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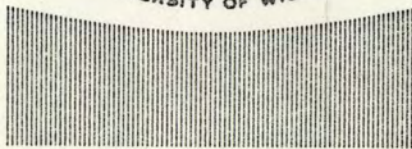
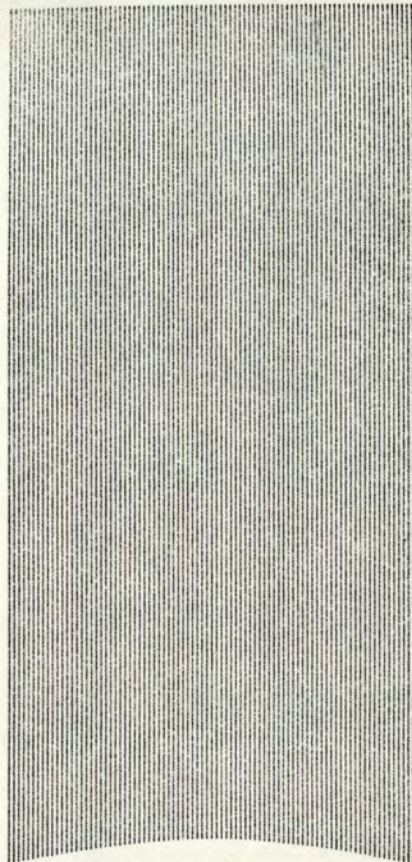
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THE PEACEFUL REVOLUTION



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Conference on the United Nations

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September 20, 1969
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The State of Wisconsin

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GOVERNOR

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GREETINGS:

The increasing intensity in the struggle for the minds of men to find solutions for the world's problems makes it imperative that concerned people be given access to basic facts and the opinions of recognized authorities. This conviction has been responsible for an unbroken span of annual conferences on the United Nations over the past ten years through the cooperative effort of the Institute of World Affairs and the Governor's Committee on the United Nations.

A listing of the conference subjects and speakers for that period would reflect the major concerns of the United Nations in the last decade, most of which remain unsolved and grave obstacles to world peace. A ray of hope was evidenced in the 1969 conference; positive programs for international development were discussed, which, if adequately supported, could result in greater political cooperation.

Those of us who were fortunate to hear the addresses by our four distinguished speakers are pleased that they will be shared by a much larger audience of readers. As a source book of valuable information, it can and should be of great help to all of us.

We express our appreciation to the staff of the Institute of World Affairs and our strong desire to continue the joint sponsorship of the annual Governor's Conference on the United Nations.

Sincerely,

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THE WORLD BANK'S VIEW OF DEVELOPMENT

A. DAVID KNOX
Director
Public Utilities Projects Department
World Bank

When one refers to the World Bank today in terms of its operations in general, what one usually means is the World Bank Group, which consists of three institutions: the World Bank itself, whose official name is the International Bank for Reconstruction and Development (IBRD), and its two affiliates, the International Development Association (IDA) and the International Finance Corporation (IFC). All three are associated with the United Nations.

The Bank had its genesis during World War II, when a group representing the wartime United Nations met at Bretton Woods, New Hampshire, in July, 1944, to discuss postwar needs and to set up financial institutions to deal with them. One of the institutions founded at Bretton Woods was the World Bank. Its purpose was to meet the urgent need for international capital to finance both postwar reconstruction and the economic development of less developed countries mainly in Asia, Latin America, and Africa. When the Bank began operations in the summer of 1946, it was concerned primarily with the rebuilding of the war-damaged

economies of Western Europe, for which it made loans totalling nearly \$500 million in 1947. When Marshall Plan aid got underway in 1948, the Bank turned its attention to financing development.

Over the past twenty-three years, the Bank and IDA have loaned nearly \$15 billion for development projects in some ninety-seven countries. Where did that money come from? Mostly from borrowing in the private capital markets of the world. The Bank's 110 member nations have subscribed some \$23 billion to their institution, in which all are shareholders. Of this, only one-tenth is paid in. The remainder is subject to call if ever needed to meet the obligations the Bank creates by its own borrowings. These uncalled subscriptions, amounting to \$20.7 billion, give strong backing to the Bank's notes and bond issues. This \$20.7 billion is roughly five times the total of the Bank's outstanding funded debt of \$4.1 billion. The Bank has raised twice that amount in its bond sales; the rest has been paid off. There never have been any losses on Bank loans; no government has ever failed to honor its obligations, and none has made the Bank a target for debt repudiation.

