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GRAVES, HAROLD - Articles and speeches (1959 - 1973)

GRAVES

Harold N. Graves, Jr.

Remarks of the Representative of the
International Bank for Reconstruction and Development

Economic Commission for Africa
Addis Ababa, Ethiopia, January 3, 1959

Mr. Chairman, Distinguished Delegates, Ladies and Gentlemen:

The World Bank is honored and happy to have been asked to be present at this inaugural session of the Economic Commission for Africa. It is a privilege indeed, Mr. Chairman, to be a witness at this long-awaited moment in the history of a continent.

Mr. Chairman, we have no doubt in the World Bank that the raising of living standards in Africa is a task of great urgency. At few other places on earth does so much of mankind live so precariously on the margins of misery and death. At few other places on earth do so many human beings yearn so keenly to come out of the darkness of centuries past and into the light of the century present.

Ahead of the new Africa are many magnificent opportunities. Much already has been done to show what progress is possible. But we are only at the beginning, and the problems that remain should, by their size and complexity, make us humble. In relation to what must be done in Africa, none of us can say that we have made so far more than a modest contribution.

In the World Bank, we hope and expect that our contribution will grow. Many of the main facts about the Bank's activities in Africa are set out, clearly and briefly, in the documentation provided for this conference. It only remains for me to offer a few remarks that may be helpful to the Commission as part of the background for its deliberations.

Let me begin by recalling to you a fact which too often is left to go without saying. It is that the Bank is not only an international organization, but a cooperative one, drawing on the resources of its members and using them for the benefit of members and member territories. Nearly all the states of this continent have access to the Bank, either as members in their own right, or through their association with members.

About one-seventh of the Bank's lending for economic development has been for projects and programs in Africa. The total of loans on the continent is now $542 million. The tendency is for the rate of our lending to accelerate each year, and for the proportion of African loans in our whole portfolio to grow larger.

It was a source of special satisfaction to the Bank that the first African country to borrow from us was a nation which had long been independent. This first borrower was Ethiopia, where the Bank made loans for highway improvement and industrial development in 1950. It is pleasant to recall, incidentally, that the signature on the loan documents signed at that time is that of the distinguished leader of the Ethiopian delegation at this meeting.

In the five years after 1950, the demand for Bank assistance was not strong, and the Bank's loans in Africa averaged only a little over $50 million a year. Then the average began to rise. During the past three years, it has been more than $90 million a year, and in the year ended this week, our lending in Africa passed $110 million. We take this to be a good omen.

We expect the demand for finance in Africa to go on growing. This expectation is one of the factors that has led our executive directors to recommend, as you know, that member governments greatly increase their guarantees which back the Bank's operations.

Most of the Bank's lending in Africa has been for utilities -- especially electric power and transportation -- that have a pervasive influence throughout the process of economic growth. The Bank's investment in power in Africa is about $180 million; and the largest hydroelectric project with which we are associated anywhere in the world is here in Africa.

For every dollar we have invested in power, we have invested nearly two in transportation in Africa -- in railroads, motor roads or port development. Our lending for this purpose comes to $320 million. The Bank's experience suggests that among the physical paraphernalia of development, none are more ardently sought than transportation facilities, not only to enlarge markets and to stimulate agricultural and other lines of production, but also to widen human contacts, and to bring more of the necessities and amenities of life to areas previously hard to reach.

Mr. Chairman, sound counsel has been given here about the desirability of taking measures to attract to this continent as much private investment as possible. Let me point out that the Bank itself is an instrument for conveying and promoting the flow of private capital. Indeed, it can be roughly calculated that of Bank funds disbursed for the economic development of Africa, half were raised in the private market by the sale of our bonds, especially to financial institutions in Europe and North America. What some of you may not know, beyond this, is that the Bank has succeeded in transferring some $50 million worth of its African loans directly to private purchasers in Europe and America. Finally, with the cooperation of the Bank and in phase with Bank financing, three African countries have been able to float $85 million of their own bonds directly in the New York market in the past year and a half.

The Bank, as I have said, hopes and expects to do more and more development financing in Africa, and the scope of what it can help to do is considerable. Yet there are limitations to its financing of which the distinguished delegates probably are aware. Under its charter, for instance, the Bank usually lends to meet the costs of imported goods and services, and leaves domestic expenditures to be financed by the borrower. Moreover, the Bank does not lend for projects in the important fields of education, health and housing. And, finally it does not lend more than it believes a borrower can repay.

In the case of some countries and some projects, this means that the Bank, and other investors operating according to similar standards, either cannot operate, or cannot operate on an adequate scale. For this reason, among others, the management of the Bank has long believed that consideration might well be given to enlarging the international machinery for financing development. While the precise form of any new machinery would necessarily have to be decided by the countries giving financial support, it should provide a way to convey funds for useful projects not otherwise likely to be financed, and should do so without adding appreciably to the burden of international debt in foreign exchange. If funds are made available on these terms, in order to have their full impact, they should be administered according to serious economic and technical criteria.

The more the Bank works in the development field, Mr. Chairman, the more it is impressed by the importance of factors other than external finance. External finance is only a means to mobilize internal energies, skills and resources; and it is only one means. For that reason, the Bank has been led into a variety of activities in technical assistance. Very few Bank loans are made that, when it comes to project execution, do not require technical assistance of one kind or another. Apart from projects, the Bank has often recruited experts, or made members of its own staff available as experts, to work out approaches to particular problems of development. Beyond that, the Bank's activities in helping governments to draw up development programs have been mentioned by a number of delegations, and are set out in your documentation.

It follows from nearly everything I have said, Mr. Chairman, that the Bank and the Economic Commission for Africa will have many interests in common. There will be many points at which their activities will touch and reinforce each other. The Bank, for its part, will welcome opportunities for active collaboration as they arise.

Mr. Chairman, the President of the Bank, for reasons which you know, is himself today in Africa. He has been very much interested in the fact of your meeting, and has asked me to give a special greeting to you and your colleagues. This is his message:

"Very possibly the largest untapped reserves of human and physical resources left on earth lies in the lands from which you come. The world at large has been increasingly drawn to Africa by its great material resources. But to realize the whole splendid endowment of nature here will require the fullest participation of the African peoples themselves -- their most unremitting work, the widest engagement of their talents, and their wisest leadership.

"In the development of Africa, the new Commission will be uniquely placed to serve as a disseminator of techniques and ideas that will speed economic advance. Not less significant, by its very existence, the Economic Commission for Africa will stand as a symbol of the determination of men to elevate the way of life for all on this broad continent. I would like to extend my best wishes to the members of the Commission for the success of this new and important venture."

Mr. Chairman, that concludes my President's statement and concludes my own remarks as well. Thank you.

May 13, 1963
Speech, Mr Graves

DRAFT PRESS RELEASE FOR CITY CLUB OF CHICAGO

The most effective kind of foreign aid is the kind which brings new skills and productive capacity to the country being helped. This was the theme stressed by Mr. Harold N. Graves, Jr., Director of Information of the World Bank, in an address today to a forum luncheon meeting of the City Club of Chicago. Mr. Graves was discussing the work of the World Bank -- formally, the International Bank for Reconstruction and Development -- and its sister organization the International Development Association.

The Bank, Mr. Graves said, had now lent nearly $7 billion for economic development in more than sixty countries. This money, raised partly through government subscriptions and partly from borrowings from private investors, had gone into carefully planned projects, chosen for financing because they could make a measurable contribution to economic progress in the countries concerned. About one-third of the $7 billion had financed electric power projects, and another one-third was helping to build roads, railroads and ports; most of the remainder was financing improvements in industry, agriculture and telecommunications. The Bank had never suffered a default on repayments of any of the loans it had made; in fact, Mr. Graves said, it had consistently earned a profit, and had accumulated reserves now amounting to nearly $800 million.

Mr. Graves described several of the projects financed by the Bank's loans and the contributions they had made to raising living standards in the underdeveloped countries. In Ecuador, for instance, the Bank had lent $22 million since 1954 to finance construction of roads opening up a previously inaccessible coastal region. Subsequently, this area began to produce four-fifths of Ecuador's exports. Bananas, the most important crop, are grown and shipped (through a new port also financed by the Bank) in such quantity that Ecuador has become the largest exporter of bananas in the world.

The World Bank official said that most international assistance, however, could play only a relatively modest role in the underdeveloped countries, and that the chief efforts would have to come from these countries themselves. He also stressed that time was one of the most necessary ingredients of economic growth. The Bank had made a loan for a telephone system in Ethiopia more than a decade ago, for example, and the project certainly could be counted as an outstanding success. Yet the project could only begin with extensive help from foreign personnel, Mr. Graves pointed out, and before the objective is achieved of having the service completely managed and operated by Ethiopians, some 15 years or more will have elapsed.

PREPARED BY HAROLD GRAVES

SEPTEMBER 1967

The international meetings to be held in Rio during the week of September 25 will, for that week, make the city the financial capital of the world. The meetings bring together the Governors of five financial institutions. Taking pride of place this year (under an arrangement whereby the leadership changes hands between the principal institutions from one year to the next) is the World Bank, principal international source of long-term capital for investment in projects of economic development.

The same Governors who serve the Bank will also be meeting in their capacity as Governors of two institutions affiliated with the Bank -- the International Finance Corporation (IFC), which specializes in providing and finding capital and technical assistance for private enterprises, and the International Development Association (IDA), which makes loans on exceptionally favorable terms to countries not fully able to service debt contracted on conventional terms.

The fourth institution, fully independent in its own right, is the International Monetary Fund, which both presides over the rates of international monetary exchange and acts as an international reserve fund from which member countries can draw in time of economic adversity.

Finally, Rio will be the scene of the meeting of the highest governing body -- the administrative assembly -- of an entirely new institution. This is the International Centre for the Settlement of Investment Disputes, established a year ago under the sponsorship of the World Bank.

The largest membership of these institutions is enjoyed by the Bank and the Fund: the same 106 governments belong to both. Delegations coming to Rio from member nations will number about 700 individuals, including some of the world's most distinguished financial statesmen. Each delegation will be headed by a Governor of the Bank and a Governor of the Fund -- or sometimes by a single individual acting as both. Among the Governors who will be in Rio are Michael Debre, the French Minister of Economy and Finance -- and also the chief architect of the present French constitution -- Karl Schiller, the Minister of Finance of Germany's new coalition government, Morarji Desai, Minister of Finance of India, David Horowitz, imaginative and outspoken Governor of the Bank of Israel, N. M. Uqaili, new Finance Minister of Pakistan, James Callaghan, the British Chancellor of the Exchequer, and Henry H. Fowler, the United States Secretary of the Treasury.

Observers from many other financial and development institutions also will be present. They include Thorkil Kristensen, the head of the Organization for Economic Cooperation and Development, Felipe Herrera, President of the Inter-American Development Bank, Takeshi Watanabe, President of the new Asian Development Bank, and Paul Hoffman, the head of the United Nations Development Fund.

Private bankers, not only from Brazil but also from Western Europe, North America and the Far East, also will attend the meetings. Perhaps the best known is David Rockefeller, Chairman of the Chase-Manhattan Bank of New York, who will himself be the center of another event in Rio just preceding the meeting. On Friday, September 22, he will deliver the Per Jacobssen Memorial Lecture, given each year in memory of the late Managing Director of the International Monetary Fund.

Two matters of business will dominate the meetings, although neither is likely to be brought to a final conclusion. One, of concern to the International Monetary Fund, is the creation of new monetary reserves to widen the base for international trade and investment transactions. This matter, originally discussed by "the Ten" -- meaning Canada, the United States, Japan and seven countries of Western Europe -- has more lately been discussed within the framework of the International Monetary Fund.

A consensus now exists looking toward the creation of an additional medium of exchange -- to be called SDRs -- to aid trade and investment. At the meeting in Rio, it is likely that the board of directors of the IMF will be instructed to draw up a detailed plan for the creation of the new medium. The developing countries, for their part, no doubt will insist on the importance of giving a place in the plan to their own special needs for help in trade and investment.

The second matter likely to dominate the discussions at Rio is not equally far advanced. This is the question of replenishing the funds which are at the disposal of the Bank's affiliate, the International Development Association. Since it was created in 1960, IDA has made loans equivalent to US $1,700 million, and now has only about $100 million left from which to make new loans.

George D. Woods, who is the President both of the World Bank and of IDA, has proposed to the more prosperous member governments of IDA that they substantially increase IDA's resources, but no agreement on this matter has been reached among the 18 governments which contribute most of IDA's funds. It is possible that the countries of the European Common Market will meet informally behind the scenes at Rio to work out a common position on IDA replenishment. But it is hardly likely that a broader agreement will be reached, bringing together all of IDA's 18 donor countries. In the meantime, it is probable that the developing countries will complain that the World Bank itself is not able to give more support to IDA. Last year, out of its earnings of the previous year, the Bank made a transfer to IDA of US $75 million equivalent. This year, the Bank is proposing that a transfer be made only in the token amount of $10 million. The reason is that the Bank -- whose largest client in South America is Brazil -- is having to work very hard to raise the money to serve its own customers, without taking on additional burdens on behalf of IDA.

International Student Conference
University of Texas, Austin
March 1, 1968

Harold Graves
Associate Director
Development Services Department
World Bank

THE ECONOMICS OF DEVELOPMENT -- ISSUES FOR TODAY

Mr. Chairman, Delegates to the International Student Conference, Ladies and Gentlemen:

It was with a good deal of alacrity that I accepted the invitation to come here and speak to your Conference today. To have to launch and defend one's thoughts before a gathering as interested, as varied and as talented as this one is the kind of experience which always is instructive and useful. I thought, too, that to come here was a way of paying tribute to Professor C. E. Ayres of our host University, one of the fathers of modern thought on the subject of economic growth and the author of a classic book, "The Theory of Economic Progress."[1/] So here I am, and thank you for asking me.

The topic originally suggested for this talk was "Developing Nations -- Is Private Enterprise the Answer?" In simpler and more innocent times, Woodrow Wilson thought so. While he was still a professor at Princeton, looking across the Pacific he said: "The East is to be opened and transformed; whether we will it or no, the standards of the West are to be imposed upon it. Nations and peoples who have stood still the ages through are to be quickened and to be made part of the universal world of commerce and ideas." And this process, as Wilson saw it at the beginning of this century, was to be carried out through normal trade and business contacts, by private businessmen.

But today, the questions that exercise us are mostly in the realm of what governments can or should do about development -- including, but by no means

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1/ C. E. Ayres, The Theory of Economic Progress, 2nd ed., New York, Schocken Books, 1962.

confined to, what they can do to encourage the participation of private enterprise. So, with the permission of your Program Chairman, my topic was changed to "The Economics of Development -- Issues for Today." Let me assure you at once, however, that I am not an economist. I refer you to the words of a Burmese diplomat who became for a time his country's Ambassador to the United States. At a farewell luncheon given to him in Rangoon he explained about himself, "I am Burman by birth, British by education and" -- here he lifted his glass -- "Scotch by absorption." I doubt, however, that my economist colleagues in the World Bank would let me claim to be an economist, even by osmosis.

I do not consider this a vital handicap and I hope that you will not either. For one thing, the subject of economic development is not exclusively an economic one, but one on which the historian, the sociologist, the anthropologist and the political scientist, among others, have a good deal to say. It covers such a wide and complex range of human activities that most economists have long ago given up any tendency to claim a monopoly of the matter. As Sir Arthur Lewis, one of the best of present-day economists puts it, they have "even abandoned parts of the subject altogether as being beyond their competence."

Let me also give you John Stuart Mill, the political economist of the 19th century who said, "Except on matters of great detail, there are perhaps no practical questions, even amongst those which approach nearest to the character of purely economical questions which admit to being decided on economical premises alone." What economists often do, however, is to indicate to the policy maker what choices of action are available to him, or what mixtures of choices, and what might be the consequences of each. I thought perhaps that this might be the most useful thing for me to attempt here this afternoon -- to indicate what some of the choices are and to let you, if you will, consider yourselves the legislative body that will make the choice.

II

It may be well to start with some of the broad dimensions of the problem, and if in so doing I repeat things that Mr. Narasimhan has said, it will simply underline them.

We are talking about countries which are relatively rich and countries which are relatively poor -- let us call them high-income and low-income countries. A dividing line between the two may arbitrarily be put at a level of $250 a year of per capita product. We can consider that countries with this product or less are poor.

By this definition, about two-thirds of the world's population is living in poor nations. There are about 3.5 billion people in the world; and something like 2.2 or 2.3 billion live in low-income countries. There are over a hundred of these countries, and about half of them have a per capita product of less than $100 a year, considerably below our dividing line. They are of the greatest variety, ranging from the biggest -- China -- to the smallest.[2/] More than half of them have populations of less than five million people -- less than Chicago or Buenos Aires; U. N. Secretary-General U Thant has called them the "mini-countries."

The total gross product of the poor nations is on the order of $300 billion a year. This is considerably less than the gross national product of the United

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2/ World Bank Atlas: Per Capita Product; Population; Main Urban Centers; Washington, D. C., International Bank for Reconstruction and Development, 1967.

