ADDRESS TO THE
BOARD OF GOVERNORS

by

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ADDRESS TO THE BOARD OF GOVERNORS

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I. INTRODUCTION

You will recall that when we met last year I recommended two specific actions designed to improve the climate of international economic development.

To prevent the debate between the developed and developing nations over a whole series of sensitive issues from hardening further into a North-South deadlock, I urged that former Chancellor Willy Brandt form an independent, high-level commission that could search for practical solutions to the growing impasse.

Herr Brandt has, as you know, moved forward vigorously in this matter. He has recruited a distinguished group of commissioners, has gathered an expert staff, and is at work seeking to identify for the developed and developing nations areas of mutual interest in an increasingly interdependent world.

All of us are indebted to him, and to his colleagues, for undertaking this complex and difficult task.

The second action I recommended is complementary to the first. I proposed that the Bank should undertake, annually, a comprehensive analysis of economic and social progress in the developing world in order better to assist ourselves, and our member governments, assess the alternatives and make the decisions that confront us all in the development field.

Our goal was to have in your hands, by the time of this meeting, the initial volume in this effort. That we have done. The World Development Report, 1978 deals with fundamental problems currently facing the developing countries, and explores the relationship of those difficulties to the underlying trends of the international economy.

Many of the conclusions the report reaches are sobering.

One of them is much more than that; it is shocking. Even if the projected — and optimistic — growth rates in the developing world are achieved, some 600 million individuals at the end of the century will remain trapped in absolute poverty.
Absolute poverty is a condition of life so characterized by malnutrition, illiteracy, disease, high infant mortality, and low life expectancy as to be beneath any reasonable definition of human decency.

What I want to do, then, this morning is:

A. Examine with you our current projections for economic growth in the developing countries, and the implications of that growth for the absolute poor.

B. Make clear that in order to achieve even the projected levels of growth, which are short of the optimum, additional effort will be required from both the developed and developing nations. In particular, additional international effort will be needed on three fronts:

- A further expansion of international trade on the basis of long-term comparative advantage and mutual benefit;
- A sharp increase in the level of capital extended to the middle-income developing countries from private sources, together with increased support from the multilateral financial institutions; and
- An increased flow of concessional assistance to the poorest developing countries.

C. Stress that even if the additional international support is achieved, and the projected growth rates are realized, much greater emphasis must be placed on domestic development strategies specifically designed to reduce absolute poverty. We are far from a perfect understanding of the mix of policies required. But within the limits of our present knowledge and experience, a great deal more can—and must—be done.

D. And finally, I want to outline briefly the ways in which the World Bank itself can assist in the achievement of these twin goals of accelerating economic growth, and reducing absolute poverty.

Let me, then, begin by summarizing our projections for economic growth in the developing countries over the next decade, and their implications for absolute poverty at the end of the century.
II. PROJECTED GROWTH IN THE DEVELOPING COUNTRIES, 1975-85, AND ABSOLUTE POVERTY IN THE YEAR 2000

It is important to understand the purpose of these projections. They are not an attempt to predict the future.

Their purpose, rather, is to provide a perspective in which development issues can be examined, and to establish a basis for determining those actions that are necessary if greater social and economic progress is to be achieved.

The pursuit of that progress will, of course, cut across a number of vested interests and require an immense effort from the developing countries themselves.

There must, for example, be a renewed drive to mobilize domestic resources (Table I). It will not be easy for the poorest nations to raise their low savings rate, nor for the middle-income countries to maintain their current high rates, but it is essential that they do so. It will mean reform of taxation policies, more realistic prices for public sector products and services, restraint in low-priority government expenditures, and increased incentives for private savings.

Table I—Developing Countries*: Savings and Investment Rates
(Percentage of gross domestic product)

<table>
<thead>
<tr>
<th>Gross Domestic Savings</th>
<th>Net Foreign Resource Inflows</th>
<th>Gross Domestic Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low-Income Asia</td>
<td>12.6</td>
<td>16.7</td>
</tr>
<tr>
<td>Low-Income Africa</td>
<td>7.0</td>
<td>8.4</td>
</tr>
<tr>
<td>Middle-Income</td>
<td>17.8</td>
<td>22.1</td>
</tr>
</tbody>
</table>

In addition to strengthening their domestic savings performance, the developing countries must bolster their efforts in two other critical areas.

*Throughout the text, developing countries are divided into low-income countries and middle-income countries on the basis of income per capita. Income per capita in low-income countries was below $250 per year in 1976. Country groupings exclude Centrally Planned Economies other than Romania, Yugoslavia, Cambodia, Laos, and Vietnam.
The first is agricultural production. In the low-income countries, action must be initiated to at least double agricultural growth rates from 1.5% to 3.0% a year.

The second is foreign trade. Programs must be launched to increase foreign exchange earnings through export expansion in a larger number of countries.

But as essential as these actions by the developing countries are—and they clearly constitute a formidable agenda in themselves—they simply cannot succeed without a more realistic level of support from the developed nations.

That support must encompass three principal efforts:

• A reversal in the rising tide of protectionism in the developed countries against imports from the developing world;

• A sustained growth in the net financial flows from the world's private capital markets to the middle-income developing countries of about 5% a year in real terms, thus increasing them, in current dollars, from $26 billion in 1975 to $80 billion in 1985; and

• A move away from the virtual stagnation of concessional aid from the OECD countries in recent years to a growth rate of at least 5% a year in real terms, thereby causing it to rise in current dollars from $15 billion in 1977 to $42 billion in 1985.

If one assumes that both the developing and developed nations in fact take these actions, then the projected growth rates are as follows:

Table II—Growth of Gross Domestic Product, 1960-85
(Average annual growth rates, at 1975 prices)

<table>
<thead>
<tr>
<th></th>
<th>Per Capita</th>
<th>Total GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low-Income Asia</td>
<td>.0</td>
<td>1.5</td>
</tr>
<tr>
<td>Low-Income Africa</td>
<td>1.9</td>
<td>.4</td>
</tr>
<tr>
<td>Middle-Income</td>
<td>4.0</td>
<td>4.1</td>
</tr>
<tr>
<td>All Developing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Countries</td>
<td>3.2</td>
<td>3.6</td>
</tr>
<tr>
<td>Industrialized</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Countries</td>
<td>4.1</td>
<td>2.0</td>
</tr>
</tbody>
</table>
Because these projected growth rates are predicated on major efforts in both the developing and developed countries, they are—while feasible—very far from certain.

But one thing is certain: there is no reason for the developed nations to believe that the actions suggested for them in this scenario are beyond their capacity. For even if projected growth rates for the developing countries were to be achieved, overall growth in the world would still be heavily skewed in favor of the developed countries, as the table below indicates.

**Table III—Distribution of Population and GNP, 1950-1985**

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Low-Income</td>
<td>43</td>
<td>69</td>
<td>175</td>
<td>286</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Middle-Income</td>
<td>33</td>
<td>208</td>
<td>873</td>
<td>1543</td>
<td>21</td>
<td>25</td>
</tr>
<tr>
<td>Total Developing</td>
<td>76</td>
<td>277</td>
<td>1048</td>
<td>1829</td>
<td>24</td>
<td>29</td>
</tr>
<tr>
<td>Total Developed</td>
<td>24</td>
<td>1341</td>
<td>3841</td>
<td>5795</td>
<td>76</td>
<td>71</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>1618</td>
<td>4889</td>
<td>7624</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Low-Income</td>
<td>43</td>
<td>104</td>
<td>150</td>
<td>195</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>Middle-Income</td>
<td>33</td>
<td>454</td>
<td>957</td>
<td>1327</td>
<td>20</td>
<td>37</td>
</tr>
<tr>
<td>Total Developing</td>
<td>76</td>
<td>2614</td>
<td>5883</td>
<td>8316</td>
<td>131</td>
<td>243</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>1618</td>
<td>4889</td>
<td>7624</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

So far we have been talking about growth rates. What about the poverty issue?