THE WORLD BANK -- LENDING POLICIES

The World Bank makes long-term loans at conventional interest rates to governments, government agencies, and -- with a government guarantee -- to private borrowers. The rate of interest charged on loans

is related to the rate which the Bank itself has to pay to borrow the money. The Bank's current lending rate is 7 percent. Repayment schedules vary according to the nature of different projects and the borrowing country's debt position. Loans have averaged twenty years, with a grace period usually added. The Bank seldom lends the total amount needed for a project, normally limiting its financing to the foreign exchange costs involved in the purchase of imported goods and services. Most of the local costs -- often more than half the total costs -- are met by the borrower out of other resources. The Bank loan is disbursed over the project's construction period as payments for the agreed purposes of the loan become due. Although the borrower places all orders for the goods and services used in carrying out the project, the Bank insists in most cases on international competitive bidding.

THE INTERNATIONAL DEVELOPMENT ASSOCIATION

IDA, the International Development Association, was founded in 1960 to help meet the situation of a growing number of less developed countries whose needs for and ability to make use of outside capital are greater than their ability to service conventional loans. IDA lends for much the same kind of projects as does the Bank. Its credits are made to governments at very long term (fifty years, including a grace period of ten years); credits are free of interest but carry a small service charge

of 3/4 of 1 percent. This does not mean that the projects for which IDA credits are used are financed on these terms. In the case of a power project, for example, IDA would insist that the government re-lend to the power company on the same terms as the Bank would have provided. Thus, the country's balance of payments position is eased, but the ultimate beneficiary is subject to commercial discipline.

Because it lends to governments on highly concessionary terms, IDA must obtain its funds mostly from contributions by the industrialized nations -- the eighteen "Part I" countries that have fairly high income per head. Up to late 1967, IDA had received over \$1.5 billion from them. Another \$300 million came from the Bank and other sources. The agreement on the second replenishment of IDA has recently come into force and will provide \$1.2 billion for its operations over the next three years.

THE INTERNATIONAL FINANCE CORPORATION

The third member of the Bank family is IFC, the International Finance Corporation, which began operations in 1956. Whereas the Bank and IDA may lend in either the public or private sector, IFC works exclusively in the private sector and without government guarantee. It is an investment institution with an international membership (91 of the Bank's 110 members), concentrating its efforts on the growth of productive private

enterprise by making long-term loans or providing equity capital, in conjunction with private investors both foreign and domestic. IFC often plays the role of a promoter and middleman. To date, the Corporation has committed \$364.7 million gross and \$348.5 million net in operational investments and underwriting commitments; it has disbursed \$206.5 million. Most of the investments have been industrial. The biggest single field has been chemicals and chemical products, including fertilizers. Other IFC investment fields have been in iron and steel, metalworking industries, paper and paper products, cement, textiles, and food processing. Recently the Corporation has added agriculture, utilities, and tourism to its list of ventures.

For the rest of this talk, I shall concentrate on the Bank and IDA. They have a common staff to which I belong. IFC has a separate staff, and since I see little of their activities, I do not think there is much I can usefully tell you about the Corporation.

PATTERNS OF BANK AND IDA LENDING

The Bank's Articles of Agreement lay down certain important principles which guide the Bank in all its operations:

" . . . to assist in the reconstruction and development of territories of members by facilitating the investment of capital for productive purposes . . . "

Loans shall, "except in special circumstances, be for the purpose of specific projects . . . "

Thus the bulk of Bank lending has been for individual, clearly identifiable projects. We attach great importance to this since it enables us to investigate closely a project before we lend and to supervise closely the use of our funds after we have lent.