States all by itself, and amounts to less than one-sixth of total world product. About two-thirds of the world's population, in other words, disposes of less than one-sixth of its wealth. Per contra, the remaining one-third of the world's population disposes of five-sixths of the wealth. The average disparity in per capita incomes between the rich countries and the poor, as Mr. Narasimhan has said, is on the order of 10 or 12 to 1.

III

The question we are discussing here today is whether to deal with this disparity and, if so, in what ways.

As John Pincus of the Rand Corporation has pointed out in a recent book,[3/] the problem is of much greater concern to the poor countries than to the rich. The poor countries have tried to strengthen their bargaining position by forming the so-called Group of 77 -- actually 87 -- to press proposals of various kinds on the rich, as they are doing at this moment in the United Nations Conference on Trade and Development (UNCTAD) now being held in New Delhi. And in pressing these proposals, they have been able to achieve a fair -- although by no means perfect -- degree of unity.

The high-income countries, for their part, do practice various forms of cooperation in the realm of development assistance. They have no concerted policy, however, and no common bargaining position. It is certainly not surprising that they do not; and perhaps it would be shear romanticism to think that they could. But this circumstance is what has led Dr. Raul Prebisch, the Secretary-General of UNCTAD, to remark with some asperity that the United Nations Development Decade has been a decade without a development policy.

3/ John Pincus, Trade, Aid and Development, New York, McGraw-Hill, 1967.

Over-all, the picture is one of the less developed countries trying to get as much as possible and of the high-income countries, so far, yielding relatively little. But we should not be too derogatory about this. It is an unusual circumstance in history that the high-income countries should be giving anything at all.

IV

What are the ways in which the rich could help the poor?

Let us begin our consideration of this question by considering international trade. The high-income countries could liberalize their trading relationships with the poor nations and could enable the poor to earn more in international commerce. Generally, a greater exchange of goods would permit a more efficient use of resources: it would get the world closer to the ideal in which each country does the things in which it has the greatest margin of efficiency over other producers. A higher level of trade would mean a better living standard for everybody. If low-income countries could sell more abroad, they could afford to import more of the capital goods and expert services they need to modernize and strengthen their economies.

What the low-income countries want, and what they are pressing for at the current United Nations Conference on Trade and Development in New Delhi, is easier access to the markets of the prosperous nations. They are asking the high-income countries for some fixed length of time -- 10 or 20 years -- to abolish tariffs on imports of raw materials from the poorer countries. They are asking for lower tariffs on manufactured goods. And they are asking that the high-income countries finance schemes to underwrite the trade earnings of the developing nations. One kind of scheme would aim at supporting the prices of the primary commodities on which low-income countries depend for much the greatest part of their export sales. Another kind of scheme would provide a mechanism whereby the richer countries would make supplementary finance available in cases where earnings of a less developed country from exports had suffered an unexpected and unforeseeable decline, thereby depriving the country of funds needed to carry on a promising program of economic development.

It does not seem that the impact of these measures on the economies of the high-income countries would be particularly onerous -- especially when you remember that the impact would be spread out over some 16 or 17 high-income countries which, last year, had a total gross product of nearly $1,500 billion. The dimensions of the measures which the low-income countries propose, as nearly as anyone can tell, would come to considerably less than one-half of one per cent of that; and they would involve a considerable element of mutual benefit as between the rich countries and the poor. Nevertheless, proposals to liberalize trade have one heavy handicap. They would be politically painful in the high-income countries; they would stir up swarms of protectionists hornets before which national legislatures always seem to shrink in alarm. I well remember, a good many years ago, in the age before plastics, a loud outcry that was raised in the United States when it was proposed to lower the tariff on wooden umbrella handles, a product then imported chiefly from Japan. It turned out, in this case, that what was being protected were two small plants in New Jersey employing, if I remember correctly, a total of 27 people. But the outcry was loud all the same.

In any case, the adoption of trade policies to benefit the poor has not seemed an urgent matter to the rich. The result is that little has been done to liberalize trade in favor of the less developed countries. If anything, the situation may be somewhat tighter in 1968 than it was a few years ago.

Yet, liberalized trade measures have the possibility of doing two things that other forms of cooperation are not so likely to do.

First, trade can enlarge the market for products of the low-income countries. It gives them the possibility of a higher volume, and therefore more efficient methods, of production. The importance of this is particularly obvious in the case of the mini-countries. But in fact it is important for all low-income countries, since in a sense they are all mini-countries: even if they have relatively large populations, the low level of their incomes means that domestic demand is low and markets are small.

The second thing that trade has the possibility of doing is to thrust the low-income countries into competition with other producers. This would impose disciplines of efficiency and incentives to modernization that they otherwise would be unlikely to experience.

At any rate, we have now arrived at our first set of issues. They may be summarized in a single question: Do the high-income countries want to improve the position of the less developed countries in international trade?

The sub-questions are whether the high-income countries are willing (1) to liberalize their acceptance of goods from the less developed countries, (2) to finance schemes for supporting the prices of primary commodities and (3) to provide emergency finance to countries whose development programs are threatened by unexpected interruptions of trade earnings?

V

The other means of assisting the low-income countries, as we all know, is through what is commonly and rather loosely called foreign aid or somewhat primarily referred to as development assistance. The fundamental aspect of "aid" is that it involves some redistribution of wealth from the rich to the poor. There is a good deal of bookkeeping on what these transfers account to each year, and they include a large variety of transactions -- no military aid, but a multitude of other sorts. Let me mention four: first, governments grants and loans and forms of credit insured by governments, especially for the purpose of financing purchases of equipment wanted in the less developed countries; secondly, shipments in kind, especially of food and especially from the United States; thirdly, technical assistance, which is to say the services of experts of various kinds; and fourthly, private international investment.

The high-income countries have found it more palatable to give aid in various forms than to liberalize trade. One reason may be that the benefits of new trade arrangements would mingle with the general flow of commerce and be difficult to single out. Aid, on the other hand, is easy to identify; it gives visibility to the virtue of the donor countries. Another reason undoubtedly is the belief that the flow of aid can be managed in such a way as to serve the particular interests of the country giving aid. Development assistance therefore can command some support at home from various kinds of people who are interested in having aid practiced because they think they themselves may benefit from it.

The motives of aid are multiple. France uses it, among other things, as a cultural instrument, as a way of spreading, or at least maintaining the influence of, the French language and culture. In fact, this is one reason why the French are not very enthusiastic about aid given by international organizations: aid of this kind is multilingual, and does not necessarily speak French.

Aid also has been thought to have its uses as a diplomatic weapon. For a while, this aspect was dominant in the German aid program, for instance: Bonn was likely to stop assistance to less developed countries that had the temerity to extend diplomatic recognition to East Germany. Attempts to use aid as a strategic weapon are especially familiar in the case of the American program. It is a notable fact that by far the largest part of United States economic assistance has been given to countries around the periphery of the Communist world.

Nearly every country providing development assistance does so at least partly in order to promote its own exports. Most development assistance funds can be spent only to procure goods and services in the country providing finance; and of what the less developed countries are paying today in return for past development assistance, nearly half is for the services of export credits.

All these motives, and others besides, may be wrapped up in the development assistance activities of a single country. This is notably true in the case of Britain and France which, almost as a matter of habit, serve all these interests at the same time in aid programs that continue the historical association of these two nations with the countries of their former empires.

The various uses to which other donor countries have attempted to put development assistance have not always been of benefit to the less developed countries. Export promotion, for instance, sometimes has resulted in the sale of goods which the less developed countries did not really need, or even has competed with sales the poorer countries themselves might have made abroad. It is commonly thought that some exports made in the name of development assistance have discouraged the growth of local production -- that exports of food, especially, have not encouraged the less developed countries to grow their own. The virtually universal practice of requiring that capital assistance be spent in the donor country providing it diminishes the value of aid. It has been estimated that if the developing countries were free to spend aid funds on the basis of world competition among suppliers of goods and services, they annually could get about a billion dollars' better value than they do.

In all these cases, the uses made of aid may perhaps obscure and frustrate what seasoned observers believe, and opinion surveys demonstrate to be the real reason why ordinary men and women in most of the high-income countries are willing to support development assistance. That reason was stated by the first economist, Adam Smith. He remarked, two centuries ago, that

> "How selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it, except the pleasure of seeing it. Of this kind is ... compassion, the emotion which we feel for the misery of others, when we either see it, or are made to conceive it in a very lively manner. This sentiment, like all the other original passions of human nature, is by no means confined to the virtuous and humane, though they perhaps may feel it with the most exquisite sensibility. The greatest ruffian, the most hardened violator of the laws of society, is not altogether without it."3/

Only one country, so far as I know, seems to carry on its aid program primarily as a way of expressing this human instinct. The country is Sweden, which does not use its aid as a short run auxiliary to diplomacy, strategy, or commerce. Swedish funds are not tied to purchases in Sweden; they may be used anywhere the developing country can get the best bargain. To the greatest

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3/ Cited by Joan Robinson, Economic Philosophy, New York, Doubleday, 1964, p. 4.

extent possible. Sweden gives its financial assistance through international organizations, or in joint action with them. Swedish aid, in other words, concentrates on the needs of the developing country being assisted.

This brings us to our next set of issues. The basis question here is: What purpose do we wish to serve by aid? Should it be administered according to its present motives and patterns? Or should an effort be made to make assistance more helpful to the less developed countries?

VI

If we vote that we wish to make aid more helpful to others, then we must, among other things, be concerned with the amount of aid. Aid from official sources has risen from the equivalent of about $1 billion in the mid-1950s to $6 billion in 1961. Since 1961, the wealth of the high-income countries has bounded upward; the price of virtually everything has risen; and the population of the less developed countries has continued to grow rapidly. But the amount of aid given or underwritten by governments has remained about the same. Here are the figures:

1961	$ 6.0 billion
1962	$ 6.0 "
1963	$ 6.2 "
1964	$ 5.9 "
1965	$ 6.2 "
1966	$ 6.5 " 4/

Private investment, as we observed a few months ago, also is counted into the aid equation; and in the 1960s the amount of private investment has fluctuated from between roughly $2 billion to $4 billion; but most of this has

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4/ World Bank and IDA Annual Report 1966/67, Washington, International Bank for Reconstruction and Development, 1967, p. 36.

been invested in the extraction of oil and minerals from relatively few countries, and little of it reaches the poorest of the poor.

It used to be argued that aid, in fact, could not be increased very fast, because of the limited capacity of the less developed countries to make good use of funds coming in from outside. The World Bank, for instance, used to say that its operations were hampered because not enough good projects were presented to it.

But that argument, as of today, has lost a good deal of its force. It is true that the less developed countries are still short of the skills necessary for the planning and execution of the programs and projects needed for economic and social progress. Yet they are by no means as short as they once were: the experience of the last 20 years has taught them a good deal, and in some lines of activity they have experts and technicians as good as the best in the world.

The aid-giving agencies and the poor countries also have been investing a good deal of effort toward increasing the number of good development projects that can be carried on in the poorer countries. The identification of projects is one of the central purposes of the United Nations Development Programme. In recent years, Unesco and the Food and Agriculture Organization of the United Nations have turned their efforts in this direction; both are cooperating with the World Bank in helping the less developed countries to prepare projects in education and agriculture. The Bank itself is carrying out its own independent efforts to increase the number of projects ready for financing.

The result is that the ability of the less developed countries to use capital -- their so-called absorptive capacity -- has grown considerably. Some years ago, the World Bank said that the poorer nations could make good use of \$3 or \$4 billion more than they were receiving each year in development assistance; and at last reports, the Bank had not changed its view on this score.

What now seems to be standing in the way is not the capability of the low-income countries; it is the reluctance of the high-income countries to provide finance. The flow of assistance from the United States, grappling with the problem of the Viet-Nam war, and from the United Kingdom, grappling with severe economic problems of her own, have tended to decline in recent years; so have those of Germany and France. The fall-off has been relatively slight however; and, so far has been balanced in increases in assistance from some of the smaller donors, especially from Japan, the Netherlands and some of the Scandinavian countries.

We are left, nevertheless, with the question: should the amount of aid be increased?

The question, in fact, already has been posed and answered officially. One of the goals of the Development Decade, subscribed to by the donor countries, is to increase the flow of aid to an amount equivalent to one per cent of the incomes of the richer nations.[5/] This would require that the transfer of resources be increased by roughly one-quarter; and presumably nearly all of this would be in the form of governmental assistance rather than private capital.

5/ At the end of March 1968, the United Nations Conference on Trade and Development passed a resolution establishing one per cent of gross national product (rather than national income) as a goal, without stating any date for this level to be reached. This, in effect, raised the sights of the donor countries by about 25 per cent. In 1966, the increase would have been from about \$12 billion to about \$15 billion, as compared to an actual figure of about \$10 billion of transfers in 1966.

VII

The question of the <u>amount</u> of aid can hardly be divorced from the question of the <u>terms</u> of aid. If I make you a gift of \$10, this has greater worth for you than a loan of \$10, since the latter must be paid back. Most aid, in fact, is given in the form of some kind of credit which requires repayment, with interest. There is, however, a considerable variety in the terms of aid. All Australian financial assistance, for example, is given in the form of grants which do not require repayment; and Canadian aid also includes a large proportion of grants. Other lenders extend various kinds of subsidies: some kinds of British credit, for instance, do not require the payment of interest during an initial period of grace. The hardest terms, I may mention, are given by the same country which is devoting the largest proportion of its gross national product to development assistance: namely, France.

Over-all, the terms of aid, after easing somewhat in the early 1960s, are now tending to grow harder again. The situation is that a steadily increasing volume of finance is flowing <u>back</u> from the poor countries to the rich, in the form of repayments of principal and of payments of interest. The implication is that if the same <u>net</u> flow of resources to the poor countries is to be maintained, then the amount of assistance must rise to offset these payments. In fact this is happening already: the figures I have been giving you are net of repayments of principal; the gross figures, representing new appropriations and commitments, in fact are rising.

We therefore confront another policy question: Would there be an advantage in tempering the terms of aid?

Reducing interest payments, and stretching out the length of time in which loans could be repaid, certainly would be of great assistance to some of the most important of the low-income countries -- India and Turkey, for example. Tempering the terms of aid would help to extricate these countries from a position in which they are having to devote an abnormally large part of their resources to old debt rather than new development, and for these and other less developed nations, it would lessen the possibility which makes every good banker shudder, of ultimate defaults on international loans.

Easier terms of assistance would not reduce the cost of aid to the countries giving it; to the contrary, the cost would be increased, since donor countries would receive less in the way of interest and principal repayments. But it would ease their difficulties in another way. If the backflow from the poor countries rose at a slower rate, this also would tend to reduce the increase in new appropriations which legislatures would be called upon to consider in the aid-giving countries. And this might be a circumstance offering some political advantage.

VIII

Finally, out of a great many other questions we might ponder, let me mention just one -- the avenues for distributing aid. At the present time most assistance is bilateral -- that is, it flows from one country to another -- and relatively little of it is multilateral, flowing from international organizations like the United Nations Development Programme and the World Bank. The ratio is roughly ten to one -- $10 worth of bilateral aid for every dollar worth of multilateral aid.

Multilateral assistance is not especially popular among most of the high-income countries. They cannot manage it for their own individual purposes, and they do not get credit for what they do as members of multilateral institutions like the Bank. The Germans make the point perfectly clear by often referring to multilateral aid as "anonymous" aid.

Nevertheless the view is widely held that in the abstract, at least, multilateral assistance has advantages. It is conceded that since multilateral aid is not political, or strategic, or commercial it can and does pay more attention to economic criteria, and therefore can be more effective. Being international, it also can call on a wider range of technical resources: it can command Dutch technicians, for instance, with their outstanding expertise in harbor works, on the Austrians, who invented today's most efficient methods of smelting steel, on the Swedes and their expertise in the long-distance transmission of electric power.[6/]

It is not practical to argue that multilateral aid should replace bilateral aid. There is plenty of need for both, and it is only realistic to suppose that bilateral aid will continue to predominate. Nor would anyone go so far as to argue that multilateral assistance represents the summit of perfection -- and we are not in danger of reaching that summit anyway.

Nevertheless, there is a tendency toward more international action, and ways have been found to enjoy the best of both worlds,bilateral and multilateral. Many donor countries, for instance, have joined the World Bank in forming coordinating groups for the purpose of considering aid for a particular developing country. As chairman of these groups, the Bank acts as honest broker. It presses the developing country to do everything it can on its own behalf to improve its policies, its programs and its development performance

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6/ See, for instance, George D. Woods, Multilateral and Bilateral Aid, Washington, D. C., International Bank for Reconstruction and Development, 1967.

generally. On the other hand, the Bank also presses the donor countries to reward performance with a suitable flow of finance, adequate in volume and given for projects and on terms appropriate to the low-income country involved.

There are other methods of joint action. Sweden has on several occasions joined with the Bank's affiliate, the International Development Association in providing long-term, low-interest finance for projects of high economic priority in developing countries. And from time to time multi-national groupings have been formed, with or without the World Bank, to finance big projects like the Indus development scheme in Pakistan and the Keban Dam in Turkey.