To try to grasp its magnitude at the end of the century, we have projected the growth rates beyond 1985 for another 15 years. Admittedly such projections are subject to large margins of error. But based on what little we do know about the interactions of social and economic factors, and the effect of various
patterns of economic growth on the prospects of the poor, the projections point to a global problem of shocking proportions.

The likelihood is that even if the projected growth rates in the developing countries are achieved, some 600 million individual human beings will be living in absolute poverty at the end of the century.

Table IV — Projected Levels of Absolute Poverty, 1975-2000

<table>
<thead>
<tr>
<th></th>
<th>Numbers (in millions)</th>
<th>Percent of Total Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low-Income Countries</td>
<td>630</td>
<td>575</td>
</tr>
<tr>
<td>Middle-Income Countries</td>
<td>140</td>
<td>140</td>
</tr>
<tr>
<td>All Developing Countries</td>
<td>770</td>
<td>715</td>
</tr>
</tbody>
</table>

I would like to turn now to a more detailed discussion of the actions required from the developed nations if the projected growth rates are to be realized or exceeded. I will then examine what can be done to reduce the projected levels of absolute poverty. And I will conclude with a statement of what the Bank itself can most usefully do to assist in both accelerating growth and reducing poverty.

III. EXPANSION OF INTERNATIONAL TRADE

The scarcity of foreign exchange is, of course, one of the major obstacles to greater economic growth in much of the developing world. Export earnings are the chief source of foreign exchange, and hence the growth rates projected in Table II depend on the achievement of the underlying assumptions of export performance.

What are those assumptions? Can they be realized?

The projections assume that exports from the developing countries will rise marginally from their 5.9% rate of expansion in the 1960-1975 period to 6.4% in the period 1975-1985. While this may seem a modest gain, it depends in fact on manufactured exports — now a quarter of the total — continuing to grow at the
rate of approximately 12% per annum, as they have over the past 15 years.

This rate simply cannot be sustained if the protectionist barriers erected by the developed nations against the manufactured exports of the developing countries continue to rise as they have recently.

Even a partial resume of the new restrictive measures illustrates the severity of the problem.

- Australia, Canada, France, the United Kingdom, the United States, and Sweden have imposed new quotas and so-called "orderly marketing arrangements" on the developing countries' exports of footwear.

- The new protocol of the Multi-Fiber Arrangement, covering the period through 1981, permits the imposition of more severe restrictions on clothing and textiles. Under it, for example, the European Common Market has reduced 1978 quotas for three countries beneath actual 1976 levels, and has severely limited the growth of quotas of other countries, including many that are only beginning to export these products.

- In addition to the EEC, Australia, Canada, Norway, and Sweden have also tightened developing country quotas for textiles and clothing, and the United States, for 1978, has held three of its largest suppliers to 1977 levels. The net effect of all of these restrictive measures will be to limit the growth of developing countries' exports of clothing and textiles to only 5% per annum over the next few years, compared to some 16% per annum in the period 1967-1976.

- The European Community and the United States have introduced special protective measures regarding steel, which pose serious difficulties for those developing countries now emerging as exporters.

- The United Kingdom has imposed quotas on television sets from two developing countries, and similar action is threatened in the United States and elsewhere.
The truth is that throughout the industrialized nations this trend toward protectionism is gathering momentum. There is an increasing readiness for OECD governments to extend assistance to domestic industries at the expense of developing country exports. And producers of a wide variety of products in the industrialized world—ranging from petrochemicals and ships to bicycle tires—are now demanding relief from import competition.

The popular rationale for this protectionist posture in the developed nations is, of course, that the growth in developing country exports eliminates jobs.

But while the impact on jobs in specific firms, or in particular product lines, can sometimes be serious, it is important to recognize that the negative effect of developing country exports on overall employment in the developed world has been negligible.

The fact is that developing countries today supply only a tiny portion of the manufactured goods consumed in developed countries. Less than 2%.

Even in the case of clothing, which contributed the most to developing-country export growth, the ratio of imports to total consumption in 1976 was less than 8% in the United States. In 1974, developing country textiles and clothing together constituted only 8% of the market in Germany, 6% in the United Kingdom, 5% in Canada, 4% in Japan and in the United States, and 2% in France.

These low levels of market penetration have clearly made only a minuscule impact on the overall industrial structure of the importing countries, and the impact on the occupational pattern is even smaller since a number of industries share a common need for specific occupational skills.

Further, the number of workers displaced by imports from developing countries is only a fraction of those displaced by shifts in technology and demand in the industrialized countries themselves.
A number of studies have indicated that within a given industry, the amount of employment lost through import competition is generally much smaller than that lost because of technological advances that increase labor productivity.

A German study, for example, concluded that for manufacturing as a whole during the 1962-1975 period, technological improvements displaced 48 workers in Germany for every one worker displaced by imports from developing countries. Even in clothing, where imports from developing countries grew rapidly, and technology was relatively stable, this ratio was more than three to one.

What the protectionist view overlooks is that the loss of jobs due to imports from the developing countries is outweighed by the increase in jobs due to the growing volume of exports to those same developing countries.

In 1975 the industrialized nations imported $26 billion of manufactures from the developing nations, and exported $123 billion of manufactures to them in return. And that accounted for a full 30% of all their exported manufactures.

If the developing countries are to import even more from the developed nations—and they want to—they must be allowed to export more so that they can earn the foreign exchange necessary to pay for them.

Excessive protectionism is not only unfair. It is self-defeating.

But, as I have noted, though the overall net effect of developing-country imports on employment in the developed nations is beneficial, it is true that problems can arise in individual firms, or in particular product lines, in which comparative advantage lies strongly with the developing countries. In these cases, what are needed are practical adjustment measures, not broadside protectionist barriers that in the end only make reasonable and mutually advantageous adjustment more difficult.

The truth is that the adjustment problem has largely been neglected in the industrialized countries. Too often the effort is
merely to keep weak and inefficient industries alive rather than designing effective incentives for labor and capital to shift to more competitive and productive sectors.

Further, with the notable exception of The Netherlands and Norway, there have been very few governments in the developed world that have even studied the need for changes in their industrial structure. As the international economy continues to evolve, and the capacity of the developing countries to export manufactured goods expands, it is essential that there be adequate forward planning to reduce the frictions associated with structural change.

The OECD nations, both individually and collectively, should undertake such studies to identify the problem areas in advance, and explore practical solutions to deal with them.

The primary concern of the industrialized nations today is, of course, greater progress in the recovery of their own domestic economies.

Less restrictive trade with the developing countries can hasten that recovery.

A more liberal import policy, as I have already pointed out, will lead to a more rapid expansion of exports to the developing countries, thus providing a healthy stimulus to demand in the developed nations.