Moreover, since we are directed to lend for "productive purposes," we have always sought to lend for purposes which provide direct economic benefits. We have made loans for power, agriculture, industry, and other purposes with a clearly identifiable return in terms of increased economic activity. We have not, however, felt able to enter fields where the benefits are mainly "social" rather than economic, such as housing or health.

Of the total of Bank and IDA lending, amounting to nearly \$15 billion, about 63 percent has been provided to finance public services to create or improve transportation networks, power supplies, water supply and sewerage systems, and telecommunication facilities. This reflects a pragmatic approach. We found over and over again that infrastructure was weak in the developing countries, and we judged that there was little chance for effective development without an improvement in infrastructure. Industry cannot develop without power and water and good communications; nor can we expect rapid agricultural development if the roads and railways are not there to get the farmer's produce to the market.

We have put much emphasis on infrastructure in the past, and

we will go on investing increasing amounts in roads and power and the like. But we think that as the Bank's lending activities expand, we should put an increasing proportion of our total lending into other fields. Let me therefore try to tell you briefly what we are doing in agriculture, education, industry, tourism, and population.

Agriculture: Hitherto, we have invested about \$1.5 billion in the area of agriculture, but we expect a very large proportionate expansion in our lending to this sector over the next few years. This expansion has already begun. In the fiscal year which ended June 30, 1969, we loaned \$367 million for agriculture, more than double the level of the previous fiscal year and about three times that of the average of the previous five years.

We are putting this growing emphasis on agriculture because agriculture is the dominant sector in most developing countries. It usually accounts for the bulk of their gross national product, and almost invariably it employs far more people than any other sector. Thus, if agriculture stagnates, it is, to say the least, extremely difficult for the rest of the economy to develop.

Education: Another area in which we plan to do much more in the future is education. Indeed, we hope to see something like a three-fold expansion in our activities in this sector. During the last fiscal

year, we loaned just under \$82 million, and to date our total lending has been \$244 million.

You may ask: How does this tally with what I said earlier about productive sectors and economic investment? The answer is that we think that the lack of skilled people is one of the great barriers to economic growth in the developing world. Agricultural development, industrial development, the growth of an efficient administration, and many things besides will be held up unless developing countries have an adequate supply of properly trained indigenous manpower at all levels -- administrative, managerial, and technical.

We are very much concerned about the relationship between education and productive activity. For that reason we have concentrated our educational lending on particular parts of the educational system.

In many countries the lack of adequate secondary school facilities has seemed to us to be the big impediment to an adequate supply of people capable of building the economy. Thus, we have put special emphasis on secondary education.

Our activities in other sectors have brought us up against many countries' lack of people with technical skills. As a result, much of our educational lending has been for technical training.

Similarly, we have tried to help with teacher training facilities -- again to provide something which seemed to be critical for promoting economic development.

Industry: Much of the help the Bank Group has given to industry has been through the IFC, which, as I said earlier, works

exclusively in the private sector. The Bank itself and IDA have also made loans for industrial development, however, amounting to almost \$2 billion to date, and we expect to do more in the future. But we have considered that our big contribution to industrial development should be through helping to provide the infrastructure which industry needs. Moreover, of the total of some \$2 billion which the Bank and IDA have invested in industrial development, almost \$900 million have been loans to development finance companies. In this way we have tried to foster the growth of finance institutions which will encourage the investment of domestic savings in business enterprises in developing countries.

Tourism: This is a new field of activity for the Bank and IDA. We have projects under consideration, but no loans yet. We intend to put increasing emphasis on tourism because its potential as an earner of foreign exchange is very high in many developing countries. A growing tourist industry should thus help them to earn the foreign currencies they need to buy imports necessary for economic expansion.

Loans for tourism projects may take one of a number of forms:

- (a) to finance an integrated program of infrastructure works necessary for the development of tourism in a particular area;
- (b) to make such a loan to an institution in the borrowing country whose function is to develop a tourism complex; or
- (c) possibly to lend for hotels and related facilities, although

we would generally expect private capital to finance the tourism "superstructure."