Finally, the multilateral institutions continue to press the donor countries for stronger support so that the flow of truly multilateral aid can itself increase. At the moment, the outstanding example of this is the International Development Association I have just mentioned. It is truly multilateral, being run, in fact, by the same people who run the Bank; its customers are drawn from the poorest countries, and it offers them the benefit of loans on unusually favorable terms -- for fifty years, free of interest. Eighteen high-income countries provide most of the funds of IDA, and in recent years they have contributed enough to enable IDA to lend at a rate of $250 million a year. At the present time, the President of IDA (who also is President of the World Bank) is negotiating with these contributing countries to increase their support to a level which would enable IDA to lend at an annual rate of $400 million; and this proposal or something close to it will be considered by the legislatures of the countries concerned reasonably soon.

So that in the world of events, a broadly affirmative answer already is being given to our last question: should more development assistance be given multilaterally? Already, half or more of development assistance is being given within one or another type of international framework, and the trend is up. If pure multilateralism is not the wave of the future in the development business, various kinds of international coordination (including action by multilateral agencies) are likely to be.

VIII

And in any case, the prospect is that aid, despite the dissatisfaction which donor countries feel and the disappointment which receiving countries often express, will go on. The quality of aid has greatly improved, and much more is known about how to make development work than was the case when the international development effort began a couple of decades ago. For my own part, I think that the high-income countries are going to react more and more responsively to what, after all, is a novel and staggering challenge. The challenge is to make good the unprecedented idea that most of the people of the world should be educated through the level of high school, that they should live in decent housing and in good health, that they should be decently clothed and have reasonable opportunities to realize their potentials as human beings. The idea that such standards could prevail until a few years ago had occurred only on limited parts of the earth's surface. That it should now be applied to the remaining two-thirds of mankind calls for more than a little effort and will require more than a little time. It will require not the enrichment of few, but the suffusion throughout society of knowledge, constructive attitudes and opportunities on a scale never dreamed of in the world's history. It is doubtful that realization of the full magnitude of the task has dawned fully on the peoples -- rich and poor -- who are supposed to be carrying it out.

Nevertheless, I think the idea is dawning. Despite a considerable amount of unawareness among the publics of the rich countries, despite dissatisfaction with "foreign aid," I think the development assistance effort will continue, and that it will continue on a scale more and more commensurate with the abilities of the high-income countries to afford it. If this seems a somewhat speculative thought, to me it nevertheless seems much more unrealistic to suppose that one-third of the human race, growing more affluent each year, can or will remain largely indifferent to the predicament of the other two-thirds. That, I think, is simply not going to happen.

Copy to Paris
circ to Inf Staff

Remarks of
Harold Graves
Associate Director of the Development
Services Department of the World Bank
Conference on World Cooperation for Development
Beirut, Lebanon
April 22, 1968

May I begin by saying that the World Bank feels very privileged to be represented at this meeting. We are sorry that because of our slow start and because of the vigilance of the Lebanese customs authorities, the paper that we were asked to contribute will not arrive at this meeting until tomorrow. I should also explain that we did not have a great deal of time to prepare this paper, so that it is more statistical, longer, and less analytical than we should have liked it to be. The author, Mr. Irving Friedman, the Economic Adviser to the President of the Bank, no doubt could have compensated for these shortcomings had he been able to be here in person. For my part, I will try to make my contribution by keeping my remarks within the allotted 10 minutes.

The paper begins, and concludes, by observing that economics is not everything. Not everything can be counted and added up, and not all the dimensions of development are economic. With that important qualification, the paper then quantifies some of the main economic trends of recent years in the developing countries, as follows:

<u>Major point</u> -- Over the past 20 years, the developing countries have not quite reached the growth target set in the Development Decade of the 1960s -- namely, an increase of 5% a year. In the 1950s the rate was about 4.7% a year, and in the 1960s so far has been about 4.9% a year.

The numbers, needless to say, conceal great differences among regions and countries, and the figures would not be so high if oil-producing countries were dropped out. The Far East, otherwise, had the best record, with a growth rate of a little over 5% in the 1950s and a little under 5% since. The Latin American rate, about 4.7% in the 1960s, also has declined slightly from the previous decade. The rate in south and southeast Asia in the 1960s has been less than 3-1/2%, a lower rate than in the 1950s; and the African rate, also declining, has been slightly less than the rate for southern Asia.

Next major point -- Per capita growth rates, needless to say, have been depressed by high rates of population increase. As near as can be ascertained, population growth in the less developed countries rose from an annual rate of around 2.2% in the 1950s to 2.6% in the 1960s, leaving a typical per capita rise in economic output in most underdeveloped countries of well under 2%. The paper points out that there is no typical connection between population growth and economic growth; and some countries have succeeded in having high rates of both. But the paper concludes that for most developing countries, population control is imperative. It cites an interesting piece of arithmetic: if the rate of population growth of less developed countries could be reduced from 2.6% to 2.5% in one year, that would be worth the equivalent of around $600 million in capital formation or foreign aid. This, however, would be largely a one-time, and not a recurrent, effect.

Next major point -- In the underdeveloped countries as a group, industry is the most ebullient sector. Latin America accounts for about half of all industrial production in the developing countries, but manufacturing output is rising rapidly elsewhere: at an annual rate of nearly 10% in

Asia and of nearly 8% in Africa. Manufacturing is rising as a proportion of gross national product in the less developed countries, and is now nearly a fifth of gross product. Mirabile dictu, manufacturing now also accounts for nearly a fifth of export sales -- although most of this is accounted for by relatively few countries, Hong Kong among them.

Next major point -- It is in the agricultural sector that the performance of the less developed countries has been most disappointing. Over the period 1953-64, per capita food production grew by less than 1% a year, and it actually fell, due primarily to droughts on the Indian subcontinent, in the next two years. Up to now, the picture has been bleak: for the developing countries as a whole, per capita food production may be less than it was before World War II.

Encouraging signs, nevertheless, are beginning to appear. One of these is increased availability and use of agricultural inputs: fertilizer consumption in recent years has tripled in the underdeveloped world as a whole. The successful cultivation of new, high-yielding strains of wheat, rice and other food crops may be a portent of great significance for the future.

Next major point -- Most of the resources for financing development continue to come from the developing countries themselves -- about four-fifths, in fact. Savings and investment rates, however, necessarily continue to be low. Savings as a proportion of income and investment as a proportion of GNP commonly are less than 15% -- less than three-quarters of the rates commonly achieved in high-income countries.

Next major point -- External debt is a problem of increasing importance to the developing countries. For these countries as a group, external debt has about quadrupled in the past decade. For a dozen or so countries, it already is an acute problem. For many others, it will become an acute problem unless the terms of future assistance are eased. But up to now, the terms of assistance are not easing; they seem no better in 1968 than they were in 1964, for instance. So long as terms do not improve, the net flow of aid may actually decline, and I ask you to note a particularly interesting paragraph on this subject that appears on page 10 of the paper -- page 10, paragraph 29.

Next major point -- External flows of assistance to the developing countries are not increasing. Since 1961, they have fluctuated between \$5.9 billion equivalent to \$6.4 billion equivalent. (In the meantime, the wealth of the donor countries is rising, as is the price of the goods the poorer countries buy.) The paper omits to mention, but perhaps I should not, that the short-range prospect for future commitments is modestly better.

Private investment continues to make important quantitative and qualitative contributions to development. The annual flow has been between roughly \$2 billion and \$4 billion equivalent annually; and the qualitative contribution is set out in a paragraph to which I call your attention -- paragraph 38 on page 13. Governmental programs for guaranteeing private international investment, the paper notes, are beginning to be helpful.

Multilateral organizations, among the World Bank and its affiliate the International Development Association, the regional development banks and the United Nations Development Programme, are becoming increasingly important as sources of finance and as coordinators of their own and bilateral aid.

In its final pages, the paper comments on some social aspects of development. Apart from nutrition, indices of the state of health in the less developed countries have been continuing to improve, although they still are not good. In the educational sphere, there have been important increases in literacy almost everywhere; but expenditures on education need to be increased and, I may add parenthetically, a great deal needs to be done to improve the structure of school systems and the quality of the education they offer. The report notes the trend toward increasing urbanization, and says that standards of sanitation and housing in the developing countries are falling.

Let me end with a comment that falls outside the ambit of Mr. Friedman's paper. Nearly everyone working in the development field feels that statistics somehow fail to express the full amount of progress that is being made. They do not, for instance, measure institutional growth, and that is very important in the development process -- growth in all sorts of skills, knowledge and organizations that in the course of time will be felt more and more in the developing countries. To sum up all the statistics, I think most development workers would consider that while the situation of the less developed countries is one to cause deep concern, it is not one to drive us to despair.

As Mr. Friedman's paper says, "We have learned a great deal from the experience of the last 20 years. Our present need is to apply this experience.... The worldwide effort to accelerate growth ... may not succeed. If it fails, however, it will not be because we do not know enough, but because we could not create the political will to apply this knowledge wisely."

Summary for The Press
of the Remarks of Harold Graves
to a Meeting of Keidanren (Federation of Economic Associations)
Tokyo, Japan
June 24, 1968

Any representative of the World Bank comes to Japan with a feeling of familiarity and friendship. One of the most important tasks undertaken by the Bank in its existence up to now has been to collaborate with governmental and private authorities to play a part in the unprecedented growth of the Japanese economy since the war.

Beginning in 1951, Bank loans helped to build new power facilities from one end of Honshu to the other, and assisted in modernizing and expanding the Japanese steel industry. The Bank also provided some of the capital needed for the new Tokaido railway line, and for the automobile expressway connecting Tokyo with Osaka, which is to be completed next spring. These last loans, the most recent of which was made a little less than two years ago, were of a type that could be quickly negotiated and smoothly disbursed; and they were timed to be of assistance in meeting Japan's recurrent balance-of-payments problem. About $100 million of Bank loans still remain to be disbursed for projects in Japan.

With Japan, the Bank shares a deep interest in the economies of the countries of South and East Asia. This interest is served not only by the Bank, but by its two affiliates, the International Finance Corporation and the International Development Association.

Among these three institutions, the Bank of course is the oldest and biggest. Its capital is subscribed by member governments, of which there are now 108. It raises additional funds for lending by borrowing in the world's capital markets, and this is the Bank's most important source of funds. The ~~xxxxxxxx~~ Bank up to now has lent the equivalent of US $11,000 million. It makes loans chiefly for large-scale projects, especially for developing electric power and transportation. In recent years, however, theBank also has become quite active in financing industrial development, agricultural growth and the spread of education. Bank loans usually are for a term of 20 to 25 years, and the interest charge currently is $6\frac{1}{4}$%.

The Bank's affiliate, the International Finance Corporation, works entirely in the private sector, and especially in industrial development. So far, it has invested about $225 million equivalent, mostly in joint ventures which bring together overseas and domestic industrialists. It is collaborating, for instance, in ventures formed by local groups and Japanese industrial companies in Malaysia, Nigeria andEthiopia. The Corporation does not fix its terms according to any standard formula, but usually makes its investments in a form which combines loan money and share capital.

The other Bank affiliate, the International Development Association, lends chiefly to the poorest of the underdeveloped countries. It lends for the same kinds ofproject as the Bank does, and on very easy financial terms -- its loans are for a term of 50 years, and there is no interest charge. In all, IDA has made loans equivalent to $1,800 million, and about three-quarters of this has been for projects in South and East Asia. When the time comes for the World Bank Group of institutions to give financial assistance to Indonesia, it is IDA which will be chiefly concerned.

Japan has put in about 4% of theBank's resources, about 3½% of the International Development Association's resources, and about 3% of the capital of the International Finance Corporation -- a total participation, in yen and American dollars, amounting to the equivalent of about $155 million. On the other hand, financing by the World Bank Group has enabled borrowers from the Group to purchase well over $300 million of Japanese equipment and services.

Leaving Japan aside, the Bank Group has lent or invested nearly $4,000 million in South and East Asia. The region is, of course, the most populous in the world. It has been the Bank Group's chief theater of operations up to now, and no doubt will continue to be so for some time to come.

It might be interesting to remember what this area looked like 20 years ago, soon after the end of the war. It could have been called the region least likely to succeed. Economic foundations were fragile or completely lacking. Sources of energy were few. The region's largest railway systems were in serious disrepair, and motor roads were largely undeveloped. In most of the area, no entrepreneurial class existed for the development of industry. After having been a net exporter of food, this part of the world was now experiencing a heavy food deficit. The political situation in many countries was turbulent or uncertain.

Since that time, 20 years ago, the situation has greatly changed. There have been ups and downs, naturally. But taking it all in all, it seems that the area has done better than many people expected back in 1948. An extensive infrastructure of railroads has been put down in most of the mainland countries; the development of motor roads has begun and may be expected to proceed fairly rapidly. Power supplies in some countries are at least 10 times greater than they were. Industry, contrary to what might have been expected, has proved to be the most rapidly advancing sector of all. The introduction of new varieties of rice and wheat, especially in India and Pakistan, may at last bring some decisive improvement to the lagging farm sector.

Most of the investment required for these development has come from the resources of the underdeveloped countries themselves. But the Bank has played some part in the growth of nearly all the countries of the area, and in some — especially in Thailand, Malaysia, Korea, India and Pakistan -- has come to play a leading role among the countries and institutions providing finance from outside.

In Korea, the Bank Group has helped to finance railway development and assisted in designing and setting up a development bank for the promotion of industrial expansion. In Thailand, the Bank has financed a great increase in electric power supplies, is financing a school program, helped rehabilitate the railways and is now deep into a highway development program which will affect nearly every part of the country. In Malaysia, the Bank has been concerned especially with the development of power supplies, but is now getting into projects for the further development of agricultural output. In India, the Bank has been associated with projects in every sector; in all, the Bank Group has invested the equivalent of over $2,000 million in that country. The Bank Group effort in Pakistan has been similarly comprehensive; it extends to both wings of the country and involves investments of $800 million.

In each of these countries, the Bank also has played an advisory role, consulting with Governments on over-all economic policy and with public and private authorities on individual development projects. And for each of these countries, the Bank now manages coordinating groups which bring together the efforts of the aid-giving countries and institutions interested in a particular country. In each case, the Bank plays a middle role. It furnishes objective information to the donor countries about the economy of the developing country; it presses the aid-giving countries to improve the terms on which they give help and to reserve their assistance for projects of the highest economic merit. And on the other hand, the Bank presses the underdeveloped country, in each case, to improve its performance by better planning, better policy and better administration. Japan is a member of all the coordinating groups which have been formed for assistance to the countries of South and East Asia. While experience has been uneven so far, it indicates, on the whole, that these coordinating groups can be effective mechanisms for serving the best interests of all concerned.

As you know, the Bank has a new President, Mr. Robert S. McNamara. He is determined to considerably expand the activities of the Bank Group. One of the Group's first concerns in this direction will be to play a constructive role in Indonesia. It will begin by stationing in that country a mission of experts able to advise on a wide range of development problems.

The World Bank Group greatly appreciates the support which it has so far received from Japan. The Group understands that the economic and financial circumstances of Japan are somewhat different from those of many other donor countries. On the other hand, there seems to be no question about the desirability of continuing the effort to develop the poorer countries of the world.

Looked at from year to year, the pace of progress seems slow. But in a longer perspective, it can be seen that the changes already xxx achieved are great. The Bank believes that the prospects of achieving further change, even in countries of Asia which today seem to present the most discouraging appearance, in the long run are good. The Bank Group expects to considerably expand its efforts in Asia. In those efforts, it trusts that it will continue to have the encouragement and cooperation of Japan.

Remarks of Harold Graves
to the International Finance Committee
Federation of Economic Associations (Keidanren)
Tokyo, Japan
June 24, 1968

I am grateful to you for this opportunity to speak to a group of the Keidanren today. With your permission, I shall read from a text instead of speaking from notes. This will keep me from going too fast, and may be of some help to the interpreter.

Any representative of the World Bank comes to Japan with a feeling of familiarity and friendship. When the history of the Bank comes to be written, it will record that one of the most important tasks undertaken by this world institution was to be of some help to the governmental authorities and private companies who participated in the unprecedented economic growth that Japan has been experiencing since the end of the Second World War.

Beginning in 1951, Bank loans helped to build new power facilities from one end of Honshu to the other. They also helped turn the economy toward heavy industry, by assisting in the modernization and expansion of production by six Japanese steel companies. Bank financing also participated in a much-needed expansion of communications, by providing capital for the New Tokaido railway line, and for the automobile expressway from Toyko to Kobe.

The most recent of these transportation loans was made a little less than two years ago. They were of a type that could be quickly negotiated and smoothly disbursed; and they were timed to be of assistance in meeting the recurrent pressures on Japan's resources of foreign exchange. About $100 million of Bank loans still remain to be disbursed for projects in Japan.

* * *

With Japan, the Bank shares an active interest in the economies of the countries of South and East Asia. This interest is served not only by the countries of South and East Asia. This interest is served not only by the World Bank, but by the World Bank's two affiliates, the International Finance Corporation and the International Development Association. Before proceeding further, I want to give you a miniature portrait describing the features and functions of these three institutions.

The main feature of these organizations is that they are international. They are international in the sense that their membership is made up of many different governments. They are international in the sense that their financial resources are derived from many countries. All of them have international staffs and governing bodies. Individuals from about 70 different countries work at the Bank. We have only a few Japanese, however, and will continue efforts to recruit more.

