electric power development; $656 million for transportation in all forms; $231 million for agriculture and forestry development. These are in addition to some $500 million in reconstruction loans made to European countries early in the game.

Under our Articles of Agreement, all Bank loans must be made to governments or be guaranteed by governments. But this does not mean we do not make loans to private enterprises.

The need for a government guarantee considerably limits our ability to deal directly with private enterprise; governments are reluctant to give a guarantee to a private company because it usually involves discriminating among various private interests; and private industries often don't want a government guarantee because they feel it carries the risk of government interference in the management of their business. This was a major consideration in our decision to launch the International Finance Corporation, about which I will have more to say later.

Yet the Bank has directly or indirectly made several loans to private concerns. Some power loans and almost all of the $329 million the Bank has lent to industry have gone directly or indirectly to private concerns. Our largest industrial loan, which we made last June, was a $75 million loan to help finance an expansion at the great Tata Steel works in India.

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To illustrate the flexibility of the Bank's lending operations, I might tell one story about how we helped give birth to a new private company.

In 1952, the Pakistan Government came to us with a problem: a huge reservoir of natural gas had been discovered at Sui in West Pakistan; if the gas could be supplied to the industrial area of Karachi, 350 miles to the south, and to other cities en route, the Pakistan economy would get a beneficent shot in the arm.

Pakistani private capital was not accustomed to investing in ventures such as a pipeline project and this one particularly promised many engineering headaches. Therefore, it looked, at first sight, as though the local financing would have to come from the government. But that was before Mr. Black, the President of the Bank, and the Bank staff delved into the problem. After talking the matter over with the Pakistan Government and officials of the Burmah Oil Co. of Great Britain (which owns 70% of the Sui gas fields) we came up with a plan to get the job done very largely with private capital.

The upshot was a new company, the Sui Gas Transmission Co., 51% owned by Pakistani interests, and 49% by British interests. Slightly less than half the

Pakistani shares were taken up by the Pakistan Government; slightly more than half by private investors in Pakistan. Half the British shares were taken up by Burmah Oil and half by the Commonwealth Development Finance Co. in London. Out of this polyglot arrangement emerged a company in which the controlling interest and management was in private hands.

To make the equity shares attractive to investors in Pakistan, the World Bank gave assurances that it would lend the greater part of the foreign exchange necessary for the pipeline if the company were successfully established. As a matter of fact, the local issue in Pakistan was over-subscribed five times within four hours. Shares were bought by more than 20,000 individual shareholders and now trade at a 30% premium.

Just to complete the story I might add that the pipeline was completed last Fall, well ahead of schedule. The Bank loaned £ 5 million (sterling) for it and six British banks with offices in Karachi participated in the loan without the Bank's guarantee.

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to marry British private capital, local Pakistani capital, a government contribution, a World Bank loan and a commercial bank loan into a productive development project, the ownership and management of which is strictly in private hands.

I wouldn't say that all our loan negotiations result in as neat a package as this, but we do try wherever possible to exercise such ingenuity as we possess in favor of bringing all sorts of private investors into the act.

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Several other ways in which the Bank helps stimulate the flow of private capital might better be listed under the heading of technical assistance.

We are very much in the business of technical assistance, helping to provide our member countries not only with engineering specialists, but, perhaps more important, with administrative and financial technical assistance and advice.

In all our loan negotiations we appraise existing fiscal and monetary policies in the borrowing member country to see that they are not encouraging inflation and thereby undermining the vitality of a country's development effort. In those cases where we have had to refuse a loan on the grounds that the threat of inflation is not being adequately coped with by the authorities, we have usually brought down on ourselves acute resentment. However, we stick to our guns. Nothing poisons the investment climate quite like inflation. In taking a firm stand on this issue, we are not just protecting our own interest in getting our money back, but also the best interests of our member countries, and prospective private investors as well.

We often give advice on specific anti-inflationary measures and on such matters as public utility rates which may camouflage the sources of inflation. At the request of a member government we will send out an economic survey mission to investigate and appraise the whole range of development problems in a country, suggesting suitable priorities for projects and establishing realistic targets. In all these ways, we try to improve that intangible thing called the investment climate. And where specific fiscal measures appear to us to be restricting the flow of private investment capital, we do not hesitate to say so.

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Almost every country in the world has some sort of institution which might be called a development bank. Most are government institutions. The Bank sometimes channels its loans through government development banks, as in the case of Japan, for example, because they provide the handiest means of supplying capital to local private industry.

In several countries, the Bank has been instrumental in setting up development banks which are primarily privately owned institutions under private management, and catering for the needs of domestic private industries. In particular, we have done this in Turkey and India. We are working on similar projects in two or three other countries now. To illustrate the worth of these projects, let me tell you something about the Industrial Credit and Investment Corporation of India -- ICICI.

Lack of risk capital has always been an impediment to the growth of industry in India. So naturally the Bank was interested when, at the end of 1953, a group of Indian industrialists approached us with the idea of establishing a privately-owned corporation which would encourage the growth of private industry. The first thing we did was to borrow Mr. George Woods from the First Boston Corporation of New York to head a mission to India to explore the possibilities. The result was another instance of cooperation on an impressive scale.

In all, we found private investors in India, Britain and the United States willing to put up 50 million rupees -- that's \$10.5 million -- to get ICICI started. Indian investors put up 70% of the money. British interests, including eight banks, thirty insurance companies, five manufacturers and the Commonwealth Development Corporation put up 10 million rupees. And four American concerns -- a bank, an investment fund and two corporations -- put up 5 million rupees. The Indian Government, using money from the counterpart funds resulting from the sale of U.S. aid materials, agreed to make an interest-free advance to ICICI of 75 million rupees.

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Savings exist even in the poorest of the less developed countries. The degree of success governments and private entrepreneurs have in tapping these savings is going to determine in large part the rate at which development can proceed. In particular the Bank lays stress on encouraging private financial institutions like ICICI or the Turkish Industrial Development Bank which the Bank was also instrumental in setting up.

But in some of the least developed countries there is a prior problem -- the problem of creating a market for government bonds. Here the Bank's Marketing Department has been very active in giving technical assistance.

Take the case of El Salvador, to which the Bank made a loan several years ago to help finance a power project. The Bank normally lends only to cover the foreign exchange costs of a project, relying on the local government or the private borrower, as the case may be, to find local capital to cover local costs.

In many less developed countries, the government normally adds such costs to the annual budget, there being no market for government bonds, and consequently, little possibility of government domestic borrowing. But El Salvador agreed to let the Bank help set up such a market.

We had to start from scratch. When we were called in the money market in El Salvador --

as is still the case in many less developed countries -- consisted of nothing more than a brisk, completely unregulated curb exchange in personal loans -- 4% a month or more. But such goings-on at least indicate that there are some savings to tap.

The Bank sent a bond expert to El Salvador at the request of the government. He stayed five months, during which he created a bond issue to raise the local costs of the power project -- drew up the form of the bond and saw to it that it met the country's laws -- publicized the issue, persuaded the government to pay a commission to the local banks to sell it, and then went around paying personal calls on people of wealth in the country. The issue sold well, and while it would be too much to say that a sophisticated money market now exists in El Salvador, at least the rudiments of a government bond market have been implanted.

In one way or another, the Bank has extended this kind of assistance to a great many countries. Some of the existing financial practices we have found have been, to say the least, bizarre. For example, some Latin American governments follow the practice of paying off their contractors in government bonds. Knowing this, and knowing, too, the prevailing discount on government bonds among those who have received them in payment for previous government services, the contractors pad their prices by the amount of the discount -- and, of course, add just a little more. Contractors have to dump their bonds quickly both to pay their own expenses and to take their profit in cash.

As a result, the government's financial standing in the community, already shaky, is further discredited and inflation takes another spurt.

In another more advanced country which we advised recently, the government has never issued more than one kind of bond with one interest rate and one maturity. There exists in this country a local bolsa -- or stock exchange -- but the 85 members thereof were becoming increasingly reluctant to handle government securities. The bonds didn't meet the needs of investors in the community and confidence in the fiscal policies of the government was evaporating. When the situation threatened to get out of hand, the Bank was called in. We advised the government, in addition to putting its financial house in order, to call in the local banks and brokers before it made a bond issue, to tailor the issue to the needs of the local market, to pay a commission to banks and others willing to sell government bonds, to advertise -- in short fo follow the first principles of bcnd marketing as we know them.

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Here in the United States, in Canada and in Western Europe, we take for granted a whole range of financial institutions, designed to meet the specific needs of savers and investors alike. Without them our industrialized economies would quickly stagnate. The closer a country gets to full-scale industrialization, the more it will have to develop and refine a mechanism for mobilizing savings and channelling them into productive development projects.

It is our firm belief that unless this financial mechanism is left pretty largely in private hands, there will be grave risks of getting little or no development or of having development take a course which subordinates the raising of living standards to the power of the state.

Of course, financial machinery is only a part of the need. Probably the most important need in the less developed countries today -- at least in those in the beginning throes of industrialization -- is for competent business talent -- management talent -- entrepreneurial talent in all its aspects. No amount of financial machinery will draw savings into industrial ventures unless the men and women are there who have not only the "know how" but the "know what" to run a business efficiently.

Our preoccupation with these considerations in the Bank led last July to the founding, as an affiliate of the Bank, of a new international organization -- the International Finance Corporation.

The IFC is frankly an experiment. It is designed to bring private investors in the industrialized countries -- men with experience in the ways of running industry -- together with private investors in the less developed countries who want to invest their savings in productive industrial ventures in their own backyards.

Thirty-three countries who are members of the Bank have subscribed $78 million in dollars and gold to the IFC so far. Perhaps 18 or 19 more have indicated an interest, promising a total subscription of around $90 million. This isn't very much money in the context of the capital needs of industry in the under-developed world. But it is enough to conduct some very worthwhile and promising experimentation.

IFC will undertake to share the risks of new industrial ventures in less developed countries -- always in partnership with private investors on the scene or from the industrialized countries, or both. Usually, IFC will be strictly a junior partner; it will never assume the actual management of a project, leaving that to the most qualified private investor in each case.

IFC has considerable freedom in the kinds of investments it makes. And it will not be circumscribed, as is the Bank, by the need for a government guarantee. While IFC will not become an actual stockholder in the ventures which it helps to finance, it will be able to take convertible debentures or warrants which can be sold to private investors later and turned by the buyer into normal equity holdings.

For example -- and this is strictly a hypothetical case since IFC has yet to make its first investment: IFC might be presented with a proposal by an American company to help finance a mining venture in Latin America. The American company would put up some capital of its own. It or the IFC would find local private investors to put up some more capital. Then if IFC thought the venture sound and the management competent, it might make an investment involving a modest fixed interest payment, plus a right to additional interest contingent on earnings, and a warrant to buy a certain amount of stock in the new enterprise at par. Later IFC could sell its warrant to a private investor. If IFC had done its job well, it would realize a nice capital gain even though it is prohibited from owning stock itself.

The permutations and combinations in IFC operations may be considerable. Since the institution has only just started up, many of its policies are still to be set. Many decisions will have to be made on a case-by-case basis. But the principal objectives of the Corporation are clear.

It will aim at mobilizing the maximum amount of private capital possible for the ventures which it chooses to participate in; it will conduct its affairs as much like a private finance house as possible -- striving to show a profit in order to encourage more private investors in the industrialized countries to take the risks of international investment.

It will concentrate on industrial ventures where the need for managerial ability is most pressing in the less developed countries and where the chances for a fair return on a risk investment are most easily assessable.

Considering its limited funds, IFC will not make big investments; it will not undertake to build dams or explore for oil. But a million dollar investment from IFC in conjunction with two or three times that amount of private capital could produce results worth far more if it facilitates the transfer of industrial talent to the less developed countries -- and does so at a profit.

The IFC was the brain-child of the Bank staff. Mr. Robert Garner, who was for 9½ years the sole vice president of the Bank has left to become president of IFC. The Bank staff is at the service of IFC and the two institutions share a common headquarters in Washington. So we will continue to regard the IFC as a member of our family as we work together on the common problem of stimulating the flow of private capital.

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I have covered a lot of ground very quickly this afternoon. I hope I have illustrated the advantages we are taking of such opportunities as exist of mobilizing private capital for worthwhile investment projects in the underdeveloped world, and also the breadth of the attack we are making on the many and varied obstacles which stand in the way.

I would like to leave with you one thought. The challenge of development in the less developed areas of the world is one of the most difficult and exacting challenges we of the West have ever faced. To a very large extent, it is our ideas and our achievements which have stirred up so many millions of people today against their traditional poverty -- which have opened their eyes to the possibility of bettering their material lot.

We no longer have it in our power to control the destinies of these people. We can scarcely hope to revive those mechanisms which ordered international economic affairs in the last century.

Our best hope -- perhaps our only hope -- for exerting a continuing influence is by making common cause with these people in their own economic development. We must try in every way we can to do business with them. There is no simple formula for doing this. It will require every resource of ingenuity and imagination we can muster.

There is room for everybody in this job -- for government, for international organizations, for private foundations -- and, above all, for the private investor, and the private businessman.

By way of summing up the Bank's philosophy towards development today, I think I can do no better than to quote the words of Mr. Black in his speech last month at our Eleventh Annual Meeting. He said:

"There is a myth about today that only governments can produce economic growth fast enough and of the right character. Let me concede at once that there may be no substitute for government in a great many instances when it comes to getting development off the ground. In most underdeveloped countries the government has, and probably must have, the primary responsibility for providing basic facilities on which sustained growth can flourish.

"But it is a dangerous myth to believe that economic development "is a matter for government alone. The great and growing reservoir of human energy in the less developed countries today cannot possibly find a constructive outlet if all decisions affecting economic growth are left to the state. The enthusiasm and potential contribution of every individual must be courted in a successful development program. And that means leaving a wide area of freedom for individuals to follow their own development initiatives and encouraging them to do so."

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

FROM - 1. Office of the President

2. Office of the Vice President

FORM No. 89
(7-50)

Date Oct 2nd

TO-	Name	Room No.
1	~~Mr. McKitterick~~	
2	Mrs Eliason	2-8
3		
4		

FOR-

	Action		Initialing
	Approval		Preparing Reply
	Comment		Previous Papers
	Filing		Noting and Returning
	Full Report		Recommendation
	Information		Signature

REMARKS

This is the final -

J. F.

KEEP THIS COPY!!!
MK.

Mr. Iliff
Oct. 3, 1956

IBRD/IDA
Box
WBG
86
ARCHIVES

Speech for Harvard Business School Finance Club

"Paving the Way for Private Investment"

Your President asked me to come here today to talk about the World Bank and how it helps to promote private investment. You could not have presented me with a subject which would bring out more of the varied operations that the Bank engages in.

When the architects of the Bank drew up our Articles of Agreement at the International Financial Conference held at Bretton Woods in 1944, they saw the dilemma of the postwar world very largely in terms of private capital.

In order to get the world economy straight again after the war -- and in order to keep it straight -- productive foreign investment was needed.

Yet until the world economy looked straight -- and looked like keeping straight -- the potential foreign investor was unlikely to put his money abroad.

The Bank was set up in large part to

solve this dilemma -- not just in the immediate days of post-war reconstruction, but in these days when, in the less developed countries of the world, the need and desire of so many millions of people for economic development looms up as one of the most significant facts of modern life.

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To show what the Bank is doing to stimulate the flow of private capital, I must first give you a few salient facts about the Bank itself.

The Bank was set up to operate in situations where long-term development finance was not available from private sources on reasonable terms.

It was obvious from the beginning that some public money was needed to prime the pump of private investment in this field.

The Bank's initial capital was therefore subscribed by its member governments -- now numbering 60 -- up to an authorized limit of $10 billion. Of these subscriptions, 80% is withheld in the form of a reserve of unpaid subscriptions, subject to call only if needed to meet the Bank's own obligations. This reserve, amounting to about $7 billion, is itself an important assurance for private investors subscribing to Bank securities.

Each member government was required to put up 2% of its subscription in gold or dollars and 18% in its own currency. This 18% was to be released by the member government for use by the Bank as soon as economic conditions in the particular member country permitted. As of today, the equivalent of $900 million has been released from these 18% subscriptions, two-thirds of it coming from the United States and Canada, and about $180 million has been made available from the 2% subscriptions.

In all, therefore, a bit over one billion dollars has been made available to the Bank from the capital subscribed by our member governments.

A slightly larger sum has been made available from the sale of Bank bonds and the sale of portions of Bank loans.

With all this money, the Bank has

loaned just short of $3 billion in its ten years of operations; and we have had a hand in the financing of more than 500 development projects in 44 different countries. With repayments and prepayments on its loans, the Bank has turned over a considerable portion of its funds already.

Up to now, we have had no defaults on our borrowers' obligations. And in each of the past ten years we have shown a profit on our operations; last year we registered a record net income of more than $29 million. Together with proceeds from a 1% commission which, in addition to interest, we charge on all our loans, our profit has been set aside in reserves, and these reserves now amount to almost $250 million.

This capsule picture of the Bank's finances shows an international organization, subsisting more and more on private funds -- today more than half of our funds available for lending come from private investors -- operating at a steady profit and doing a respectable volume of business.

That in itself, I think, is something to arouse the interest of prospective foreign investors. But it is only the beginning of the story.

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While laying down in our charter some definite ground rules for the conduct of the Bank's business, the conference at Bretton Woods, very wisely I think, left plenty of elbow room for the Bank management to experiment with its own ideas for increasing the flow of private capital to member countries, and within them.

The obstacles restricting the flow of private capital today -- particularly to and within the less developed countries of the world -- are many and varied. A wide variety of measures is needed to remove these obstacles. I'd like to discuss, with illustrations, what the Bank is contributing to this end through its borrowing and its lending, through its technical assistance program, and even just by using its imagination.

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First, let me take up our sales of bonds. It is through selling our own securities in the international capital markets that we have attracted most of the private capital which directly participates in Bank operations. To be sure, holders of Bank bonds are not, strictly speaking, taking the risks which private investors take when they buy for their portfolios the direct obligations of foreign governments or institutions. The existence of $7 billion in unpaid subscriptions from member governments -- about $2.5 billion representing the U. S. share -- constitutes a very special sort of guarantee behind World Bank bonds. But, nonetheless, the money we raise from the sale of bonds represents a very important addition to the supply of private capital going into development projects overseas.

So far, we have sold 26 issues of bonds totalling the equivalent of more than $1 billion. These consist of 11 issues in United States dollars, 3 in Canadian dollars; 2 in sterling; 2 in Dutch guilders and 8 in Swiss francs.

Of our bonds outstanding today, we

estimate that 55% are held by investors in the United States, with the rest scattered through the world but mostly in Western Europe.

About one-third of our dollar bonds -- including two whole issues -- have been taken up by investors outside the U. S.

Who invests in these bonds of ours? In the United States, pension and trust funds hold more than 40% of them, with insurance companies and savings banks holding about 25% apiece. The balance is held by commercial banks and other investors. The same sorts of investors, as well as central banks and government agencies, hold our bonds overseas.

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The private investor not only buys Bank bonds; he also participates directly in our lending. The Bank sells parts of its loans out of its portfolio, either with or without its guarantee, and invites private interests to take up part of a loan at the time of signing.-- ~~again either with or without our guarantee.~~ Since 1953 these portfolio sales and participations have become a very important part of our operations.

In all, we have sold nearly $200 million out of our loan portfolio, almost all of it in the past three years. In addition, private investors have taken up the equivalent of nearly $85 million of our loans at the time of signing -- again almost all of it in the past three years. In all but a very few of these cases, sales have been made without our guarantee; participations are now always without our guarantee. This increasing willingness on the part of the private investor to share with the Bank the full risks of international lending is, I think, a very heartening sign.

Commercial banks and investment houses, of course, make up most of the investors who participate directly in our lending. However, we have had some interesting new investors lately -- a company pension fund and a private foundation. Of our total loan sales, 57% have been to purchasers outside the U.S.

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I might mention, too, that we have pioneered a new device for sharing the risks of international lending between the Bank and the private market. On three occasions in the recent past we have arranged a joint operation with the private capital market in the United States whereby an investment banking group has arranged a public sale of foreign government bonds co-incidentally with a Bank loan. For example, last fall we loaned South Africa £9 million for railway improvements. At the same time a public issue of $25 million of South African bonds was successfully sold in the New York markets, and the proceeds applied to the project to which the Bank financing was devoted. Previously, we had employed the device to help finance development projects in Norway and in Belgium.

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We regard Bank lending in general as laying the foundations for sustained growth based on private enterprise in our member countries. You can see this from the character of the loans the Bank makes.