And added to that, imports from developing countries can assist in reducing inflationary pressures. In the United States, for example, while other wholesale prices rose by 66% from 1970 to 1976, those for clothing—due to low-cost imports—rose only 26%.

Adjustment assistance, and economic recovery, are essentially tasks for individual governments. What is needed at the international level—beyond what is accomplished at the Tokyo Round—is a more rational framework of trade relations through which excessive barriers can be more rapidly dismantled, and more explicit criteria can be established governing those barriers which must be imposed to deal with strictly temporary difficulties.
Protectionist measures are, of course, common in developing countries as well. For those societies still at an early stage of industrialization, they are often justified. But for those countries that are well advanced in the development process, the negative effects of industrial protection on efficiency and growth become increasingly apparent.

Such countries will also have to face adjustment problems if they are to increase their competitiveness and diversify their exports. And it is these countries that have the greatest stake in avoiding an increasingly restrictive trading system.

Maintaining the benefits of more liberal trade clearly will demand a cooperative approach, and the success of that approach will be enhanced as the more advanced developing countries—on a reciprocal basis—demonstrate a greater willingness to reduce their own import barriers.

Though developed and developing countries have different interests at different stages of industrialization, given a sense of realism, they can reach practical accommodations that are mutually beneficial.

A realistic agenda for such negotiations should include

- Assured growth of the developed countries' imports of currently restricted developing-country products;
- Strict rules to prevent new tariff and non-tariff barriers, except for brief periods under agreed criteria and under strict multilateral surveillance;
- Progressive removal of present quantitative import restrictions, and the easing of administrative procedures;
- Greater liberalization of import policies by the more advanced developing countries;
- Gradual reduction of export subsidies, except for the less advanced developing countries with special problems; and
- Agreements facilitating the growth of trade among the developing countries themselves.
By participating more intensively in multilateral trade negotiations, the developing countries—and particularly the middle-income nations—can counter the growing threat of discrimination against their exports. This will help ensure a trading environment that better reflects their interests.

Unless this is done, not only will the economies of the developing countries grow at rates less than those projected, but growth in the developed countries will suffer as well.

In the final analysis, a more rational framework of trade and adjustment to changing comparative advantage must be the centerpiece of any long-range international economic strategy that has any realistic hope of succeeding.

Now let me turn to another facet of this same overall problem: the need for greater capital flows to the middle-income developing nations.

IV. CAPITAL FLOWS TO THE MIDDLE-INCOME DEVELOPING COUNTRIES

Over the past five years, the amount of foreign exchange required by the middle-income developing countries to finance their imports has risen dramatically. This has been in part due to the steep increases in the cost of oil.

During the same period, the recession in many industrialized nations reduced in real terms the export earnings available to the middle-income countries to finance those imports.

Thus these countries faced a dilemma. They could either reduce their imports, thus slowing their own economic growth as well as that of the industrialized nations. Or they could try to maintain the level of their imports, and thus protect their growth, through greater reliance on external borrowing.

They chose to follow the latter course. And as a consequence, as shown in Table I, their external financing as a percentage of GDP nearly doubled from 2.4% in 1960 to 4.3% in 1975.
The bulk of these funds, as both the table below and Annex Table II indicate, came from private sources, primarily commercial banks.

Table V—Medium- and Long-Term Capital Flows to Middle-Income Countries<sup>a</sup>
(Billions of current US dollars)

<table>
<thead>
<tr>
<th>Net Disbursements</th>
<th>Disbursed Debt Outstanding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grants and Concessional Loans</td>
<td>2.3</td>
</tr>
<tr>
<td>Loans at Market Terms Multilateral and Government</td>
<td>1.0</td>
</tr>
<tr>
<td>Private&lt;sup&gt;a&lt;/sup&gt;</td>
<td>6.9</td>
</tr>
<tr>
<td>Total</td>
<td>7.9</td>
</tr>
<tr>
<td>Total—Current Prices</td>
<td>10.2</td>
</tr>
<tr>
<td>1977 Prices</td>
<td>19.0</td>
</tr>
</tbody>
</table>

Thus, net flows to middle-income developing countries from private sources increased 30% a year between 1970 and 1975.

Such explosive growth could not, of course, continue indefinitely. And it has already begun to slow down substantially.

In the projections of the future growth of these countries, the assumption is that net flows will grow by 12% a year. As the table shows, even this reduced growth in lending will mean that net flows from private sources will rise, from $26 billion in 1975 to $80 billion in 1985.

That in turn means that outstanding balances would increase from $84 billion in 1975 to $350 billion in 1985.

The question is: can such huge increases in absolute amounts be supported by the private sector?

The projected growth of these balances reflects, of course, inflation: in 1977 prices, the 1985 figures would only be about

<sup>a</sup>Includes "Direct Foreign Investment."
half as large. In real terms the growth in net disbursements is only about 5% a year.

Thus, at this level, net flows will be growing only slightly more rapidly than the GDP in the developed countries, and somewhat less rapidly than the GDP in the middle-income developing countries.

But the fact remains that the magnitude of the increases is immense, and both the governments of the borrowing countries and the commercial lending institutions, and their supervisory agencies, must give the matter very careful thought.

What precisely are the problems involved in this expansion of debt? What are its risks? And what steps ought to be taken to ensure that the debt is managed prudently so as to avoid any sudden disruption in the flow of essential capital to the developing countries?

Two years ago, when the extent of the recent increases in commercial capital flows became apparent, there was considerable anxiety expressed over the prudence of lending on such a scale to developing countries.

We said at that time there was no real cause for alarm. And we believe that today there is a much better understanding of the capacity of the developing countries to manage their debt, even in the context of a less buoyant outlook for international trade.

But if the private lending process is to proceed smoothly, there are three aspects of it that must have continuing attention.

First, there is the problem of the risk for individual developing countries associated with the high volumes of commercial bank loans falling due in the next few years. This quantum leap in maturing debt reflects the typical 5-year maturity of the very large volume of Eurocurrency borrowing which took place in 1974 and 1975.

As long as the outlook for a borrowing country seems bright, the commercial banks are likely to make new loan commitments which not only offset the amounts due for repayment but also
provide a substantial inflow of net external finance. But if the outlook for a particular borrowing country is in doubt for any reason, then the entire amount of new loan commitments can be called in question. In such a situation what is at stake is not simply some increment of new funds, but rather the risk of a substantial net outflow of capital.

The nature of the risk can be illustrated with figures for middle-income countries as a group. To meet the projected net disbursement of $68 billion for these countries in 1985, new medium- and long-term loan commitments from private sources would need to reach $160 billion per year by 1985. This is clearly an enormous sum, even allowing for the inflation which may take place over the next few years.

Such a high ratio of gross to net flows is a direct consequence of the relatively short maturity of commercial bank lending. The $160 billion figure assumes an average maturity of five years. Given the rather sharp lengthening of maturities on syndicated loans which has occurred over the past year or so, and given the success of a few middle-income countries in tapping the international bond markets, it would not be surprising if the average maturity were longer than this. But even at an average of 7 years, the gross flows would need to reach $140 billion a year.

There is no doubt that private capital flows of these magnitudes will require a continuing climate of confidence and a supportive framework of public policy in both the developed and developing countries.

Another cause for concern is that much of the international lending is still handled by relatively few banks.