The biggest and oldest of the three institutions is, of course, the World Bank. It is the trunk of the tree. Among all the many international and regional organizations concerned with economic development, the Bank is the largest single source of capital.

One of the important resources of the Bank is made up of the subscriptions of governments to its capital stock. The face amount of these subscriptions is the equivalent of $23,000,000. The Bank's charter, however, only requires that one-tenth of this amount actually be paid in, and some of this is subject to various restrictions. The actual sum that the Bank is able to use from its capital is about $2,000 million.

A more important resource of the Bank is its capacity to borrow funds from other investors -- especially insurance companies, pension funds and private banks. At the present time, the World Bank has somewhat more than $3,000 million of bonds and notes outstanding. It expects to borrow perhaps as much as

$900 million in the coming financial year, of which approximately $500 million will be refunding and $400 million will represent an addition to its debt.

With respect to financial resources, the over-all point about the Bank is that it is a self-sustaining institution. It does not require further contributions from governments.

So far, the Bank has lent $11,000 million. A little more than $2,000 million has been for projects in Europe, especially in the wake of World War Two. The rest has been for development in Asia, Africa and Latin America.

The Bank tends to deal with fairly large-scale projects and to lend money in large lumps. Its average loan is about $15 million, usually in several different currencies. The Bank also tends to specialize in infrastructure, partly because this is essential for the growth of the underdeveloped countries, and partly because this is the type of enterprise least likely to attract capital from other sources. (The Bank's charter forbids it to compete with other investors.) At any given time, about 70% of the Bank's portfolio in the developing countries represents loans for equipment, materials and services needed for the development of electric power supplies and for the development of transportation -- railways, highways and ports. The Bank has lent the equivalent of about $3,600 million for each of these two major sectors.

Especially in the last three or four years, the Bank has begun to broaden its portfolio. It is now working harder at what goes on top of the infrastructure -- particularly agricultural and industrial production. It also is working harder on another kind of infrastructure, by financing projects for education and training that will improve the quality of human resources.

Finally, let me say that the Bank lends at long term -- usually 20 or 25 years -- and at more or less conventional rates of interest, currently 6-1/4%.

The first branch to grow on the World Bank tree was the affiliate known as the International Finance Corporation, or IFC for short. Its membership is drawn from the 108 member governments of the Bank; there are 89 members of IFC, of which the most recent is the Republic of Viet-Nam. IFC has the same President and Board of Directors as the Bank; but it has its own executive vice president -- Mr. Martin Rosen, who probably is well known to some of you -- and its own operating staff.

IFC's capital resources are much smaller than the Bank's, amounting to $100 million. The Corporation has been quite successful in turning over its investments, however, and has made total commitments of about $225 million. It also has been successful in combining with or attracting other investors: last year, each dollar invested by the Corporation was combined with $6 from other sources.

The World Bank itself may lend to both public and private bodies. The Corporation, however, was established to work entirely with enterprises that are completely or predominantly private in ownership. Within that sphere, it does two things the World Bank itself does not do: it makes loans to private borrowers without government guarantee; and it provides share capital.

The companies in which IFC invests usually are joint ventures of domestic investors and private investors abroad. This is the case, for instance, with the Cotton Company of Ethiopia and with Arewa Textiles Limited; the shares of both these companies are held by a combination of local and Japanese interests, as well as by IFC.

The Corporation began its work in 1956, and originally confined its investments almost entirely to manufacturing and mining enterprises. These still make up most of its portfolio. In recent years, however, IFC has spread the fan of its investments somewhat wider. It has put capital into agricultural businesses and into a project for tourism, for instance. The size of IFC investments also has been increasing. Today, the average investment is on the order of \$4 million to \$5 million, and the investment always is split between loan and share capital. The loan portion may be for a length of 7 to 12 years, and the rate of interest may be around 8% or 9%, depending on the cost of money at the time, the degree of risk in the investment and other factors.

To finance its growing operations, in 1966 the Corporation opened up a \$100 million line of credit from the World Bank. Its future needs are likely to be met from the Bank, rather than from governments or outside borrowing.

The newest branch on the World Bank tree is the International Development Association, called IDA for short. As long ago as the 1950s, the World Bank began to be concerned about the fact that some of its poorer member countries were not, as yet, financially strong enough to repay development loans which they actually could put to good use. To help meet this problem, the Bank's member governments created the International Development Association.

About IDA's operations, I can be quite brief. IDA is administered by the same officers and staff as the Bank. IDA's terms are generous. Its credits are for a term of half a century, and they are free of interest, although there is a small service charge. The Association lends for the same kinds of projects and programs as the Bank. It is only the borrowers who are different -- IDA lends only to the poorest countries. More than three-quarters of its lending has been for projects in South Asia, in India and Pakistan. In relation to the size of its resources, IDA has lent more for education than the Bank, and more for agriculture.

IDA is financed entirely by member governments, of which there are 98. It has had financial resources, up to now, of around $1,800 million equivalent. Its earnings are small, the return of its principal is slow, and it has no borrowing capacity. Its resources therefore have to be replenished now and then by the 19 governments who have provided most of its usable funds up to now. IDA began operations in 1960. Its resources were first replenished in 1964. Another replenishment is now in progress, in which Japan, with a quota of $22 million, is expected to be the seventh largest participant.

Let me put the final brush stroke on this small portrait gallery by observing that Japan is a member of all three of the World Bank institutions. The Japanese Government accounts for about 4% of the Bank's capital subscriptions, about 3-1/2% of the International Development Association's resources, and about 3% of the capital of the International Finance Corporation. This is a total participation, in yen and American dollars, amounting to the equivalent of about $155 million.

On the other hand, financing by the World Bank Group has enabled borrowers from the Group to purchase well over $300 million worth of Japanese equipment and services. Japanese firms have bid particularly for contracts to supply projects in Asia, where they have been outstandingly successful in the case of railway and telecommunications enterprises; but they also have a notably good record in supplying electric power projects in Latin America.

* * *

Apart from its loans in Japan, the World Bank Group has lent and invested approximately $3,500 million for projects between the Khybar Pass and the Japan Sea, in South and East Asia. This region contains about half the population of the member countries of the Bank. It has been, and for a long time certainly will continue to be, the Bank Group's chief theater of operations.

It might be interesting to recall what this area looked like in the years soon after the War. It could have been called the region least likely to succeed. Economic foundations were rudimentary and fragile. Sources of energy were few: in all of Pakistan, for instance, there were less than 10,000 kilowatts of hydroelectric generating capacity. The region's largest railway systems, on the Indian subcontinent and elsewhere, were on the verge of breakdown. The only adequate systems of motor highways were on the northwest frontier of Pakistan, at one end of the region, and in the Philippines, at the other. In most of the area, there were almost no industrial entrepreneurs and managers. After having traditionally been an exporter of wheat and rice, this part of the world was now experiencing a serious food deficit.

Public administration was weak, and politics were turbulent. Guerrilla wars were going on in Viet-Nam and Malaya. Both Pakistan and Burma lost their first prime ministers by assassination; death prematurely ended the terms of the first three presidents of the Philippines; a prime minister of Ceylon was murdered; and the King of Thailand died in mysterious circumstances, setting off a wave of coups and counter-coups that was to last for a decade.

It can be seen at once that in the past twenty years, the situation has greatly changed. There have been ups and downs, naturally. Deeply serious problems remain. But all in all, the region has done vastly better than many people back in 1948 would have been willing to predict.

On the physical side, power supply has tripled and quadrupled in most countries of the area. Railway service has been restored and greatly expanded. Industry, contrary to what might have been expected, has proved to be the most rapidly advancing sector of all. The introduction of new varieties of rice, wheat and sorghum, especially in India and Pakistan, may at last bring some improvement to the lagging farm sector. On the less tangible side, all these countries have learned something from 20 years of experience, and in most of them, standards of policy-making and public administration have much improved.

* * *

Most of the effort and most of the finance required for this evolution has come from the resources of the underdeveloped countries themselves. Help also has come from outside. As a matter of policy, not only the Japanese Government but the German Government as well have directed to South and East Asia most of the financial assistance under their programs of overseas economic cooperation. This area likewise has claimed an important proportion of British and American aid.

The Bank and its affiliates also have played some part in the growth of nearly all the countries of the area, and the role of the Bank Group, for various reasons, is likely to increase in importance. The first wave of Bank financing in the countries of the area took the form of loans for large-scale public utilities. The Bank's first loan in any Asian country was a credit for the rehabilitation of the Indian railways in 1949. It likewise began its lending in Pakistan, Thailand, Korea and Burma with railways early on the agenda. Lending for the Indian railways has continued. It amounts to $575 million, and is the largest sum of money that the Bank Group has devoted to a single purpose anywhere. In this program, it should be added, Japanese suppliers played a conspicuous part.

Loans for supplies of energy also were a part of this first wave of Bank financing. In India, they helped equip projects to supply electricity to the Damodar Valley, where Indian heavy industry is concentrated, and to the industrial area of Bombay. In Pakistan, other loans developed hydro and thermal plants that have helped to multiply the country's generating capacity 10 times in the last 20 years. In Ceylon, Malaysia and the Philippines, power installations financed by the Bank added new supplies of energy and assisted these countries in setting up regional or country-wide grids for the first time.

Loans for infrastructure have continued, but in the 1950s the flow of Bank assistance was topped by a new wave, composed of financing of industrial development. The crest of this wave was a series of loans for the expansion of production by private steel companies in India. These credits ultimately amounted to more than $200 million, and added more than a million tons to ingot capacity. In the process of this financing, the Bank was instrumental in reorganizing the capital structure of the steel industry and in persuading the Government of India to adopt price policies less obstructive to the further expansion of private steel capacity.

Of wider interest in Asia was another aspect of this second wave of financing by the Bank Group. This was the establishment or reorganization of private investment banks designed to assist new or growing industrial ventures. These institutions, as you know, are variously called development banks, development corporations or development finance companies. Beginning in the middle 1950s, the Bank Group -- including especially the International Finance Corporation, which takes the lead in this kind of activity -- explored the ground, gathered share capital and helped organize or expand development banks in seven countries of South and East Asia: in Pakistan, India, Ceylon, Malaysia, Thailand, the Republic of China and Korea. These institutions were started with a large measure of help from governments, usually in the form of long-term, interest-free loans. But the voting stock and the management is predominantly in private hands.

The development banks invest their own capital in industry; for the original entrepreneurs, they help find partners with additional capital, technological skill or management experience; they may underwrite domestic or international share or loan issues; and in these activities, they may be joined by IFC or another member of the Bank Group. The development banks are well able to recruit capital or technology from overseas. Partly this is through their links with the Bank Group, which has provided them with share and loan capital amounting to more than $300 million. Partly it is through the fact that the development banks have overseas shareholders. Seventy per cent of the shares of the Pakistan Industrial Credit and Investment Corporation, for instance, are held in Pakistan. The rest are held by financial or industrial institutions in Japan, the United States, Great Britain and Germany.

Not infrequently, the development banks have succeeded in creating new companies with a three-ply financial structure, the shares being divided between domestic investors, overseas investors and the International Finance Corporation. This was the case recently, for instance, with Malayawata Steel Limited, the first major iron and steel producing unit in Malaysia. The shares of the new company, as many of you know, are held partly by IFC, partly in Malaysia by the development bank and other investors there, and partly in Japan, by Yawata Steel, Mitsui & Company, Mitsubishi Shoji, Nittetsu Mining and the Iramaru Company.

In all, the development banks assisted by the Bank Group in South and East Asia have participated in projects representing something over $2,000 million of investment from all sources, and accounting for an annual output that can conservatively be estimated at over $1,000 million a year.

Following the first and second waves of Bank Group financing, the Group's activities are now in a new phase. It is characterized by lending for more varied purposes, and particularly for education and agriculture. Assistance to education is given largely to finance the construction and equipment of schools, especially at high school and university level or the equivalent, and especially in the case of institutions engaged in technical training of one kind or another, including teacher training. Financing of this kind, for instance, has been arranged in Pakistan, Thailand and the Philippines.

I think it is fair to say, however, that the heaviest accent is now on agriculture. The Bank always has been interested in helping farmers, but its interest formerly often took the form of multipurpose projects aimed at electric power generation as well as irrigation and flood control. Now Bank Group assistance is aimed more directly at the grass roots, as in the 10 projects being financed on the Indian sub-continent for new irrigation areas or as in the case of the agricultural credit program which the International Development Association is helping to finance in Pakistan.

The expansion of agricultural production, as we all know, is a complicated matter involving many elements. An important one, however, is the use of chemical fertilizers, which in most Asian countries is exceptionally low. For the past two or three years, the Bank and IFC have been working intensively to help establish fertilizer plants in the developing countries themselves, on the basis of partnerships between overseas and domestic capital. At the present time, the Bank Group is working on proposals for the establishment of four plants in India and Pakistan which would have a combined capacity of about a million and a half tons of urea or phosphatic fertilizer.

These are not, of course, the only proposals the Bank Group is considering in Asia. Since you may be interested, I might mention some other projects in the area on which action may be taken soon. They include projects for road maintenance and water supply in Ceylon, the Tachien Dam in Taiwan, a flood control and drainage project in the Indian side of the Punjab, water supply for Kuala Lumpur, a sewerage plant for Singapore and -- after the replenishment of the International Development Association is completed -- a large credit for importing spare and replacement parts needed by selected industries.

* * *

The Bank now has reasonably close relationships -- in some cases, very close -- with nearly all its Asian member governments, and on the whole, a good and constructive relationship exists, based on mutual understanding. And as you know, banks not only lend money, they insist on giving advice. This is just as true of the World Bank as it is of any other bank. The World Bank offers its member governments and its private borrowers counsel on a wide range of subjects. It advises on development and economic policies; it helps in project preparation and execution.

In the case of projects, the Bank sometimes finances preliminary studies of its own, and sometimes it organizes such studies as the agent of the United Nations Development Programme, called UNDP for short. Not all surveys of this kind result in final detailed planning and in financing. But many of them do, and a list of surveys being made by the Bank for the UNDP, for instance, will give an idea of some of the projects which the World Bank Group may be financing two or three years from now.

* * *

The question is sometimes asked, since so many of the industrialized countries have their own programs of overseas economic cooperation, why should there be a World Bank Group? This is a question which each country must answer for itself. But some of the advantages offered are clear enough. They grow out of the fact that the World Bank is not political; it has no foreign office, no chamber of commerce, no army and navy to satisfy or appease. The only interests it serves are economic.

The Bank is therefore able to insist on high standards of project selection, preparation and execution. Its attention to economic criteria and its technical expertise are perhaps greater (and also, unfortunately, more time-consuming) than those of bilateral programs. An international effort, moreover, is not tied to a single source of technology or capital; it is able to bring in skills and technical assistance from wherever they are most appropriate to the particular problem being tackled.

Multilateral assistance also offers the advantage of economy in administration. This advantage has appealed to smaller countries which have wanted to keep the expense of administering aid at a minimum. Sweden, for instance, gives something like half its aid through multilateral channels like the Bank Group, and on this half of its aid program, since the funds are administered by the Bank, its administrative expenses are very small indeed.

Finally -- and highly important -- since the Bank is politically neutral, the advice it gives may be easier for an underdeveloped country to accept than the counsel offered by another sovereign nation.

* * *

Whatever its virtues are, multilateral assistance clearly is not going to take the place of bilateral, government-to-government programs. Both are going to continue to exist. But the Bank and a number of governments, including the Government of Japan, have for some time been carrying on an experiment which lends to bilateral aid some of the advantages of the multilateral approach.

This experiment brings together groups of assisting countries and institutions for the purpose of considering jointly all the major problems in providing effective development finance for particular recipient countries. Coordinating groups of this kind have been organized, in each case at the request of the recipient government, for five countries of South and East Asia: India, Pakistan, Korea, Malaysia and Thailand.

These groups meet periodically under the chairmanship of the Bank. As chairman, the Bank assumes several responsibilities. It undertakes to make comprehensive reports to the assisting group on the recipient country's economic situation and performance. It helps the recipient country to draw up programs and projects, and to work out appropriate development policies. It makes expert comment on the amount, specific purposes and terms of aid that seem appropriate in the case of each recipient country. This does not interfere, I should add, with normal bilateral negotiations. The commitments undertaken by the assisting countries are still worked out in the normal channels.

Sitting in the middle, between donors and recipients, the Bank tries to influence both sides. It puts pressure on recipient countries to improve their performance; and it tries to influence the donor countries to provide an adequate flow of development finance on appropriate terms.

By jointly considering the needs of a single developing country, the participating donor nations achieve certain advantages. They have a defense against the old practice whereby a recipient tries to encourage donors to bid against each other for commercial or diplomatic favor. The effectiveness of assistance may be improved by the better quality of programs and projects in the recipient countries. And there is some assurance that the donors and the recipient countries, instead of exercising their efforts in different and perhaps contradictory directions, will move in a united and consistent way toward the same development targets.

Japan, I should mention, is a member of all five of the coordinating groups that have been organized for countries of South and East Asia. As an interesting footnote, let me observe that Taiwan also is a member of one of these groups, for Korea. Not all these groups have been fully effective. But we think that on the whole the results have been good, and we are constantly trying to improve them.