If a country is to develop a healthy, expanding economy based on private enterprise, it must first have certain basic services. There must be roads to get farm products to the market; railroads to get raw materials from the mine to ships; ports for the ships to pick up and discharge their cargoes. And, of course, if there is to be industry, there must first be power. The Bank makes loans to help provide these basic services.

The Bank has loaned $819 million for electric power development; $656 million for transportation in all forms; $231 million for agriculture and forestry development. These are in addition to some $500 million in reconstruction loans made to European countries early in the game.

Under our Articles of Agreement, all Bank loans must be made to governments or be guaranteed by governments. But this does not mean we do not make loans to private enterprises.

The need for a government guarantee considerably limits our ability to deal directly with private enterprise; governments are reluctant to give a guarantee to a private company because it usually involves discriminating among various private interests; and private industries often don't want a government guarantee because they feel it carries the risk of government interference in the management of their business. This was a major consideration in our decision to launch the International Finance Corporation, about which I will have more to say later.

Yet the Bank has directly or indirectly made several loans to private concerns. Some power loans and almost all of the $329 million the Bank has lent to industry have gone directly or indirectly to private concerns. Our largest industrial loan, which we made last June, was a $75 million loan to help finance an expansion at the great Tata Steel works in India.

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To illustrate the flexibility of the Bank's lending operations, I might tell one story about how we helped give birth to a new private company.

In 1952, the Pakistan Government came to us with a problem: a huge reservoir of natural gas had been discovered at Sui in West Pakistan; if the gas could be supplied to the industrial area of Karachi, 350 miles to the south, and to other cities en route, the Pakistan economy would get a beneficent shot in the arm.

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Savings exist even in the poorest of the less developed countries. The degree of success governments and private entrepreneurs have in tapping these savings is going to determine in large part the rate at which development can proceed. In particular the Bank lays stress on encouraging private financial institutions like ICICI or the Turkish Industrial Development Bank which the Bank was also instrumental in setting up.

But in some of the least developed countries there is a prior problem -- the problem of creating a market for government bonds. Here the Bank's Marketing Department has been very active in giving technical assistance.

Take the case of El Salvador, to which the Bank made a loan several years ago to help finance a power project. The Bank normally lends only to cover the foreign exchange costs of a project, relying on the local government or the private borrower, as the case may be, to find local capital to cover local costs.

In many less developed countries, the government normally adds such costs to the annual budget, there being no market for government bonds, and consequently, little possibility of government domestic borrowing. But El Salvador agreed to let the Bank help set up such a market.

We had to start from scratch. When we were called in the money market in El Salvador --

as is still the case in many less developed countries -- consisted of nothing more than a brisk, completely unregulated curb exchange in personal loans -- 4% a month or more. But such goings-on at least indicate that there are some savings to tap.

The Bank sent a bond expert to El Salvador at the request of the government. He stayed five months, during which he created a bond issue to raise the local costs of the power project -- drew up the form of the bond and saw to it that it met the country's laws -- publicized the issue, persuaded the government to pay a commission to the local banks to sell it, and then went around paying personal calls on people of wealth in the country. The issue sold well, and while it would be too much to say that a sophisticated money market now exists in El Salvador, at least the rudiments of a government bond market have been implanted.

In one way or another, the Bank has extended this kind of assistance to a great many countries. Some of the existing financial practices we have found have been, to say the least, bizarre. For example, some Latin American governments follow the practice of paying off their contractors in government bonds. Knowing this, and knowing, too, the prevailing discount on government bonds among those who have received them in payment for previous government services, the contractors ~~paid~~ pad their prices ~~in~~ by the amount of the discount -- and, of course, add just a little more. Contractors have to dump their bonds quickly both to pay their own expenses and to take their profit in cash.

As a result, the government's financial standing in the community, already shaky, is further discredited and inflation takes another spurt.

In another more advanced country which we advised recently, the government has never issued more than one kind of bond with one interest rate and one maturity. There exists in this country a local bolsa -- or stock exchange -- but the 85 members thereof were becoming increasingly reluctant to handle government securities. The bonds didn't meet the needs of investors in the community and confidence in the fiscal policies of the government was evaporating. When the situation threatened to get out of hand, the Bank was called in. We advised the government, in addition to putting its financial house in order, to call in the local banks and brokers before it made a bond issue, to tailor the issue to the needs of the local market, to pay a commission to banks and others willing to sell government bonds, to advertise -- in short to follow the first principles of bond marketing as we know them.

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Here in the United States, in Canada and in Western Europe, we take for granted a whole range of financial institutions, designed to meet the specific needs of savers and investors alike. Without them our industrialized economies would quickly stagnate. The closer a country gets to full-scale industrialization, the more it will have to develop and refine a mechanism for mobilizing savings and channeling them into productive development projects.

It is our firm belief that unless this financial mechanism is left pretty largely in private hands, there will be grave risks of getting little or no development or of having development take a course which subordinates the raising of living standards to the power of the state.

Of course, financial machinery is only a part of the need. Probably the most important need in the less developed countries today -- at least in those in the beginning throes of industrialization -- is for competent business talent - management talent -- entrepreneurial talent in all its aspects. No amount of financial machinery will draw savings into industrial ventures unless the men and women are there who have not only the "know how" but the "know what" to run a business efficiently.

Our preoccupation with these considerations in the Bank led last July to the founding, as an affiliate of the Bank, of a new international organization -- the International Finance Corporation.

The IFC is frankly an experiment. It is designed to bring private investors in the industrialized countries -- men with experience in the ways of running industry -- together with private investors in the less developed countries who want to invest their savings in productive industrial ventures in their own backyards.

Thirty-three countries who are members of the Bank have subscribed $78 million in dollars and gold to the IFC so far. Perhaps 18 or 19 more have indicated an interest, promising a total subscription of around $90 million. This isn't very much money in the context of the capital needs of industry in the underdeveloped world. But it is enough to conduct some very worthwhile and promising experimentation.

IFC will undertake to share the risks of new industrial ventures in less developed countries -- always in partnership with private investors on the scene or from the industrialized countries, or both. Usually, IFC will be strictly a junior partner; it will never assume the actual management of a project, leaving that to the most qualified private investor in each case.

IFC has considerable freedom in the kinds of investments it makes. And it will not be circumscribed, as is the Bank, by the need for a government guarantee. While IFC will not become an actual stockholder in the ventures which it helps to finance, it will be able to take convertible debentures or warrants which can be sold to private investors later and turned by the buyer into normal equity holdings.

For example -- and this is strictly a hypothetical case since IFC has yet to make its first investment: IFC might be presented with a proposal by an American company to help finance a mining venture in Latin America. The American company would put up some capital of its own. It or the IFC would find local private investors to put up some more capital. Then if IFC thought the venture sound and the management competent, it might make an investment involving a modest fixed interest payment, plus a right to additional interest contingent on earnings, and a warrant to buy a certain amount of stock in the new enterprise at par. Later IFC could sell its warrant to a private investor. If IFC had done its job well, it would realize a nice capital gain even though it is prohibited from owning stock itself.

The permutations and combinations in IFC operations may be considerable. Since the institution has only just started up, many of its policies are still to be set. Many decisions will have to be made on a case-by-case basis. But the principal objectives of the Corporation are clear.

It will aim at mobilizing the maximum amount of private capital possible for the ventures which it chooses to participate in; it will conduct its affairs as much like a private finance house as possible -- striving to show a profit in order to encourage more private investors in the industrialized countries to take the risks of international investment.

It will concentrate on industrial ventures where the need for managerial ability is most pressing in the less developed countries and where the chances for a fair return on a risk investment are most easily assessable.

Considering its limited funds, IFC will not make big investments; it will not undertake to build dams or explore for oil. But a million dollar investment from IFC in conjunction with two or three times that amount of private capital could produce results worth far more if it facilitates the transfer of industrial talent to the less developed countries -- and does so at a profit.

The IFC was the brain-child of the Bank staff. Mr. Robert Garner, who was for 9½ years the sole vice president of the Bank, has left to become president of IFC. The Bank staff is at the service of IFC and the two institutions share a common headquarters in Washington. So we will continue to regard the IFC as a member of our family as we work together on the common problem of stimulating the flow of private capital.

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I have covered a lot of ground very quickly this afternoon. I hope I have illustrated the advantages we are taking of such opportunities as exist of mobilizing private capital for worthwhile investment projects in the underdeveloped world, and also the breadth of the attack we are making on the many and varied obstacles which stand in the way.

I would like to leave with you one thought. The challenge of development in the less developed areas of the world is one of the most difficult and exacting challenges we of the West have ever faced. To a very large extent, it is our ideas and our achievements which have stirred up so many millions of people today against their traditional poverty -- which have opened their eyes to the possibility of bettering their material lot.

We no longer have it in our power to control the destinies of these people. We can scarcely hope to revive those ~~economic~~ mechanisms which ordered international economic affairs in the last century.

Our best hope -- perhaps our only hope -- for exerting a continuing influence is by making common cause with these people in their own economic development. We must try in every way we can to do business with them. There is no simple formula for doing this. It will require every resource of ingenuity and imagination we can muster.

There is room for everybody in this job -- for government, for international organizations, for private foundations -- and, above all, for the private investor, and the private businessman.

By way of summing up the Bank's philosophy towards development today, I think I can do no better than to quote the words of Mr. Black in his speech last month at our Eleventh Annual Meeting. He said:

"There is a myth about today that only governments can produce economic growth fast enough and of the right character. Let me concede at once that there may be no substitute for government in a great many instances when it comes to getting development off the ground. In most underdeveloped countries the government has, and probably must have, the primary responsibility for providing basic facilities on which sustained growth can flourish.

"But it is a dangerous myth to believe that economic development "is a matter for government alone. The great and growing reservoir of human energy in the less developed countries today cannot possibly find a constructive outlet if all decisions affecting economic growth are left to the state. The enthusiasm and potential contribution of every individual must be courted in a successful development program. And that means leaving a wide area of freedom for individuals to follow their own development initiatives and encouraging them to do so."

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ADDRESS BY W. A. B. ILIFF, VICE PRESIDENT OF THE
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
BEFORE ENGINEERS JOINT COUNCIL, HOTEL STATLER
NEW YORK CITY, JANUARY 18, 1957

Today, in the field of overseas development, engineering skills and banking techniques have come to depend more and more upon one another. It is not too much to say that orderly economic growth in most parts of the world must rely on the capacity and willingness of engineers and bankers to work in harness, exercising all the wisdom that Providence may have endowed us with.

I think, therefore, that it was not inappropriate, if I may say so, that you should have been so kind as to afford to a representative of the World Bank the pleasure and privilege of participating in the proceedings of your Council.

In the World Bank we do not, it is true, think of ourselves as bankers in the ordinary sense. We are rather a development agency, doing what we can to help our 60 member countries -- particularly those in the less-developed areas of Asia, Africa and Latin America -- along the whole broad front of their development problems. Our financial resources are only one of our tools. We also help to plan and organize development; we advise on economic policies which effect the rate of growth; we encourage private individuals and companies to take the risks -- and earn the rewards -- of international investment. So, when I say "banker", I mean something more than the conventional stereotype.

So also when I speak of the engineer. The dictionary still defines an engineer as a "designer or constructor of engines." But the dictionary concedes that "engineering" is both "an art and a science" -- specifically, the art and the science by which the properties of matter and the sources of power in nature are made useful to man. When I think of engineers and overseas development, I think of this broader context of engineering. For it is only in the broader context that you engineers and we bankers can successfully tackle the problem of overseas development.

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Over the past ten years the World Bank has lent about $3 billion -- a sum which has been more than matched by the capital our borrowers have themselves committed in the projects in which we have invested. We have helped to finance some 8-million kilowatts of new electric power. We are helping a dozen countries modernize their road networks and another dozen to modernize their railroads. We have had a hand, too, in a variety of agricultural and industrial projects.

I want to talk for a few minutes this afternoon about the kinds of judgments and decisions we have to make in the Bank before deciding whether or not to support a development project, and I want to illustrate how heavily we have to rely on competent engineers and sound engineering advice in reaching our decisions. In the course of what I have to say I hope to leave with you some thoughts about how you, as engineers, can help to promote more orderly economic growth in the developing world overseas.

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The Bank may lend either to one of its member governments or to private borrowers, but, when the borrower is not a government, the loan must be guaranteed by the government in whose territory the investment is to take place. We lend only for economically "productive" purposes -- and, normally, only for specific projects.

When we are approached for finance, we start a process of study and analysis and negotiation which ranges all the way from the very general to the very specific. We are interested in the general shape and scope of the development program that the government is carrying out. We ask ourselves: Is more being bitten off than the country can hope to swallow without indigestion? Is government trying to invade too many different fields at the expense of private initiative and enthusiasm? What major sectors of the economy are getting the greatest emphasis and are they the right ones? Sometimes, is the country cutting off its agricultural nose to save its industrial face?

Here at home, Bank economists are studying the major economic trends in the borrowing country. Is the country already up to its ears in debt or do its growth prospects warrant more borrowing? Is there local capital available to meet the local costs of the project? (The Bank usually lends money to cover only the costs of imported goods and services.) And then we are always watchful for that public enemy number one in the economic development business -- inflation. We wage an uncompromising war against it, sometimes taking the very unpopular, but very necessary step of withholding our loan capital until an element of stability has been brought into the local economy.

These general judgments often present us with our most difficult decisions. But they are somewhat outside of my story today. For these might be called bankers' problems -- at least under the definition of a banker which I have chosen to make. It is only after we get down to considering a project or a range of projects that we enter into the realm of development engineering.

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Given a project proposal in a country which meets our general criteria for lending, we are, of course, interested in sound technical plans. But we are just as interested in a sound economic justification for the project. Is there a market? Are there alternative ways of meeting the same need more efficiently? We look for assurance that the project will be efficiently organized and administered. And, finally, we are interested in seeing that our borrowers get good service for a fair price.

In all of these matters we are guided by the advice of engineering specialists -- on our own small technical staff, and among the consultants whom our borrowers hire or, in some cases, whom we hire ourselves. We do not as a general rule recommend consulting firms. And, of course, the consultants whom our borrowers hire do not report directly to us. But naturally we are very much interested in the quality of the engineers who design the projects which we help to finance. And our own job is very much affected by the thoroughness with which our borrowers' consultants do their work.

Take the purely technical side first. Last June, we made an $80 million loan to the Federation of Rhodesia and Nyasaland to help build the Kariba Gorge Dam across the Zambesi River in Central Africa. This is an enormous project -- the biggest single project we have ever helped to finance. As you may know, the Dam will back up a lake nearly 200 miles long with a storage capacity greater than any other man-made lake in the world -- four and a half times that of Lake Mead behind Hoover Dam on the Colorado River. Kariba, ultimately, will have a generating capacity of 1.2-million kilowatts, some of which will have to be carried at a very high voltage across some 300 miles of virtually uninhabited country. In fact, the whole project is being carried out in one of the most remote hinterlands of the world.

Yet we found it very easy to accept the technical plans for Kariba as they were submitted to us by the Federation government. Literally hundreds of man-years of work had been put into them by some of the most reputable engineering firms in Europe. The suggested design spans the gorge with an arch dam 400 feet high and 1,800 feet along the crown; it was prepared by one of the world's leading specialists in arch dams. The electrical consultants, who designed the transmission system, themselves consulted experts in Sweden where there is much valuable experience with very-high voltage, long-line transmission. Hydrologists and geologists had been retained and had made very thorough studies. In short, in the way of technical preparation, there was nothing any reasonable person could have asked that had not already been done.

Unfortunately, such is not always the case. A few years ago another of our member governments asked us to help finance a more modest power project, though one bigger than the country had ever undertaken before. We received a very impressive-looking, technical report on this project, drawn up by a government department. It was a very commendable report in many respects, but in view of the fact that the government lacked any experience in planning projects of this size we felt we had to insist on an independent study by outside consultants.

The outcome was that the consultant retained by the borrower found that it was necessary to shift the proposed site of the dam. The proposed reservoir would not have had the estimated capacity, and it would have flooded a region quite different from the original expectations. The basic design of the dam was changed; its height more than doubled. In short, the borrower had a different project, and one much bigger than was originally thought of. This, in turn, reopened the whole question of whether the country needed or could afford a power project of that size. In similar circumstances we have opted for a series of less spectacular thermal projects, as being more suited to the needs and resources of the borrower.

The reluctance of governments in the less-developed countries to hire foreign consultants is giving way in the face of experiences like this. The time and resources saved are proving compelling arguments against the understandable bias towards "do-it-yourself."

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A usually more difficult problem for us is the problem of judging the economic worth of a project. Take Kariba again as an example. The plans for Kariba were as expertly prepared as any that have ever been submitted to us. But we still felt we had to check the data we received estimating the potential power market in the territories that Kariba is designed to serve.

Many studies of the market had been made -- by the Federation government, by the copper companies in Northern Rhodesia who will be primary users of Kariba power, and by independent consultants. Population growth had been estimated, including the potential influx of immigrants. Studies had been made of the projected increase in the production of copper, tobacco and other major resources of the Federation. But the conclusions drawn from these studies about the future power market varied widely. The most optimistic differed from the least by 100%.

The Kariba project was so big and depended so heavily on a very rapid rate of growth in facilities using power that the Bank felt some further data were needed to justify it. Specifically, we wanted to know what consumer loads would have to be pre-supposed in order to make full use of

Kariba's capacity by the time it was available. As you probably know, power companies in this country ordinarily undertake this kind of study when figuring their expansion programs. Detroit Edison, we understand, figures that about eight dollars must be invested in new power-using facilities in the Detroit area to justify one dollar's worth of new generating capacity. In Italy the ratio is more like 11 to one. In general, the less developed the market the greater the ratio between new investment in utilizing facilities and new investment in generating capacity.

To check the prospective market for Kariba power, the Bank, to save time, hired its own consultant -- an American firm with experience in this kind of power market study in the underdeveloped areas of the Southwestern States. The report of this firm indicated that something between ten and fifteen dollars would have to be invested in power-using facilities to justify each dollar of investment in Kariba's generating capacity. Armed with this estimate we made our own appraisal of the likelihood that capital would be available for these power-using facilities. The upshot was a final market estimate which actually exceeded by a bit the estimate given by the borrower in his own justification.

We make no apologies for going to this extra effort. In these days when man is trying to harness huge forces of nature at one fell swoop, we have to be cautious calculators. Too much is at stake -- too much scarce capital; too many individual destinies.

Often a more difficult problem is that of choosing between alternative forms of investment to meet the same need. In most countries, for example, there is a choice between highway and railroad investment in a given region.

In the power field, as I have indicated, there is very often a choice between hydro and thermal development. Just because a river flows downhill in the right way is not sufficient reason for building a power dam. And now a new and dramatic factor -- nuclear energy -- may be about to inject itself into the picture: We in the World Bank are following with close interest the possibilities of the commercial exploitation of atomic power.

Often the alternatives are not so straightforward. Recently, we had a lively argument among the staff over whether a prospective borrower -- a coal-mining corporation -- would be better served in the way of increased out-put by coming to us for a loan to buy machinery to modernize its operations, or by investing more of its own capital in providing better housing for its miners. These may be difficult questions, but to ignore them is to ignore one of the basic considerations in development engineering overseas.

In all these situations, among many more that I could cite, engineering firms are in a position to provide indispensable help in arriving at a decision. I can say without hesitation that if more engineering firms were willing and able -- and were allowed -- to consider not just the technical aspects of a development project, but also the economic and financial aspects, we in the Bank would be able to process loan applications much more rapidly, and, more importantly, in all those projects outside the ambit of the Bank's operations, much scarce capital would not run the risk of being wasted. But engineering firms must be willing to staff themselves appropriately if they are to carry out these broader tasks. More frequently than we like, we find that consultants prepare reports which are too limited in scope to meet the requirements of particular investment situations.

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But the banker, in our view, should by no means be through with engineering advice after he has made his loan.

Where appropriate, we urge our borrowers not to cut their consultants loose after they have completed their design work. We want the consultants to have the job of seeing to it that their own plans are interpreted correctly -- not left to the supervision of government departments or agencies which have had little or no experience with large-scale development work.

In the kinds of projects we are helping to finance -- large public works projects for the most part -- we do not encourage our borrowers to hire consultants who double as contractors. We have no blanket rule against package deals; in some circumstances they may be the best way of tackling a project. But they do tend to eliminate competition where it can be a healthy force. And we feel that on large public works projects we will get better judgments from consultants who do not have a vested interest in the actual construction contract or in the supply of some particular type of equipment.