Well over half of all outstanding claims on developing countries are held by about 30 major banks, principally in the United States. How much these banks can increase their lending in developing countries over the next several years depends on the growth in their capital base and the diversification of their portfolios. This is a strong reason for involving more lenders in international development.
Banks in Europe and Japan have been increasingly active in lending to developing countries, and it is important that this trend be accelerated. Diversifying the sources of lending would help dampen excessive volatility in the international capital market. That expansion of private lending can be stimulated by the provision by borrowers to lenders of more adequate information, and by the acceptance of appropriate risk premiums. Expanded cofinancing between official and private lenders can also significantly help the diversification process.

A third area of concern is the high levels of bank exposure to risks in a relatively few countries. While the number of countries that have sizeable borrowings from private markets has grown in recent years, about 70% of outstanding claims are owed by 12 countries.

Debt problems in any one of these countries, even a small one, can affect the willingness of the private market to lend to all developing countries.

While a number of analyses have concluded that there is no general problem of middle-income developing countries being unable to service debt, individual countries may run into liquidity problems. The availability of private capital to a broader range of middle-income developing countries would make the market less sensitive to developments in a restricted few.

In a more general sense, the confidence of private lenders needs to be protected by better arrangements to assist countries in short-term balance of payments difficulties, notably by expanding the resources available to the International Monetary Fund.

The critical flow of private capital to developing countries can be substantially enhanced by expanding the lending capacity of the official lending organizations—both the export credit agencies and the multilateral financial institutions. This is true for three principal reasons.

First, the maturities of official lending are substantially longer than private lending and can effectively assist developing countries in the management of their external debt. Blending official
loans at near market terms having maturities of 15 to 25 years with private loans having maturities of 5 to 10 years can lighten the debt service burden on developing countries. It would result in an average maturity of their external debt that is more appropriate to their investment program and balance of payments outlook.

Whether this blending is achieved through cofinancing of the same or different projects is less important than that the volume of funds lent by the official institutions be sufficient to make a significant difference to the average maturities.

Secondly, official lending institutions support the expansion of commercial flows by providing private lenders greater assurance of the quality of economic management in the borrowing country. Through analysis and advice, the multilateral lenders help influence more prudent borrowing and economic management, and the scale of their involvement in individual countries is an important signal to private lenders.

Finally, the lending programs of the official institutions, since they are not subject to short-term changes in liquidity, can provide a less volatile flow of funds, thus adding an important element of stability.

The importance of these factors has been evident in recent years as both official multilateral lending and private lending grew extraordinarily fast, each supporting the other in meeting the capital requirements of developing countries. As I will discuss in more detail when I deal with the World Bank's program, there is a danger that this mutually supportive growth may be weakened by a failure to expand the lending authority of the multilateral financial institutions as rapidly, and as adequately, as is necessary.

Official loans accounted for 36% of developing countries' outstanding debt in 1970—excluding concessional loans—but only 19% in 1975. This share has continued to decline in 1976 and 1977.

It is neither surprising nor undesirable that private lending accelerated. But there can be a problem when the balance
shifts as rapidly as it has in recent years, particularly in the case of a few countries that have been exceptionally active borrowers in the private market. The continued health of the current system of international financial intermediation requires that the growth of lending in the next decade be more balanced between official and private lenders.

Maintaining the steady growth of the medium- and long-term capital flow to developing countries, in line with their growing capacity to service external debt, serves their development needs and at the same time is of benefit to the industrialized countries. Such productive investment of a portion of their savings is profitable to their financial institutions and expands the import capacity of the developing countries, and hence the export volume of the developed nations. The additional demand will benefit particularly their machinery and transport-equipment manufacturing sectors, which are likely to account for about half of the increase in the developing countries' imports from the industrialized countries.

As with the growth of trade, strengthening the framework of international capital flows clearly provides important benefits to both developing and developed nations.

Let me turn now to the problem of concessional assistance to the poorest developing countries.

V. CONCESSIONAL ASSISTANCE TO THE LOW-INCOME COUNTRIES

The development strategies of the low-income countries of Asia and Sub-Saharan Africa clearly must give priority to raising agricultural productivity, and to meeting the requirements for essential infrastructure such as roads, health and sanitation facilities, power generating capacity, and schools.

The investment needed to support that strategy is immense. As in the past, and as shown in Table I, the bulk of the funds to finance these investments must come from domestic savings; already they furnish some 80% to 85% of the total.
The domestic savings of these low-income countries have been rising. But they have to be supplemented by external capital flows if the total investment requirements for even modest growth are to be met. And because most of the low-income countries have limited debt-servicing capacity, most of the external capital must be obtained on concessional terms through what is known as Official Development Assistance (ODA).

What is the outlook for such assistance?

As indicated in Annex III, recent trends in ODA from the Development Assistance Committee (DAC) countries are disquieting. In relation to their GNP, it has declined from .52% in 1960 to .31% in 1977.\(^a\)

Since 1970, when the United Nations General Assembly adopted a target of .7% of GNP for concessional aid, it has never exceeded half that level, and there has been a steady deterioration against the objective. The fact is that in 1976 and 1977 the absolute amounts were less in real terms than in 1975, 1972, or 1971.

There have, however, been significant differences within the group of DAC countries. Some of the smaller countries such as The Netherlands, Norway, and Sweden have exceeded the .7% target. Others such as Canada and Denmark have substantially raised their share since 1970.

But among the four largest contributors, only France was close to the .7% objective in 1977. The other three, the United States, Japan, and Germany, all contributed substantially less than half of the target ratio in 1977, and the performance of all three has deteriorated since 1970. Had these countries increased their contributions of ODA in relation to GNP, even up to the average of the other countries, the total supply of ODA in 1977 would have been more than 25% greater.

\(^a\)In addition to development assistance from the DAC countries, developing countries since 1975 have received over $5 billion of such aid each year from OPEC nations—the equivalent of about 5% of the GNP of the major donors.
In projecting economic growth in the low-income countries, we have assumed that ODA from DAC members will rise by approximately 5% per year in real terms. The increase in current dollars would be from $15 billion in 1977 to $42 billion in 1985. In relation to recent performance, such increases look formidable.

They are unlikely to be achieved, much less exceeded, unless early action is taken in Japan, Germany, and the United States to increase commitments substantially. There have been statements of intention to increase the flow of aid in all three countries. But these statements have yet to be translated into action.

Today, in September 1978, it is already too late to affect the flow of disbursements significantly by 1980. Unless very substantial increases in commitments — more than sufficient to keep pace with inflation and the real growth of GNP — are undertaken in the next year, and regularly thereafter, even the modest objective we have postulated for 1985 will not be achieved.

In that event, the growth rates we have projected for the low-income countries in Table II will not be realized, and the number of absolute poor projected in Table IV, already intolerably high, will be even greater.

Let me turn now to an examination of that poverty problem.

VI. ABSOLUTE POVERTY IN 1985 AND 2000

The need to give greater attention to the problems of the absolute poor has been increasingly recognized in international discussions. But the intractability of these problems and the scale of efforts needed to reduce the numbers of absolute poor have not been fully appreciated.

In Sections III, IV, and V, I have examined three of the major assumptions — the expansion of international trade, the flow of commercial credit, and the volume of concessional aid — that underlie the projections of economic growth in Table II and of absolute poverty in Table IV.
Because these assumptions are not likely to be achieved without additional action—action that is not now in prospect—I have stressed the need for a number of new initiatives.

But even if such initiatives are undertaken, we will still be confronted by intolerable levels of absolute poverty, as projected in Table IV, and repeated below in Table VI.