* * *

As you know, the World Bank Group has a new President, Mr. Robert McNamara. He was in Tokyo just last week, and he took the occasion to announce publicly for the first time that he hopes to expand the activities of the World Bank Group by as much as 50 or 100 per cent. It is inevitable that much of this expansion will take place in Asia.

The economic landscape in Asia has both hills and valleys. East Asia is doing better than South Asia. The annual growth rates of some of the countries in that region are among the highest in the world -- Malaysia with more than 6%, Thailand with more than 7 and Taiwan with more than 10. While everyone must make his own guess, it seems likely that these countries would be able to maintain a strong momentum even if the Viet-Nam War were to end.

It is plain that the economic position of southeast Asia as a whole, however, is dominated by the prospects of the area's three largest countries: Pakistan, India and Indonesia.

After a faltering start, Pakistan has turned out to be one of the success stories of the region -- perhaps the success story of the region. In spite of two poor crop years, the country seems likely to achieve a growth rate of comfortably more than 5% annually in the current five-year plan period. At the present rate of growth, per capita income will double within the present generation. The Bank believes that the economic policies and administration of the country are sound; and a general state of confidence exists between Pakistan and the countries assisting its development program. It seems probable that the target for external aid in the current plan year, amounting to about $550 million equivalent, will come reasonably close to being met.

Estimates of the situation in India must of course be more restrained. They must take account, among other things, of the circumstances that India is a bigger and more complex country, and that the amounts of assistance from outside, while large in the absolute, have been very low on a per capita basis. As in the year just past, much will depend in the current year on the performance of agriculture. That is to say, much will depend on the weather and on the ways in which the Indian authorities are able to meet the new problems arising from increased wheat and rice yields -- storage, credit, transportation, marketing, irrigation, fertilizer availability, price policy and so on. The target for India, agreed to by the coordinating group, is $1,450 million. It is of great importance for India's future that this target be reached.

As for Indonesia, I understand that the Keidanren has its own special committee for studying this country. You will know, then, that the Bank Group has not found it possible to do any financing in Indonesia because of the very poor management of economic affairs which the country has experienced in past years.

Following the drastic political changes which occurred in Indonesia about two years ago, however, the Bank was able to begin to take a serious interest in the country. Last year, it sent members of its staff to Jakarta to look at the situation generally and later to assist the government in the preparation of its capital budget. We will carry out a similar exercise this year, beginning in the next few days.

As Mr. McNamara announced, this will be part of a new phase in the Bank's relations with Indonesia. The Bank will soon establish a rather large resident mission in the country. It will consist of about a dozen experts able to assist in the formulation of economic policy, in program planning, and in the identification and final preparation of development projects. The Bank's impression is that the development of agriculture and transportation is most urgent. It is in these sectors, no doubt, where the Bank's project studies will begin and where, in the course of time, our first financing will take place. As in the case of the coordinating groups, we hope that the Bank's efforts in Indonesia will provide a basis on which bilateral aid can become more effective.

* * *

In its work over the years, the World Bank Group has greatly appreciated the support it has received from Japan. The Bank understands that Japan's own bilateral program is considerable, and also understands that the economic and financial circumstances of Japan are somewhat different from those of many other donor countries.

On the other hand, there seems to be no question about the desirability of continuing and improving the international effort to develop the poorer countries of the world. Looked at from one year to the next, the pace of progress seems slow. But in a longer perspective, it can be seen that the changes already achieved are great. The Bank believes that the possibility of achieving further change, even in countries of Asia which today seem to present the most discouraging prospects, in the long run are good. In expanding the work of the Bank Group in Asia, we trust that the Group will continue to have the encouragement and cooperation of Japan.

Notes for Remarks of Harold Graves
to Kansai Chapter, U.N. Ass'n. of
Japan, Osaka, Japan - June 28, 1968

INTRODUCTION

1. long and happy collaboration between Bank and Japan - Bank's marginal role
2. changing but continuing - for instance, our joint interest in SE Asia

THE WORLD BANK GROUP

1. international in character - membership, financial resources, staff, governance
2. the World Bank
   a. biggest, oldest - trunk of the tree - largest single source of capital among all international and regional organizations concerned with e d

   b. Bank has lent $11,000 million - mostly for infrastructure - lately concerned with education and agriculture

   c. average size of loan $15 m; terms; interest rate
3. the International Finance Corporation
   a. works in private sector (Bank works in both) - private or predominantly private enterprises

   b. makes loans w/o guarantee, buys shares of stock: typical investment

   c. up to now: $225 million - over a billion total
4. the International Development Association
   a. lends to poorest countries
   b. same kinds of projects as the Bank - but more emphasis on education, agri
   c. total lending $1,800 million
      i. replenishment problem - Japan $22 million
5. Japan is a member of all three
   a. Bank subscriptions - 4% - $77 million
   b. IDA - 3-1/2% - $75 million
   c. IFC - 3% - $3 million

HOW THE GROUP CAN HELP MEMBER COUNTRIES

1. It can lend -

   a. Bank lending in Japan - $857 million
      i. $160 million for steel
      ii. $175 million for power - Kansai Power Company
      iii. $510 million for transportation - $80 million for New Tokaido line
      $430 million for Tokyo-Kobe highw
2. It can create export trade

   a. Bank does not finance exports as such - rather it finances imports by LDCs - does so international competition - savings
   b. Japan bidding - wins over $60 million of contracts annually in recent years - well over $300 million
      i. railways, electric power, industrial equipment
   c. joint financing

3. Can combine with Japanese investment - INTERNATIONAL FINANCE CORPORATION

   a. Arewa - Overseas Spinning Investment Company Ltd. - Nine Japanese firms
   b. Ethiopian Cotton Company
   c. Malayawata Steel - Yawata Steel, Mitsui & Co., Mitsubishi Shoji, Nittetsu Mining, Iramaru Company
   d. Indonesia - IFC mission requested next month for project which would involve Toyo Spinning Co
      Nichibo
      Daiwa Spinning Co
      Shikishima Spinning Co
      Fuji Spinning Co
   e. More?

4. Can make Japanese economic cooperation more effective, by seeing that LDCs manage their affairs prudently, make the best of all the resources they are using

   a. Through ordinary relations, Bank-client
   b. Through coordinating groups - of interest to Japan
      India
      Pakistan
      Korea
      Malaysia
      Thailand
   c. Sitting in the middle, between donors and recipients, the Bank tries to influence both sides. It puts pressure on recipient countries to improve their performance; and it tries to influence the donor countries to provide an adequate flow of development finance on appropriate terms.

      advantages of coordination
      - working together toward same objectives

5. Bank Group Interest in South and East Asia

   a. Total investments of $3,500 million
   b. McNamara's expansion
   c. Indonesia

ENVOI

In its work over the years, the World Bank Group has greatly appreciated the support it has received from Japan. The Bank understands that Japan's own bilateral program is considerable, and also understands that the economic and financial circumstances of Japan are somewhat different from those of many other donor countries.

On the other hand, there seems to be no question about going on with the international development effort. Looked at from one year to the next, the pace of progress seems slow. But in a longer perspective, it can be seen that great changes in the LDCs already have been achieved. The Bank believes that the possibilities of achieving further change, even in Asian countries which today seem the most discouraging, in the long run are good. In expanding the work of the Bank Group in Asia, we trust that we will continue to have the encouragement and cooperation of Japan.

In helping the underdeveloped countries to help themselves, the World Bank is setting new records for activity during the first year of former Defense Secretary Robert McNamara as President, the Florida Group of the National Association of Bank Women was told last night.* The speaker was Harold Graves, Associate Director of the World Bank's Development Services Department.

Contrary to popular impression, the World Bank official reported, the poor countries are not getting poorer. Some, like Thailand, Korea, Venezuela, Mexico and Tunisia, are experiencing very high rates of economic growth. The output of goods and services in the underdeveloped countries as a group is increasing as fast as it is in the industrialized countries of the West.

On the other hand, Mr. Graves observed, it must be realized that the upward curves in the poor countries begin at a very low level, so that production and income, while increasing, are still low. The situation is "vastly complicated," he said, by high rates of population growth which keep per capita income down. "Taking them as a group," he declared, "the underdeveloped countries are not progressing at rates from which anyone can take satisfaction. Yet the potential is there; the problem is how to make it work."

(more)

*September 21, 1968

In the past 20 years, the official noted, the World Bank had lent $9 billion for projects to help the poor countries to develop their economies. This $9 billion, he said, had been matched two or three times over by the funds which governments or private companies in underdeveloped countries themselves had put into these projects. The Bank had helped to finance enterprises which had tripled the supply of electric power in many countries, had created or re-conditioned enough highways and railways to run several times around the world, and had created hundreds of new factories making everything from cloth to steel.

The Bank is now stepping up its lending, Mr. Graves reported. In the past five months, he said, the Bank has raised $760 million for its operations by the sale of its bonds and notes to investors throughout the world -- far more than in any other comparable period. Financial institutions and other investors in Germany and the United States, he said, had been the largest purchasers of Bank obligations in these months. As far as its own loans are concerned, the Bank in the months ahead will increase its emphasis on projects for food production and for practical education in the underdeveloped countries.

The Bank's net income for the fiscal year ended last June 30, Mr. Graves said, was $169 million. Out of earnings and commissions, the Bank over the years has accumulated reserves which now amount to more than $1,250 million. "Helping the underdeveloped countries has proved to be good business," said the World Bank official.

Statement by Harold Graves
for UNIAPAC, Belgium
October 1968

To a person not acquainted with UNIAPAC until recently, the 13th World Congress, at Brussels, was a gratifying revelation of a constructive and important force in world society -- the Christian businessman. It was evident that UNIAPAC's special character made the Congress an event of wide interest, warmly greeted in the host country by the Prime Minister himself and by the Prelate of Belgium, Cardinal Suenens, and welcomed, on a European scale, by Jean Rey of the CCE and Auguste Cool of the Confederation Mondiale du Travail (formerly the C.I.S.C.), and attended by several hundreds of businessmen from every continent. It was a great privilege for an observer like myself to hear thoughtful addresses delivered by these and other notables, to attend the very lively sessions of the Congress workshops, and to be a witness to the final declaration of the Congress -- a very positive and perceptive statement concerning L'enterprise et laentrepreneur dans le monde d'aujourdhui -- which can be read with profit by businessmen everywhere.

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Speech Book G

REMARKS OF HAROLD GRAVES, WORLD BANK,
AT THE SYMPOSIUM, POPULORUM PROGRESSIO
TO THE THIRD WORLD

ROME, OCTOBER 1968

Mr. Chairman, Msgr. Ligutti, Mr. Schumacher, Msgr. Gremillion, Reverend Fathers, Sisters, Ladies and Gentlemen:

It was very kind of the sponsors of this meeting to invite the World Bank to be present. It is a most agreeable opportunity for me, both personally and as a representative of the Bank, to learn something about the activities of your organizations, which are of a sort that the Bank should know better. I am glad to respond with some remarks about a trend in the international financing of development. But these remarks will be brief, since the real reason we are here this evening is to hear what Monsignor Gremillion will tell us.

The Bank and other financial agencies, let me assure you, are aware that projects on a grand scale will come to nothing unless there are at the same time many of what my Catholic friends have taught me to call micro-realizations. The large dam for storing water will not be useful unless the distribution canals are built, and these will be of no value until the individual farmer himself digs the channels for leading the water into his own land. It was the importance of micro-effort, no doubt, that struck de Tocqueville when he visited North America in the 1830s. What he found impressive about the new continent, he afterwards wrote, was not so much the number of large projects as the number of small ones.

In the World Bank, and in some of the regional institutions for financing development, there is a growing recognition of the value of other projects than those requiring heavy injections of capital and large masses of equipment. This recognition is leading to trends in development finance which bring the large international institutions closer to the work in which voluntary agencies are engaged. These trends gradually lead us all to activities on a more human scale and toward a keener appreciation of social values.

In all its life of 20 years, the Bank has been engaged in helping the less developed countries to build large-scale projects which can provide a base for other kinds of activity. The Bank has lent several billion dollars for large dams for irrigation of farms and for generating electric power for factories. It has financed all kinds of transportation systems to enlarge markets and encourage production -- railway systems, ports or national highways, and also roads to penetrate the countryside. Projects of this kind also have loomed large in national development programs. Just as every new country, it seems, must have its own commercial airline, it also must have its big irrigation and electric power dam. Today, the Bank and many other agencies that have engaged in this kind of effort have experienced some degree of frustration. The big investments in many cases have not been quickly followed by all the activities which they were supposed to stimulate and to support. The big rock has been thrown into the pool, but through some perverse kind of sorcery, only a few ripples have been the result.

At this meeting here in Rome, we have been talking about some of the reasons for this. One is the lack of an intermediate structure between the big project and the individual. In the field of agriculture, for instance, that structure consists of the complex that Dr. Mosher so well described in his talk of last night -- research, extension services, communicators, transportation, fertilizer, seed, credit and so on.

So the Bank and other agencies I have mentioned are now becoming much more concerned with this intermediate structure. We don't only build dams now: we finance farm credit and marketing organizations; and we are getting ready, within national development programs, to finance inputs for the direct assistance of farmers through the supply of seeds, fertilizers and like materials. In all this, I should say, we have the technical assistance of FAO, which helps us to seek out possibilities for agricultural improvement and to formulate them into specific projects or programs.

At the same time, the Bank and many other institutions are having it borne in on them more and more that the motive power of social and economic progress is not the Bank or some other outside agency but the individual himself. We are going from the realm of inanimate things to the human being. And something of a common effort is beginning to take shape, to awaken the aspirations of men and women and to enlarge their capacity.

For this purpose, in company with others, the Bank is steadily expanding its activities in helping less developed countries to establish and widen their own educational and training systems -- especially middle schools and post-secondary technical schools, and especially schools for training teachers. In this realm, we have an arrangement with Unesco like the one we have with FAO for agriculture, to help in shaping up educational projects, and we cooperate with FAO itself in the field of agricultural education. It is logical to suppose that some day we shall have a cooperative agreement with ILO of the same sort in other realms of education and training.

From what I have said, it is evident that the financing agencies -- not only the World Bank but regional banks and other sources of finance as well -- are becoming more aware of the social values and the social aspects of development. In the case of our cities, we see clearly that a city which is not an effective social organism cannot function effectively as an economic organism either; and the same is true of the countryside as well. Economic and social development must go together.

So this trend, away from the macrocosmic scale and toward the human scale, and away from strict economics and toward wider values, I think, will be continued. While it is still somewhat speculative to say so, let me nevertheless speculate, for instance, that the Bank will now go forward -- again within the framework of national development programs -- to finance medical clinics and public health programs, and that it will go forward to finance not only school construction and traditional school equipment, but also will begin to finance teaching aids, all the way from book production to telecommunications systems for the benefit of school instruction.

This means that the paths of the financing agencies and of the voluntary agencies will more and more converge. We already are in regular and systematic touch with some of the great philanthropic foundations in order to use some of their skill and experience; and here already at this meeting I have met the representative of a church organization with which the Bank is discussing the administration of a land settlement project in Africa. For the Bank, I consider this growing identity of interests to be highly fortunate. In future, I trust we will have not only the pleasure of being with you at meetings like this, but that out in the developing countries we also will have the experience of being engaged with you in common tasks.

October 12, 1968

Speech BK. 6

SEMINAR ON UN
29 NOVEMBER 1968

Address given by Harold Graves at the Seminar of the UN, held at the Pan American Health Organization in Washington, D. C., November 29, 1968

Mr. Harold Graves (IBRD): With your permission, I will talk in a rather general way about the Bank and its affiliated institutions. I will do this as fast as I can so that we can develop a discussion and a question-and-answer period that perhaps will be directed more sharply towards your interests.

I might begin by saying that there are two important differences between the World Bank Group of institutions and most of the other elements in the United Nations system. One of these is that the Bank itself is self-supporting and is, therefore, happily spared from those anxious moments which other specialized agencies spend in waiting for parliamentary action on their budgets and so on. This is one big difference between the Bank proper and the other elements in the system.

The other difference between the Bank and most of the other elements in the United Nations system is that while the Bank is a specialized agency and while it is thought of as having a specialty which Dr. Bernard has already mentioned, that is the investment of funds, we are not specialized in the sense of having a particular competence or being confined in or to one field. This has not always made us the most popular institution in the world since it has led us into areas of competence that also are occupied by other agencies. In fact, however, this has become the occasion for cooperation between the Bank Group and other agencies. But we are not specialized in agriculture, we are not specialized in industry, we are not specialized in power, we are not specialized in transportation. And I do not know whether I should be embarrassed or happy to say that as far as health is concerned, we do not have much of in the way of a positive policy regarding health activities. I suppose that if we do have a sectoral competence which is not particularly shared by other bodies in the United Nations system it is in two fields that I have mentioned, namely electric power generation and transportation facilities.

But in short -- number one we are to a degree self-supporting and number two, we are not specialized in the sense that nearly all the other agencies represented here this week are specialized. In this way we are rather similar to UNDP which also has a broad license.

There are three institutions in what we have come to call the World Bank Group. One is the World Bank itself. The proper title, as you know, is International Bank for Reconstruction and Development. The term World Bank, I am told, was invented on the day when a copy reader from The New York Herald Tribune was handed a mass of copy about the International Bank for Reconstruction and Development and told to write a one-column headline over it; and this was the person who invented the term World Bank.