And we are, of course, interested in seeing to it that our borrowers get their goods and services at a fair price. The Bank in no way stipulates which country -- much less which contractor or supplier -- is to get the contracts for the goods and services we finance. If you stop and think of it, no international organization of sixty different nations could be expected to tie its loans to purchases of a particular national origin.

What we do do is try to protect our own interests and those of our borrowers by urging and helping along the process of international competitive bidding where this is practicable. And here again a competent consultant can be of immeasurable help to the borrower in the sometimes complicated business of calling for and assessing bids. We, of course, do not encourage the hiring of consultants by competitive bidding any more than we would urge people to hire doctors and lawyers that way. But when it comes to procuring the goods and services called for in the consultants' designs, we do champion the economies of competition.

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A couple of weeks ago I noticed an editorial in ENGINEERING NEWS RECORD which illustrates that the ideas I have been trying to float to you today are by no means a monopoly of the World Bank. The editorial quotes the City Engineer of Capetown in the Union of South Africa in the following vein:

"An engineering undertaking is more than just a technical exercise. A road, a railway, a harbor, are not ends in themselves; they are but means to an end -- to convey produce from farm to factory; to bring tractors from overseas to the farm; to establish new industries; to create new opportunities for employment, and, generally to develop further the resources of the country.

"If, therefore, the engineer wishes to speak with authority in spheres where policy is framed, he must learn to look beyond technicalities. He must acquire a background of knowledge of the country's economic life, of sociological and political trends..... he must look even beyond (national boundaries) and make world affairs his business."

To this I would only add that you as American engineers have a particularly important vested interest in making your weight felt to the fullest in the development of the less-developed areas of the world. Yours is a civilization whose ideas and achievements are peculiarly responsible for the fact that today millions of people, who formerly were resigned to unchanging lives of poverty, are aroused against their traditional lot -- are fired with a new energy which contains great potential for good and for evil. This great and growing mass of human energy must find a constructive outlet if there is to be any peace or stability in the world. We of the West, who so largely created this energy, can try to channel it in directions compatible with the security and growth of people everywhere. Or we can leave it to others to do the opposite.

Finding ways to meet this challenge is one of the most difficult tasks western leaders have ever faced. But surely it is through participating with these people in their own economic growth that our best hope lies. Therefore, your skills, your ingenuity, and your perseverance are an indispensable contribution, if this challenge is to be successfully met.

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April 24, 1957

Dear Mr. Fortin:

I enclose three copies of what will be the text of my address to the Dominion Mortgage and Investments Association in Toronto on May 9th.

I assume that if you intend that there should be any distribution to the press, you will take whatever steps may be necessary for reproduction. If not, please let me know and we will look after it here.

Yours sincerely,

W.A.B. Iliff

W. A. B. Iliff
Vice President

Encl.

Mr. Jules E. Fortin
The Dominion Mortgage and Investments Assn.
302 Bay Street
Toronto 1, CANADA.

WAB Iliff/eb

c.c. Mr. Young

TEN YEARS OF WORLD BANKING

Address by W.A.B. Iliff
(Vice President of the International Bank
for Reconstruction and Development)

to the

Dominion Mortgage and Investment Association of Canada
at Toronto, Canada on May 9, 1957.

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Mr. Chairman and Gentlemen:

I have been very grateful for your invitation to come and address your Association.

Canada has been a staunch friend and supporter of the Bank since it was founded at Bretton Woods in 1944. It is not often, however, that a representative of the Bank has such a good opportunity to give to Canadian bankers and businessmen an account of our stewardship of this young international organization.

I shall not spend too much time on what I hope are the well-known facts about the Bank's record, but I want to say a few words about that record as a framework to my later remarks.

As you all know, the World Bank operates on two fronts. It is a lender, on an increasingly large scale, and it is also a borrower.

First, our record as a lender. The gross total of our loans to date stands at well over $3 billion, in the form of 166 loans to assist projects in 44 countries or overseas territories.

Our lending is concentrated mainly in the financing of basic investment in the less developed countries of the world -- transport, electric power, communications, agriculture and the heavy industries. Since the Bank can lend only to member governments, or to other borrowers in the territories of member governments who can obtain - and are willing to accept - a government guarantee, you will appreciate that not many of our loans go into the secondary processes of development, by which I mean manufacturing industry, trade and commerce. Nor have we lent any money for the extractive industries, for example oil, since these are well catered for by private initiative, with which we do not seek to compete.

Nearly 40 per cent of our lending has been for electric power, and my estimate is that we have had a hand in helping to finance over eight million kilowatts of new power capacity through the power loans we have made in the last ten years. All of this has, of course, been conventional power, either thermal or hydroelectric, but I want to make it clear that we are not such a conservative institution as to ignore the new possibilities that are now opening up. We have on our staff an expert adviser on the use of atomic energy in electric power generation, and we are preparing ourselves to operate in this field also when the time is ripe. We do not want to find ourselves in the position of the Australian aborigine who was made a present of a new boomerang but was unable to use it because of his inability to throw the old one away.

Another large portion of our lending has been for transport -- for roads, railways, ports and air transport. This kind of investment in the less developed areas of the world has far-reaching effects. It opens up a whole range of new possibilities for further development, and is especially important in the agricultural sector. New roads and railways can open up new lands for settlement and cultivation, and also provide better access to markets for farm produce.

To take one example, Mexico borrowed $61 million from the Bank in 1954 to finance the foreign exchange costs of a complete rehabilitation of the Pacific railroad there. This line serves one of the fastest developing farm regions of Mexico -- and, incidentally, the order for $20 million worth of steel rails went to your own Dominion Steel and Coal Corporation.

Our direct lending for agriculture has taken two main forms. One is represented by loans for irrigation and land clearing schemes, usually to public bodies. The other is represented by the loans to specialised credit institutions which have enabled them in turn to make additional loans to farmers, chiefly for the purchase of imported farm equipment. In addition, our general development loans to Australia have included substantial allocations for the purchase of tractors and agricultural machinery. Significant amounts of all this equipment have come from Canada.

Our industrial lending has concentrated mainly on the steel industry, which is another of the foundations on which further development is built. For example, we have now made three loans, totalling over $125 million, to the two privately owned steel companies of India, - the Tata Company and the Indian Iron and Steel Company. These loans are contributing to considerable increases in Indian steel production, and steel is an essential sinew of the Indian Five-Year Plans.

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Let me turn now to the Bank as a borrower.

Most people are not aware of the extent to which our activities are dependent on finance provided to us by private investors. It is true that our 60-member governments all contribute to the capital of the Bank, and

Canada, along with the United States, set a commendable example some years ago by releasing the full amount of her Canadian dollar subscription, thus permitting the Bank to lend the full 20 per cent of Canada's capital subscription which is called for in the Bank's Articles of Agreement.

The aggregate amount of government-provided capital designed for the Bank to use in its lending operations is about $1,800 million. Up to now, we have been able to obtain from member governments consent to the use of just over $1,100 million, and we are constantly exhorting our members to release the balance in a usable form, with, I am glad to say, increasing success.

Disbursements on Bank loans to date are already over $2,200 million and more than half of these expenditures has been met from funds available to us from sources other than our governmental capital.

The main source of the funds that we lend is now, and will continue to be, the sale of our bonds. The total now outstanding is equivalent to about $1,050 million. The bulk of this has been raised in the United States, but we have borrowed also in the Swiss, United Kingdom, Dutch and Canadian markets. We have raised a total of $55 million Canadian in Canada by the sale of Bank Bonds, of which $40 million Canadian are still outstanding. In addition, Canadian investors, including banks and insurance companies, hold sizeable amounts of some of our U.S. dollar issues. The ever-growing total of our loans means that we must continue to look to the various capital markets of the world for additional funds and I can assure you that we shall not ignore Canada's potentialities in this respect.

The sale of bonds is, of course, not the only way in which we obtain the help of private capital in our operations. It has become customary over the past three years for banks and other financial institutions to participate in our loans at the time they are made, usually by taking the early maturities. But even when the loan is in our own portfolio, we are always on the look-out for opportunities of selling maturities that are likely to attract institutional investors. This has become big business for us. The total of the amount placed in these ways is now over $320 million.

As a final note in this account of the principal financial aspects of the Bank's work, which I think should appeal to an audience such as this, I should add that our operations have been profitable. Up to now, the obligations of our borrowers, both of principal and interest, have been met in full. We have now accumulated total reserves of $265 million. Our net earnings in the calendar year 1956 were $33 million, all of which went to supplemental reserve and is available, with the accumulated profits of previous years, to be ploughed back into our lending operations.

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With your permission, Mr. Chairman, I should like to try to narrow down this account of the Bank so as to illustrate the kind of work the Bank is doing.

I think it would be appropriate with this audience to begin by saying a word or two about the Bank in relation to the Commonwealth. The normal way in which we break down our loan statistics is by continents -- so much lent to Latin America, so much to Africa, so much to Asia, and so forth. The Commonwealth boundaries, however, cut across these geographical divisions and when one analyses the Bank's lending operations in terms of the Commonwealth, the results are impressive. For example, of the gross total so far lent of $3,100 million, our loans to Commonwealth countries and territories account for very nearly one-third, almost $1,000 million. This total includes such diverse purposes as a loan of $24 million for railways and harbours in British East Africa, another of $80 million for the Kariba hydroelectric power scheme in the Rhodesias, $10 million for an industrial development bank in India, and $14 million for a natural gas pipeline in Pakistan. Considering that the Commonwealth is made up of so many countries at so many levels of development, I think it is inevitable and appropriate that it should have been a large borrower from the Bank. Neither the United Kingdom nor Canada have asked for any loans from us, although the U.K. has guaranteed Bank loans in various Colonial territories in the aggregate amount of $146 million. But both Canada and the U.K. have been playing, up to now, the part of creditors and suppliers, using the Bank as a means of channeling a part of their resources into overseas development.

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To narrow my remarks even more, Mr. Chairman, I should like to say something now of the effects of Bank lending in one of your sister members of the Commonwealth, - one in whose future the Canadian private investor - as well as the Bank - has given tangible evidence of his confidence. I refer to Australia, a great country which has so many problems similar to those of Canada and which since the war has shown a good deal of the same tremendous surge forward that you have experienced here.

Let me point out a few of these similarities, which seem to me to be striking. The first is in size. Canada's land area is nearly 4 million square miles; Australia has nearly 3 million. These compare with the United States, which is just over the 3 million mark. Again, both for Canada and Australia, these figures are deceptive, since large areas of each country are not in fact suitable for habitation or development. In Canada, this is because of the great areas which lie towards the Arctic. In Australia, it is because of the aridity which renders about one-half of the great island continent unproductive. In both cases, however, the size of the habitable areas is so great that the development problems to be faced are really Continental in scale. In fact, they approximate more closely to the problems of the United States than they do, for example, to those of smaller and more densely populated countries of the old world.

Another interesting parallel between the two countries is the rapidity with which both are increasing their populations. Your own figures show an increase of about 4 million people in the first postwar decade, or about one-third. Over the same period, the Australian population grew from just under $7\frac{1}{2}$ million to over $9\frac{1}{2}$ million, an increase of more than a quarter. In both cases, immigration has contributed a great deal, and has been running at record rates. Canada took in 1,300,000 immigrants in the first postwar decade, and Australia over 1,100,000. These rates have at times exceeded, proportionately, the figures attained in the United States during its periods of greatest influx in the nineteenth century.

So both Canada and Australia have had to face the special problems which are brought about by adding massive immigration on top of large natural increases of population. The increases in both production and investment which these circumstances require far exceed the needs arising from normal population growth.

One could draw many more comparisons, especially in the rate of economic growth, but I should like instead to speak more directly of the part which the Bank has been able to play in the development of Australia since the war, and particularly in the past five years.

In 1950, the Bank made its first loan to Australia - $100 million. This has been followed by a series of loans which have raised the total of our lending to Australia to $317 million -- a figure, incidentally, which makes Australia the largest single borrower from the Bank.

You will already have realised from what I have said that a large injection of outside capital was essential to Australia, as it was to Canada. But it is worth remembering that Australia did not have the access to private United States capital in the way that Canada had. Australia is neither a principal market for, nor a principal supplier of, the United States and it has, of course, no contiguous border.

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For example, take the Commonwealth Railways, which operate the longest line in Australia, the trans-continental line across the desert in the south of the continent. In five years, instead of running at an annual loss of half a million dollars, they now show a profit in their last financial year of $2¼ million. Incidentally, this net profit was one-quarter of total revenues, which makes the Commonwealth Railways of Australia probably the most profitable rail operation of its kind in the world. All this was made possible by the substitution of diesel electric locomotives for the expensive and slow steam locomotives which had been used before. The diesels not only cut the operating costs of the railway by three-quarters; they also halved the time taken for the main hauls of the railroad.

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In addition, quite large amounts of the Bank loans have been used by the Australian Government to enable domestic industry to manufacture more and more of Australia's own requirements. This has had particularly significant results in the steel, automobile and locomotive industries where Australian production now goes much further towards meeting local demand, and is not only saving import costs but also in some cases providing a margin for exports.

The steel industry, for example, which has been able to install a good deal of new finishing equipment with the help of Bank loans, is now a sizeable operation in relation to the country's population, producing more than two million ingot tons of steel a year and, incidentally, at almost the lowest cost in the world. One steel works near Sydney is the largest in the southern hemisphere and by 1960 will be producing more than two and one quarter million ingot tons annually in the one plant. Like Canada, Australia is fortunate in having large reserves both of very high grade iron ore and of coal. Australian steel sells profitably at about $90 a ton, compared with a landed cost of $170 a ton for imported steel. In the past five years steel production in Australia has risen by 84 per cent and the results in terms of import saving have been impressive. More than $200 million a year is being saved on imports compared with the position in 1950, and exports of steel and plate are rapidly increasing.

Perhaps the most striking effects of Bank lending to Australia, however, have been in agriculture. The land in Australia that gets the most rainfall is also the least fertile, whereas much of the best land can only be exploited if it is cleared of dense bush and then irrigated. There are many problems to be faced, of infestation by weeds and pests as well as climatic difficulties, but the biologists and agricultural chemists of Australia are ingenious people. For example, it was they who first managed to find a natural phenomenon in the shape of the disease called myxomatosis, which was quicker on the draw than the fertility of the rabbit. Its first application wiped out about 600 million rabbits in a year, and is estimated to have brought an immediate benefit to Australian agriculture of over $200 million a year in increased output.

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But the application of these techniques of land clearing is expensive and requires massive amounts of modern heavy equipment. This means for Australia very large investments and very large importations of dollar machinery. Already the Bank has been helping in this process and, as I said before, over $100 million of the Bank's loans have been used to finance import licences for equipment of this kind. Every crawler tractor in Australia which is less than four years old, was imported under Bank loans, and the same is true of many other types of heavy machinery. In irrigation, for example, the State Governments, as well as private persons, are being extremely active. Completed only last fall was the new Eildon Dam near Melbourne. This is the largest earth dam in the southern hemisphere and was constructed by a U.S. contractor using $4½ million worth of machinery imported through Bank loans to Australia. It was also, incidentally, the first time that the State Government had put a job of this kind out to a private American contractor and the results achieved were something of a revelation to Australians of the practicability of such large ventures.

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One could go on like this for a long time, giving more and more examples of the effects which Bank loans have produced in our member countries.

I have spoken of these results in only one of our borrowing countries. But, as I have said at the beginning, we have made loans in 44 countries so far, and these loans have helped to finance about 600 basic development projects, large and small, all over the world. As the years go by, more and more of these projects are coming into operation. We receive from our borrowers a constant flow of information about the results of our loans -- for example, we now have a photo library containing thousands of pictures of projects completed or under construction, on which we are able to draw for our publications. These visible evidences of the success of the Bank in promoting economic development are a source of great encouragement to us in our work. I could only give you on this occasion a few of the facts. I hope, however, that what I have said will have given you some idea of the work which the Bank is doing and some feeling that the support, both financial and moral, which Canada has extended to the Bank over the past decade, has been in a cause that is well worth while.

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TEN YEARS OF WORLD BANKING

Address by W.A.B. Iliff
(Vice President of the International Bank
for Reconstruction and Development)

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WBG
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ARCHIVES

to the

Dominion Mortgage and Investment Association of Canada
at Toronto, Canada on May 9, 1957

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Mr. Chairman and Gentlemen:

I have been very grateful for your invitation to come and address your Association.

Canada has been a staunch friend and supporter of the Bank since it was founded at Bretton Woods in 1944. It is not often, however, that a representative of the Bank has such a good opportunity to give to Canadian bankers and businessmen an account of our stewardship of this young international organization.

I shall not spend too much time on what I hope are the well-known facts about the Bank's record, but I want to say a few words about that record as a framework to my later remarks.

As you all know, the World Bank operates on two fronts. It is a lender, on an increasingly large scale, and it is also a borrower.

First, our record as a lender. The gross total of our loans to date stands at well over $3 billion, in the form of 166 loans to assist projects in 44 countries or overseas territories.

Our lending is concentrated mainly in the financing of basic investment in the less developed countries of the world -- transport, electric power, communications, agriculture and the heavy industries. Since the Bank can lend only to member governments, or to other borrowers in the territories of member governments who can obtain - and are willing to accept - a government guarantee, you will appreciate that not many of our loans go into the secondary processes of development, by which I mean manufacturing industry, trade and commerce. Nor have we lent any money for the extractive industries, for example oil, since these are well catered for by private initiative, with which we do not seek to compete.

Nearly 40 per cent of our lending has been for electric power, and my estimate is that we have had a hand in helping to finance over eight million kilowatts of new power capacity through the power loans we have made in the last ten years. All of this has, of course, been conventional power, either thermal or hydroelectric, but I want to make it clear that we are not such a conservative institution as to ignore the new possibilities that are now opening up. We have on our staff an expert adviser on the use of atomic energy in electric power generation, and we are preparing ourselves to operate in this field also when the time is ripe. We do not want to find ourselves in the position of the Australian aborigine who was made a present of a new boomerang but was unable to use it because of his inability to throw the old one away.

Another large portion of our lending has been for transport -- for roads, railways, ports and air transport. This kind of investment in the less developed areas of the world has far-reaching effects. It opens up a whole range of new possibilities for further development, and is especially important in the agricultural sector. New roads and railways can open up new lands for settlement and cultivation, and also provide better access to markets for farm produce.

To take one example, Mexico borrowed $61 million from the Bank in 1954 to finance the foreign exchange costs of a complete rehabilitation of the Pacific railroad there. This line serves one of the fastest developing farm regions of Mexico -- and, incidentally, the order for $20 million worth of steel rails went to your own Dominion Steel and Coal Corporation.

Our direct lending for agriculture has taken two main forms. One is represented by loans for irrigation and land clearing schemes, usually to public bodies. The other is represented by the loans to specialised credit institutions which have enabled them in turn to make additional loans to farmers, chiefly for the purchase of imported farm equipment. In addition, our general development loans to Australia have included substantial allocations for the purchase of tractors and agricultural machinery. Significant amounts of all this equipment have come from Canada.

Our industrial lending has concentrated mainly on the steel industry, which is another of the foundations on which further development is built. For example, we have now made three loans, totalling over $125 million, to the two privately owned steel companies of India, - the Tata Company and the Indian Iron and Steel Company. These loans are contributing to considerable increases in Indian steel production, and steel is an essential sinew of the Indian Five-Year Plans.

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Let me turn now to the Bank as a borrower.

Most people are not aware of the extent to which our activities are dependent on finance provided to us by private investors. It is true that our 60-member governments all contribute to the capital of the Bank, and

Canada, along with the United States, set a commendable example some years ago by releasing the full amount of her Canadian dollar subscription, thus permitting the Bank to lend the full 20 per cent of Canada's capital subscription which is called for in the Bank's Articles of Agreement.

The aggregate amount of government-provided capital designed for the Bank to use in its lending operations is about $1,800 million. Up to now, we have been able to obtain from member governments consent to the use of just over $1,100 million, and we are constantly exhorting our members to release the balance in a usable form, with, I am glad to say, increasing success.

Disbursements on Bank loans to date are already over $2,200 million and more than half of these expenditures has been met from funds available to us from sources other than our governmental capital.

The main source of the funds that we lend is now, and will continue to be, the sale of our bonds. The total now outstanding is equivalent to about $1,050 million. The bulk of this has been raised in the United States, but we have borrowed also in the Swiss, United Kingdom, Dutch and Canadian markets. We have raised a total of $55 million Canadian in Canada by the sale of Bank Bonds, of which $40 million Canadian are still outstanding. In addition, Canadian investors, including banks and insurance companies, hold sizeable amounts of some of our U.S. dollar issues. The ever-growing total of our loans means that we must continue to look to the various capital markets of the world for additional funds and I can assure you that we shall not ignore Canada's potentialities in this respect.

