Excluding the population of Mainland China, approximately 1-1/2 billion people live in the undeveloped nations of the world. Their development is one of the biggest and most important tasks confronting mankind in this century. The World Bank Group is one of the institutions which have been organized to assist in that process. But having said that, I want to emphasize that we are a development investment institution, not a philanthropic organization and not a social welfare agency. We operate at a profit -- in fiscal year 1970, a profit which totalled approximately $213 million before considering a gain from currency revaluation.

To describe to you our corporate structure, I will call on Mr. Broches, our General Counsel. Mr. Broches has been with the Bank since 1946.

After Mr. Broches speaks for three or four minutes, I will ask Mr. Aldewereld, the Vice President for Finance who supervises all project evaluation, to discuss briefly our investment policy. He too has been with the Bank since 1946.

Following Mr. Aldewereld's remarks, I will discuss the general financial position of the Bank and we will then turn to your questions.

Mr. Broches.

* * *

The Bank's lending policy is founded on two basic principles: the project must be sound and the borrower must be creditworthy. We simply will not make a loan unless both of these criteria can be met.

We insist that the investment project itself have a demonstrably high economic return and be directly related to the development of the country in which it is located. And we insist further that the total economy of the borrowing nation be capable of repaying our loan and meeting the interest and other charges. Mr. Aldewereld will describe to you how we select and supervise our investments.

Mr. Aldewereld.

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Aldewereid will describe to you how we select our investments.

Mr. Aldewereid.

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Capital requirements throughout the developing world have not diminished; they have expanded. The opportunities for high return investment have mounted almost everywhere. As in the past, 85% of the new capital required will come out of the savings of the developing countries themselves, but that 85% will remain ineffectual without the other 15% which is the irreducible foreign exchange component these countries must borrow from abroad.

As the requirements of the developing countries for external capital have increased, Bank lending has increased. If we were to continue to lend more, clearly we had to borrow more. Further, we wanted to try to improve our liquidity. Between 1964 and 1968, the Bank's balance of cash and liquid securities had been drawn down by about $400 million. To increase the flexibility of our operations we wanted to reverse that process if possible. And we have. During the past 24 months our liquid assets have increased $700 million to a level of $2.1 billion.

You might be interested in where we have found the funds which have made this possible. We have found them, for instance, in Saudi Arabia and Kuwait. And even more importantly, we have found them in countries with balance of payments surpluses such as the Federal Republic of Germany and Japan. Within Germany we tapped totally new sources of finance for the IBRD. One of them is the Westdeutsche Landesbank, a clearing institution for more than 250 savings banks, with nearly 3000 branches. It has assets of approximately $7 billion. Moreover, this institution places our bonds in other savings banks in Germany. The deposits of all of these institutions total some $26 billion. At the same time we have continued to market
public issues in the Federal Republic through the syndicate managed by our long-time underwriters, the Deutsche Bank, which is presently handling a new issue of DM200 million.

Earlier this year, we borrowed for the first time in Japan where we sold two medium-term issues of yen equivalent to $100 million each to the Bank of Japan. In the sale of these issues we benefitted from the low rate prevailing for government securities: 7.14%.

Over the last two years we have also made increased use of other Central Banks of the world. Sixty-five of these institutions hold over $1.5 billion of our debt -- approximately 33% of the total. They have substantially increased
their holdings of IBRD bonds during the last two fiscal years -- from $1.1 to $1.5 billion -- and there is every indication that they will continue to increase them in the future.

It should not be surprising that our securities enjoy so high a rating. The combination of assets and guarantees which provides their intrinsic strength is wholly unique:

- A portfolio of loans for projects which bring high economic returns to the borrower;
- A guarantee of 100% repayment of each loan by the government of the country in which the project is located;
- Cash and liquid security balances, in fully convertible currencies, equal to about 45% of the outstanding Bank debt;
- Paid-in capital and retained earnings amounting to 85% of our debt;
- All this, plus uncalled capital subscriptions backing the debt and equal to some 450% of the amount outstanding.

No other bond in the world offers that kind of security. And it is precisely because of the strength of that security -- and our stated determination to maintain that strength -- that we have been able to place our bond issues at favorable rates.

In essence, World Bank bonds are backed by the full faith and credit of the strongest industrial nations on earth. And yet, we have always proceeded as if this outside protection of our bonds did not in fact exist. We have sought so to conduct our business that the Bank need never call on that security.