The Bank is the oldest and most important of the three Group institutions. Let me say briefly that it has 110 member governments, it has a nominal or a subscribed capital of around 23 billion dollars worth of various currencies, and it has an actually paid-in capital of around 2.3 billion dollars. It is able to raise funds beyond those amounts as it needs them by borrowing in the capital markets, that is by selling the bonds, the obligations of the Bank, in the capital markets of the world.

We have about 3-3/4 billion dollars worth of bonds outstanding in the market. The most important source of funds of the Bank, although it is certainly not the only one, the most important source is this borrowing in the market. It accounts for more of our funds than the subscriptions of our member governments, and it accounts for more of our funds than our profits.

Having mentioned that awful word, I should perhaps say that the Bank does earn a profit. Indeed, the Bank and one of its affiliates, that I will mention in a minute, are probably the only organizations in the UN system that are set up in such a way that they can earn a profit. But the point I am making now is that this ability of the Bank to call on the capital markets is very important; it is the most important single source of funds to the Bank.

The Bank typically deals with large projects. The average Bank loan is on a scale of 20 million dollars or so; and this typically is for some fairly large undertaking or other. It may be for a highway system, for instance, or for port development or for the development or modernization of a railway system or it may be for the construction of a multipurpose project which will store water both for irrigation and for the generation of electric power. This is the typical Bank loan, a big lump of money for a rather large-scale project.

The older of the Bank's two affiliates is an organization called the International Finance Corporation. The International Finance Corporation is capitalized at 100 million dollars; it has about 90 member governments at the present time; and unlike the World Bank, which may lend either to public or to private borrowers, the International Finance Corporation works entirely in the private sector. The average investment by the International Finance Corporation amounts to 6 or 7 million dollars. This investment would typically consist of two parts: about two-thirds of the investment would be in the form of loans bearing fixed interest; the other third, which makes the IFC rather unusual among international organizations, would consist of an investment in the share capital, that is a slice of the ownership of the enterprise in which IFC is investing. IFC invests primarily in industrial ventures but particularly in the last two or three years, it has broadened its interests and is now investing in such matters as tourism, agricultural development and so on. And like the Bank, IFC earns a profit.

I mention IFC partly because -- like Mount Everest, although it is a lot smaller -- it is there, and partly because IFC is a potential source of financing for enterprises that are of interest in the health field -- the pharmaceutical business, for example. IFC's mission is to help develop new industrial enterprises in the developing countries. What may make it of particular interest to this group is that IFC up to now has made about two-thirds of its investments in Latin America. (While the Bank has been operating since 1946, IFC has been operating since 1956.)

The remaining member of the World Bank Group is the International Development Association, which we call IDA for short. This feminine name is very appropriate because as a good many of you know, IDA has those qualities of generosity and softness of heart which we associate with the members of the fairer sex. It is the kind of bank that you and I would like to be clients of. Whereas the World Bank makes its loans on more or less conventional financial terms, and currently is lending with an interest rate of six and a quarter per cent a year, IDA makes its loans interest-free. IDA's credits (as we call them to distinguish them from the loans of the Bank) are made free of interest and for a term of fifty years -- half a century.

I remember that when we signed the first IDA credit back in 1961, some of us had not looked at the credit documents very carefully and the full import of it all had not been borne in on us. When we looked at the repayments table, our eyes rather bugged out. It showed that the last payment due on the loan we were making in 1961, which happened to be for a highway system in Honduras, was due in the year 2011; and we looked around and tried to imagine that somebody in the room would be alive when this payment came due and we could not imagine that. Here was a loan that was going to survive everyone who signed or witnessed the signing.

Now, IDA is rather the opposite of IFC. IFC works in the private sector. IDA works with governments. The purpose of IDA is not only to benefit development projects, but is to provide development capital while adding as little as possible to the burden of debt service which countries must bear and to the strain which that service puts on their balance of payments. IDA's help is reserved for governments, and specifically for the poorer member governments of the Bank. So far, IDA has made loans in 43 countries whereas the Bank has made loans in 85. The kinds of project that are financed by IDA are indistinguishable from the kinds of project that are financed by the Bank. IDA is just as picky and choosy as the Bank about its projects and about getting them carried out correctly, which is hardly surprising since IDA has no staff of its own but is served by the same staff as the Bank. IFC has separate staff but the Bank and IDA are staffed by the same group of people.

Now, those are the three organizations in capsule; and I will now run as quickly as I can through some of the other features of these organizations. All three of these organizations are dedicated to the increase of an international flow of capital. All three are devoted also to the financing of undertakings that will increase the production of useful goods and services and thereby raise the standard of living of their member countries.

In the case of the Bank, the centerpiece of our troika, it is very easy to think of us doing three principal things: One is to make loans for projects. A second is to render advisory services and technical assistance. This assistance may be directly associated with projects which we are financing, or it may be devoted to trying to solve some problem which is particularly acute by finding a specialist with needed qualifications, or it may consist of coming in ourselves and doing a study of some important development problem.

Now, an important aspect of this technical assistance program in recent years, of course, has been like other agencies in the system, the Bank is an Executing Agency for the United Nations Development Programme. While in fact we are Executing Agency for a relatively small number of the studies financed by UNDP, we do account for a very large part of the investment which either follows or in some way or other is related to the studies financed by UNDP. UNDP estimates that the studies it has financed have led to or been related to about two billion dollars worth of investment; and about seven hundred million of that has been provided by the Bank or IDA. So that is number two -- number one we finance development, number two we render technical assistance.

Thirdly, as I have said, we sell securities, we sell our bonds. We sell these internationally. Our most recent issue was in Switzerland; the issue immediately before that was in the United States. We have sold issues denominated in 8 different currencies, in 10 different markets, some of them more than once. We have been in the Canadian market for Canadian dollars five times; we have been in the Swiss market more times than I can count; we have been in the Sterling market three times; we have been in Belgium, The Netherlands, Italy, Germany, Sweden and Kuwait. Next to the United States, Germany is the most important source of funds for the Bank, both in terms of government-subscribed capital and in terms of borrowed funds. So that is the third thing we do: we sell securities for the purpose of raising funds which we can lend.

The Bank up to now has lent around eleven and a half billion dollars worth of money. I put it that way because we lend different currencies. We do not lend only dollars, but we lend some of these other currencies that I have mentioned; and we have lent at least 37 or 38 different currencies in all.

The principal rules for the Bank's lending are relatively simple. Number one, we lend only in the territories of member governments. Number two, we do not lend if capital is available from other sources; this is a way of insuring that the Bank and its affiliates do not compete with private investors. Number three, we lend to borrowers other than governments only with government guarantee; the significance of this is that any projects which come into the Bank for discussion must come in with some expression of approval from a government. If the prospective borrower is not the government itself, we must have some early indication that the government in all likelihood will be willing to guarantee the loan which is being discussed. Parenthetically, I should remark that the question of a guarantee arises only in the case of the Bank, not of IFC or IDA. Number four, the Bank -- this is what the charter says at any rate -- lends for local expenditures only in exceptional circumstances. That is to say, our financing usually is devoted to imports of equipment or materials or services that cannot be obtained locally. The Bank's view of this charter provision has become much more liberal in recent years and now one can look at our statistics and infer that perhaps 20% to 25%, in fact, of what we have lent has been spent on local expenditures rather than on imported goods or services. This is very important in the agricultural field, for example, where a great deal of what has to be done can be done on the basis of local labor and local materials; and this is one reason why we have liberalized our practice on local expenditures. So, those are the fairly simple rules on which we operate.

There is one other rule under which we operate, which is not in the charter but it is the very center of the Bank's operations and that of its affiliates as well. That is the concept that the Bank itself is not engaged in charity. The projects or the programs financed by the Bank and its affiliated institutions have to bring an economic benefit -- or in the case of projects which earn revenue, bring a financial return -- which is consistent with the amount of funds that are being invested in the project. This means, as Dr. Bernard has indicated, that the economist plays a very important role in a bank, and we look carefully at the prospective benefit to be obtained from projects financed by the Bank. It does not mean, as some people think, that the Bank finances only self-liquidating projects. Far from it, because the Bank obviously finances all sorts of activities which do not directly earn revenue and produce a financial return, and which do not, therefore, produce the funds with which the loan can be liquidated. Highway systems do not usually produce a financial return for the highway authority, for example, and that is one of the commonest kinds of financing the Bank does.

As for types of projects financed by the Bank and by IDA, the important ones in terms of quantity of money lent are the development of electric power supplies, the development of transportation systems, the development of industry, and the development of agriculture, these last two being fields of activity in which the Bank has become particularly active in the last four or five years.

The financing of water supply is not a new field for the Bank or IDA, but it is one that we entered with some hesitation, partly because it is still not possible, really, to quantify as well as one can in other fields the productive benefits that one gets from an adequate supply of potable water.

At any rate, this is not as yet a large field of activity for us. Our financing in this field amounts to around 115 million dollars up to now, beginning with a credit made for Taipei and the surrounding area in 1961 and coming up to the present time. We have financed water supply and/or sewerage projects in the Philippines, in Taipei, in Singapore, in East Pakistan for Chittagong especially, in West Pakistan for Lahore, and in the western hemisphere in Nicaragua, in Venezuela for Caracas, and in Colombia for Bogota and the greater metropolitan area.

This is what we have done in the field of water supply. It is about 1% of all the financing done by the Bank and IDA up to now.

Now let us look quickly at the geographic distribution of Bank/IDA financing. We have lent more in Asia than anywhere else. Our biggest customers on the continent are India and Pakistan, and they are, of course, taken together, the biggest chunk of the world's population, next only to China. One must immediately add, however, that on per capita basis they have not had very much.

Africa is a new territory for us. We think it is going to be quite important but the problems in Africa are pretty severe. The new countries in Africa are short on ability to identify and prepare projects; so that a great deal of our work in Africa is concerned with the technical assistance side at this moment rather than the financing side.

The Western Hemisphere is our oldest theater of operations, if I may use that term, and it fares pretty well on terms of per capita investment. Our big borrowers in the area are Mexico, which has had well over six hundred million dollars by this time, and Brazil, which is not very far behind. Our relations with the countries of Latin America have been like the relations of a couple of very temperamental sweethearts. We have been passionately involved at some times and we have been very cold and distant at others. There was a long period of time, for example, when we were not doing anything in Brazil because we felt that the policies of that country just made it inadvisable for anyone to put in any money on the grounds that the money was going somehow or other to get lost.

Let me close with a word about the Bank's technical assistance activities; it is in this aspect that many of you will have heard something about us already. I mentioned that we give technical assistance over a fairly broad front. We give it directly on loan projects, we give it in terms of pre-investment surveys and we do finance small pre-investment surveys of our own apart from what are financed by UNDP. We do help our member countries find experts for particular assignments. We sometimes supply specialists for particular assignments and in Africa, for example, we have something called the Agricultural Development Service which is a corps of trained agriculturalists, expatriates all of them, who have served in Africa and who are available for secondment to African governments to do agricultural planning or to supervise the execution of agricultural projects. In the past three years, as some of you know, we have been working -- on the whole quite successfully -- in tandem with the Food and Agriculture Organization of the United Nations and with the United Nations Educational Scientific and Cultural Organization. Under the arrangement with FAO, FAO carries on an activity of identifying projects and helping to prepare agricultural projects which are then brought forward for final appraisal and evaluation by the Bank. FAO maintains a core of specialists specifically for this purpose. An FAO specialist may come along on the final Bank mission which evaluates a project, and we may put a Bank man on an FAO identification mission; but in fact, FAO does maintain an office specifically for what is properly its part of the job. At the present time, the office comprehends 37 professionals; and it is going to be increased to about 42 professionals as soon as they can be found. The budget here is provided one-quarter by FAO and three-quarters by the Bank; and the total budget this year for this activity is on the order of a million and a quarter dollars. I should say that under the arrangement, projects for agricultural training are eligible for treatment in this way; so that we get out of it not only projects for production but we get training projects out of this process.

We have a parallel arrangement with Unesco which operates in the field of education more generally and works the same way. Unesco has a team of professionals who are devoted to the activity of identifying and preparing educational projects in member countries of the Bank which can then be brought forward to the Bank for evaluation and financing. Education, of course, is a very big field; it is typically one of the three or four largest activities in any country, whether it is an underdeveloped country or a developed country; and the amount of money that could be deployed for it, of course, is almost infinite. The Bank and IDA do not have an infinite supply of money so that in the case of Unesco, we proceed on the basis of an understanding about the specific countries in which the Bank would consider educational projects to have a high priority, an understanding about the countries in which the Bank would be willing to finance education projects.

In some cases, in Tanzania, for example, we have financed general education at the secondary level. This is very unusual; but in the case of Tanzania and in some of the other African countries, it is quite apparent that one must have a much broader base of literacy than one has got now in order to pick up the development process and make it go faster. More typically, our financing is directed at post-secondary or university level training, especially of a kind that can be brought to bear on one or another aspect of economic development. Apart from that, assistance has been concentrated as strongly as we can concentrate it on teacher training schools in order to increase the supply of teachers.

These two cooperative arrangements, with FAO and Unesco, have worked out very well; and they have taught all the cooperating institutions a good deal. On our side, to talk about agriculture, we have a much better grasp of the nature of agricultural development and of the problems in that process than we had when we began. FAO, which had not really worked in the field of project identification and preparation, has learned a great deal about preparing development projects for investment. One can say the same about the Unesco arrangement.

In the field of water supply, as you know, there already is close cooperation between the Bank and you. In considering project proposals, we often have the benefit of studies carried out by WHO as an Executing Agency of UNDP or autonomously by PAHO; and PAHO has sometimes been able to include a Bank specialist in its study teams. The Bank is sincerely grateful for this cooperation.

We would like, although we are not quite sure of what the shape of the future might be in this respect, we would like to come into some further kind of relationship with the WHO and very probably with other agencies as well in the field of population control. The new President of the Bank, Mr. McNamara, has given a couple of speeches so far and in both of them he has made this matter of population growth a centerpiece. We have formed the opinion that this is a problem which must bring together a number of agencies in some kind of cluster if the efforts of any of us are going to be effective. We are not after the kind of cooperative arrangement we have with FAO and Unesco because we do not think it is that kind of problem; but we are after some kind of arrangement that will bring together WHO, the United Nations organization itself, the Bank and others who can contribute something. We are anxious to bring all our efforts together in some way to help restrain the growth of population in so far as that is consistent with, and necessary for, the well-being of the developing countries themselves. I think that is all I have to say, Dr. Bernard.

Thank you very much.

Speech book G

File with Graves's speeches -
November 29, 1968 - Talk to management, department heads and senior staff of the Pan American Health Organization, Washington, D.C.

Outline of Presentation to Pan American Health Organization

1. Introductory

Origins and evolution of Bank Group -- establishment of IFC and IDA to fill functional gaps -- place in U.N. family.

2. Structure and Organization

Financial institution -- weighted voting according to members' subscriptions -- nominated Executive Directors -- President's position vis-à-vis Board -- international staff, organized into area and projects departments -- confidential nature of operations -- resident missions abroad in special cases -- technical assistance -- economic studies.

3. Policies and Procedures

Investment in high-priority productive projects -- need for integrated approach to LDCs' economies -- Bank's role as catalyst of change, rather than sole supplier of funds (85% of development assistance still bilateral) -- policy of investment in pivotal growth areas, to date mainly consisting of large physical infrastructure projects -- sources of funds and relationship to terms of loans -- debt service problem.

Bank has begun to branch out of hard infrastructure projects into fields where policies need to be more flexible, and where return on investment less easily quantifiable (e.g. education) -- at same time must maintain highest standards evaluation, appraisal and supervision to maintain investor confidence and maximize impact of investment.

4. Areas of Common Concern with PAHO

Most obvious is water supply -- PAHO's statistics reveal that enteric disease is among top 3 causes of morbidity and mortality in infant population (this appears to be equally true for population as a whole). Cheaper to prevent disease than to cure it; therefore unpolluted and sufficient water supply is priority in health investment.

Bank Group maintains liaison with PAHO on questions of common interest, and PAHO has assisted Bank with technical advice teams on each of the three Bank projects in Latin America involving urban water supplies. These are:

Nicaragua (Managua): $3 M

Venezuela (Caracas): $21.3 M

Colombia (Bogota) : $14 M

Bank Group's involvement ($38 M) relatively small, because of active work of IDB in this field. Investment in Latin America nevertheless represents about 30% of Bank Group's global investment in urban water supply. Global figure expected to treble over next five years compared with last; Latin American share of this difficult to forecast, but possibilities of new projects in Colombia, Brazil, Nicaragua and the Caribbean.

Bank has so far not involved itself in rural water supply investment. This would be useful field if could rely on managerial/financial effectiveness of indigenous rural water supply organizations; so far, however, this has not been possible.

Bank also willing in principle to invest in sewerage, but feels water supply has priority, first because need for and effects of investment in water supply more clear-cut, and second because adequate water supply precondition for sewerage project.