The sale of bonds is, of course, not the only way in which we obtain the help of private capital in our operations. It has become customary over the past three years for banks and other financial institutions to participate in our loans at the time they are made, usually by taking the early maturities. But even when the loan is in our own portfolio, we are always on the look-out for opportunities of selling maturities that are likely to attract institutional investors. This has become big business for us. The total of the amount placed in these ways is now over $320 million.

As a final note in this account of the principal financial aspects of the Bank's work, which I think should appeal to an audience such as this, I should add that our operations have been profitable. Up to now, the obligations of our borrowers, both of principal and interest, have been met in full. We have now accumulated total reserves of $265 million. Our net earnings in the calendar year 1956 were $33 million, all of which went to supplemental reserve and is available, with the accumulated profits of previous years, to be ploughed back into our lending operations.

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Dawn, Pakistan
September 20, 1960

Speeches - Iliff

INDUS WATERS TREATY SIGNED

End of 12-year-old dispute

AYUB & NEHRU HOPE FOR ERA OF CO-OPERATION

Tributes to World Bank and friendly countries

3 FINANCIAL AGREEMENTS ALSO INITIALLED

By ZAMIRUDDIN AHMAD
Dawn Staff Correspondent

The Indus Waters Treaty was signed at a simple ceremony on the lawns of the President's House last evening, and "historic" is the only expression which can adequately describe the occasion.

Under a huge "shamiana", Prime Minister Nehru, President Ayub, and the World Bank Vice-President, Mr W. A. B. Iliff, affixed their signatures to three copies of the Treaty, bound in black, amidst continuous whirring, clicking and flashing of movie and still cameras.

At seven minutes to seven, all the five hundred and odd invitees to the ceremony turned their eyes in pin-drop silence to the shining teak table at which the President sat flanked by Mr Nehru on the right and Mr Iliff on the left. One minute later, the Military Secretary to the President, Brigadier Nawazish Ali, presented the first of the three copies with a green "sign" tag to Mr Nehru. He signed the document and then passed it on to Field Marshal Mohammad Ayub Khan, who, after affixing his signatures, passed it on to Mr Iliff. The process was repeated two times.

Representatives of Pakistan, the World Bank, the USA, the UK, Australia, Canada, New Zealand and Germany then signed three agreements guaranteeing financial support for implementation of the Treaty.

Representatives of Pakistan, the USA, the UK, Australia, Canada, New Zealand and Germany affixed their signatures to the 900-million-dollar Indus Basin Development Fund Agreement.

To this Fund, the USA will contribute 177 million dollars, India 62.60 million dollars, the UK 20.86 million pounds, Australia 9.65 million Australian pounds, Canada 22.1 million Canadian dollars, Germany 126 million d. marks, New Zealand 1 million New Zealand pounds and Pakistan 80 million dollars (proceeds of a World Bank loan).

Representatives of the World Bank and Pakistan signed a loan agreement for 90 million dollars, and representatives of Pakistan and the USA signed a DLF loan agreement for 70 million dollars.

The signatories to the three agreements were: Finance Minister Mohammad Shoaib; the American Ambassador, Mr William Rountree; Britain's Parliamentary Under-Secretary for Commonwealth Relations, Mr R. H. R. Thompson; the Senior Vice-President of the World Bank, Mr W. A. B. Iliff, and the High Commissioners and Ambassadors of Australia, Canada, New Zealand and Germany.

STATEMENTS

The ceremony began with brief statements made by Mr Iliff, Mr Nehru and President Ayub. They hailed the Treaty as "historic", "unique", and "memorable".

The President said there was no reason why the spirit of co-operation which resulted in the Treaty should not continue, and other Indo-Pakistan problems should not be resolved.

This spirit has already helped in solving quite a number of Indo-Pakistan problems. He had no doubt that working together in harmony will prove to be a most important factor in promot-

The historic Indus Water Treaty between Pakistan and India was signed last night at President's House, Karachi. Signing the Treaty are (l to r) Mr Jawaharlal Nehru, Prime Minister of India, President Mohammad Ayub Khan of Pakistan and Mr W. A. B. Iliff, Vice-President of the World Bank.—Dawn photo. (More pictures on page 10 & 16).

HISTORIC CEREMONY

(Continued from page 1)

ing trust and understanding between the peoples of the two countries.

Mr Nehru described the Treaty as memorable, because it is an outstanding example of co-operative endeavour not only between India and Pakistan, but by other countries, and notably the World Bank.

He was cheered when he said that the Treaty will prove useful in the field of larger co-operation between the two countries.

The President and the Prime Minister praised the World Bank, particularly its President, Mr Eugene Black, and Vice-President, Mr Iliff, for their role in resolving the dispute, and the countries which came forward with contributions to meet the cost of the replacement works.

GREAT DAY

Mr Iliff, who launched the historic proceedings, described it as a great day for the representatives of Pakistan and India, Mr G. Mueenuddin and Mr N. D. Gulhati, who negotiated the settlement under the World Bank auspices at Washington, and the engineers of the two Governments who were associated with the negotiations.

"Above all, this day must be allowed to be a great day for the peoples of India and Pakistan, and especially for the cultivators toiling in parched and arid lands," he said.

Mr Iliff began his career 45 years ago in this sub-continent in an Army regiment to which soldiers were recruited from the undivided Punjab.

ROUNTREE

Speaking on behalf of the countries, which have provided funds for financing the replacement works, Mr William Rountree, American Ambassador to Pakistan, said that "this agreement demonstrates the major benefits which can come from international co-operation," and pointed out that six nations located on three separate continents have joined with two neighbours located on a fourth continent in a commitment to provide resources for the execution of monumental public works.

The proceedings were closed by President Ayub, who invited the guests to "eats and drinks".

NEGOTIATIONS

The ceremony marked the end of the canal waters dispute which arose in 1948, and successful culmination of the negotiations which began between the two countries in 1952 under the World Bank auspices.

The idea for the negotiations was provided by an article published in an American magazine by the former Chairman of the T.V. Authority, Mr Lilienthal, who advocated joint Indo-Pakistan development of the Indus basin as a solution of the dispute.

The basis had to be rejected by the Bank after protracted negotiations. In 1954, it made proposals to the two countries based on the principle that the three eastern rivers of the Indus system be allotted to India, and the three western rivers to Pakistan. The two countries accepted the proposals, in principle, in 1956.

The Treaty is based on the Bank's proposal, and provides for the construction of two dams on rivers Indus and Jhelum, at Tarbela and Mangla, and five barrages, the digging of seven link canals and many drainage channels, and the sinking of many tube-wells.

India will continue to supply to Pakistan waters from the three eastern rivers during a transitional period of ten years, which may be extended upto 13 years. A two-man Indo-Pakistan commission will supervise implementation of the Treaty, in which provision has been made for referring to either a neutral expert or a court of arbitration any differences that may arise in the implementation of the Treaty.

Agency reports add:

The Treaty will come into force after ratification with retrospective effect from April 1, 1960.

As Mr Iliff resumed his seat after his speech, President Ayub warmly shook hands with him.

NEHRU APPLAUDED

As Mr Jawaharlal Nehru rose to address the gathering, he received a loud clapping from the audience.

He declared that this was indeed a unique occasion and a memorable day. It was memorable in many ways, memorable because a difficult and complicated problem which had troubled us in India and Pakistan had been satisfactorily solved. It was memorable because in spite of complexity, and sometimes of frustration, success had at last come.

"I feel sure," he said, "that if we approach this or any problem in the spirit co-operation and co-operative endeavour, solution of many world problems will be easier."

Mr Nehru said that most of all he welcomed the spirit which, in spite of difficulties, had "triumphed today."

He expressed deep satisfaction on the outcome and hoped that it would bring prosperity to a vast number of people on both sides.

CEREMONY

Those who witnessed the ceremony included heads of the diplomatic missions, high officials, members of the staff of the Indian High Commission and some of the leading citizens of Karachi.

Multicoloured bulbs twinkled from the green trees that adorn the President's House. The House itself was brightly illuminated.

Just below the dais sat the representatives of the friendly countries, the DLF and the Finance Minister, Mr Shoaib, who signed the other three agreements.

India's Irrigation Minister, Hafiz Mohammad Ibrahim, his Deputy, Mr Jaisukhlal Hathi, and other members of Mr Nehru's entourage arrived a few minutes before the President and the Prime Minister.

As the President, clad in a grey lounge suit, and Mr Nehru, in white sherwani, accompanied by the ADCs and the Chief of Protocol, Air Commodore Rabb, appeared in the doorway and walked slowly towards the dais, the national anthems of India and Pakistan were played on the bands. A battery of cameramen surrounded them. Bulbs flashed and movie cameras buzzed as the two leaders took their seats to sign the historic Treaty.

Mr Iliff was the first to rise and make a speech. He was followed by the US Ambassador, Mr Rountree.

After Mr Rountree's speech was **over, the President leaned towards Mr Nehru had perhaps asked him** to speak. Once could hear through the loudspeaker Mr Nehru telling the President with a smile in Urdu; "Oh, I have to speak now."

Mr Nehru then rose and made an impromptu speech in measured tones.

The last to address the gathering was the host, Field Marshal Mohammad Ayub Khan, who spoke in clear ringing tones.

The speeches over, the signing ceremony was gone through.

WITH GUESTS

After the formal ceremony of signing the Treaty and the agreements was over, the President, Mr Nehru and the guests moved out towards a long table where refreshments were waiting.

The two leaders appeared cheerful and moved about freely talking to the guests. Ambassadors and their wives were introduced to the Prime Minister who talked to them jovially.

Scenes of meetings with old acquaintances were not wanting.

Hafiz Ibrahim, Mr Hathi and Mr Gulhati are due to leave Karachi today by the Indian Prime Minister's plane for New Delhi. The plane will return to Lahore to fly back Mr Nehru next Friday.

MAIN FEATURES

The preamble to the Treaty recognises the need for "fixing and delimiting in the spirit of goodwill and friendship the rights and obligations" of the Government of India and the Government of Pakistan concerning the use of the waters of the Indus river system.

The Treaty allocates the waters of the three eastern rivers—Ravi, Bias and Sutlej—to India, with certain exceptions specified in the Treaty. The main exception is that during a transition period, while the works are being constructed in Pakistan for the replacement of eastern rivers water, India will continue to deliver water to Pakistan from the eastern rivers in accordance with a schedule set out in an annexure to the treaty. The transition period will be ten years, but may, in certain circumstances, be extended by a further one, two or three years.

The waters of the three western rivers—Indus, Jhelum and Chenab—are for the use of Pakistan, and India undertakes to let flow for unrestricted use by Pakistan till the waters of these three rivers, subject to Treaty provisions that some of these waters may be used by India in areas upstream of the Pakistan border for the development of irrigation, electric power and certain other uses spelled out in detail in annexures to the Treaty.

REPLACEMENT WORKS

Pakistan undertakes to construct, during the transition period, a system of works, part of which will replace, from the western rivers, those irrigation uses in Pakistan which have hitherto been met from the eastern rivers.

India is to contribute to the Indus Basin Development Fund about 62,000,000 pounds in ten equal annual instalments.

Both countries recognise their common interest in the optimum development of the rivers, and declare their intention to co-operate by mutual agreement to the fullest possible extent. Meteorological and hydrological observation stations are to be established and the Treaty provides for a complete exchange of information from these stations. It also provides for an exchange of information about proposed river works to enable each party to estimate the effects these works may have on its own situation.

The Treaty sets up a permanent Indus Commission composed of two persons, one appointed by each of the Governments. The Commission will have general responsibility for implementing the provisions of the Treaty and will seek to reconcile any points of disagreement that may arise. Once very five years, the Commission will make a general tour of inspection of all the works on the rivers, and the Commission may, on the request of either Commissioner, at any time visit any particular work in either country.

The Commission will report at least once a year to each of the Governments. Each Government undertakes to give to the Commissioner of the other Government the immunities and privileges extended under the Convention on Privileges and Immunities of the United Nations.

Where differences or disputes cannot be resolved by agreement between the Commissioners, the Treaty establishes machinery for resort to a "neutral expert" (who is to be a highly-qualified engineer) for a final decision on technical questions, and for resort, in certain circumstances, to a court of arbitration.

ANNEXURES

The treaty has nine annexures. The principal matters covered in these annexures are: agricultural use by Pakistan of water from the tributaries of the Ravi River; agricultural use by India of water from the western rivers; generation of hydro-electric power by India on the Western rivers; storage of water by India on the western rivers; questions that may be referred to a neutral expert; appointment and procedure of a court of arbitration; and transitional arrangements relating to the deliveries of water to Pakistan from the eastern rivers during the transition period.

CONSTRUCTION

The division of waters provided for in the treaty necessitates the construction of works to transfer water from the three western rivers to meet the irrigation uses in Pakistan hitherto met by water from the three eastern rivers. The effect of the transfer will be eventually to release the whole flow of the three eastern rivers for irrigation development in India.

The system of canals and reservoirs that will actually be constructed will, however, provide further substantial irrigation development, and will develop important hydro-electric potential, in both India and Pakistan.

The programme will be the largest of its kind ever to be undertaken anywhere. The total cost of the programme will be approximately the equivalent of 1,070,000,000 dollars of which **approximately 870,000,000 dollars will be spent on works in Pakistan, and approximately 200,000,000 dollars on works in India.** It calls for the excavation of about 700,000,000 cubic yards of earth, for instance, and will require the use of 2,000,000 tons of cement, 250,000 tons of steel and 1,000,000,000 bricks and tiles.

W. WING WORKS

The following works are to be built in West Pakistan:

1. A system of eight link canals, nearly 400 miles in total length, transferring water from the western rivers to areas formerly irrigated by the eastern rivers. The total area to be thus irrigated is about 5,000,000 acres.

2. Two earth-fill storage dams, one of the Jhelum river (with a live reservoir capacity of 4.75 million acre feet) and the other on the upper Indus (with a live reservoir capacity of 4.2 million acre feet).

3. Power stations will be installed at the Jhelum dam with a capacity of more than 300,000 kilowatts.

4. Works to integrate the present canal and river system into the new inter-river link canals. These works include three barrages to carry new canals across rivers, and the remodelling of five existing barrages and of eight existing canals.

5. Tubewells and drainage to overcome waterlogging and salinity in irrigated areas totalling 2,500,000 acres. The number of tubewells to be installed is 2,500.

The cost of the works in Pakistan will be financed out of the Indus Basin Development Fund.

The Indus settlement also envisages the construction of a large earthfill dam on the Beas river in India. This dam will create a reservoir with a live capacity of 5.5 million acre feet, and a hydro-electric potential for generating 200,000 kilowatts of power. Together with the Bhakra reservoir on the Sutlej river (now nearing completion) and with the newly constructed Rajasthan canal system, it will serve as the basis for irrigating large areas in the Punjab and in the Rajasthan desert. The Beas project will not be financed from the Indus Basin Development Fund.

3 AGREEMENTS

Three other agreements closely related with the Indus Basin Water Treaty were also executed simultaneously. The Indus Basin Development Fund agreement, which creates a total fund of 900 million dollars to finance the construction of irrigation and other works consequential to the Treaty agreement. The agreement was signed by Finance Minister Mr Mohammad Shoaib on behalf of the Government of Pakistan and Mr William Rountree, US Ambassador, Mr R. H. Thompson, Britain's Parliamentary Under-Secretary of State for Commonwealth Relations, Mr A. R. Cutler, Australian High Commissioner, Dr Trutzchler, West German Ambassador, Mr V. T. Moore, acting High Commissioner, Canada, and Mr R. W. Powles H.C., New Zealand on behalf of their respective Governments.

Out of the total funds, about 640 million dollars will be contributed by the participating Governments, 174 million dollars by India and 80 million dollars will come out of the proceeds of World Bank loan to Pakistan.

An agreement covering the 90 million dollars World Bank loan to Pakistan was signed by Mr Mohammad Shoaib and Mr W. A. B. Iliff, Senior Vice-President of the World Bank. Eighty million dollars of this will be paid into the Indus Development Fund and the balance of 10 million dollars will be available to meet the interest and other charges on the loan during the first eight years of the period of construction of the work.

The loan is to be repaid over a period of 20 years beginning in 1970. Each portion of the loan, as it is made available for disbursement, will carry interest at the rate then in effect for the long-term loans being made by the Bank.

The third agreement, for a loan of 70 million dollars to Pakistan, between the US Development Loan Fund and Pakistan was signed by Mr Shoaib and Mr John Ulinskil, Regional Director for South Asia of the DLF. Repayment will be made in Pakistan currency over a period of 30 years from the date of the first disbursement and the interest will be at the rate of 3-1|2 per cent, per annum.

The Indus Basin Development Fund will be administered by the World Bank which will be responsible under the Fund agreement for calling up half-yearly contributions to the Fund and for regulating disbursements from the Fund to meet approved expenditures incurred by WAPDA on the works in Pakistan as the construction programme progresses.

Ayub's speech

The following is the text of the speech made by the President, Field Marshal Mohammad Ayub Khan, before signing Canal Waters Treaty:

Your Excellencies. Ladies and Gentlemen,

I am very happy to welcome the Prime Minister of India and his party, the representatives of the participating countries, Mr Iliff, Vice-President of the International Bank for Reconstruction and Development and all the distinguished guests who have gathered here to witness today's ceremony.

The signing of the Indus Waters Treaty is an event of historic significance for the two countries concerned, and if I may say so in all humility, for the whole world. The solution of a problem of this magnitude, on the peaceful settlement of which depended the lives and the livelihood of millions of people, has been achieved after very difficult negotiations which dragged on for over a decade. It was the patience and preserverence of the International Bank, particularly that of Mr Eugene Black, its President, and Mr Iliff, who is amongst us at this moment, that brought about a settlement which on occasions appeared to be unattainable. It was also the determination of the two countries concerned to find a peaceful solution that led them to accept compromises and extend concessions to each other which has now resulted in the finalisation of a treaty which the Prime Minister of India and myself are about to sign.

Today the controversies and disputes which marked the protracted negotiations can be forgotten and the two countries can look forward to the development of the Indus Basin for the welfare and the good of a vast number of people both in India and in Pakistan.

UNDERSTANDING

The implementation of the Treaty will call for close and continuous cooperation and collaboration between the administrators and technicians of the two countries for many years. I trust that they would carry out the purposes of the Treaty faithfully and in the same spirit of understanding and accommodation in which it is being signed today. I have not doubt that working together in harmony will prove to be a most important factor in promoting trust and understanding between the peoples of the two countries.

Our grateful thanks are due not only to the International Bank but also to the United States of America, the United Kingdom, Federal Republic of Germany, Canada, Australia and New Zealand who have so generously come forward to make enormous financial contributions which alone would make the successful implementation of this Treaty possible. By doing so they have demonstrated their true friendship for the two countries and have provided a distracted world a concrete and outstanding example of how difficult problems which might disturb peace, can be solved by generosity and abundant goodwill among nations.

Text of Nehru s speech

The following is the text of the speech made by Mr. Jawaharlal Nehru, Prime Minister of India, before signing the Canal Waters Treaty:

This is indeed a unique occasion and a memorable day, memorable in many ways; memorable certainly in the fact that the very difficult and complicated problems which have troubled us, India and Pakistan, for many years, have been satisfactorily solved. Memorable also because in spite of the complexity of the problem and sometimes of the sense of frustration that has accompanied it because of the delays in solving it, yet success has come, at last. It is also memorable because it is an outstanding example of a co-operative endeavour between, not only the two countries principally concerned, but also other countries and notably the International Bank.

As for India we are all entitled to congratulate ourselves. I congratulate you, Mr. President and I congratulate you, Mr. Illif for representing the International Bank here. I know how Mr. Black and you have laboured on these past many years. Indeed I often marvelled at your patience and your persistence inspite of all manners of difficulties. But in particular this is memorable because it will bring assurance of relief to large numbers of the people, farmers, agriculturists and others in Pakistan and India. All of us inspite of many scientific improvements, still depend upon the good earth and good water and the combination of these two leads to prosperity for the peasant and the countries concerned.

MATERIAL BENEFITS

And now by this arrangement we have tried to utilise to the best advantage these waters connected with the Indus river which have flowed down for ages past and the greater part had gone to the field without being utilised otherwise. So this is a happy occasion for all of us. The actual material benefits which will come from this are of course great. But even greater than these material benefit are the psychological, perhaps the emotional benefits, that come from such a treaty, which is a happy symbol not only in this domain of the use of the Indus Valley waters, but in the larger co-operation between the two countries, Mr. President, yours and mine.