Population: The Bank has recently set up a Population Projects Department, but as yet no loans have been made. Indeed, our actual lending for population projects may not be very large since our main purpose is to stimulate our member countries into thinking about this problem and acting on it. We are doing this because experience has brought home to us forcibly the ways in which a population explosion can hinder attempts to raise living standards. We have seen, for example, how much capital can be absorbed just in providing minimum standards of housing and education for a rapidly growing population. If developing countries are to improve, rather than merely maintain, their citizens' standards of living, many of them need, we think, to take serious steps to curb excessive rates of population growth.

Over the next four to five years, the Bank and IDA expect to increase their lending very considerably. The total for the five years 1969-73 will probably be twice as much as it was in the previous five. Within this total we expect to do more in basic infrastructure -- power, roads, etc. -- but much more in agriculture, education, tourism, and population. Moreover, we expect the future will also see a shift in the geographical pattern of our lending -- expanding in all areas of the underdeveloped world, but a particularly large expansion in Africa, where

the needs are particularly great and where we hope that in the next two years we shall begin to reap the benefits of the work we have been doing in recent years to help the African countries identify and prepare more good projects.

"A CATALYST OF GROWTH"

I have spoken so far about patterns of development -- about the sectors and the areas where we invest. I would, however, give you a misleading impression of our work and our approach to development if I were to leave you with the idea that all we are concerned with is pumping out more loans. Obviously, given the tremendous problems of economic development, we are striving to increase our lending. But we are also trying to do a good deal more besides. To begin with, we do not lend to any country unless we are satisfied that it can service all of its external debts. Indeed, we want to be satisfied that the economic policies the country is following are such that it will be able to continue to service its debts. In addition, as I mentioned, we try to foster the growth of financial institutions in our member countries to marshal domestic savings and channel them into productive uses. Our basic concern is to encourage our member countries to adopt economic policies conducive to economic growth. If we do not think a country is following such policies, we simply do not lend to it. Similarly, we try to shape

our whole strategy of lending in a country in a way which we hope will give the greatest stimulus to its economic development. Thus, within the broad pattern of lending I have tried to describe to you, we strive to mold to the needs of each country the specific pattern there.

As to the particular projects for which we lend, obviously we try to ensure that they are economically well justified. But we go much further and look very carefully at the institutions which are to carry them out. We devote a lot of effort to trying to strengthen these institutions -- be they power companies, highway departments, agricultural credit banks -- so that, when our project is completed, we leave in our member country not just a new physical asset -- a dam, a road, a school -- but an organization that is better equipped to build new projects and to provide efficient service.

As you can well imagine, one does not do all of this without a great deal of preparation before a loan is made and careful supervision after it is made. We put a lot of work into identifying and preparing suitable projects. In this connection, I look forward very much to hearing what Mr. Paul-Marc Henry will say to us later today since we receive great help from the United Nations Development Program in this task of identification and preparation -- as we do from other members of the United Nations family to which we belong (notably from FAO and UNESCO).

This brings me to my final point in this necessarily brief survey of the World Bank's view of development. The Bank sees the development effort as a partnership -- a joint effort with other UN agencies; with bilateral donors, as individuals or in groups (the Bank has been instrumental in setting up consortia or consultative groups for this purpose); and, above all, with our developing member countries themselves. Development, we think, is a complex and delicate process, whose success depends on the interaction of many factors, some of them hard to quantify, which vary from country to country. The Bank cannot and would not wish to "go it alone." We hope to be a catalyst of growth, but we know we can succeed only if we tailor our assistance to the needs and the capacities of our member countries and if we constantly remind ourselves that it is, as Mr. McNamara said in his speech at our Annual Meeting last year, "their country, their economy, their culture and their aspirations which we seek to assist."

ABOUT THE AUTHOR

A. DAVID KNOX is Director of the Public Utilities Projects Department of the World Bank. He joined the International Bank for Reconstruction and Development and the International Development Association in August of 1963. From then until 1965, he served as a member of the Development Advisory Service and also as Loan Officer of the Western Hemisphere Department. During the next year, he was Division Chief of the Western Hemisphere Department and then Assistant Director of the Public Utilities Division, Projects Department, until appointment to his present position in 1969.

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