Another area where Bank Group investment contributed to health is agriculture. Bank's global investment in agriculture to date nearly $1000 M. Nearly 15% of this represented by Bank's program of livestock improvement in Latin America, currently totaling $136 M in loans to Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Paraguay and Uruguay. Contributes directly to health of population by raising quality of nutrition. Fisheries loans (total to date $8.4 M, mainly in Ecuador) have similar effect. In all livestock projects, Bank takes due account of problem of foot and mouth disease; component of loan usually set aside for foot and mouth control.

5. Conclusion

Bank already contributing directly to world health by investment in areas such as water supply and livestock improvement. As development institution, moreover, we are well aware of fundamental importance of improving not only quantity of goods available to peoples of developing countries, but also quality of their lives. Basically, all development investment designed to create possibility of such a qualitative improvement: in this context, physical (and mental) health is a question of over-riding importance, and one of which we are very much aware. We hope and believe that our investment to date has made some contribution, both direct and indirect, to this cause and that our accelerating programs for the future will continue and expand this contribution.

filed speech BK. 6

FORM No. 58 INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mrs. Eliason

DATE: March 5, 1969

FROM: Harold Graves

SUBJECT: Speech Log

For your speech log, you might want to note that I spoke on March 4 to Convo 69, a conference of civic leaders held in Washington under the sponsorship of the General Board of Christian Social Concern of The Methodist Church.

(Is the speech log still being kept?)

cc: Mr. Pryor

HG:ap

3/5/69

Remarks at Signing of Dahomey IDA Credit

Mr. President, gentlemen

As you know, until this moment, the World Bank Group has not lent to Dahomey. The occasion of the first loan to a member country is always an important event in the life of our Bank. We are particularly pleased therefore Mr. President that you have honored us today by participating personally in the signing of this loan agreement.

The Grand Hinvi project, the agricultural program to be financed by the loan, will significantly expand the agricultural production of ~~this~~ your country & add substantially to the income of your farmers.

Our financing of this project is a joint operation with the French government. It marks another step in the development of closer & closer working relationships with those agencies of France which are doing so much to aid the nations of West Africa.

During my recent visit to your region I of course saw the problems faced by so many of the countries in the area. But I also saw the opportunities for economic growth, opportunities which we in the World Bank are determined to help you & the leaders of your neighboring states to realize. To aid you in this effort we have organized a new dept to deal exclusively with West Africa & asked to act as manager Mr. Chaufournier, one of the ablest of our executives. Already our loans to the Fr. speaking nations of Africa are rising and I would expect them to rise even more rapidly in the future.

We are delighted so to be your partner in the economic development of your country.

Article prepared by Harold Graves for inclusion in the UNIAPAC (International Christian Union of Business Executives) Bulletin, Brussels, Belgium

ECONOMIC PLANNING AND THE PRIVATE SECTOR

This is the Age not only of the Atom and of Outer Space, but also of the Economic Development Plan. As a concept, the Plan is considerably older than the bomb, and the first Soviet 5-year plan was launched more than a generation before Sputnik. But -- despite profound changes in notions about how to plan -- the idea of planning has lost none of its fascination for political leaders and civil servants. Businessmen, too, have more and more become involved in the planning process. Since it affects them, they try to affect it.

The Second Development Decade, now being prepared by study groups within the United Nations structure of organizations, will itself rest on a plan: a set of development targets along with the enunciation of policies intended to lead to the achievement of the targets. The final shape of the Decade (already beginning to be referred to as DD II) will not be determined until the United Nations General Assembly considers it in the autumn of 1970. What may emerge, however, is a plan both more ambitious and more detailed than was the case with the First Development Decade.

The objectives of the first Decade were that the less developed countries should achieve an annual rate of economic growth of five per cent, and that resource transfers to them should reach a specified level, ultimately fixed at one per cent of the gross national products of the industrial nations. The growth target has been reached; the transfer target, at least within the first Decade, seems unlikely to be.

The target for economic growth of the developing countries in the Second Development Decade certainly will be set as high as 6 per cent. This is the minimum figure, as some associates of UNIAPAC will know, accepted by the meeting of experts gathered in Beirut in 1968 by the World Council of Churches and the Pontifical Commission Justice and Peace. It is a figure, by now, which represents a degree of consensus among officials and experts of both developed and developing countries.

It is possible that DD II will set out a series of more detailed targets for other indices of development, both economic and social. These, like the over-all target itself, will have to be reached by the action of individual nations, and the effort will put additional emphasis on the national development plans of the developing countries. Furthermore, the economic policies and plans of the high-income nations themselves will have to take into account the amount and kind of assistance that is to be given to development abroad.

There are many kinds and degrees of economic planning. Dr. E. B. Ayal of the Philippines offers a usefully broad definition when he defines an economic plan as a governmental program "consciously specifying objectives and continuously pursuing deliberate measures designed to achieve the economic development of the country."

In the case of the public sector, the government can determine the allocation of expenditures and the carrying out of projects, programs and plan in considerable detail if it wishes to do so. But for a truly national program of development, in most countries the private sector (including agriculture) has the lion's share of work to do. The government can help to achieve national objectives in this sector only indirectly, through policies (on taxation and credit, for instance) and through projects (like the construction of transportation facilities) that will support the activity of the private sector.

It cannot be said that businessmen are unaware of the risks and imperfections of planning. In some countries, the criticism is heard that government plans are based on yesterday's economic theory, not today's economic realities. The more detailed a plan is, the more chance there is that it will prove to be in error. Any plan, however expert, is likely to be overtaken by events, economic or otherwise, over which the planners have no control, as happened some years ago to the ambitious development programs on the Indian subcontinent as the result of the outbreak of hostilities there. In developing countries especially, the data needed for planning are not likely to be fully available; and at least one major development plan was thrown out of kilter when it was discovered that the rates of population growth were much higher than had been known during the preparation of the plan.

Apart from the inherent difficulties of planning, businessmen may sometimes doubt the ability of political leaders and civil servants to devise and carry out an effective development strategy. Business firms and private individuals often are unwilling to disclose information about their activities and intentions which is needed for development planning, because they are afraid that such information may be used against them, either by their competitors or by the tax collector.

The uneasiness, of course, is not all on one side. Political leaders and civil servants may be equally dubious about the motivations and the capabilities of the private sector. The effect, unfortunately, is to weaken the relationship between the private sector and the government.

Even though a development program may be wrong in detail, it is very likely to be right on larger issues. Comprehensive planning makes it possible to identify beforehand serious imbalances that otherwise might arise during the period covered by the plan. For instance, it may reveal that the total expected demand for goods and services will be greater than the available supply, and may threaten a degree of inflation that would have fundamental effects on the economy. It might show that demands for capital and consumption goods could be fully satisfied only by more imports than could be paid for by available foreign exchange. Or casting up the plan might reveal a lack of balance between agriculture, industry and other sectors which would handicap a particular sector and the economy as a whole.

Imbalances of this kind cannot be foreseen without information from the private sector. The more information the planners have about the private sector, the better their planning is likely to be, and the more probable it is that economic problems to some extent can be foreseen and avoided.

The public and private parts of a development plan, in any case, are so closely related that one cannot be formulated without some fairly definite ideas about the other. The size and character of government activities decide rates of taxation and amounts of borrowing, sets the levels of the government's claims on resources like foreign exchange, manpower and materials, and thereby influences the amount and price of resources available to the private sectors. Official policies and regulations affecting these factors will obviously affect the profitability of individual business ventures and of the private sector as a whole.

Businessmen (and farmers) also expect from government specific benefits that are embodied in, or influenced by, the national development program.

They habitually depend on government for essential facilities like highways, irrigation water and electric power. Private enterprisers also ask for official favor in the form of tariff protection, monopoly privileges, subsidies and other devices to achieve strong positions in domestic or world markets. In the less developed countries, with their heavy dependence on trade earnings, questions of international commercial policy may be of particular importance. In this case, the interests of some businessmen will extend far beyond the borders of the nation into the world economy and into international conferences dealing with the relations between high-income and low-income countries.

For the planners and the private sector to come together in the planning process, in principle, should benefit both. On the government side, the advantages of obtaining complete information are clear enough. On the private side, it ought to be equally clear that to raise a voice during the preparation of a plan is better than remaining silent.

The crux of the matter, for the private sector, is to organize competent representative bodies and to endow them with sufficient expertise to make it worth while for the government to listen to them. Far from being monolithic, these bodies may take a variety of forms and represent many different elements in the private sector: they may be, for example, chambers of commerce, employers' organizations, trade unions, societies of cooperatives, farmers' leagues and the like.

In industrial countries, such bodies exist in profusion, and are considered so essential to the planning process that some were created at the instigation of the government and with some official help. Familiar examples that come to mind are the National Economic Development Council in the United Kingdom and the Business Council in the United States.

No doubt it is more difficult to organize such bodies in the less developed countries, where the private sector may be less vigorous and where it may be more difficult to muster the necessary financial and staff resources. That it is by no means impossible, however, is suggested by the existence of outstanding groups like the Associacion Nacional de Industriales (ANDI) of Colombia and some of the groups associated with UNIAPAC itself.

In the end, private sector participation in economic development is an important way for harmonizing the interests of private groups and individuals with the objectives of society as a whole. Carried out effectively, it gives government planners a well-informed view of how public policy and projects can help to increase the efficiency and productivity of the private sector. Conversely, it is the most important means by which industrialists, farmers, traders and others can learn about the general goals and specific policies proposed by the government for the economy, and about the implication of those goals and policies for their own activities. For both, it provides the best vehicle for each side to influence the thoughts of the other while they are in the formative phase and still open to mutual adjustments.

Harold Graves
September 17, 1969

MR. GRAVES – speech BK –

Oct./nov. 1969

uniapac

Bulletin de l'Union Internationale Chrétienne des Dirigeants d'Entreprise

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SOMMAIRE - SUMMARY

ENTERPRISE

UNIAPAC

ETUDE DE CAS

PANORAMA 31

● **How are we best to arrange collaboration between the private sector and the public authorities ? How are we to organize co-operation between the social partners in the enterprise (Netherlands) and beyond it (Sweden) ?** We approach these important problems in this edition, but there are still many more which daily present themselves to business executives, and on which they consult **the christian social doctrine.** Often they come away frustrated, for all they have found there is a question mark. But, as André Manaranche says, « In this field, **it is precisely the question mark which is the source of a methodology ».**

* * *

● **Comment aménager au mieux la collaboration entre le secteur privé et les pouvoirs publics ? Comment organiser la coopération entre les partenaires sociaux dans l'entreprise (Pays-Bas) et au-delà de celle-ci (Suède) ?** Nous abordons ces problèmes importants dans ce numéro, mais il en est beaucoup d'autres encore qui se posent tous les jours aux dirigeants d'entreprise, et sur lesquels ils interrogent **la doctrine sociale chrétienne.** Souvent ils s'en retournent frustrés, car ils n'y ont trouvé qu'un point d'interrogation. Or, nous dit André Manaranche, « dans ce domaine, **le point d'interrogation est précisément la source d'une méthodologie ».**

Private Sector and planning

HAROLD GRAVES, Associate Director of the World Bank, defines for Uniapac

- **the role of private sector in economic planning**
- **the role of organized employers in national development plans.**

Dans la Déclaration Finale de notre Congrès Mondial de 1968, nous nous engagions à « contribuer avec tous les partenaires sociaux à l'élaboration et à la réalisation d'un plan économique, moyen essentiel d'assurer l'intégration des efforts décentralisés à l'objectif global du développement ».

Comment un de ces partenaires sociaux, et non des moindres, puisqu'il s'agit des pouvoirs publics, envisage-t-il la coopération avec le secteur privé ? Quel rôle lui reconnaît-il dans l'élaboration du plan économique ? Ces questions, nous les avons déjà posées, dans notre numéro 30, au professeur Jan TINBERGEN, Prix Nobel 1969 des sciences économiques. Aujourd'hui, nous les posons à un haut fonctionnaire de la Banque Mondiale, chargé du « Development Services Department ». On notera au passage l'éloge adressé à nos associations d'Amérique Latine.

In the Final Declaration of our World Congress in 1968, we undertook to « contribute with all social partners to the establishment and development of an economic plan, which is essential to assure integration of decentralized efforts to the global purpose of development ».

How is one of these social partners, who is of no less importance since we are speeking of public authorities, to envisage co-operation with the private sector ? What role does he recognize in the elaboration of the economic plan ? In our Bulletin No. 30, we put these questions to Professor Jan TINBERGEN, Nobel Prize 1969 for Economic Sciences. To-day, we put them to a high official of the World Bank, in charge of the Development Services Department. In this passage, one will note the praise addressed to our associations in Latin America.

du Magistère qui a choisi une troisième voie, au moment où le « communisme » et le « capitalisme » étaient radicalement antagonistes sur le plan des conceptions économiques. Actuellement, les deux positions sont moins tranchées et l'on voit que les normes de l'investissement, d'un certain profit, etc. se retrouvent comme rationalité dans tous les systèmes économiques.

Du coup, l'Eglise ne souligne plus avec la même force l'idée d'une troisième voie, mais adopte un rôle critique général à l'égard de tous les systèmes.

De plus en plus, l'Eglise devra montrer que la Foi est autre chose qu'une fonction idéologique — là surtout où les idéologies s'affirment avec virulence.

L'Eglise doit avoir conscience qu'incarnée, elle ne peut parler elle-même sans un substrat d'idéologie, sans un substrat philosophique et anthropologique. L'exemple récent de la conjonction de « Populorum Progressio » et d' « Humanae Vitae » est éclairant à ce sujet.

L'une et l'autre encyclique furent tour à tour critiquées par certains ou annexées et brandies comme un glaive par d'autres. Que de passions déchaînées (et contradictoires) pour l'une et contre l'autre, parfois par les mêmes personnes, selon les situations, les pays ou les temps.

Cet exemple est peut-être une chance à saisir.

On ne peut surestimer où sous-estimer le droit de parole du Magistère. On peut annexer ou rejeter cette parole, qui est à la fois parole de Dieu et parole de l'homme. **On ne peut refuser à l'Eglise le droit d'enseigner, mais on ne peut non plus l'acculer à parler de façon définitive là où elle ne peut s'engager de cette manière.**

Nous devons respecter la nécessaire modestie de l'Eglise.

« Le plus important, si l'on veut, c'est de comprendre que Jésus-Christ est la justesse parfaite de l'homme, en se montrant fils du Père, frère de tous, et seigneur de sa mort : mais que, lorsqu'on a cru à cela, tout est révélé, et rien pourtant n'est su. Car la foi dit tout, et si peu...

C'est sans doute cela, le point de départ d'une éthique sociale chrétienne. »

Ainsi se termine un livre riche, qui peut engendrer une réflexion féconde. ■

This is the Age not only of the Atom and of Outer Space, but also of the Economic Development Plan. As a concept, the Plan is considerably older than the bomb, and **the first Soviet 5-year plan was launched more than a generation before Sputnik.** But — despite profound changes in notions about how to plan — the idea of planning has lost nome of its fascination for political leader and civil servants. Businessmen, too, have more and more become involved in the planning process. Since it affects them, they try to affect it.

THE SECOND DEVELOPMENT DECADE

The Second Development Decade , now being prepared by study groups within the United Nations structure of organizations, will itself rest on a plan : a set of development targets along with the enunciation of policies intended to lead to the achievement of the targets. The final shape of the Decade (already beginning to be referred to as DD II) will not be determined until the United Nations Nations General Assembly considers it in the autumn of 1970. What may emerge, however, is a plan both more ambitious and more detailed than was the case with the First Development Decade.

The objectives of the first Decade were that the less developed countries should achieve **an annual rate of economic growth of 5 per cent,** and that resource transfers to them should reach a specified level, ultimately fixed **at 1 per cent of the gross national products** of the industrial nations. The growth target has been reached; the transfer target, at least within the first Decade, seems unlikely to be.

The target for economic growth of the developing countries in the Second Development Decade certainly will be set **as high as 6 per cent.** This is the minimum figure, as some associates of UNIAPAC will know, accepted by the meeting of experts gathered in Beirut in 1968 by the World Council of Churches and the Pontifical Commission Justice and Peace. It is a figure, by now, which represents a degree of consensus among officials and experts of both developed and developing countries.

It is posible that DD II will set out a series of more detailed targets for other indices of development, both economic and social. These, like the over-all target itself, will have to be reached by the action of individual nations, and the effort will put additional emphasis on the national development plans of the developing countries. Furthermore, the economic policies and plans of the high-income nations themselves will have to take into account the amount and kind of assistance that is to be given to development abroad.

« THE LION'S SHARE »

There are many kinds and degrees of economic planning. Dr. E. B. Ayal of the Philippines offers a usefully broad definition when he defines an economic plan as **a governmental program « consciously specifying objectives and continously pursuing deliberate measures designed to achieve the economic development of the country. »**

In the case of the public sector, the government can determine the allocation of expenditures and the carrying out of projects, programs and plan in considerable detail if it wishes to do so. But for a truly national program of development, in most countries the private sector (including agriculture) has the lion's share of work to do. **The government can help to achieve national objectives in this sector only indirectly,** through policies (on taxation and credit, for instance) and through projects (like the construction of transportation facilities) that will **support the activity of the private sector.**

THE DIFFICULTY OF PLANNING

It cannot be said that businessmen are unaware of the risks and imperfections of planning. In some countries, the criticism is heard that government plans are based on yesterday's economic theory, not today's economic realities. The more detailed a plan is, the more chance there is that it will prove to be in error. Any plan, however expert, is likely to be overtaken by events, economic or otherwise, over which the planners have no control, as happened some years ago to the ambitious development programs on the Indian subcontinent as the result of the outbreak of hostilities there. In developing countries especially, the data needed for planning are not likely to be fully available; and at least one major development plan was thrown out of kilter when it was discovered that the rates of population growth were much higher than had been known during the preparation of the plan.