I should like to express my deep gratitude to the International Bank and to all those who have laboured within Pakistan, in India or the other friendly countries who have come to our assistance in this matter and generously made contributions to that end.

I feel sure, Sir, that if we approach this, or any world problem, in the spirit of co-operation and co-operative endeavour, it will be much easier of solution than it might appear to be. Therefore most of all, I welcome the spirit which, inspite of all difficulties and obstructions and obstacles, triumphs in the end. Ultimately the spirit does triumph even in the material age. So I should like to express again my deep satisfaction at the happy outcome of many years' labour and express the hope that this will bring prosperity to a vast number of the people on both sides and will increase the goodwill and friendship for India and Pakistan.

September 19, 1960

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Text of Iliff's speech

The following is the text of the speech of Mr W. A. B. Iliff, Vice-President of the World Bank, before the signing of the Canal Waters Treaty in Karachi.

Mr President

It has been a thoughtful and gracious gesture on your part, Sir, as President of Pakistan, and on the part of the Prime Minister of India, to accord to me—as a representative of the International Bank—the high privilege of launching the historic proceedings on which we are about to embark this afternoon.

Mr Black, the President of the Bank, had been eager to participate in this ceremony. But, convalescing as he still is from a recent illness, he has not yet been able to return to his office desk, much less to undertake the fatigue of the long journey from Washington to Pakistan. But I can assure you that today he is with us in spirit.

Two documents of outstanding international significance are to be executed this afternoon.

First, the Indus Waters Treaty 1960—a Treaty between India and Pakistan whose purpose is to ensure the conditions for the peaceful and orderly development of the vast irrigation and hydro-electric potential of the great Indus system of rivers.

Secondly, the Indus Basin Development Fund Agreement — an Agreement that will establish a Fund out of which will be financed the cost of the construction in Pakistan of the system of canals and reservoirs envisaged in the Settlement Plan. This Fund will be fortified not only with a substantial financial contribution from India under the Water Treaty, but, in addition, with grants to be provided on a generous scale by the Governments of Australia, Canada, West Germany, New Zealand, the United Kingdom and the United States; with a contribution from the Government of Pakistan; with loans from the United States; and with a loan from the International Bank.

This, Mr President, is indeed a great day for all of us who have been so long and so closely associated in the effort to bring this enterprise to consummation. It is, I know,—as well as for myself—a great day for Mr Gulhati, and for Mr Mueenuddin, who have led the delegations of India and of Pakistan and cared—each of them—for the interests of his country with such competence, persistence, good humour and zeal.

It is a great day also, for all the engineers and others who have so ably and devotedly put their technical knowledge and skills at our disposal, and without which we should have been lost.

Eight long years of exacting work now lie behind us—eight years, beset at times with frustrations and difficulties—but for all of us, this final happy outcome of our task carries with it a satisfaction of mind, and of spirit, which passes all understanding.

But above all, this day must be allowed to be a great day for the peoples of India and of Pakistan—and especially for the cultivators toiling in the fields of these parched and arid lands, so that they may now look forward to the promise of a controlled and regulated use of the life-giving waters with which nature has endowed them—all too lavishly at certain season, yet with such niggardly parsimony at others. It is, I am sure, the sincere hope, and prayer, of all of us here today that they will henceforth be able to carry on their pursuits, not burdened by the anxieties and uncertainties of the past, but with confidence, in tranquillity, and in peace.

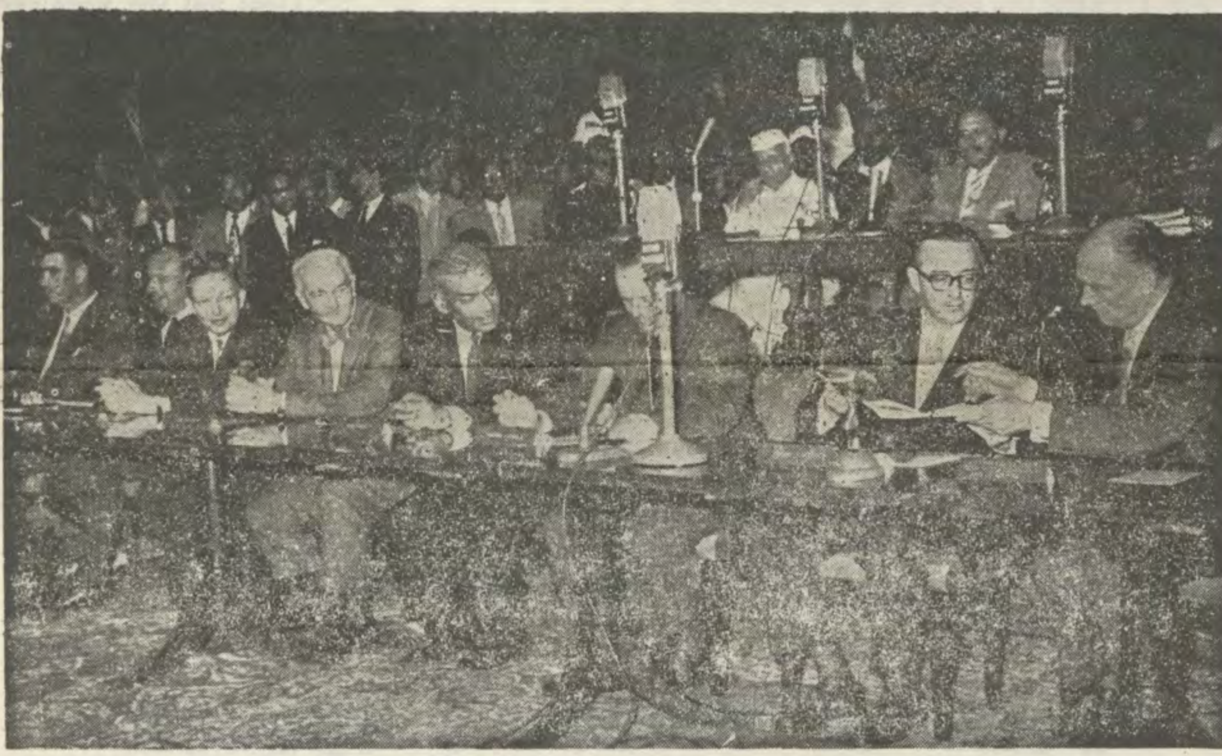
PERSONAL NOTE

May I be excused, Mr President, if I finish on a personal note. But for me, the conclusion of this Treaty between your country and India has an interest, more than the purely professional.

I started my active career forty-five years ago in the old Indian Army. The regiment to which I belonged recruited its men from both sides of what is now the border between India and Pakistan. I then developed a respect and affection for the peoples from both sides of that border which those forty-five years have not dimmed, and which has grown steadily out of the close association of the last eight years.

If the work of those eight years will have made a contribution to a betterment of their lives, to an easing of tensions between them, and to a more quiet and happy future for them and their children, and their grand-children then the labour will surely not have been in vain.

Dawn, Pakistan
September 20, 1960



Mr Jawaharlal Nehru, Prime Minister of India, and President Mohammad Ayub Khan look on as representatives of Australia, Canada, New Zealand, United Kingdom, West Germany, the United States, the World Bank and Pakistan sign the International Financial Agreement creating the Indus Basin Development Fund of 900 million dollars. Picture shows (l to r, front row) H.E. Mr A. R. Cutler, High Commissioner of Australia, H.E. V. C. Moore, acting High Commissioner of Canada, H.E. Dr Hienz Von Truetzschier, the West German Ambassador, H.E. Mr R. W. Powlef, the New Zealand High Commissioner in India, Mr Mohammad Shoaib, Pakistan's Finance Minister, Mr R. H. M. Thompson, Under-Secretary of State for Commonwealth Relations, UK, H.E. William M. Rountree, US Ambassador and Mr W. A. B. Iliff, Vice-President of the World Bank.—Dawn photo.

Houston (Tex.) Chronicle
September 7, 1960

World Bank Links India, Pakistan To Treaty on Sharing Indus River

A major stride toward world peace—almost overlooked in reports of growing tensions elsewhere in the world—was taken in Washington recently when agents of the governments of India and Pakistan were signed to an agreement on sharing the waters of the Indus River system. Thus ends a dispute which has continued for nearly 13 years since Pakistan set up its independent government in 1947 with its frontiers crossing the river system below its headwaters and Indian troops occupying Kashmir.

To the two nations involved, the Indus River means life itself. The river system is the largest in the world used primarily for irrigation, supplying water for nearly 50,000 square miles of arable land, more than four times the area irrigated by the Nile. Under the agreement India will get exclusive use of the three upper eastern arms of the system. By means of a series of massive canals the western arms of the river will be linked and two dams will be located in Pakistan to contain millions of acre-feet to be released for use as needed.

This will comprise the biggest and most complex river development engineering in history and will cost an estimated $1,300,000,000 and require 10 years to complete. The project will be financed by the Indus River Development Fund, backed by the World Bank. It was through the agency of the World Bank that the two nations were brought together on this agreement. Hitherto they had seemed hopelessly deadlocked and, in this light, the World Bank has scored a major diplomatic triumph. The treaty is to be signed in Karachi, this month.

Los Angeles (Calif.) Times
September 9, 1960

A Ray of Progress in a Troubled World

At his news conference this week President Eisenhower reminded newsmen that not all on the world scene is gloomy and ominous. As an example of peaceful progress the President cited the agreement reached by India and Pakistan on mutual development of the Indus River Valley.

Mr. Eisenhower's example was well chosen. The dispute over the Indus River dates back to 1947, when Pakistan was partitioned as a bifurcated nation on the two flanks of India. The partition line in West Pakistan cut across the vast irrigation system developed by the British years before to provide water for millions of acres of agricultural land. As a result of the partition the dams of the system were left in Indian territory, while the larger part of the irrigated land went to Pakistan.

India, with actual control over the waters of the Indus, claimed that since the river and its tributaries either rise or flow through her territory all water belongs to her. Pakistan, of course, vigorously protested. Finally, after years of dispute, the World Bank, headed by Eugene Black, persuaded the contending nations to accept a proposal for mutual development. India agreed to help pay the cost of new linkage canals which will give Pakistan access to needed water. In addition, a vast system of reservoirs, canals and power plants will be built to harness the Indus for the benefit of both countries.

The projected development plan will cost $1 billion and take at least 10 years to complete. It will provide jobs for thousands and increase the agricultural and industrial potentials of both India and Pakistan. But agreement on this particular question will have more than economic consequences. If two bitterly feuding neighbors find they can work together in one area, the basis may well be laid for solution to other long-standing problems, a hopeful prospect in a world where lately enmity has been more common than amity.

File

Summary of Address by Mr. W.A.B. Iliff,
Vice President, to the Annual Meeting
of the Board of Governors of the
International Bank for Reconstruction
and Development.

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Washington, D.C. September 27, 1960

(NOTE: The following is an unofficial summary of Mr. Iliff's remarks, and should not be quoted as his own words except where quotation marks are used in the summary.)

Mr. Iliff opened his address by reviewing the growth of the Bank's activities. Membership had grown from 48 nations in 1950 to 68 nations today, and loans from $800 million in 14 countries in 1950, to present commitments exceeding $5,000 million in 53 different countries. The past year had seen lending operations continue at the same high level as the previous two years. In fact, the Bank's lending since 1957 was almost equal to the total lent in the previous 10 years.

Mr. Iliff then turned to the growth in the Bank's lending resources. Ten years ago, almost all its available funds came from the subscriptions of the United States and Canada. Today, however, the international character of the Bank's finances was thoroughly established.

By way of recent illustration, Mr. Iliff referred to the borrowing, on July 13, 1960, of the equivalent of $240 million, partly in dollars and partly in Deutsche Marks, from the Central Bank of Germany, and to the public issue in Switzerland last week of Sw.fr. 60 million of 4% 15-year bonds. He told the Governors that the aggregate of World Bank bonds and notes now outstanding in Switzerland amounts to Sw.fr. 690 million.

Participation in the Bank's lending activities by private investors had also shown a healthy growth. Over the past decade the total of loans sold amounts to $800 million -- and $500 million of this total were sold outside the United States. Mr. Iliff noted that $86.5 million had been added to the Bank's reserves during the past fiscal year; total reserves now stood at more than half a billion dollars.

Mr. Iliff expressed the opinion that there does not appear to be any shortage in sight of development capital prepared to move on conventional terms. The volume of private international lending and investment in foreign securities has been growing. He said, "These are indications that the supply of capital in Europe has expanded substantially in the past three years, giving still further support to the view that capital flows to the low-income countries can continue to increase."

* * * * * * * * * *

The Bank had for some years now been engaged in the development business, and had accumulated a good deal of experience. But two new categories of problems were now being added in the field of development financing. First, there was the problem of the new countries which had achieved independence, often with little preparation. He pointed out that the new countries of Africa are often lacking in the basic services, particularly adequate education, and all development agencies, national, regional and international, would have to stretch to the limit their resources and their ingenuity to meet the demand.

Another new problem arises from the rapidity with which countries engaged on economic development programs can reach the limit of their creditworthiness for international loans. India and Pakistan were examples of this. In this situation, said Mr. Iliff, "If the tempo of progress in the underdeveloped world is not to be dangerously retarded, some other forms of development financing must be made available on a substantial scale. The free world has begun to realize this, and accordingly we are experimenting with a whole orchestra of novel financial instruments -- bilateral and multilateral -- which we hope will provide orderly and constructive ways of dealing with financial imbalances that arise primarily from the momentum of a country's development effort."

Of substantial importance in meeting both problems was the new International Development Association -- IDA. The keynote for IDA's operations would be flexibility, both in financial arrangements and in the types of projects which it could finance, provided that these could pass the test of careful and adequate preparation which the Bank is accustomed to applying.

Mr. Iliff noted that IDA was only one of several new departures in the field of development. He pointed to the formation of new financing agencies in Latin America, where the Bank was itself expecting to initiate new lending programs. The Bank was also following with interest the movement to give to the Atlantic Community a means of increasing and coordinating their aid to underdeveloped countries, through a re-fashioned OEEC. Mr. Iliff also referred to the groupings of countries which were considering, with the Bank, the problems of particular countries. One was the consortium on India, and another was a new consortium of countries which would meet in Washington next week to review assistance to Pakistan.

Mr. Iliff also referred to the Indus Water Treaty between India and Pakistan which was signed last week in Karachi. This $1,000 million settlement would not have been possible without the generous financial assistance extended by the Governments of Australia, Canada, Germany, New Zealand, the United Kingdom and the United States. The Indus Basin Development Fund would be administered by the Bank and the contracting for the works would be open to international competitive bidding. Mr. Iliff added that membership in the "Indus Club" is still open to any aspiring candidates willing to contribute the entrance fee.

Mr. Iliff ended his address by stating his belief that the work of the Bank and IDA promised to grow enormously in importance and in scope in the years immediately ahead. The Bank was not so presumptuous as to offer any ready-made over-all solution. "The task to which we ought to devote ourselves today is to try, by dealing with specific situations as we find them, to improve the material lot of our less fortunate fellow men. Our task is to live with world problems of today so that we may kindle, and not kill, hope in a better future."

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Address by the Vice-President of the International Bank
for Reconstruction and Development, W. A. B. ILIFF,
to the Board of Governors in Presenting the
Bank's Annual Report,
September 27, 1960
Washington, D. C.

It might be well if I began with a look at the growth of our institution. As yet we are only 15 years old; but we have grown in stature, and I would hope in wisdom, considerably beyond the normal expectations at that tender age.

Ten years ago, 48 nations were members of the Bank. Loans amounting to some $800 million had been made to help to finance projects in 14 countries.

Five years ago, 56 nations were numbered among our members, and we had invested about $2,300 million in 37 different countries.

Today, our membership embraces 68 nations; our commitments exceed $5,000 million in 53 different countries.

This year's lending total is slightly below that of last year. But this is an accident of the calendar, rather than any sign of a slackening pace. If the year had closed but one loan later, this would have been a record lending year. The significant statistic is the fact that in the last three years our lending has almost equalled the total of our first ten years.

Bank loans during the year under review conformed, in type, to our usual pattern, with heavy emphasis on transportation and electric power. For the fifth year in succession, Asia and the Middle East, taken together, received the largest part of the total. This year, Africa was second. Mauritania and the United Arab Republic became Bank borrowers for the first time. In Latin America, our lending during the year brought our total investment in that part of the globe to over $1,000 million.

The time is not far off when new countries entering the community of independent nations will have brought the total number of sovereign states to more than 100. Most of these new nations will be ill supplied with development resources and determined to do something about their poverty. Most of them, therefore, will probably become members of the World Bank. Accordingly, little skill in clairvoyance is needed to predict a broader membership in this institution and an increasing demand on its resources.

Our growth record, of course, would not have been possible if our funds available for lending had failed to keep pace.

Ten years ago, our available funds came almost entirely from the paid-in capital of the United States and Canada and from $250 million in borrowed money, all of which had been raised in the American market.

Five years ago, while the Bank's sources of finance had taken on more of an international complexion, the paid-in subscriptions of the United States, amounting to $635 million, exceeded the sum of all usable subscriptions from our other members.

Today, the international character of the Bank's finances is thoroughly established. Members' paid-in capital available for lending -- exclusive of the United States' subscription -- amounts to more than $1,000 million. Of the Bank's outstanding funded debt which now exceeds $2,000 million, more than half is held outside the United States -- a very remarkable change from the situation five years ago.

Ten years ago--even five years ago--we were still largely a dollar bank; today we are in every sense of the word an international bank.

The Bank's securities have been established in the money markets of Belgium, Canada, Germany, the Netherlands, Switzerland, and the United Kingdom, as well as the United States. Investors in more than 40 different countries are holders of Bank securities.

An indication of how deep, as well as wide, are the international sources of funds available to the Bank came to us shortly after the close of the last fiscal year. On July 13 last, the Bank was able to announce a borrowing from the Central Bank of Germany of the equivalent of $240 million, part in dollars and part in deutsche mark, with a 12-year maturity. This is not only our largest borrowing ever undertaken outside the United States; it is by far the largest single borrowing we have made anywhere since we floated an issue of $250 million in the United States market in the summer of 1947.

Over the past three years, Germany has been our most important source of borrowed funds.

There have been three other issues since the end of the fiscal year under review; first, a roll-over operation, which continued for another three years a $30 million issue that matured July 11 last. Secondly, the sale outside the United States of $100 million in two-year $3\frac{1}{2}\%$ bonds; this issue was heavily oversubscribed; and finally, a public issue in Switzerland of 4%, 15-year bonds amounting to 60 million Swiss francs; this issue also was oversubscribed. Taking into account this last Swiss issue, the aggregate of World Bank bonds and notes outstanding in Swiss francs will amount to about Sw. Frs. 690 million.

Increased interest in the Bank's own obligations has been accompanied by a widening interest in the purchase of World Bank loans on the part of investors around the world. During the fiscal year under review, sales of parts of our loans, without our guarantee, amounted to the record figure of almost a quarter of a billion dollars. These sales have brought back to the Bank more than $800 million over the past decade--and of this, $500 million came from outside the United States. They are, in effect, equivalent to repayments to the Bank before maturity, and this speedy replenishment of our lending resources means, of course, that our need to go to the market for new funds is correspondingly reduced. More important, these sales--being without the Bank's guarantee--are an encouraging sign of confidence on the part of private investors in the unsupported credit of our borrowing member governments.

It is worth noting, in passing, that the over-all financial position of the Bank continues to grow stronger. A further $ 86.5 million was added to our reserves during the past fiscal year and these reserves now stand at more than half a billion dollars.

So far as the future is concerned, it is not always as easy to see new sources of capital as it is to see the needs for it. But there does not appear to be any shortage in sight of development capital prepared to move on conventional terms. The volume of private international lending and investment in foreign securities has been growing; foreign bonds publicly issued in the major capital markets during 1958 and 1959 amounted to more than three times the total floated in 1952 and 1953. And this is exclusive of refunding operations.

This expansion has been marked by an increase in the number of countries able to invest abroad, notably, of course, those countries of Western Europe where sustained improvement on domestic and foreign account has come about.

Even the present pattern of interest rates suggests the possibility of a continuing growth in the supply of conventional development capital. While attention today is directed to the recent rise in long-term interest rates in Europe, it should not be overlooked that European interest rates in general are significantly lower now than they were at the peak of the earlier European boom in 1957. Moreover, since 1957, controls over capital movements have been eased. These are indications that the supply of capital in Europe has expanded substantially in the past three years, giving still further support to the view that capital flows to the low income countries can continue to increase.

The past decade has brought to the Bank a steady stream of new members, new borrowers and new lenders. It has also brought some new problems which are taxing both our resources and our ingenuity.