### Table VI—The Absolute Poor, 1975-2000
(Numbers in millions)

<table>
<thead>
<tr>
<th></th>
<th>1975</th>
<th>1985</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low-Income Countries</td>
<td>630</td>
<td>575</td>
<td>540</td>
</tr>
<tr>
<td>Middle-Income Countries</td>
<td>140</td>
<td>140</td>
<td>60</td>
</tr>
<tr>
<td>All Developing Countries</td>
<td>770</td>
<td>715</td>
<td>600</td>
</tr>
</tbody>
</table>

The projection of 600 million absolute poor in the year 2000 does not assume a lack of progress in the remaining years of the century. The reduction in absolute poverty in any country depends on the growth of its GNP, the extent of improvement in its distribution, and the increase in population. Since the population of the developing countries is projected to increase from 2.1 billion in 1975 to 3.5 billion in 2000, a failure to reduce the proportion living in poverty would result in the number increasing from 770 million in 1975 to 1300 million in 2000. Hence, the projected reduction to 600 million does represent improvement. But it remains unacceptably high.

Now, what can be done to reduce this level of poverty?

The World Bank does not have a full and complete answer to that question, nor do I know of anyone in the world who

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*a* I should emphasize again that so little is known about the interaction of economic and social structures with development policies that projections of the number of absolute poor are subject to wide margins of error. They provide, nevertheless, sufficient indication of the potential results of existing policies to serve as a basis for the re-examination and assessment of strategy.

*b* The population problem is, of course, a critical issue in itself, and last year, in a detailed statement, I examined its relationship to the overall development task. Cf. Address to the Massachusetts Institute of Technology, Cambridge, April 28, 1977.
does. And that is why I urge that the Brandt Commission, the Development Committee, the UN Overview Committee, UNCTAD, the Development Assistance Committee, and other international groups—and above all the individual developing countries themselves—each give serious and detailed attention to it.

But even though no one yet has a fully comprehensive answer to the problem of absolute poverty, I believe that within the present limits of our knowledge, each of the developing countries can—and should—set specific goals for its own society's direct attack on poverty; and that the international community, in the appropriate forums, should endorse those goals, and pledge the necessary support.

As I have emphasized, such an attack on absolute poverty can only succeed in an environment of growth. And support from the international community—through further expansion of trade and more adequate capital flows—is essential if optimum growth rates are to be achieved.

But though growth is an absolutely necessary condition for reducing poverty, it is not in itself a sufficient condition. For growth cannot help the poor unless it reaches the poor.

It does not reach the poor sufficiently today, and hence the developing countries themselves must both:

- Modify the pattern of growth so as to raise the productivity of the poor; and
- Improve the access of the poor to essential public services.

In most developing countries, growth too often bypasses the absolute poor. They have only tenuous links to the organized market economy. They own few productive assets. They are often illiterate. They are frequently in poor health. And their meager incomes make it almost impossible for them to save and invest.

But though the absolute poor have severe disadvantages, their human potential remains immense. Given a realistic opportunity,
they will respond. For no less than anyone else, what they want
most from life is an end to despair, a beginning of hope, and
the promise of a better future for those they love.

That is why any practical strategy to reduce absolute poverty
must begin with the effort to assist the poor to become more
productive. If they have land—even if only as tenants—that can
be done through a whole range of measures. I have described
these in detail elsewhere, and will discuss in a moment what
our experience in the Bank has been over the past five years.

If the poor are without land or other productive assets, then
the strategy clearly must stress greater employment opportunity,
particularly in the more labor-intensive sectors.

It is not so much conventional joblessness that characterizes
the lives of the absolute poor in the developing world—though
that is bad enough—but rather jobs so grossly underproductive
that they yield only minuscule incomes despite long hours of
labor.

And not only are the poor without adequate incomes, but
they are without equitable access to essential public services: to
clean water, to basic education, to preventative medical care, to
electricity, to public transportation—to those services funda-
mental to their health and productivity.

Since most of these services cannot be privately purchased
by the poor, they must be expanded through government pro-
grams as a key element in a practical strategy to reduce poverty.

Now, I am not suggesting that any of this is easy to do. It is not.

What I am suggesting is that absolute poverty can never be
eliminated simply by traditional welfare. And the reason is ob-
vious. No feasible redistribution of already inadequate national
income in a developing society is, by itself, going to be enough
to wipe out poverty. There must be growth in that income, and
the poor must be enabled both to contribute more productively
to that growth, and to participate more equitably in its benefits.

*Address to the Board of Governors of The World Bank, Nairobi, 1973.*
The tragedy of the absolute poor in most developing societies is that they remain largely outside the entire development process. They must be brought more fully into it. That can only be done by the individual developing countries themselves.

Conditions clearly differ from society to society, but what is essential is that governments:

- Formulate attainable anti-poverty objectives at national, regional, and local levels;
- Define clear operational programs, and institutional policies, for achievement of the objectives within specific time periods; and
- Determine the level of resources required to meet the minimum goals.

Unless such practical steps are taken by the governments in developing societies, the hope to reduce absolute poverty simply cannot be translated into effective action.

Certainly no external development agency—no matter how helpful—can substitute for the internal political resolve necessary to take these steps.

But once that firm resolve is evident, then the international community must support these politically difficult decisions with comparable courage and generosity.

The mandate of the World Bank is, of course, to assist our developing member countries in their overall development tasks—including their attack on absolute poverty—and I would like to turn now to a discussion of the Bank's program.

VII. THE PROGRAM OF THE WORLD BANK

The capacity of the World Bank itself to help accelerate growth and reduce poverty in the developing countries will depend chiefly on two key decisions which our member governments must take in the near future. These concern:

- the General Capital Increase of the IBRD; and
The Sixth Replenishment of IDA's resources.

The General Capital Increase will determine the scale of IBRD commitments over the next several years.

Without an increase, the IBRD will be forced to cut the lending program planned for the next fiscal year from $7.6 billion to about $6.0 billion. And in future years, new commitments could not exceed $6.0 billion in nominal terms. In real terms, they would, of course, decline by about 6% per year: a major reversal of the 5% per annum increase assumed in the growth projections for the developing countries.

The case for a General Capital Increase is straightforward and compelling. The IBRD is now the largest single source of official development finance. To curtail its lending program in the present circumstances would mean that the developing countries would be faced with a critical dilemma: either they would have to reduce their growth rates, or they would have to increase still further their dependence on potentially volatile private capital flows.

Neither alternative is in the interest of the world community.

A year ago, I reported to you on the consensus which had emerged, first at the London Summit Meeting, and subsequently at the CIEC meetings in Paris. This consensus clearly favored a General Capital Increase sufficiently large to support substantial real growth in IBRD lending for the next several years.

After the meeting of the Governors last year, the Executive Directors held a series of informal discussions on the future role of the IBRD. These discussions revealed broad support for a real rate of growth of lending in the range of 5%—and it is for that reason that such a rate was built into the projections.

While no attempt was made in these informal discussions to reach agreement on a specific figure for the General Capital Increase, the positions taken on the desirable rate of growth,

"The reduction in lending to a level of $6.0 billion per year would be necessary to ensure that in later years the total amount of loans outstanding would not exceed the total of capital and reserves as required by the Articles of Agreement."
and on other issues affecting capital requirements, implied an increase of between $30 and $40 billion\(^a\).