Apart from the inherent difficulties of planning, businessmen may sometimes doubt the ability of political leaders and civil servants to devise and carry out an effective development strategy. Business firms and private individuals often are unwilling to disclose information about their activities and intentions which is needed for development planning, because they are afraid that such information may be used against them, either by their competitors or by the tax collector.

The uneasiness, of course, is not all on one side. Political leaders and civil servants may be equally dubious about the motivations and the capabilities of the private sector. The effect, unfortunately, is to weaken the relationship between the private sector and the government.

COLLABORATION NEEDED BETWEEN PUBLIC AND PRIVATE SECTOR

Even though a development program may be wrong in detail, it is very likely to be right on larger issues. Comprehensive planning makes it possible to identify beforehand serious imbalances that otherwise might arise during the period covered by the plan. For instance, it may reveal that the total expected demand for goods and services will be greater than the available supply, and may threaten a degree of inflation that would have fundamental effects on the economy. It might show that demands for capital and consumption goods could be fully satisfied only by more imports than could be paid for by available foreign exchange. Or casting up the plan might reveal a lack of balance between agriculture, industry and other sectors which would handicap a particular sector and the economy as a whole.

Imbalances of this kind cannot be foressen without information from the private sector. The more information the planners have about the private sector, the better their planning is likely to be, and the more probable it is that economic problems to some extent can be foreseen and avoided.

The public and private parts of a development plan, in any case, are so closely related that one cannot be formulated without some fairly definite ideas about the other. The size and character of government activities decide rates of taxation and amounts of borrowing, sets the levels of the government's claims on resources like foreign exchange, manpower and materials, and thereby influences the amount and price of resources available to the private sectors. Official policies and regulations affecting these factors will obviously affect the profitability of individual business ventures and of the private sector as a whole.

Businessmen (and farmers) also expect from government specific benefits that are embodied in, or influenced by, the national development program. They habitually depend on government for essential facilities like highways, irrigation, water and electric power. Private entreprisers also ask for official favor in the form af tariff protection, monopoly privileges, subsidies and other devices to achieve strong positions in domestic or world markets. In the less developed countries, with their heavy dependence on trade earnings, questions of international commercial policy may be of particular importance. **In this case, the interests of some businessmen will extend far beyond the borders of the nation into the world economy and into international conferences dealing with the relations between high-income and low-income countries.**

ORGANIZED EMPLOYERS AND PLANNING

For the planners and the private sector to come together in the planning process, in principle, should benefit both. On the government side, the advantages of obtaining complete information are clear enough. On the private side, it ought to be equally clear that raise a voice during the preparation of a plan is better than remaining silent.

The crux of the matter, for the private sector, is to organize

competent representative bodies and to endow them with sufficient expertise to make it worth while for the government to listen to them. Far from being monolithic, these bodies may take a variety of forms and represent many different elements in the private sector : they may be, for example, chambers of commerce, employer's organizations, trade unions, societies of cooperatives, farmer's leagues and the like.

In industrial countries, such bodies exist in profusion, and are considered so essential to the planning process that **some were created at the instigation of the government and with some official help.** Familiar examples that come to mind are the National Economic Development Council in the United Kingdom and the Business Council in the United States.

No doubt it is more difficult to organize such bodies in the less developed countries, where the private sector may be less vigorous and where it may be more difficult to muster the necessary financial and staff resources. That it is by no means impossible, however, is suggested by te existence of outstanding groups like the Asociation Nacoinal de Industriales (ANDI) of Colombia and **some of the groups associated with UNIAPAC itself.**

THE SOCIETY AS A WHOLE

In the end, private sector participation in economic development is an important way for harmonizing the interests of private groups and individuals with the objecitves of society as a whole. Carried out effectively, it gives government planners a well-informed view of how public policy and projects can help to increase the efficiency and productivity of the private sector. Conversely, it is the most important means by which industrialists, farmers, traders and others can learn about the general goals and specific policies proposed by the government for the economy, and about the implication of those goals and policies for their own activities. For both, it provides the best vehicle for each side to influence the thoughts of the other while they are in the formative phase and still open to mutual adjustments. ■

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Speech notes of Harold Graves
1970

Madras, February 10 --
Bombay, February 6 -- Prospects for the continuing flow of foreign exchange into India, while they are a cause for concern, are by no means so discouraging as sometimes imagined, an officer of the World Bank said here last night. Speaking informally to the Bombay (Madras) chapter of the Society for International Development, Mr. Harold Graves, Associate Director of the World Bank's Development Services Department, pointed out that a spot-light of attention was being held steadily on the question of international development assistance.

The international commission on development headed by the Hon. Lester Pearson, former Prime Minister of Canada, Mr. Graves recalled, had made its report early in October. This had been followed early in December by the recommendations of Sir Robert Jackson of Australia on how the United Nations system of agencies could organize itself more effectively for cooperative efforts with the developing countries.

Other groups were still at work, the World Bank official pointed out. In the United States, a commission headed by Mr. Rudolph Peterson of The Bank of America, would submit its report on the American program of development assistance late this month or early next. The report of this commission might do much to help the Nixon Administration to restore the momentum of the American program. Finally, a committee headed by Prof. Jan Tinbergen, one of the two men recently awarded the first Nobel Prize ever to be given in economics, was at work on recommendations to the United Nations Organization on a master plan for the Second Development Decade.

The Pearson Commission had recommended that the flow of official assistance to the developing countries from high-income nations be increased by a margin on the order of 75 per cent, Mr. Graves recalled. The Tinbergen committee already had concluded that the developing countries as a group should aim at an annual growth rate of at least 6 per cent, one-fifth higher than the rate achieved in the First Decade of Development.

All this, said the World Bank official, was bound to have an effect on foreign-exchange availabilities in the developing nations. Following the Pearson report, a number of high-income countries, notably including Germany and Sweden, had reaffirmed their intention of building up the level of help to countries in the underdeveloped world. Increases by these and some other countries -- the Netherlands and the countries of Scandinavia, for instance -- already were largely offsetting the declines in aid which recently marked such programs as the American and French.

The next Plan period would require redoubled efforts within India, Mr. Graves observed. Ranked by the amount of assistance received per head of population, India was near the bottom of the list of developing countires, and this situation could not be expected to change soon.

The President of the World Bank, Mr. Robert S. McNamara, was determined that there would be a marked increase in the support given to Indian efforts by the World Bank and its affiliates, including especially the International Development Association, said Mr. Graves. The Bank and IDA would continue their traditional interest in projects to improve transportation, agricultural production and industrial output. The agencies might also enter new fields like education and family planning. Provided suitable projects could be found and unexpected obstacles did not appear, said Mr. Graves, the level of World Bank Group support for Indian development efforts could be expected to rise to a new high.

FORM No. 75
(2-60)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE CORPORATION

INTERNATIONAL DEVELOPMENT ASSOCIATION

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REMARKS

From

SPEECHES -- HAROLD GRAVES
INDIA - February 1970

I. Introduction

A. Happy Birthday

B. A View from the World Bank - 3 more or less connected matters -

1. Expert reports recently or soon to be pub

2. Trends in volume of bilateral development financing

3. Prospective operations of the World Bank in India

II. Expert Reports

A. Pearson, Jackson, next Tinbergen

B. They all rise from a concern to improve the quantity and quality of development transfers

C. One or all try to stimulate the high-income countries to a better performance: by setting targets and, in the case of the Pearson Commission, by providing motivation

D. All of them seek to make aid more respectable by making it more competent

E. And all recognize that there is a need to make development transfers more acceptable within the developing countries themselves

III. The Pearson Commission Report

A. The most ambitious

1. Touches on most of the subject matter of the other reports (although there is a certain air of co-existence between the Pearson report and the Jackson report)

2. Cost the World Bank $1 million

3. Attracted wide attention: English, French and Japanese editions already. German. Spanish, Italian.

B. No doubt familiar in India, esp. in light of recent world meeting of S. I. D. in New Delhi. But somewhat obscured by political events taking place in India at the time (just as it was largely blacked out in Germany by the revaluation of the D-mark.

C. So perhaps I may be pardoned for taking a few minutes to recite some of its secret history and some of its main features

   1. Origin

      a. a meeting in spring of 1967, instigated jointly by Barbara Ward of the London Economist and William Clark, former correspondent of The London Observer in New Delhi

      b. Others: Rene Maheu, head of Unesco, George Woods, President of World Bank, rep of WCC and the host to the meeting, Sir Edward Boyle, sometime official of UK Treasury, member of Mr. Heath's Conservative Party shadow Cabinet, and, among other things, Chairman in London of the Britain-India Forum

      c. The idea was to make an inquiry which would produce a new strategy of development transfers, and a new impetus for international development efforts, in the 1970s. The idea was Barbara Ward's.

   2. The options

      a. a desk study, resulting in a manifesto short enough to be widely read

      b. a serious study, with field work and some original research

         1. Escott Reid

         2. A book of 395 pages, containing more than 90 specific recommendations

   3. Features and virtues

      a. it makes an honest statement of the case for aid: a moral case, and a case resting on the point that, with the increasing inter-connectedness of world affairs, we are all getting closer and closer to the point where we will sink or swim together.

      b. it sets specific targets

         1. in the developing countries as a whole, at least 6% annual growth - (compared to 5% in 1st D D)

2. for volume of aid, choose to deal only with aid from official sources. Sets target at .7 of 1% by 1975, as compared to an estimated .4 of 1% actually achieved in 1968

   i. the importance of official

c. it provides a coherent framework for policies of development assistance inthe high-income countries. Some of the cardinal objectives to be pursued are

   1. the achievement of a sensible trade policy for development (p. 80)

   2. measures to meet the problem of the debt burden in the developing countries

   3. slowing down of population growth

   4. strengthening of multilateral aid

   5. to achieve a better partnership in aid

      i. more consultative groups and consortia

      ii. a meeting of high-income and low-income countries, together with international aid agencies, to identify and eliminate procedural obstacles to ~~did~~ transfers

         -- this last probably not a starter (McN)(p. 229)

IV. <u>The Jackson Report</u> - The Capacity Study

   A. The history of Sir Robert Jackson - in the UN, Ghana and the Volta Project; husband of B. Ward

   B. Requested by the Director of UNDevProgramme, P H, and authorized by Governing Council. Status is rather ambiguous

   C. Procedurally awkward: Sir Robt retained to explain: India -- no

   D. In a sense, the wrong study

      1. Does not examine the question of whether the UN and the agencies of the UN system are

doing the right thing: it examines the question of whether they are doing it efficiently

2. Diagram?

E. Recommendations (The Ten Precepts), of which two most important perhaps are

1. Recommendation that a procedure be developed for programming all the inputs into a developing country from the UN system

a. UNDP for pre'investment study coorindation

b. World Bank for coordination of capital investment

2. Evaluation of the results obtained from UNDP operations_

a. since UNDP budget now rising toward $200 million a year, and should generate capital investment of many times that much, this could be a point of real importance

-- but offers many conceptual difficulties

V. The Tinbergen Committee

A. AM committee of individuals (not officials), established to advise the UN secretariat on what recommendations to make for the Second Development Decade

B. Jan Tinbergen-- and the Dutch background

1. Pledging (already lost)

C. Growth target

D. Procedures for international review bothof

a. development assistance

b. development performance

c. again the objective is a better partnership

VI. What results

A. Some confusion

a. the "imprinting phenomenon"

B. Some results

1. will be of importance at technical level
2. will have some influence on public and official opinion. High-income countries not performingx adequately will be under additional pressure to explain why not; and in the end, they may find it easier to perform than to explain
3. no doubt this will take time. This is emphasized privately by the people involved in the writing of the Pearson report. Lester Pearson's continuing campaign

VII. Trends in Bilateral Programmes of Assistance

A. People who live in U. S. and India perhaps do not get an accurate impression of this matter.

1. US performance has been particularly poor, but this is on the commitment side. Although the decline in commitments ultimately must be felt, so far the flow from the pipeline has been remarkably steady
2. Any diminution in U. S. aid program likely to affect availability of foreign exchange in India, and that is a reason for pessimism here
3. But over-all, and even specifically with regard to India, situation does not really seem to be all that bad

B. The over-all picture

1. Total transfers --

   9167: $11.1 thousand million
   1968: $12.9 " "

2. But mostly private investment: official decl.

   1967: $6.7 thousand million
   1968: $6.4 " "

3. Decline masked fact that there is an upward as well as a downward movement in trends of official aid

   a. (from Table II. 4)

4. Trend in some individual countries may be

particularly important:

-- UK (prospects good)

-- Germany (Eppler)

-- Japan (?)

-- U.S. (Peterson Commission Report)

5. Would be relevant to India; ~~and it may~~ but in at least three of these countries image of India greatly dimmed since the days of Panditji

   a. consideration might well be given to some kind of public relations activity aimed specifically at this point. If I were GOI, I would listen very attentively to anything that the Chairman of ICICI could be induced to say on this matter

VIII. Of one thing you may be sure: Mr. McNamara will see that the World Bank will do the best it can for India

A. Both as leader of the Aid-India consortium and, along with IDA, as a lender in its own right

B. We have over $300 million of Indian projects somewhere in the pipeline

   1. and in our own programming department, have been casting up totals which would maintain a very high average of financing in India

C. General outlook over the next 5 years is that our traditional lines of activity will be maintained, with some modifications

Agriculture

   2. electric power, but not so much for generating plants as for transmission and distribution

   1. transportation, but shifting away from railways and much more strongly into motor roads, including feeder roads in agricultural areas.

   3. much stronger emphasis on telecommunications, in recognition of the fact that India one of most under-communicatec countries inworld: (.2 of a tel per 100 pop, as against 1.0 S Kor

4. an even stronger emphasis on industrialization

   a. in this respect, we will continue to rely heavily on ICICI, but expect also to be providing finance for state-owned industrial development banks

5. water supply, as an admittedly inadequate contribution to the attack on the urban problem

   a. wauld do more if we knew what

6. maybe family planning - but money already available

IX. Our program inIndia, of course, will not proceed automatically, and there are important problems to be solved both in India and in the World Bank

A. On the side of India, problems lie chiefly in the public sector and the ministries

   1. slowness in project preparation (FCI)

   2. reluctance to enlist technical cooperation from outside India when it is needed

   3. insistence on local procurement, even when this means intolerable delays and items of inadequate quality

B. On the side of the Bank (similarly ideological) IDA

   1. resistance to program lending

   2. resistance to local currency expenditures

   3. the question of local preferences

C. Over-all difficulties-- necessity of negotiating with new borrowing entities

Mr. Graves's speech Bk

International agricultural rese
searching for a second "Gree

In the last days of July and the first days of August, the World Bank was host to a unique yearly event called the International Centers Week.

The Week brings together an unusual assembly of governments, foundations, international organizations and research institutions who aim, by a *coordinated* effort, to increase decisively the quantity and the quality of food produced in the developing countries.

This year's Week indicated that the money needed by research institutions to carry on this effort in 1974 — some $32 million — probably would be forthcoming when formal pledges of support are given in November.

The principal meeting of the Week is that of the Consultative Group on International Agricultural Research. The Group consists of 29 governments, foundations, and international organizations. The Food and Agricultural Organization of the United Nations, the United Nations Development Programme and the World Bank are the co-sponsors of the Group; the Bank is Chairman.

In this year's meeting, as usual, the members of the Group discussed proposals for solutions to problems of common interest—for instance, agreement on a common budget format for the international agricultural research centers being supported by the Group, and discussion of ways in which the Group, without over-burdening the centers or interfering with their independence, could review the annual progress of international agricultural research.

During the Week, the 13 experts who compose the Technical Advisory Committee (TAC) of the Consultative Group also met, to consider the merits of ongoing international agricultural research programs, and of proposals for new programs. TAC further considered a draft paper which will provide the basis for the Group's later

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	Cumulative Through 1963	Total 1964-68
East Africa	$ 74.1	$ 26.6
Western Africa	—	18.0
Europe, Middle East and North Africa	43.8	73.5
Asia	234.0	269.9
Latin America	104.4	232.8
Total	456.3	620.8

New Bank approac
lending focuses on

Rural development and agricultural d
ment are closely linked. Insofar as the
Bank is concerned, its involvement in
tural development has grown substant
recent years.

Between 1948 and the end of Fiscal Yea
the Bank has committed close to $3.6 bil
agricultural development. More than 70 p
of the total during this 25-year period wa
mitted in the last five years, and close to
cent was committed in 1973. Thus, the
of lending for agriculture has increase
there has been a growing transfer of res
for agricultural development.

The increased volume of lending ha
accompanied by a widening of the sc
lending. Until 1963, lending for agricultu
largely for irrigation works and for drain
1963, for example, total lending for agri
was $58.9 million; it all went for irrigatio