Ten years ago, the international financial community was still concerned primarily with recovery and reconstruction in the nations which had been belligerents in World War II. Development in the underdeveloped lands was then a second priority claim on the supply of investment capital.

Five years ago, the emphasis had already changed, but the scope and complexity of modern development problems were not fully appreciated by any of us. True, some of the fundamentals of the development business had become well known, and were being actively discussed. In this institution we were absorbed with many borrowers in dealing with the problems of adequate project preparation and, together with our sister institution, the Fund, of preventing an unhealthy evaporation of effort and resources through inflation. We are still absorbed in these matters and, no doubt, we shall continue to be so, as long as there is an International Monetary Fund and a World Bank.

But today we have two new categories of problems to add to the old.

First, we have the problem of what I will call the New Countries--those countries to whom national independence, and sometimes a fundamental social revolution, has come, in some instances, with little or no preparation or warning. The striking examples, of course, are the new countries of Africa. In some of these countries we know now that the first roadblocks on the path to development are the lack of the most basic services of government, particularly adequate education. Somewhere, somehow, men and women must be found, or trained, to build the very foundations of government without which economic and social progress cannot be built.

Here is a category of problems which obviously has not been fully anticipated by the community of nations. The human resources available to be brought to bear on these situations are pitifully meager. All development agencies, national, regional and international, will have to stretch to the limit <u>their</u> resources--and <u>their</u> ingenuity--to meet the demand. In the Bank, we hope, and expect, to be able to do our share. Many countries, struggling with the new realities of national independence are coming to us now for technical assistance in a wide variety of forms, and we are doing our best to provide what help we can. But something more than the existing forms of technical assistance is required. The New Countries present the United Nations, the Bank, and all other agencies interested in development with a new kind of problem. Collectively, we have not yet managed to fashion an adequate response.

The other problem that begins to confront us arises from this circumstance: once a country embarks on a development program in earnest, and sets out to find capital to finance it, that country can, with great rapidity, reach the point where its ability to borrow foreign capital on conventional terms is very limited in comparison with the amount that it could effectively employ. This is certainly the case with India and Pakistan today; it may already be the case with some other countries also.

For example, assuming India's proposed Third Five-Year Plan to be a fair and realistic estimate of the development progress that can be made in India over the next five years, then the financing of the Plan will require a substantial acceleration of foreign aid. India's external debt already creates an onerous burden on her economy, and, if hard loan continues to be piled upon hard loan, the service and repayment burdens will very quickly reach an intolerable level.

Clearly this is a situation in which, if the tempo of progress in the underdeveloped world is not to be dangerously retarded, some other forms of development financing must be made available on a substantial scale. The Free World has begun to realize this, and, accordingly, we are experimenting with a whole orchestra of novel financial instruments--bilateral and multilateral--which, we hope, will provide orderly and constructive ways of dealing with financial imbalances that arise primarily from the momentum of a country's development effort. The objective must be to bring some harmony out of these new instruments. The risk is that--if we are not careful--we could produce not an orchestra, but nothing more than a haphazard ensemble making quite discordant noises.

In considering these new problems one can discern a trend in the international community--a trend in the direction of greater reliance on the multilateral approach. Today's trend differs importantly from similar trends in the past; the search now is not for once-and-for-all solutions to the broad problems of development; rather it is a search for solutions to specific problems--solutions which can be fitted together like pieces of a jigsaw puzzle to make a more hopeful prospect for a picture of peace and human betterment.

The historic transformation which is going on in the underdeveloped world today defies any general "solution"; but it does offer infinite possibilities to the practitioners of economic development. By marrying the needs of development with international cooperation, more and more statesmen the world over are trying to make something of these infinite possibilities. Instead of searching for an elusive grand design, they are seizing on specific development opportunities, and trying to use these opportunities as a means of promoting harmony and tranquility within and among the nations.

This trend is immensely encouraging to us in the Bank. We have always believed that the way to put muscle on the skeleton of international cooperation is to make real in as many specific situations as possible the prospect of economic growth. While we claim no special place, we have been one of the pioneers in this endeavor and are privileged today to be given new and exciting tasks to perform.

Of special importance to us, of course, is the new International Development Association. As you, Mr. Chairman, announced yesterday, the Articles of Agreement of IDA are now in force, the specified minimum amount having been subscribed by member governments. IDA will soon be ready to start operations.

Member governments have given to the World Bank the responsibility for administering IDA. Its birth is a milestone in our career. Here, multilateral administration will be tested in a new field. And here will be a rare opportunity to demonstrate how new kinds of financial instruments can make possible the new approaches which the development problem today demands. IDA's initial resources are very modest, compared with the needs of the underdeveloped world. But I feel sure that those resources will be augmented over the years, and that the Bank and IDA together will be able to assist their less developed member countries with greater effectiveness and on a broader front than the Bank has hitherto been able to do alone.

The Executive Directors and the President of the Bank use the word "flexibility" to set the tone for IDA's future operations. On the financial side, IDA will be able to venture further than the Bank is able to go in countries which, through no fault of their own, have only a limited capacity to service conventional foreign debt. On the project side, IDA can support whatever development undertakings appear to hold the most promise, provided that they can pass the test of careful and adequate preparation which the Bank is accustomed to apply. With this proviso, IDA can be expected to finance all types of investment financed by the Bank and a broader range besides.

Beyond these generalizations, a discussion at this time of IDA policies would be premature. It is only through tackling specific operations that we can adapt the various techniques and policies possible under IDA's charter to the urgent needs of its less developed member countries. Our aim is to get off to a quick start now--to get some concrete projects before us.

We realize that our administration of IDA will be watched carefully. We have to demonstrate that a bank can handle monies soundly and effectively where an orthodox financial return is not a first consideration. It is our hope that, through IDA, we shall be able to reach peoples hitherto inaccessible to the Bank, and to give them the prospect of better, healthier and more productive lives.

IDA is but one of several new departures in the field of development which will be tested in the time immediately ahead of us.

Several regional organizations, notably in Latin America, are about to strike out in a parallel direction. The formation of the Inter-American Development Bank and the possible future development activities of the Organization of American States both forecast the new wind of change which is beginning to blow across the Latin American continent. Hoping that this will be a wind favorable to development, we in the World Bank expect that the effective demand for basic development services in this part of the world will increase importantly, and we shall be ready to play our part beside the new institutions. In the past year, studies to which the Bank and other organizations contributed have been concluded in Argentina and Venezuela, and indications are that the Bank may soon be able to initiate lending programs in these two countries.

Improved opportunities for lending have already opened up in Chile, Colombia and Mexico. In general, the prospects for development throughout Latin America appear quite hopeful.

The Bank is also following with interest the movement to amend the function and membership of the Organization for European Economic Cooperation. Among other objectives, this movement aims at giving to the Atlantic Community a means of increasing and coordinating their collective assistance to underdeveloped countries. A review of the Bank's role in this movement is contained in the Annual Report before you.

Not all the new approaches to the development problem today are as formal as these. For example, for some time now a group of governments, who have been providing large-scale development assistance to India, are holding informal discussions with the Bank to exchange information about assistance programs and intentions, and to achieve some coordination of effort. A meeting was held this month in Paris to give preliminary consideration to India's Third Five-Year Plan and to India's estimation of the foreign exchange assistance which that plan would require. A further meeting will probably be held next spring.

A similar consortium will meet in Washington next week to review assistance to Pakistan in the light of Pakistan's development plans. A few other countries have approached the Bank with a view to holding meetings of the same sort.

Here again is an effort to marry the needs of development with international cooperation to the end of more effective development assistance. This is not, may I say, a device whose application can be made universal. If these consortia are to serve development over the long run they must not be regarded primarily as a fund-raising exercise or as a means of securing temporary accommodations in political and economic crises. The need is not just for finance, but for efficient and effective development programing. If international cooperation is really to serve the desired objective, it must encourage the orderly programing of projects and resources, primarily by the recipient country itself. Where this vital condition is met, these credit consortia can provide further convincing evidence of the worth of the international approach.

Finally, in this general context, it is perhaps appropriate to mention the Indus Waters Treaty between India and Pakistan, which was signed last week. This will have been welcomed by the Governors as a solution of a critical and long-standing dispute between these two important members of our organization.

The settlement contemplates the construction of a system of works in Pakistan at a cost of over $1,000 million--the largest of its kind ever to be undertaken anywhere. It would not have been possible without the generous financial assistance extended by the Governments of Australia, Canada, Germany, New Zealand, the United Kingdom, and the United States.

This assistance--apart from a conventional loan from the Bank--will be entirely in the form of grants or in loans repayable in local currency. It will be channelled through an Indus Basin Development Fund established by an international agreement. This Fund will be administered by the Bank. The contracting for the works will be thrown open to international bidding in accordance with the Bank's usual procedures.

The arrangements for the financing of this vast undertaking offer another example of the possibilities that exist for developing multilateral techniques in the financing of economic development; and may I add, Mr. Chairman, that membership in the Indus Club, as well as in the international consortia that I have mentioned, is still open to any aspiring candidates willing to contribute the entrance fee.

I believe that what we are undertaking today in the World Bank, and what we have been asked to undertake through the International Development Association, promises to grow enormously in importance and in scope in the years immediately ahead. Development techniques implemented through international cooperation are, I am convinced, about to emerge as a much more significant force in the thinking of those who are honestly concerned with the promotion of economic and social progress and with the maintenance of peace.

But we cannot be so ambitious, or so presumptuous, as to offer any ready-made over-all solution to problems which, by their very nature, can only be effectively tackled step by step and one at a time. It seems to me that there is no over-all solution to the broad problems of development any more than there is an over-all solution, in present world circumstances, to the broad problems of peace.

The task to which we ought to devote ourselves today is to try, by dealing with specific situations as we find them, to improve the material lot of our less fortunate fellowman. Our task is to live with the world problems of today so that we may kindle, and not kill, hope in a better future. And if the needs of development can rely on the presence of international cooperation we shall be able to serve the ends of peace and freedom in the most tangible way open to us, and with the most effective tools to our hand.

Speech Iliff, Sir William February 19, 1962

The Consulting Engineer, London
March 1962

"U.K. Consulting Engineers second to none"

Sir William Iliff at Association Dinner

THE annual dinner of the Association of Consulting Engineers was held at the Dorchester Hotel, London, last month, and was attended by some 700 members and guests, including the now familiar array of diplomats from many parts of the world, and representatives of Government departments and engineering institutions. In the chair was Mr. R. L. Fitt, Chairman of the Association.

Gratified though the Association must be at the growing success of its annual dinner, the certain amount of restiveness at the fringes may well give food for thought with regard to future occasions. The time aggregate of the four speeches would not have seemed excessive if, perhaps, the speakers had been visible to all present. As it happened, a large number were out of vision and depended solely on an amplification system which seemed to fluctuate with every turn of a speaker's head. There may well be a case for a raised top table or a closed-circuit television system to carry sight as well as sound of the speakers into the farthest corners of the room.

The toast to the Association was proposed by Sir William Iliff, CMG, MBE, Vice-President, International Bank for Reconstruction and Development, colloquially known as the World Bank.

(*Left to right*) **His Excellency R. S. S. Gunewardene, High Commissioner for Ceylon, Mr. R. W. Hawkey and Sir William Iliff, CMG, MBE, Vice-President, International Bank for Reconstruction and Development**

Tempted

Sir William said one was always tempted on such occasions to explain some of the facts about the World Bank, "...what it is, what it does, and also, I might say, what it does not do." It was an international co-operative institution with resources for international lending. Reconstruction and development were the purposes to which its energies and resources were directed. "Some people say the only thing wrong about our title is that they don't think we are a bank. It is true we do not take deposits. The funds we lend are derived partly from the capital subscriptions of the 70-odd member governments who are our stockholders, but mainly and increasingly from the sale of our own securities in the capital markets of the world. But we take every possible precaution that the loans we make will be repaid, and at an appropriate rate of interest."

Since the World Bank started operations 15 years ago, it had lent the equivalent of more than £2,000m. and was currently lending at the rate of about £350m. a year. In the main, investments had been directed towards power, transportation and irrigation and the like, for example, the Snowy scheme in Australia, the Volta river project in Ghana, the expansion of the railway systems in India and Mexico, and road programmes in Iraq, several of the Latin American republics and Ethiopia. The Bank had also been active in industrial fields, such as the Indian steel industry, the iron ore resources of Mauretania, and the pulp and paper industry in Finland. Assistance was also given to eradicate a persistent and obnoxious weed from the Indian wheatlands, and two international airlines were helped to acquire jet aircraft. One of the latest operations was the financing of a "central heating project" in Iceland, where hot water was being piped from the bowels of the earth into the heart of the Icelandic capital.

Sir William went on: "Every one of the projects I have mentioned will call for the services of one or other of the branches of your profession. Before I left Washington just now, I asked one of our technical experts to work out an estimate of the amount of engineering fees accrued from projects in which the World Bank is interested. After allowing for errors, omissions and difficulties, he put the figure, with considerable reserve, at between £125m. and £150m. and he predicts a figure of around £15m. a year. Now Mr. Chairman, I must refrain from acquainting you with the percentage of that sum which has accrued to Consulting Engineers of the United Kingdom, lest I bring blushes to your cheeks."

(*Left to right*) **Mr. J. Kennard, Sir William Iliff, Mr. R. L. Fitt and Sir Keith Joseph**

Appropriate Projects

Sir William admitted there had been criticism about the time that elapsed before a Bank loan was brought to the point of consummation. The Bank hastened slowly and he made no apology for this. Before funds could be given, projects had to be proved technically sound, and this was where Consulting Engineers were invaluable. It was also necessary to ensure that projects were appropriate to the development needs of the member countries concerned and that construction funds applied to the project—other than World Bank funds—would be available from other non-inflationary sources. In some cases, the Bank wanted to ensure that a capital structure for the enterprise had been established where there was not an overburdening proportion of debt in relation to equity. In all cases, there must be the assurance of adequate arrangements for the management and operation of the project. In some of the proposals received, some if not all of those elements were lacking, which was why months, sometimes years, elapsed before borrowers had hard cash to show.

Sir Ferguson Crawford, KCMG, OBE (*left*) and Sir William Iliff

Pipe-dreams

Speaking "off-the-record," and with obvious licence, Sir William entertained his audience with descriptions of "typical projects" which failed to win World Bank support. "Some of these may appear to be pipe-dreams but in his day, Jules Verne's 'Around the World in Eighty Days' was also thought to be a pipe-dream. The astronauts can do it in something under 80 minutes, and any one of us has a reasonable chance of doing it in something under 80 hours, provided not too much of our allotted time is dissipated in finding our perplexing way around the wilderness of London Airport." (Sir William was speaking as one who had lived the past 25 years in the United States—*Editor*.)

Turning to his task of proposing the toast to the Association, Sir William said the whole world accepted that the engineering skills of the Consulting Engineers of the United Kingdom were second to none. "I hope, Mr. Chairman, you will acquit me of presumptiousness and accuse me of nothing more than foolhardiness if I exploit this opportunity by

Industriekurier, Dusseldorf
April 17, 1962

„Entwicklungshilfe ist weltweite Sozialpolitik"

Scheel: Wirtschaftsaufbau soll möglichst der Privatinitiative überlassen bleiben

mu DÜSSELDORF, 6. 4. — Für die Notwendigkeit einer Entwicklungshilfe trat Walter Scheel, Bundesminister für wirtschaftliche Zusammenarbeit, vor der Deutschen Gesellschaft für Betriebswirtschaft ein. Er bezeichnete in diesem Zusammenhang die Entwicklungshilfe in ihrem Kern als eine Art der Sozialpolitik in weltweitem Ausmaß. Die Notwendigkeit der Entwicklungshilfe ergebe sich aus dem Spannungsverhältnis zwischen den reichen und den armen Ländern. Die Diskrepanz zwischen diesen habe sich in den letzten Jahren sogar eher noch verstärkt. Als Aufgabe der Entwicklungshilfe ergebe sich zunächst eine Verbesserung der Sozialstruktur sowie die Hilfe bei Infrastrukturvorhaben. Ferner aber müsse die Wirtschaft der begünstigten Länder aufgebaut werden. Der Minister kündigte insofern eine Umorientierung der Entwicklungshilfemaßnahmen seitens der Bundesrepublik an, als der Schwerpunkt der öffentlichen Gelder auf Infrastrukturmaßnahmen und Maßnahmen zur Verbesserung der Sozialstruktur verlegt werden solle, während der Wirtschaftsaufbau möglichst der privaten Initiative, allerdings mit öffentlicher Förderung, überlassen bleiben solle.

In diesem Zusammenhang ging der Minister auf die geplante Entwicklungsgesellschaft ein. Diese solle interessierte Unternehmer individuell beraten und ihnen helfen, die Risikoschwelle bei Entwicklungsvorhaben durch Hergabe von haftenden Mitteln zu überwinden. Für die Gesellschaft werde jetzt von einer Kommission, in der alle beteiligten Stellen vertreten seien, der Gesellschaftsvertrag entwickelt. Es sei zu hoffen, daß die Arbeit Mitte dieses Jahres aufgenommen werden könne.

Mit Nachdruck setzte sich der Minister dafür ein, der Privatinitiative in den Entwicklungsländern den Vorzug zu geben; sie besitze die nötige Elastizität und Initiative und führe zu dauerhaften Kontakten. Bei der Dringlichkeit der Maßnahmen seien jedoch auch staatliche Hilfen nicht zu entbehren. Die Förderung privater Investitionen in Entwicklungsländern durch die öffentliche Hand soll in der nächsten Zeit überprüft werden; wo die Bestimmungen bisher Reibungen ergaben, sollen sie verbessert werden. Im übrigen solle das Investitionsklima in den Entwicklungsländern selbst durch den Abschluß von Investitionsgarantieverträgen verbessert werden. Der Abschluß eines solchen Investitionsgarantievertrages ist in Zukunft Voraussetzung für Garantieübernahmen für Entwicklungsformen. Verhandlungen über Finanzhilfen würden zukünftig parallel mit Verhandlungen über einen Investitionsschutzvertrag geführt.

Der Minister wandte sich ferner gegen die häufige Überbewertung der Ostblock-Maßnahmen im Rahmen der Entwicklungshilfe. Der Westen sei hier keineswegs in der Defensive, er habe im Gegenteil die Initiative übernommen und zwinge den Ostblock, seine Maßnahmen nachzumachen. Im übrigen seien die Leistungen des Ostblocks im Vergleich mit den Aufwendungen der westlichen Welt verhältnismäßig bescheiden, auch wenn die Ostmittel stärker auf einzelne Länder konzentriert sind und man mit geringeren Mitteln größere Wirkungen zu erzielen trachtet.

Das wesentliche Problem der Entwicklungshilfe sei die Bereitstellung entsprechend langfristiger Mittel. Es habe keinen Zweck, Projekte zu kurzfristig zu finanzieren und die Devisenlage der Entwicklungsländer zu günstig zu beurteilen, da damit nur entsprechende Umschuldungen ausgelöst würden.

Direktor Leonhard Stitz-Ulrici führte in Neheim-Hüsten aus, daß der Bundesrepublik bis Mitte 1961 1537 Mill. DM aus Weltbankdarlehen an Aufträgen zuflossen. Stelle man diesen stattlichen Betrag jedoch zu den Leistungen der Bundesrepublik an die Weltbank ins Verhältnis, so habe die Bundesrepublik weit mehr als das Doppelte gezahlt, als der Exportindustrie an Aufträgen zufloß. Innerhalb der Wirtschaft würden nunmehr Betrachtungen darüber angestellt, ob man in Zukunft zugunsten der deutschen produktiven Arbeitsplätze nur noch bilaterale Kredithilfe geben sollte. Das hieße, die deutsche Entwicklungshilfe grundsätzlich an deutsche Lieferungen und Leistungen zu binden und auch die deutsche Beratung in diese Bindung mit einzubeziehen. Es bleibe nichts anderes übrig, als diesen Weg zu gehen, weil sonst die internationale Konkurrenz mit deutschen Mitteln finanziert werde. Die Weltbank sei heute zweifellos die Zentrale der westlichen Entwicklungshilfe. Je weicher letztere aber werde, um so mehr müsse sich die Aufgabe der Weltbank auf die Führerrolle bei den internationalen Entwicklungskonsortien verlagern, es sei denn, daß die Kredite, die die Weltbank bei Mitgliedsländern aufnimmt, an deren Lieferungen und Leistungen gebunden werden. Würde man auf diesem kommerziellen Weg einen fairen Kompromiß zwischen unveränderter Darlehenspolitik, aber mit nationaler Bindung der Ausgaben, finden, so könne man sich keinen besseren Transformator der Entwicklungshilfe denken als die Weltbank. Dabei wäre der Einbau internationaler Preiskontroller selbstverständliche Voraussetzung.