Contrary to the hope expressed a year ago, these informal discussions did not lead to a formal agreement in the Board before the end of the fiscal year. Fortunately, the delay in reaching formal agreement has not yet caused any serious penalty to IBRD borrowers. The Executive Directors authorized continued work on the $6.8 billion of IBRD lending previously planned for the present fiscal year, as well as the $7.6 billion planned for FY1980. They did, however, make this approval subject to review at the end of this calendar year.

If agreement on the General Capital Increase has not been reached by, say, January of 1979, it will become very difficult to avoid taking steps which would impose real and lasting penalties on IBRD borrowers. In particular, as I have pointed out, the number of operations and the amount of lending scheduled for FY1980 and FY1981 would have to be reduced.

Such a setback to the progress of our developing member countries can and must be avoided.

The whole range of issues involved in the General Increase has been closely examined and discussed in the two and a half years that have passed since the Executive Directors approved the Selective Increase. And political support for a General Increase has been repeatedly affirmed at the highest levels of government. What remains is to spell out the specifics, and to do so promptly.

I believe it is both realistic and highly desirable to seek formal agreement in the Bank’s Board on the size of the General Capital Increase no later than January of next year.

The next few months will also see the start of the negotiations for the Sixth Replenishment of IDA. The first meeting for that purpose should be held before the end of this calendar year.

\(^a\)A capital increase of this size would have relatively little budgetary impact on member countries. 90% would be represented by "callable capital," a contingent liability, which we expect would never have to be drawn upon and which serves, in effect, as a guarantee to IBRD’s creditors.
Although the funds provided under the Fifth Replenishment will not be fully committed until June 1980, the long lead time required to reach a negotiated agreement, and to secure legislative approval, makes it essential that the negotiating process begin soon.

The precise level of the Sixth Replenishment will, of course, be a matter for negotiation among member governments. I would hope, however, that in view of the critical need of the poorest developing countries for more adequate flows of concessional assistance, all our member governments will support a level that will provide for a substantial increase in IDA’s commitment authority in real terms.

Approval of a realistic Sixth Replenishment and General Capital Increase, together with the increase in capital recently authorized for IFC, will give the World Bank a solid financial base for its operations for some years to come.

Before describing the size and wider significance of the World Bank’s financial contribution, however, I want to report briefly on where we stand in our efforts to assist in reducing absolute poverty by directing an increasing share of our total lending to projects which directly boost the productivity of the rural and urban poor.

Efforts to Attack Absolute Poverty: Progress Report

Five years ago at our meeting in Nairobi, I outlined a strategy for attacking absolute poverty in the rural areas. This strategy focused on the more than 100 million subsistence farmers and their families.

One element of this strategy was expanded World Bank lending. Our specific goal was to increase agricultural lending by at least 40% in real terms in the five-year period FY74-78 as compared with the previous five years.

Within the context of expanding the overall agricultural program, we proposed to give greater emphasis to projects expressly designed to increase the productivity of low-income farmers,
most of whom farm two hectares or less. The target was to have at least 70% of all our Bank agricultural loans contain a specific component for the smallholder.

Each of these goals has been achieved. Not only achieved, but exceeded. In real terms, our lending for agriculture and rural development projects over the five-year period just ended, as compared with the previous five years, was up not merely by 40%—but by 145%.

Further, fully 75% of the 363 agricultural projects approved over the five-year period contained a component specifically addressed to the needs of the small farmer. There were, in fact, over 200 projects in which more than half of the direct benefits were expected to accrue to the rural poor. In total, they will increase the incomes—in most cases, by at least 100%—of over ten million poor families.

The ultimate standard, of course, for judging the success or failure of these efforts is not the benefits projected at the time the loan is approved, but the benefits actually achieved in the field. We have been monitoring these projects very carefully. Because they are designed to produce progressive improvements over a period of years, it is still too early to form definitive judgments on most of them.

They are breaking new ground, and we must expect some failures. But I can attest from personal observation in a number of countries that these "new style" projects can tangibly benefit the lives of literally hundreds of thousands of poor farm families. Our experience with these investments supports the assumption that in low-income countries it should be possible to double the agricultural growth rate, raising it from 1.5% to 3% per annum.

The Bank's efforts to assist the urban poor are at a much earlier stage, and on a much smaller scale. We have very far to go, but we are making progress.

Two years ago at Manila, I expressed the hope that the Bank would be able to finance 50 urban projects during the FY76-80 period. It now looks as though we will meet, or possibly even
exceed, that target. During the next two years we expect to process an average of more than 15 such projects per year, as compared with two or three a year in the mid-1970s.

I also pointed out at Manila that we would be expanding and redirecting our investment in other sectors in order to increase earning opportunities in the urban areas. We developed guidelines with the goal that by 1981 at least one-third of the lending we do through industrial development finance institutions should directly benefit the urban poor. That goal, too, now seems within reach.

As we widen our operational experience, we will learn a great deal more about what works best in expanding employment. The traditional labor-intensive sub-sectors of manufacturing—clothing, textiles, leather, light engineering, and certain kinds of machine tools—are obviously important in creating jobs, but they will have to be supplemented by other approaches as well. Recent projects, for example, have been directed at stimulating the construction industry—which can be very labor intensive—as well as artisan activities and cottage industries.

The need for more jobs is critical. The cities of the developing world are expanding at runaway rates. The combination of high natural population growth and accelerating migration from the countryside will add well over a billion people to the urban labor pool by the end of the century.

It is obvious that on any reasonable calculation the developing countries are going to have to make massive investments if these individuals are to find productive employment. It is sometimes argued that the costs will simply be too high; that the world just cannot afford it.

But the truth is really the other way around. What the world cannot afford is procrastination and delay while dangerous social pressures build.

The Bank, for its part, is determined to move forward vigorously in this sector, and to seek new and more effective solutions to the growing urban crisis.
The Bank’s effort in this matter is, of course, only one part of its overall financial program, which I would like now briefly to review.

**Scale of Operations**

Last year I reported that World Bank commitments for the year ending June 1978 were expected to reach $8.7 billion, and that the level of net capital flows—Bank disbursements less repayments by borrowing member countries—was expected to be just under $4 billion.

Our commitments for the year turned out almost precisely as planned though in common with other official sources of finance our actual disbursements fell short of expectations.