The record of the Bank's operations under my predecessors is excellent.
by any standards. Profits have been good and have risen steadily in recent years. In fiscal 1969, they reached $172 million and in FY 1970 $213 million, compared to average annual profits during the past five years of $145 million. We fully expect them to stay at a high level. This is true even though interest rates in the future will be set at concessionary levels as they are at present.

Today a typical 24-year Bank loan, which carries an interest rate of 7.0%, contains a grant element of approximately 20% of the face value of the loan. The combination of concessionary interest rates to our borrowers and operating profits to our stockholders is made possible by our high ratio of interest-free capital to funded debt ratio at present of nearly one-to-one.

Currently, the average cost to the Bank for all its funds — that is, its total funded debt, plus its paid-in capital and retained earnings — is only 3.2%. Essentially, it is the difference between this 3.2% and the Bank's lending rate, now 7.0%, which enables us to cover all our administrative costs, grant reasonable concessions to our borrowers, and continue to earn substantial profits.

As I have said, we conduct our affairs as though the only security behind our bonds were the technical and financial soundness of the projects themselves in our loan portfolio. But the fact remains that behind that assurance stands our very favorable debt-equity ratio of 54-46. [Last month our total debt amounted to some $4.6 billion, compared to paid-in capital and retained earnings of about $3.9 billion.]

And beyond that lie two further assurances: two unique guarantees by the
governments of the world. First, that each loan is the primary or guarantee obligation of the country in which the Bank's investment is made. And second, that the total of all Bank debt is backed by the uncalled capital subscriptions of the member governments (capital which can be used for no other purpose.)

In the twenty-two year history of the Bank, there have been no losses on its loans. No government has failed to honor its obligations. The Bank has not been a target for debt repudiation as have bilateral aid agencies and private credit corporations. The reason is obvious. Developing nations are convinced that it is their own best interest to keep impeccable relations with the Bank.

Even in extreme situations, such as the latter years of the Nkrumah regime in Ghana, or in the period when the UAR defaulted on obligations to bilateral creditors, neither of these governments defaulted on World Bank loans. As we expand our operations and become a more and more important source of development capital, the advantage to borrowing countries of continuing to meet their obligations to us will increase.

The final security behind our bonds is represented by the uncalled subscriptions to Bank capital. These amount at present to $20.9 billion -- roughly four and a half times the total of our funded debt. That $20.9 billion includes a U.S. share of $5.7 billion and a Common Market, U.K. and Canadian share of $6.7 billion.

The guarantee represented by the uncalled subscriptions cannot be eroded. By the provisions of our charter, these uncalled subscriptions may not be drawn upon for loans or administrative expenses. They can be used solely as a protection for the obligations of the Bank.
Moreover, the uncalled subscriptions are expressed in U.S. dollars, of the
weight and fineness in effect on July 1, 1944. Thus they are not subject to
deterioration as a result of changes in the value of currencies.

Similarly, because the loans of the Bank, made out of borrowed funds,
are disbursed and repaid in the same currencies, the Bank faces virtually no
devaluation risks on its borrowed funds: its obligations to its creditors are
matched by the repayments due from the borrowers.

It is, then, not too much to say that the World Bank is an entirely unique
financial institution.

And it is unique in its security and strength.

And it is unique in its purpose and program.
Malnutrition is common.

At least a third to a half of the world's people suffer from hunger or nutritional deprivation. The average person in a high-standard area consumes four pounds of food a day as compared with an average pound and a quarter in a low-standard area.

Infant mortality is high.

Infant deaths per 1000 live births are four times as high in the developing countries as in the developed countries (110 compared with 27).

Life expectancy is low.

A man in the West can expect to live 40 per cent longer than the average man in the developing countries and twice as long as the average man in some of the African countries.

Illiteracy is widespread.

There are 100 million more illiterates today than there were 20 years ago, bringing the total number to some 800 million.

Unemployment is endemic and growing.

The equivalent of approximately 20 per cent of the entire male labor force is unemployed, and in many areas the urban population is growing twice as fast as the number of urban jobs.

The distribution of income and wealth is severely skewed, and in some countries becoming more so. In India, 12 per cent of the rural families control more than half of the cultivated land. In Brazil, less than 10 per cent of the families control 75 per cent of the land. In Pakistan, the disparity in per capita income between East and West, which amounted to 9% in 1950, became 30% in 1960, 40% in 1965, and 50% in 1970.

The gap between the per capita incomes of the rich nations and the poor nations is widening rather than narrowing, both relatively and absolutely. At the extremes that gap is already more than $3,000. Present projections indicate it may well widen to $9,000 by the end of the century. In the year 2000, per capita income in the United States is expected to be approximately $10,000; in Brazil, $500; and in India, $200.