Alexandria Gazette
April 12, 1962

John deWilde Of World Bank To Speak Here

John C. deWilde, acting director of the economic staff at the World Bank, will be guest speaker at the annual meeting and luncheon of the League of Women Voters of Alexandria, to be held Saturday, at the Beverly Hills Community Church, 3512 Old Dominion Blvd.

DeWilde will speak on "The Challenge of the Less-Developed Countries," and will describe the part played by the World Bank in helping meet the economic problems of newly emerging countries.

At the business portion of their meeting, scheduled for 10 a.m., League members will vote on their local study and action program for 1962-63, and will elect a new second vice-president, treasurer, and four members of the board of directors.

Luncheon is scheduled for 12:15, following which deWilde will speak.

Born in the Netherlands, deWilde has degrees from Harvard University in Kiel, Germany, and Columbia University, New York. For 10 years he was with the Foreign Policy Association of New York as an expert on Western European Economics. During the war, he served on the Board of Economics Warfare in Washington, London, and India.

From 1945-48, Mr. deWilde was with the Department of State; from 1948-50 with E.C.A. in charge of programming for Scandinavian and Low Countries. In 1950, he became economic advisor, Department of Operations, South Asia and Middle East, for the International Bank for Reconstruction and Development (World Bank). He spent two years in Pakistan as a resident representative for the World Bank before returning to Washington to take his present position as acting director for economic staff for the World Bank.

Bergens Tidende, Bergen
March 15, 1962

Ærefullt oppdrag til norsk ingeniør

Seksjonssjefen for fortifikasjonsavdelingen i forsvarets bygningstjeneste, ingeniør Sigurd Heien, reiser i dag til USA i et meget ærefullt oppdrag.

I sterk internasjonal konkurranse er han nemlig valgt ut til stillingen som teknisk konsulent og rådgiver for The Bank of Reconstruction and Development i Washington.

Etter søknad er ing. Heien innvilget permisjon i forsvaret i ett år. Ingeniør Heien er 55 år gammel og har tidligere vært bygningsingeniør i Ålesund og Harstad. Under krigen var han ingeniør i polititroppene i Sverige, og han har også tidligere vært i USA som konsulent.

Frankfurter Allgemeine Zeitung,
Frankfurt/Main
April 21, 1962

Otto Donner 60 Jahre

Professor Otto Donner, deutscher Exekutivdirektor bei der Weltbank und ihren beiden Tochterinstituten International Finance Corporation und International Development Association in Washington, begeht am 22. April seinen sechzigsten Geburtstag. Donner, der als gebürtiger Berliner seine wirtschaftswissenschaftlichen Studien an der Universität Berlin mit der Promotion im Jahre 1927 und der Habilitation im Jahre 1933 krönte, blickt auf eine vielseitige und erfolgreiche Tätigkeit als theoretisch und praktisch arbeitender Volkswirt zurück. Seinen wissenschaftlichen Ruf als hervorragender Kenner der konjunktur- und währungspolitischen Zusammenhänge erwarb er sich in den Jahren bis 1932 als einer der führenden Mitarbeiter in dem von Professor Wagemann im Jahre 1925 gegründeten Institut für Konjunkturforschung in Berlin. Seine akademische Laufbahn, die er als Privatdozent an der Universität Berlin begann, führte ihn als ordentlichen Professor 1941 nach Hamburg, 1944 an die Wirtschafts-Hochschule Berlin und schließlich ab 1947 an die Georgetown University in Washington. Daneben zog es ihn immer wieder von neuem in die Praxis der Wirtschaftsbeobachtung und Wirtschaftspolitik. So gehörte er 1933 dem Institut für Weltwirtschaft in Kiel, 1938 dem Reichsaufsichtsamt für das Kreditwesen in Berlin und ab 1939 der zunächst beim Reichswirtschaftsministerium errichteten Vierjahresplan-Behörde als Experte für Wirtschafts- und Währungsfragen an.

The Washington Star
April 30, 1962

Oxford to Honor Chaplin and Black

OXFORD, England, April 27 (AP). — Comedian Charlie Chaplin and Eugene Robert Black, President of the World Bank, were chosen by Oxford University yesterday for honorary degrees.

The proposal, made by a university council and published in the Oxford University Gazette, will have to be approved by the university's convocation, which meets May 8 to decide on the honorary degrees. If approved, they will be bestowed June 27.

Mr. Chaplin is to become an honorary doctor of letters and Mr. Black, doctor of Civil law.

Other honorary degrees proposed and published in the Gazette include Violinist Yehudi Menuhin (music) and British Painter Graham Sutherland (letters).

Association Dinner . . .

(*Left to right*) **Mr. S. Alderweld, Head, Technical Department, World Bank, Mr. T. A. L. Paton, CMG, Mr. J. R. Beard, CBE, and Mr. A. E. Powell**

making a brief reference to what some Consulting Engineers in every part of the world regard as a most deplorable allergy with which the World Bank is afflicted. It is this. We steadfastly set our faces against financing the packaged deal or the turn-key project. These operations often include financing arrangements which are quite unsuitable to the project concerned. But apart from that, this *ad hoc* association of consultant firms with manufacturing and construction interests does not, we feel, give our borrowers that unbiased, objective advice to which, in our view, they ought to be able to turn."

Economic Sophistication

He sometimes wondered whether the Consulting Engineer, here and elsewhere, had stopped to contemplate the vista that was opening up to his profession over the coming decade, and whether he was equipping himself to meet the challenge that this vista presented. Newly independent countries were being added to the political map of the world. All were seething with economic development. They needed roads, ports, railways, power and irrigation, steel mills, international airports and even atomic energy plants, and these were regarded as the distinguishing marks of economic sophistication—and were wanted in a hurry. Consulting Engineers with experience of operating abroad knew that the state of under-development in many of those countries put them into a very difficult environment from that at home, where Consulting Engineers could confine themselves to what might be called "pure engineering." Their terms of reference would have been prepared by experienced clients; many of the decisions, such as the traffic handling of a road or the steam conditions of a power plant, would already have been taken by the client; and doubly, there would usually be experience of similar works on which estimates of costs and a construction schedule could be based. But the consultant working in most of the under-developed parts of the world today usually had to start from scratch in what, by comparison with conditions at home, looked like a complete void. Moreover, the client, who might be a young and immature government, would also be quite inexperienced and incapable of reaching a realistic judgment on the requirements of the situation. It might be activated by considerations of prestige, wanting, if not a better, a bigger project than its neighbour. The client might never have heard of a cost-benefit ratio; he might be unimpressed by the importance of priorities and investment programming; and so far as operational management was concerned, his approach would probably be: "The Good Lord will provide."

Sir William emphasized that the picture he had drawn was based on experience, and against a background of this sort, which was found all too frequently, the Consulting Engineer operating abroad had more than a purely engineering responsibility. He must be prepared to give unpleasant counsel, to advise rejection of the project which had no merit other than prestige. He should be equipped and willing to advise what projects were most suitable to the development needs of the country and to offer serious and competent advice on the priorities within those needs. Above all, he could never afford to forget that investment capital was a very scarce resource in the under-developed world.

"Engineer in Debt"

Sir William concluded by stressing that as long as Consulting Engineers were able and willing to accept the added responsibilities of working in an environment different to that at home, there were great and growing opportunities presenting themselves. He urged those with aspirations to take a hard look at their organizations. "Make sure you have available, either within your own organization or from some outside source, the much-needed economic and financial expertise. I would venture to suggest, too, that you might competently discuss with the universities and other foundations of young engineering talent, the advantages of including in the engineering curriculum more than is done now of the various and practical aspects of economics and finance. In these ways, I think you will help to make sure that you will not be behind-hand in withstanding this new competition—and it is a keen and bitter competition—for that scarce commodity which the world today is displaying a voracious appetite, and which for want of a better phrase I shall call *the engineer in debt*. I am confident that your Association will meet this challenge and may gain in these farther fields and, perhaps, lusher pastures, the shining reputation of professional accomplishments and ethical standards that have long distinguished the British Consulting Engineer."

Spectacular Progress

Replying to the toast, the Chairman said it was the first time a representative of the World Bank had attended the Association's annual dinner—"...and a Vice-President at that!"

Sir William had spoken of the important part which Consulting Engineers, including many members of the Association, were playing in world development. He had given us food for thought, and a deal of sound advice, "for which, unlike most bankers (and Consulting Engineers for that matter) he does not propose to charge a fee." He had spoken of the spectacular progress of the World Bank since it was founded over 15 years ago. Such a vigorous adolescent had obviously been well brought up, and Sir William had been far too modest in his references to the part which he has played in this process. Although £2,000m. sounded a lot of money, it was about £1 per head of the present population of the free world and one-third of the amount that the Government in the U.K. was spending each year. "As to the sum represented by Consulting Engineers' fees, this represents 6½ per cent. of the total amount of the loans, which only goes to show what a bargain our services represent."

Mr. Fitt went on: "Having ascertained from Charles Lamb that the human species is composed of two distinct races—borrowers and lenders—a number of us have already ventured into the Bank's headquarters in Washington. We may have appeared there as a member of a delegation from one of the Bank's 70-odd member countries, armed with irrefutable evidence that our particular project is the most credit-worthy that the Bank has seen since it started business. We shall be sure of a warm and hospitable welcome and we will quickly be impressed by the truly international character of this great organization. Here, we discover, something is really being done by able men of many nations to foster and support, along proper lines, the development of the resources of nature for the use and convenience of man.

A Warning

"But let me give you a word of warning. If you want your client to come away with the cash it is well to remember the Persian proverb, *Never cast away your bread till you reach Tehran.* Before that loan agreement is signed your well-considered scheme will be thoroughly appraised in the nicest possible way, by the expert staff of the Bank's Technical Operations Department, whose Director, Mr. Aldewereld, is with us as a specially welcome guest. The Director and his staff are well versed in the wiles of borrowers and their professional advisers, so make sure that you have your wits about you, your facts and figures well marshalled, or otherwise you may come away from Washington remembering the old adage that *Who goeth a borrowing, goeth a-sorrowing.*"

It was normally the duty each year of the Chairman to report to you "on the State of the Nation," continued Mr. Fitt, pointing out that the Chairman's badge of office was making its first appearance. The Council hoped that it would symbolize the Association and what it stood for. In the centre, the globe represented the scope of activities, surrounded by a gear wheel, an all-embracing symbol of the engineer. "In order to prevent misrepresentation I hasten to explain that the wheel does not rotate in small circles, neither does it mean that we grind our clients or the contractors either slowly or exceedingly small. No, gentlemen, this robust and enduring badge of office, appearing at this particular juncture, is a warning to all that we intend to defy all take-over bids from whatsoever source, as we prepare to celebrate next year our fiftieth anniversary."

Significant Increases

He was glad to report that the number of members continued to increase, and that the work in hand overseas for which members were responsible now exceeded last year's figure of £730m. At home, too, the volume of work had been maintained and there were significant increases in the fields of structural and industrial engineering, roads and bridges, and overseas in irrigation development.

The highlight of the past year had been one with which the World Bank, and Sir William Iliff in particular, had been so closely associated, namely, the Indus Basin Project, which was now really under way. Members of the Association were working with the Bank and the Pakistan Authorities, and there was pride in the fact that a member firm was responsible for the design and supervision of the civil engineering work on the Mangla Dam. The contract for this dam, which had recently been awarded for over £126m., was three times larger than any single contract which has so far been placed anywhere in the world.

Mr. Fitt said that no new and original plans had emerged during the initial stages of his year of office, but this did not deter him from referring to a few random thoughts. The first was the need to keep a watchful eye on such matters as codes of professional conduct. International competition was growing and a lowering of these standards could do infinite harm, not only to the profession, but to engineering as a whole. Whilst being prepared to march with the times, all outside influences which aim to lower these standards must be resisted, and it was for this reason that he gladly reported that there were not only stout allies at the World Bank, but also in the International Federation of Consulting Engineers, whose President, Mr. Tritton (one of the Association's past chairmen) and whose Secretary General, Mr. Rusting from Holland, were present at the dinner. "F.I.D.I.C., as the International Federation calls itself, is the same age as ourselves. It has survived two world wars, and is now growing in stature and importance. It has the same aims and standards as our Association and is doing splendid work in its efforts to bring uniformity into the codes and practices of its 15 member countries. It has recently set up a subcommittee to effect liaison with the European Common Market Administration in Brussels. On this vital subject Mr. Tritton has prepared a most valuable note which I hope you will all have an opportunity of reading."

Expanding Role

Mr. Fitt's second thought was that the role of the Consulting Engineer was an expanding one. Sir William Iliff had made this clear, and he had emphasized the need for a wider basic education of budding engineers to meet this need. The further the Consulting Engineer moved into the less developed areas of the world the more he would find this to be necessary. It was from the comprehensive studies that he must carry out that worthwhile developments could be separated from those which, no matter how dear to the heart of his client, were either not economically justified, or must take their place in the queue. These sector surveys, as they were called in Washington, were of special importance, if ordered development was to take place, and it was a pity that funds were not always available to carry them out either in a thorough manner or at all.

"My third thought is that we must maintain our effort in the overseas field. I am told that there was a time when the British Consulting Engineer could sit in his office and wait for the work to come rolling in from clients both at home and in the British Empire overseas. Nowadays only the hen can lay down on the job and get results. We have growing competition to contend with, and we must therefore ensure that the standards of technical service which we render to our clients are such that they will not only continue to employ us but will encourage others to come to us for help and advice.

"Our Arab friends say that *Good deeds and kindnesses enable one to cut the lion's whiskers* and there is no doubt that this approach will do us more good in the long run than any amount of advertising. But, if we do a good job, we are always very grateful to the gentlemen of the press when they tell the world about it in pictures and in print. Even more do we appreciate when they remember to mention the name of the Consultant responsible."

Whilst referring to the need to pursue and to build up overseas practices, the Chairman pointed out how important it was that the British Consulting Engineer

(Continued)

(Continued)

be given every opportunity to show what he could do on the home front. Works successfully completed in Britain were not only of value to this country, but provided the examples which the Consulting Engineer could quote when he went overseas to offer his services to a potential client. It was here, too, that the young engineer gained the experience and confidence which were so essential when he went to work abroad.

In recent years the hydro-electric developments in the North of Scotland had been of the greatest possible value in this respect and now, thanks to the Ministry of Transport, there would soon be a fine crop of highways and bridges to add to the list. The successful completion of such outstanding structures as the Forth, Severn, Tamar and Runcorn bridges would have a tonic effect on British engineering which was of first-rate importance. So he asked those guests who steered the course of new developments in this country to bear in mind that, provided they continued to receive value for money, they in return would continue to provide the foundations upon which Consulting Engineers could build and expand British engineering activities abroad. This, he felt sure, was a sentiment which would commend itself to the Minister of State at the Board of Trade, who was present.

Up-to-date Knowledge

" My fourth thought is that we have to march with the times," Mr. Fitt continued. " The various components which make up the construction industry may continue to seek ways and means of working more closely together. For instance, the engineer's traditional opinion of the architect and the quantity surveyor (and *vice versa*) is now gradually being replaced by a joint and harmonious approach to problems which will inevitably bring positive benefits to our clients in the shape of efficiently planned and designed building structures and services, and without any sacrifice to their architectural merits. In addition, it is necessary for us to keep under constant review the traditional method of placing contracts. The building and civil engineering contracting industry is developing new techniques and new plant and equipment for its needs. The most efficient job will always depend on efficient planning and design, but it may well depend also on up-to-the-minute knowledge of the most appropriate construction methods.

Essential Competition

" Any Consulting Engineer who is worth his salt will know a deal about these matters, but he would hardly claim to know more about construction than the competent contractor. The client has every right to expect a sound job, economic in cost and in time of construction. To get this and to maintain efficiency in the industry there must be an element of competition. As Sir William has so clearly said, package deals are certainly not the answer, but neither is the set of contract drawings and specifications which may provide competition during tendering but which is so inflexible that there is no opportunity for the enterprising contractor to make his full contribution to the efficient development of the project. Here we have a problem for which there has not yet appeared a completely satisfactory solution, but in the meantime we have the satisfaction of knowing that our British methods are approved by the World Bank and are being adopted to an increasing degree in Europe and in the United States of America, where the day of the " package deal " is passing without regret.

" Lastly, we all realize that our profession cannot prosper unless the funds are available for engineering development. So much could be done at home and overseas if only the engineer was not constantly thwarted by too much politics and too little money. We await the day when Chancellors of the Exchequer and Ministers of Finance everywhere can cease having to act as inverted Micawbers waiting for something to turn down. As an association of engineers working closely with clients of many nationalities, we can pride ourselves on having the kind of approach to international affairs which must be very near to that of the great organization which Sir William Iliff has served so well since its early days. We thank him again for honouring us with his presence and proposing the toast of our Association, and we hope that, in return, we will take advantage of his advice and continue with increasing vigour and enthusiasm to support and to supplement the efforts which the World Bank are making to the achievement of the greatest amount of good for the maximum number of people."

Mr. Fitt concluded: " As Artemus Ward said, *Let us all be happy, and live within our means, even if we have to borrow the money to do it with*."

The Toasts

The toast to the guests was proposed by Mr. J. Kennard, who welcomed High Commissioners, Ministerial representatives, presidents and secretaries of engineering institutions, clients, contractors, architects, local authorities and other friends. Referring to Sir Keith Joseph, Bart., Minister of State, Board of Trade, who was to reply to the toast, Mr. Kennard said: " Many of us knew you at the Ministry of Housing and Local Government in the past and came to appreciate your special qualities. After all, you were not only trained as a barrister but were once a director of a firm of civil engineering contractors—two invaluable attributes when dealing with simple-minded Consulting Engineers." Sir Keith was now presiding over the Advisory Council for Overseas Construction at the Board of Trade, and his Council has just issued a statement setting out the extent to which the services of Consulting Engineers could be used under the Technical Assistance Schemes. " I am sure this document will be studied with the keenest interest and will prove mutually advantageous."

Sir Keith responded to the toast with a very short but robust reference to the value of exports and of the contribution which Consulting Engineers were making to them. He also thanked the Association for its hospitality towards him and his fellow guests. △

The Washington Post
May 1, 1962

Chamber Fetes Astronauts, 3 Others

By John M. Goshko
Staff Reporter

The seven American astronauts were among 10 persons honored last night by the United States Chamber of Commerce as "Great Living Americans."

The other 1962 winners of the Chamber's annual awards were Robert R. Gilruth, director of the Project Mercury space team; Eugene R. Black, president of the World Bank, and Irving S. Olds, retired board chairman of the United States Steel Corp.

Five of the astronauts were on hand to receive their awards at the Chamber's annual Leadership Recognition Dinner in the Sheraton-Park Hotel. They were Air Force Capt. Leroy G. Cooper Jr., Marine Lt. Col. John H. Glenn Jr., Air Force Capt. Virgil I. Grissom, Navy Cmdr. Alan B. Shepard and Air Force Maj. Donald K. Slayton.

The group's best-known member, Glenn—first American to orbit the earth—wound up getting his award in an impromptu, better-late-than-never ceremony following the formal presentations to his teammates.

Glenn, who had spent the day at a scientific meeting in St. Louis, flew back to Washington last night in a borrowed jet to attend the dinner. But he failed to arrive until an hour after the official presentation ceremonies had ended.

Chamber officials promptly halted an elaborate musical revue and, as some 1500 persons in the Hotel's Sheraton Hall rose to their feet cheering, Richard Wagner, the Chamber's national president, called Glenn on stage to receive his award.

Absent from the ceremonies were Gilruth and the other two astronauts, Navy Lt. Cmdr. Malcolm S. Carpenter and Navy Cmdr. Walter M. Schirra Jr. Chamber spokesmen said they were unable to attend because of the press of Project Mercury work.

Black was honored for his exemplary career of enlightened leadership in the field of international finance; for his determined and successful efforts to help the emerging nations elevate their living standards, and for the good will which he has accrued to America."

Olds, chairman of U. S. Steel from 1940 to 1952, was cited for his "exemplary career of enlightened leadership in industry, for his constructive work in building greater world trade for America; and for his long years of public service to his community and to the country."

In accepting his award, Olds drew loud cheers and applause by remarking: "I'm sure that I'm not being honored because during my days in U. S. Steel, I discovered the right time to raise steel prices."