**Table VII—World Bank Group: Commitments and Disbursements**

(Billions of dollars)

<table>
<thead>
<tr>
<th></th>
<th>Avg. per Year FY64-68</th>
<th>Avg. per Year FY69-73</th>
<th>Avg. per Year FY74-78</th>
<th>FY78 Actual</th>
<th>FY79 Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Commitments</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IBRD</td>
<td>.9</td>
<td>1.8</td>
<td>4.9</td>
<td>6.1</td>
<td>6.8</td>
</tr>
<tr>
<td>IDA</td>
<td>.3</td>
<td>.8</td>
<td>1.6</td>
<td>2.3</td>
<td>2.8</td>
</tr>
<tr>
<td>IFC</td>
<td>---</td>
<td>.1</td>
<td>.2</td>
<td>.3</td>
<td>.4</td>
</tr>
<tr>
<td>Total—Current $</td>
<td>1.2</td>
<td>2.7</td>
<td>6.7</td>
<td>8.7</td>
<td>10.0</td>
</tr>
<tr>
<td>—Constant FY78 $</td>
<td>3.5</td>
<td>4.7</td>
<td>7.5</td>
<td>8.7</td>
<td>9.4</td>
</tr>
<tr>
<td>Net Disbursements</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IBRD</td>
<td>.3</td>
<td>.6</td>
<td>1.7</td>
<td>1.9</td>
<td>2.5</td>
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<tr>
<td>IDA</td>
<td>.3</td>
<td>.3</td>
<td>1.1</td>
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<tr>
<td>IFC</td>
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<td>.1</td>
<td>.2</td>
<td>.2</td>
<td>.3</td>
</tr>
<tr>
<td>Total—Current $</td>
<td>.6</td>
<td>1.0</td>
<td>3.0</td>
<td>3.1</td>
<td>4.1</td>
</tr>
<tr>
<td>—Constant FY78 $</td>
<td>1.6</td>
<td>1.9</td>
<td>3.3</td>
<td>3.1</td>
<td>3.8</td>
</tr>
<tr>
<td>No. of New Projects</td>
<td>71</td>
<td>152</td>
<td>242</td>
<td>277</td>
<td>294</td>
</tr>
</tbody>
</table>

The net capital flows from the World Bank are, of course, a relatively small part of the total external capital received by the developing countries. But the World Bank’s share in these flows understates its importance for a variety of reasons.
First, and most directly, the Bank has increasingly associated its financing with loans from other sources, both official and private. In the fiscal year just completed, more than 80 IBRD and IDA projects and 35 IFC operations were carried out jointly with other lenders. The total finance committed by these other external sources in FY1978 was approximately $4.4 billion, or nearly three times the volume of just five years ago.

In assessing the full impact of World Bank operations on the flow of external finance, one should also take account of the Bank's non-financial role. The Bank's economic reporting, its assistance in aid coordination, its continuing dialogue with borrowers on sectoral and macroeconomic policies and on the effectiveness of development expenditures—all these activities contribute to a favorable climate for more effective capital flows in general.

As I emphasized earlier, the climate for capital flows is especially important for the private sector, which is now the source for roughly 60% of all medium- and long-term external finance. The commercial banks, in particular, play an indispensable role in channeling savings to the middle-income developing countries.

Governments must be sensitive to the need to provide a supportive environment for these flows, including the expansion of the lending programs of the World Bank, and the Regional Development Banks. And they should be prepared to consider whatever supplementary steps may be necessary in order to assure a more adequate level of such flows.

Let me now summarize and conclude the central points I have made this morning.

**VIII. SUMMARY AND CONCLUSIONS**

As one surveys the international development scene today, it is clear that there are two fundamental objectives that must command the priorities of us all.

One is to accelerate overall economic growth in the developing countries, and the other is to reduce the massive dimensions of absolute poverty.
In the World Development Report, 7978, the initial volume in a new annual series of World Bank analyses of economic and social progress in the developing world, these two issues are examined in detail.

Based on a number of feasible—though admittedly optimistic—assumptions, projections for the period 1975-1985 indicate that the low-income countries could increase their overall growth rate from roughly 4% to about 5%, and that the middle-income countries could sustain their current growth of about 6%.

These are not, however, predictions of what will actually happen. They are prospects which are far from certain. To achieve them, both the developing countries themselves, and the developed nations, must increase their efforts.

The developing countries must, for example, mobilize even greater domestic savings than they do now. This will call for difficult reforms in a number of sensitive areas of public policy.

Further, they must expand their export programs, and their agricultural productivity—which in the case of the low-income countries would mean doubling their current agricultural growth rates, raising them from 7.5% to 3.0% a year: a difficult but attainable goal.

But if the developing countries were to do all of this—as necessary as it is—they simply could not achieve the projected levels of economic growth without substantially greater support from the developed nations.

That support is required, first of all, in the matter of trade. Just as the developing countries have begun to demonstrate their natural comparative advantage in certain labor-intensive manufactures, a new threat of protectionism is gathering momentum in the developed world.

This is both inequitable and shortsighted since it denies the developing countries the only long-range economic strategy that can ultimately decrease their dependence on foreign assistance.

Already the developing world constitutes an important and growing market for the exports of the industrialized nations,
stimulating demand and helping to hasten their own economic recovery. But if the developing countries are to import even more goods and services from the OECD nations—which they both need and want to do—then they must be allowed in return to export more to those same nations in order to earn the foreign exchange necessary to do so.

In the end, excessive protectionism is self-defeating for everyone: for consumers, who are denied less expensive, and hence less inflationary, imports; and for producers, who are denied competitive access to expanding markets.

What is required is a more rational framework of international trade that will reduce protectionism on both sides by promoting the dismantling of non-tariff barriers, and by broadening the scope of true comparative advantage. In the industrial countries this will require initiating adjustment procedures that can ease the shift of capital and labor away from marginal industries into more competitive and productive sectors.

The expansion of international trade is, then, essential to the economic growth the developing countries so desperately need.

Another requirement, particularly for the middle-income developing nations, is the continued assurance of adequate capital flows from both the multilateral financial institutions and the private capital markets.

In the recession that followed the economic turbulence of the early 1970s, the middle-income countries had to rely on heavy borrowing abroad to maintain their development momentum. 'the international development institutions, and the commercial banks, responded to that need, and debt obligations rose swiftly.

This was, on the whole, a very positive phenomenon, and assisted the recovery process in the developed as well as the developing nations. But as the debt grew, there began to be some anxiety that prudent levels might be exceeded.

The World Bank has followed these developments closely and has concluded that the potential dangers lie not so much in the absolute amounts of the debt itself, but rather in a
generally burdensome maturity structure and in liquidity problems that will affect a limited number of borrowers.

It is essential that the middle-income developing countries continue to have available adequate flows of capital to finance their high-priority development projects, and prudent borrowing from the private capital markets is an indispensable ingredient in meeting that financial requirement.

Whatever risk is inherent in the debt can be significantly reduced by three measures: lengthening the average maturities of the obligations, in part through more cofinancing between private sources and official development institutions; broadening the number of commercial banks, particularly in Japan and Europe, that engage in developing-world financing; and expanding the number of countries serviced by the private markets, thus diversifying their investment more widely.

The case of the poorest developing countries is quite a different issue. These countries, because of their limited debt-serving capacity, must of necessity depend on capital at concessional terms, and are in urgent need of greater Official Development Assistance.

If the poorest countries are to attain the very modest economic growth levels projected for the period 1975-1985, there must be an end to the virtual stagnation in ODA flows, and an increase of at least 5% a year in real terms.

Though some of the smaller countries of the Development Assistance Committee have made a strong showing, the overall trend in Official Development Assistance is very disappointing. In relation to combined GNP, ODA has declined from .52% in 1960 to .31% in 1977.

This is due chiefly to the poor performance of three of the most affluent DAC member countries, none of whom has reached even half the United Nations' .7% target, and all of whom have lagged further and further behind since 1970.

All three of these nations have recently pledged to reverse this trend, but these statements—as welcome as they are—have yet to be translated into action. Unless very substantial increases
in commitments—more than sufficient to keep pace with inflation and growth of GNP—are undertaken in the next year, and regularly thereafter, the poorest nations simply have no chance to reach their growth prospects.

But increasing economic growth—as essential as it is—is not the sole objective of the development task. Reducing the massive and cruel dimensions of absolute poverty is equally imperative.

And it is here that the World Development Report comes to its most shocking conclusion: that even if the growth rates projected for the developing countries were to be achieved by 1985—which is by no means certain—and even if that growth were to continue for another 15 years, it seems likely that at the end of the century there would still remain some 600 million individuals trapped in absolute poverty.

That is intolerable. And it argues for intensifying our efforts both to understand the internal dynamics of poverty more clearly, and to design practical anti-poverty strategies that will work.

Clearly what will not work is mere traditional welfare—redistribution of an already inadequate national income.

The only feasible hope of reducing poverty is to assist the poor to become more productive. Each developing society must formulate specific anti-poverty objectives at national, regional, and local levels; prepare operational programs to attain those objectives over a reasonable time; and determine the level of resources required to meet the minimum goals.

Such programs will, of course, cut across many entrenched interests in the developing countries, and will require sustained political courage to implement. If such actions are to succeed, the developed nations, and the international community, must exercise comparable political courage in committing generous assistance to support them.

The experience of the World Bank itself over the past five years demonstrates that all of this can work. The progress of our new
projects in both the countryside and the cities, designed to enhance the productivity of the poor, is extremely encouraging.

But the Bank's capacity to broaden those particular efforts, as well as to further its overall program of development assistance—and it is now the largest single source of that assistance in the world—will depend on the prompt resolution of two paramount issues.

One is the decision to move ahead with the IBRD’s General Capital Increase. The other is the Sixth Replenishment of IDA’s resources.

Without an agreement within the next few months to implement the General Capital Increase, IBRD’s borrowers will inevitably suffer a real and lasting penalty: the lending program for the next fiscal year will have to be cut sharply from $7.6 billion to $5.9 billion; and in future years new commitments will have to be cut progressively about 6% a year in real terms.

As our developing member countries will readily confirm, their circumstances today do not justify a decline in the World Bank's ability to help them, but rather an increase.

That is true of our IBRD borrowers. And it is true, of course, for our poorest member countries who depend on continuing concessional assistance through IDA.

Approval of the Sixth Replenishment which would allow for substantial growth in commitment authority in real terms, along with the General Capital Increase, will — together with the recent increase in capital for IFC—give the World Bank the financial foundation it will need over the next several years.

Those years will clearly demand a more determined effort from us all if the central goals of development—sustained economic growth, and the reduction of absolute poverty—are to have any realistic chance of succeeding.

We must be candid about the choices that confront us.

There are no easy alternatives.
But to relax in the development effort, to lose momentum, to procrastinate, to let problems fester and grow worse—that choice can benefit neither us, nor those others who must follow after us.

We know who those others are. They are our children.

Will their world be more rational, more compassionate, more peaceful, more human?

That choice is more ours than theirs. For the options are closing, and the inevitable chain of consequences is already underway.

The time, then, to act is now. It is an opportunity that will not return.
Annex I

Capital Flows to and Debt Status of the Poorest Nations

(In billions of current US$)

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*Countries with 1976 gross national product per person of US$250 and below, mainly in Africa and Asia.

bIncludes "Direct Foreign Investment."

c1976 and 1977 data are based on IMF sources.

dThe data for 1980 and 1985 are projections of current account deficits and capital flows. They are not predictions of what may actually happen.
### Capital Flows to and Debt Status of the Middle-Income Developing Countries\(^a\)

(\(\text{In billions of current US$}\))

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<td><strong>44.9</strong></td>
<td><strong>49.9</strong></td>
<td><strong>111.2</strong></td>
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**Financed by Medium- and Long-Term Capital from:**

- **Public Sources** (including Grants)
  - 3.3
  - 11.3
  - 10.7
  - 14.0
  - 20.6
  - 31.2
- **Private Sources\(^b\)**
  - 6.9
  - 26.0
  - 24.4
  - 30.9
  - 29.3
  - 80.0

**Total Net Capital Flows:**

- **Current $**
  - 10.2
  - 37.3
  - 35.1
  - 44.9
  - 49.9
  - 111.2
- **1977 $**
  - 19.0
  - 41.8
  - 38.0
  - 44.9
  - 40.2
  - 63.8

**Outstanding Medium- and Long-Term Debt:**

- **Public Sources**
  - 20.5
  - 44.4
  - 51.4
  - 61.9
  - 99.4
  - 186.3
- **Private Sources**
  - 15.9
  - 83.5
  - 106.0
  - 134.0
  - 169.5
  - 349.8
- **Total: Current $**
  - 36.4
  - 127.9
  - 157.4
  - 195.9
  - 268.9
  - 536.1
- **1977 $**
  - 67.7
  - 143.2
  - 170.5
  - 195.9
  - 216.5
  - 307.6

**Debt Service:**

- **Interest Payments**
  - 2.1
  - 7.6
  - 8.5
  - 10.7
  - 18.2
  - 33.7
- **Debt Amortization**
  - 5.3
  - 14.3
  - 16.6
  - 22.7
  - 47.1
  - 102.8
- **Interest Payments as % of GNP**
  - .7
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  - 1.0
  - 1.1
  - 1.2
  - 1.2
- **Debt Service as % of Exports**
  - 15.6
  - 11.8
  - 11.5
  - 13.3
  - 19.0
  - 22.0
- **Price Deflator**
  - 53.8
  - 89.3
  - 92.3
  - 100.0
  - 124.2
  - 174.3

\(^a\)Developing countries with 1976 gross national product per person above US$250, including Southern European countries and excluding capital surplus oil exporters.

\(^b\)Includes "Direct Foreign Investments."

\(^c\)1976 and 1977 data are based on IMF sources.

\(^d\)The data for 1980 and 1985 are projections of current account deficits and capital flows. They are not predictions of what may actually happen.

\(^e\)Includes an increase in Reserves of $11 billion and a reduction in Short-Term Debt of $0.5 billion.
### Flow of Official Development Assistance from Development Assistance Committee Members Measured as a Percentage of Cross National Product

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**ODA ($b-Nominal Prices)**

- 4.6  5.9  6.8  13.6  13.7  14.8  18.0  20.3  23.0  26.3  30.0  33.6  37.5  41.8

**ODA ($b-Constant 1977 Prices)**

- 12.2  14.1  14.4  15.2  14.8  14.8  15.8  16.5  17.5  18.7  19.9  20.8  21.7  22.6

**GNP ($t-Nominal Prices)**

- 0.9  1.3  2.0  3.8  4.2  4.7  5.5  6.2  6.9  7.7  8.6  9.6  10.7  11.9

**ODA as % of GNP**

- .52  .44  .34  .36  .36  .31  .33  .33  .34  .35  .35  .35  .35  .35  .35

**ODA Deflator**

- .38  .42  .47  .90  .92  1.00  1.14  1.23  1.32  1.41  1.51  1.62  1.73  1.85

---

*Figures for 1977 and earlier years are based on actual data. Those for 1978-85 are based on OECD and World Bank estimates of growth of GNP, on information on budget appropriations for aid, and on aid policy statements by governments. They are projections, not predictions, of what will occur unless action not now planned is taken.

*Finland became a member of DAC in January 1975.

*New Zealand became a member of DAC in 1973. ODA figures for New Zealand are not available for 1960 and 1965.

*In 1949, at the beginning of the Marshall Plan, US Official Development Assistance amounted to 2.79% of GNP.

*The deflator series includes the effects of changes in exchange rates. After 1975 deflators are the same as those for GNP.*