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ADDRESS BY SIR WILLIAM ILIFF TO THE EMPIRE CLUB OF CANADA

This talk of mine is entitled "Fifteen Years with the World Bank". At the end of this month I shall have vacated my office as a Vice President of the Bank, and I shall therefore, I hope, be forgiven if I am mainly retrospective in my approach today.

Let me begin by saying that my first public speech in this hemisphere on the affairs of the Bank was in Vancouver, B.C., almost 15 years ago. It is for me a great privilege to have been asked to address this audience in Toronto today and so to have been given the chance to make a valedictory address on Canadian soil and to such a distinguished group of Canadian citizens.

I hope, too, that what I have to tell of what has happened in the Bank over these years (which cover in fact all but two years of the Bank's existence) may be of some interest to you. But I want first to say a little about the broader background against which the Bank has been growing up.

When one looks around the world as it is today, the changes since 1947 are momentous. Probably the most remarkable is this .... In those 15 years the world's population has increased by almost one-third, from 2,300 million in 1947 to almost 3,000 million today. Such an increase, if it should continue, baffles the imagination.

Canada has, of course, some share in responsibility for this phenomenon. She has played her full part and takes some pride as a prosperous and growing nation in having increased her population, partly, it is true, by immigration, from 12-1/2 to 18 million over those 15 years, -- an increase of 5-1/2 million. But in the same period, the teeming countries of Asia have probably added more than 100 times that increase to populations which were already seriously lacking in clothing, food and shelter.

I hasten to assure you, Mr. Chairman, that I have no intention of embarking on a dissertation on the population explosion. I do not think, however, that any consideration of world economic affairs can possibly overlook that one overwhelming fact, which threatens to frustrate all our best endeavours to raise world standards of living.

Other changes have been just as remarkable. I suppose that scientific progress in man's mastery over matter has been as great in the past 15 years as throughout the entire previous history of mankind. I wish there had been some corresponding manifestation of man's mastery of himself.

The physical changes since 1948 strike one of course in odd ways. While I myself cannot get wildly enthusiastic about the possibility of visiting the moon, I do find it a source of constant wonder to be able to cross the Atlantic in sedate luxury, and in 5 hours; 15 years ago, the Atlantic air-crossing was still something of a protracted and uncomfortable adventure.

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But it is when one considers the international political and economic scene that one realizes how fundamentally the world has been changing.

Fifteen years ago, those nations of Western Europe which are now showing an unprecedented pace of economic growth were still bogged down in the aftermath of the Second World War. Germany was still in the depths, and, like Austria, under four-power military government. Another modern pace-setter among the nations, Japan, was also still under military rule, and in a state of acute political unrest and economic depression. Western Europe was staggering also under the blows of successive bad harvests which, on top of wartime destruction, made its prospects of recovery look bleak indeed. When I joined the World Bank at the beginning of 1948, the Marshall Plan was still in the stage of discussions among the Western European nations, and the fear still was that Communism would engulf all of continental Europe to the edge of the Atlantic Ocean. China, the most populous nation of the globe, was in convulsion, its regime still undecided. India and Pakistan were licking the great wounds of Partition which were the legacy of their move into independence only a few months before.

In other regions of the world, developments have been no less eventful. In the Middle East, the State of Israel did not exist. The principal Arab countries were still ruled by dynastic monarchs. In Asia and Africa, the British and French colonial empires were virtually as they had been for 100 years; now those colonies have become a new array of independent nations clamoring for a full place in the councils of the world.

This has brought fundamental changes in the international organization of nations. In 1948, the Western Bloc was firmly in control in the General Assembly of the United Nations, able to muster an effective majority by the combination of Western Europe and the Americas. How different is the picture today, since the emergence of the Afro-Asian Bloc, which comprises more than 50 of the 104 countries taking part in the 1962 debates of the Assembly, each with a vote equal to the vote of any of the so-called great powers. The world balance of power has altered, and probably will never again be swung only at the whim of the great powers.

In the realm of personalities, perhaps the most striking fact is not change, but rather "plus c'est la meme chose". True, many of the leaders of 15 years ago are gone, among them Mr. Mackenzie King, General Marshall and (if such a name can be uttered in the same breath) Marshal Stalin too. But how durable the others are -- Churchill, Truman, Molotov, Trygve Lie, Eisenhower, Attlee and General Montgomery -- they may all have left the centre of the stage, but are still with us. And many of the old leaders are still very much in the limelight -- deGaulle, Adenauer, Krushchev, Henri Spaak, Monnet, MacMillan, Chiang Kai Shek, Mao Tse Tung. One is tempted to ask: Are they all so durable because they are politicians, or are they politicians because they are so durable? They say in Latin America that the devil knows so much because he is so old, and not just because he is the devil.

All in all, I do not envy the school children of tomorrow who will be expected to absorb the history of this extraordinary decade and a half.

In recent years, revolutionary change has been universal. In no field is this more true than in economic affairs. In the past 15 years the world economy as a whole has been marching forward at a pace which previously had been attained almost by only one country at a time. The patterns of world trade and payments, and of national incomes, have in recent years been moving and changing so rapidly that yesterday's debtor nation is today's creditor, and vice versa. I do not suppose anyone in this room would have believed that the world dollar situation could have reversed itself as it has done in that period of 15 years. Similarly, who, in 1948, when rigid exchange controls and inconvertibility of currencies prevailed almost around the world, would have believed that the international money market could possibly be as fluid and free as it is now in 1962. Only visionaries or wishful thinkers could have imagined that the people of Western Europe would move freely from country to country without even a passport, and no one surely could have foreseen France and Germany in a Common Market, much less the President of France addressing a great gathering in Germany in the German language, and praising the virtues of the German people

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So much for the broad brush. Let me now turn to the changes which the years have brought to the World Bank.

I hope you will forgive me if I talk of these changes largely in terms of my own experience, rather than pretend to an objective analysis.

I arrived at the Bank in February 1948 to become Director of the Loan Department. At that time, the Bank had 48 members; today it has 83, and it seems certain that it will have at least 100 before another two years are out. At that time, the Bank had made four reconstruction loans in Western Europe totalling $500 million; today, our loan commitments since the beginning have amounted to almost 6-3/4 billion dollars and we have made 322 loans in 60 countries.

Of the $500 million of our four reconstruction loans, half had been lent to France. The Netherlands had received almost $190 million and the balance had gone to Denmark and Luxembourg in smaller amounts.

Although we did not know it in February 1948, the reconstruction-lending phase of the Bank's operations had in fact come to an end. The Marshall Plan took over in Western Europe and allowed the Bank to devote itself from then on to its other function, assisting economic development in its less developed member countries. But, short as was the reconstruction phase of our lending, I think it is fair to say that the Bank's reconstruction loans were of vital importance at a critical time. They bridged a gap between the ending of emergency war-time assistance and the beginning of Marshall aid, and they enabled the four recipient countries to make essential imports on a large scale at a time when no other external finance was available to them.

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So my arrival at the Bank coincided with the beginning of a period of transition. Negotiations between the Bank and the countries which received its reconstruction loans were greatly facilitated by the fact that the borrowers were all highly developed economies with a competent apparatus of administrative and technical skills. They were able to draw up accurate lists of the goods they needed, and to show how these goods would be used to reconstruct their shattered economies.

Lending for economic growth in the less developed countries of the world was entirely a different matter. It has become almost a cliche to observe that the greatest lack of most of the less developed countries is not money, but skill -- skill at every level from the Finance Minister down to the operator of a machine; they had no industrial tradition and possessed few of the organizational features needed for the successful direction of an economy or even for the adequate preparation of projects for financing. Inevitably, therefore, the volume of the Bank's lending was on a modest scale for the next few years, and it was not until about 1950 that it began to reach significant amounts.

A chart of Bank lending for development shows 1948 to 1950 averaging about $150 million a year of new loans; the Bank had been feeling its way. From 1950 to 1954 the average was closer to $300 million. For the next three years it became $400 million. Then there was a notable break-through with a sudden climb to a lending rate of almost $700 million a year, a rate which persisted from 1957 to 1961. Then, in our last fiscal year, the rate of lending rose to $882 million. It is too early to know whether this rate is a new plateau. For reasons which I shall mention later, I am inclined to think that this was an exceptional year and that the Bank cannot look forward to maintaining such a figure as an annual rate.

The Bank's first loans for development, and the first operations in which I had a part, were made in Chile in March 1948. We lent $13.5 million for hydroelectric development and $2.5 million for the purchase of agricultural machinery. Then in the following year we were able to extend our development lending, still in Latin America, with loans to Mexico and Brazil for power and to Colombia for agricultural machinery. In that year we also made our first loan to India for railroads, and began a long association with Finland by lending $12.5 million for her electric power stations and wood processing industries. I may say at this point that the association with all those countries, which was begun in those early years, has since continued and grown. Our loans to Chile, Mexico, Brazil and Colombia now aggregate the equivalent of more than a billion dollars. Our lending for Indian railroads alone is almost $400 million out of a total lent to India of over $800 million. Our lending to Finland is now over $150 million. These figures are evidence of the close link between the World Bank's lending and the economic growth of its member countries, and of the closeness of the relationship which has grown up between us in the past 15 years.

But we continued to be faced with problems arising from the need of our member countries for economic skills. In 1949 the Bank made a radical experiment with a mission to make a full-scale survey of the economic potential of a member country and a study of priorities which should be observed in the programming of its development. This first mission was to Colombia, and it laid the foundations for much of Colombia's subsequent development. The technique of the economic survey mission proved so valuable that it has become a regular and important part of the Bank's work. Up to now, we have sent similar missions, at the request of member governments, to more than a score of countries. The most recent have covered such varied economies as Thailand, Libya, Venezuela, Kenya and Spain. In every case, the recommendations of the mission have been of value and importance to development programming in the country concerned and have also greatly influenced the pattern of the Bank's own operations there.

By 1952, our technical assistance work had already become so important that, in that year, we set up a separate Department of Technical Assistance under a Director. It has continued to grow. This year we have recognized the increasing complexity of this side of our work by absorbing it in a new Development Services Department, which is responsible not only for our technical assistance activities, including the Economic Development Institute (the Bank's staff college in development programming) but also for the organization and oversight of a new instrumentality, the Development Advisory Service, which aims to offer full-time careers to the kind of experts who can be sent to member countries to advise governments on the direction of their development efforts.

I often think that the loans of the Bank, impressively large as they are, are only the small part of the iceberg which shows above the surface. Probably most of the efforts of the staff of the Bank are devoted to giving expert assistance of one kind or another to our member governments in their development problems.

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In April 1951, I changed my job at the Bank to become Assistant to the President, Mr. Eugene R. Black. I then found myself engaged in new fields.

Perhaps the most important task which fell on Mr. Black's shoulders in his early years as President was to establish the Bank's credit as a borrower in the world's investment markets, and particularly in the United States. The Bank's financial structure is such that the subscriptions of its member countries to the capital stock of the Bank could only play a diminishing part as the Bank's lending grew. The Bank was certain to become increasingly dependent on funds raised by the sale of Bank bonds to private investors.

A first sale of $250 million of Bank bonds had been made in the United States market in July 1947, and this was followed by other issues in fairly rapid succession. Mr. Black's attention was taken up to a great extent by the need to persuade the American investor of the Bank's quality as a borrower, and by the need to promote legislation in many of the states of the United States to amend existing laws so as to enable certain important institutional investors to purchase Bank securities. Mr. Black's success in this endeavour has been remarkable. Moreover, through his efforts, the Bank has successfully penetrated many other markets in the past 15 years - notably in Canada and in Western Europe. The Bank's outstanding funded debt is now more than $2,500 million, denominated in half-a-dozen currencies, and over half of its bonds and notes are now held by investors outside the United States.

This account of the establishment of the Bank's credit in the world's capital markets is done less than justice by such a brief mention as this, but time forbids any more lengthy examination of this supremely important aspect of the Bank's affairs.

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Another new field for me, and also for the Bank, was that of mediation in economic disputes between our member countries.

The first such venture was not successful. We tried to bring about a sort of holding operation which would enable oil production to continue in Iran until a settlement could be reached of the quarrel between the Mossadegh Government and the Anglo-Iranian Oil Company. We were unable to make any impact on that situation, or on Dr. Mossadegh.

But the next job that came along did culminate in success, although it took a long time -- about eight years. I refer to the Indus waters dispute between India and Pakistan.

This dispute had its roots, of course, in the political settlement for the partition of the Indian sub-continent. The new international frontier cut clean across the rivers of the Indus system, all supplying extensive areas with irrigation, leaving India the upstream riparian and Pakistan downstream on every one of the rivers.

India made it clear that she did not intend that Pakistan should continue to look to all these six rivers for her irrigation needs, either present or future. Pakistan felt that her whole agricultural economy, present and future, was threatened. Border clashes took place when Pakistan suspected that India was withholding water, and all the elements of more violent explosion were present -- even all-out war.

The Bank felt that the worsening, and even the continuation, of such a state of tension between two of its most important countries could only inhibit the orderly course of their economic progress and accordingly, in 1952, Mr. Black offered the good offices of the Bank to mediate the dispute.

Both governments agreed and thus began the process of negotiation which culminated in the signing of the Indus Waters Treaty at Karachi in September, 1960.

A vital element in the settlement was the generous financial contribution of six friendly governments (of which the Canadian Government was one) towards the cost of constructing a system of works in Pakistan to enable Pakistan to look forward to a reasonable quantum of water uses under the new regime of the rivers that the Treaty had established.

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The Bank has also been used as an impartial mediator in the settlement of other disputes, in some of which I found myself playing a part.

One of the most difficult of these was between the United Arab Republic and the Suez Canal Company over the question of compensation for the nationalization of the Canal. This dispute was successfully settled in July 1958 after lengthy and complicated negotiations -- carried on in three languages.

Then there was the other vexatious issue arising out of the Suez incident -- the financial claims and counter-claims on one another by the Government of the United Kingdom and the Government of the United Arab Republic. This also Mr. Black was able to assist in settling on lines accepted by both sides.

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All of the activities I have spoken of were possible within the framework of the World Bank itself. We were, however, also faced with some problems in development financing which the Bank's constitution had not equipped it to solve.

One of these was the assistance of private industrial enterprises in our member countries. The Bank has, of course, made several loans to private industrial corporations, notably the big steel companies in India and Japan. But such Bank loans require a government guarantee, which is not always obtainable from the government, or indeed always acceptable to the private corporation.

Moreover, the Bank's participation in these enterprises can only be in the form of loan capital, and private industry often requires finance in the form of equity participation, sharing the risks of the enterprise. Accordingly, the Bank took a full part in promoting proposals for the formation of a new international financial institution which would be devoted entirely to the promotion of private enterprise. This institution, the International Finance Corporation, or IFC, came into being in 1956 as an affiliate of the Bank.

The President of the Bank is also the President of IFC, and our operations are closely coordinated. True, IFC's earlier years were handicapped by a provision in its Articles of Agreement which prevented it from direct equity participation in the enterprises it wished to assist. This limitation was, however, removed a year ago and IFC has since demonstrated that much greater possibilities now lie before it in the field of industrial financing. IFC will have much to do with industrial development banks in the developing countries of the world, and we have recognized this by making IFC the focal point for development bank financing, even in cases where a World Bank loan will be involved.

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But there is another and much larger international financing problem, which is bound to be increasingly with us in the future; it has arisen because of the growing pace of world development. Since the war, the less developed countries have been borrowing abroad on private and public account as fast as they could to finance economic growth. As a result, many of them have now reached, or are reaching, the limit up to which they can prudently borrow on conventional repayment terms, and at conventional rates of interest. A larger and larger proportion of their export earnings now and over the years to come are mortgaged to meet annual debt service payments.

One obvious example is India, where the financing of successive Five-Year Plans has led to a sixfold increase in India's external debt since 1955 -- and these large investments have not yet had time to produce their full dividends in terms of production. But India is far from alone in this situation; many countries of Latin America, for example, are in the same position.

Then there is another category of countries which are unable to borrow on conventional terms all the development funds that they need. These are the many new nations now emerging from colonial status. In the past, their requirements for external capital have been satisfied directly by the metropolitan power, or by their borrowing with the backing of the credit of the metropolitan power. The achievement of independence has removed this credit umbrella and many of these new nations will be hard put to find sources of external finance to continue their development effort.

This situation has become increasingly urgent in the past few years and is bound to become even more acute. A recent study made by the Bank indicated that a group of 34 less developed countries accounting for 70% of the population of the under-developed free world had increased their external public debt by about $2\frac{1}{2}$ times in the last five years, while their export earnings had risen by only 15%. It is clear that in such a situation there are narrow limits to further conventional borrowing.

On the other hand, if external assistance to those countries ceased, their economic development would come haltingly to a stop, with grim consequences for world trade and for world political tranquility. What is needed to protect existing investments in those countries and to allow them to maintain the momentum of their economic growth, is more external assistance on terms which will not impose any significant additional burden on their already difficult balance of payments situation.

The first recognition at an international level of these new circumstances was the creation, two years ago, of the International Development Association (IDA). IDA too was established as an affiliate of the Bank, and its member governments subscribed initial resources for its operations equivalent to about $1 billion, of which 75% is available in convertible form.

IDA has now lent a total of about $335 million. By and large, IDA credits are applied to purposes similar to those for which the World Bank lends, although IDA is also lending for social investments such as municipal water supply and secondary education.

But the terms of IDA credits are very different from those of Bank loans. Bank loans at present carry an interest rate of $5\frac{1}{2}$% and are usually repayable over 15 or 20 years. IDA credits may have a term of as long as 50 years, with no repayment over the first ten years. Moreover, IDA credits may be granted free of interest, with only a service charge of 3/4 of 1% to help meet administrative costs. As a result, a country receiving an IDA credit obtains foreign exchange assistance for its development investment without having to face debt service payments of any burdensome consequence.

IDA shares the same Board of Directors, the same management and the same staff as the World Bank. Projects submitted for IDA financing are subjected to the same rigorous investigation as is applied to World Bank loans. Thus, although IDA credits may be soft in their terms, they are certainly not soft-headed, or even soft-hearted. Moreover, IDA's funds are not passed on to an agency executing a project on the same lenient terms as they are provided by IDA to governments. We ensure that governments, when re-lending the funds to the project that is being financed, do so on conventional terms so that the project is subjected to the financial disciplines which assure its economic operation.

I would repeat that the Bank and IDA have a common Board of Directors, and it is this Board that decides when a country should have an IDA credit rather than a Bank loan. But so great is the need for external assistance on IDA terms that half of IDA's initial convertible resources have already been lent and the remaining half is likely to be committed within the next nine months.

The financial future of IDA was the principal item of business before the Annual Meeting of the Board of Governors of the Bank and IDA in Washington a month ago. The Governors have instructed the Executive Directors of IDA to come up by the end of this year with proposals on the replenishment of IDA's resources. Naturally, what the Executive Directors will recommend will reflect the instructions they receive from the governments they represent. Accordingly, we may expect that the next few months will see lively debates in parliaments and congresses, particularly of the so-called industrialized or developed countries, on how much they are willing to contribute to IDA to enable its economic assistance activities to continue.

It seems to me that what is required is a firm decision by the "rich" countries that -- year in, year out -- in good years and in bad -- they will be prepared to contribute a certain proportion of their national incomes -- or, at least, a certain proportion of the growing increment of their national incomes -- in financial assistance to those countries that are "poor" -- and the "poor" countries contain the vast majority of humanity. If such a decision was taken, a much more rational use could be made of the world's available resources. I believe that there is no alternative to this decision if the free world is to achieve its economic and political objectives.

Over the past 20 years, a program of external aid has been a constant feature of Canadian policy. I am confident that when the issue of more funds for IDA comes before the Canadian Parliament, it will have the generous and sympathetic consideration that it certainly deserves.

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I need not remind this audience of the success that has attended the efforts of ministers of finance, chancellors of the exchequer and secretaries of the treasury in bringing about a less inequitable distribution of national wealth among the inhabitants of their own countries. This has been the most significant politico-economic development of our generation. The gap between individual wealth and individual poverty in the so-called developed countries has constantly contracted.

I can recall the days of the beginning, almost sixty years ago, of such education as I have had, when I attended a small elementary school in the heart of the country in the north of Ireland. Of about forty children, the parents of only 8 or 10 of us could afford to fit us out with boots or shoes. The rest went barefoot, and often hungry. Returning to my native country-side today, I see no one under-nourished, no one ill-clothed.

But now look away from the domestic scene to the international panorama. Between the countries that are "rich" and the countries that are "poor", the gap -- already very, very wide -- is not only not contracting, but is actually widening. In my view, this growing disparity in international wealth, this need to find means (within the framework of our democratic political institutions) to narrow this international gap, is the most urgent and challenging problem facing our own generation and the new generations to come.