Address to the Board of Governors

by

A. W. Clausen
President
The World Bank
and
International Finance Corporation

Toronto, Canada
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The World Bank
Washington, D.C. 20433

We are meeting at a time when the economic situation for most of our member countries—developed and developing alike—is grim. Growth rates in the developed nations have declined in real terms for the past five years. Their average growth for 1982 is likely to be below 1 percent, as it was in 1974 and 1975. Recovery from the present recession is seriously delayed.

Growth rates in the developing countries have displayed a similar downward trend:

- The middle-income countries grew at only 1.7 percent in 1981, compared with 3.5 percent in the preceding year and an average of 4.7 percent between 1973 and 1980. On a per capita basis, their income declined in 1981. The economies of the middle-income oil-exporting developing countries grew 3.3 percent in 1981, but the weakness in oil prices this year has brought them serious problems as well.

- The lower-income developing countries were able to maintain growth somewhat better: They grew at 3.9 percent in 1981. But this, too, compares unfavorably with their growth of 5.9 percent in 1980, and with their longer-term growth of 4.5 percent between 1973 and 1980.

- The rapid economic growth of the high-income oil exporters had already been moderated in 1980 when it fell to 4.5 percent as compared with 8.3 percent between 1973 and 1980. In 1981, it declined by 11.3 percent.

All in all, 1981 was an extremely difficult year for the developing countries and 1982 promises only a modest improvement—at best.

We have to ask ourselves: How did we get into this unacceptable situation, and what are the prospects and possibilities for getting out? The root causes are complex, but I think it is important to try to understand where we are today, and how we got here, in order to appreciate more fully what all of us can do to prepare for a better tomorrow.

What I would like to do this morning is to touch briefly on these issues; then turn to how the Bank ought to respond to the challenges, and to how we plan to mobilize the necessary resources to fulfill our task.

Let me begin by commenting on some of the causes of the current global economic difficulties.

It is instructive to compare the 1974/75 recession with the prolonged decline we are enduring today. In the early 1970s, after more than 25 years of unprecedented development progress, strains became evident. Inflation, which had long been rampant in some countries, began to spread to others. The 1972-74 period also saw shortfalls in food production, a primary-product price boom, a sharp increase in oil prices, and the introduction of fundamental changes in the Bretton Woods system of fixed exchange rates. One result was a short, sharp recession.

We can see now, with the benefit of hindsight, that some countries adjusted quickly by increasing exports, curtailing imports, and changing production patterns to deal with the new situation. Other countries borrowed heavily and thus postponed the day when adjustments would become inevitable.

The industrial countries as a group sustained consumption, while letting investment fall; many low-income countries had no choice but to do the same. But other developing countries found ways and means of raising investment, often with considerable sacrifice in consumption.

Average investment rates for developing countries rose sharply, and between 1975 and 1980, consistently exceeded 25 percent of GDP. This was well above the rates attained in the industrialized countries. It was a remarkable performance, helped by substantial increases in the flows of commercial and concessional capital.

Recovery was swift. Although inflation continued, and even accelerated in many countries, interest rates, remarkably, did not reflect this. Real interest rates declined and became negative, and many developing countries, quite sensibly, borrowed heavily.

It was not until 1978 that interest rates became consistently positive again; shortly thereafter, the world experienced a second surge in oil prices. On this occasion, it was a doubling, rather than a quadrupling, of prices as in 1973, but it had about the same effect on the purchasing power of exports.

Three years have now passed since we met in Belgrade and saw that shock coming. And yet we still cannot say with assurance that recovery is in sight. There may be some improvement this year in developing-country growth after a disastrous 1981. But if it occurs, it will be modest at best. On a global scale, recovery remains elusive.

There seem to be four important elements that have affected economic performance.

First, the many developed and developing countries that made an incomplete adjustment after 1973 have, since then, recognized the inevitability of change. Actions became necessary in energy conservation; in greater productivity to offset the higher cost of energy; and in adjusting to the dramatic changes in the competitiveness of individual firms and entire sectors, brought about by technical advance and new trade patterns.

The need to reduce inflation rates also became a matter of profound conviction in the industrial nations—and in many developing countries. Both the need for adjustment and the political will to persist with new policies gathered momentum, and these policies often involved restraints on resources.

Second, much greater reliance began to be placed on the instruments of monetary policy. As a result, interest rates

soared to the high levels that prevail today. Such actions clearly reflect the seriousness of intent on the part of some of the major economic powers to reduce inflation, but the choice of these monetary tools is having widespread international effects.

This is because, over the past three decades, there has emerged an open world economy in which trade, capital flows, and exchange rates can move with substantial freedom. This system is one that has yielded, and will yield again, immense benefits.

Third, we have seen that changing interest and inflation rate differentials between countries have induced volatility in exchange rates. This has led to uncertainties that have compounded the problems already faced by exporters and investors.

Finally, the current recession in developing countries is being prolonged because capital flows are being constrained. Concessional aid from DAC countries, after increasing modestly, declined by 6 percent in 1981 in contrast to the steady increase in the 1974-76 period. This dealt a serious blow to the lowest-income nations, which have already suffered the most adverse terms-of-trade trends in their histories.

Flows of remittances to labor-exporting countries appear to have reached a peak in 1981. The financial markets tightened, inhibiting the flows of commercial capital to developing countries. As interest payments doubled, the debt-service ratio on medium- and long-term debt rose from 16 percent in 1979 to 20 percent in 1981. All the evidence suggests that developing countries have to, and in fact already have begun to cut back on their borrowing this year—chiefly by curtailing growth—so as once again to avoid serious debt crises.

Given this difficult situation, how should we view the prospects for the future?

I believe that it is not inappropriate to express cautious optimism—even at this difficult point in time. This is partly because there are certain underlying trends that should lead to better future performance, and partly because there are actions that we can take collectively to improve the situation.

In the first place, our *World Development Reports* have documented the enormous gains in human development that the developing countries have made over the past three decades—particularly in education and improved health. There has also been consistent progress in building infrastructure, development institutions, and the management skills necessary to adapt policies to today's requirements. The only conclusion that one can fairly draw from the postwar experience is that the development process is, in fact, working.

All of us who seek to make a genuine contribution to improving the welfare of the vast majority of mankind can take some encouragement, if not satisfaction, from this record of progress and resilience in the face of adversity. But there is clearly no room for complacency. In many low-income countries, especially in Africa, the preconditions for sustained growth do not yet exist.

Second, I would draw particular attention to the fact that average investment rates in the developing countries have been maintained at historically high levels since 1973. This augurs well for future growth in these countries.

Third, despite many attacks, the global trade system remains relatively free. Some actions, however, have been taken in the last year that restrict the entry of exports from developing countries into the markets of the industrial nations. Any additional steps of this kind must be avoided.

We ourselves must understand, and we must persuade our compatriots at home to understand, that to increase protectionism would be to impose an exorbitant cost on the developed and developing countries alike—whatever the

current domestic economic difficulties may be. It is within our power to resist the enormous protectionist pressures that now exist—and we must do so. In this connection, the November ministerial meeting of the GATT will be crucial. We all share the hope that the meeting will take a firm stand against trade restriction in all its forms, and that it will lead to further dismantling of unwarranted barriers.

We should also consider how we might strengthen the investment framework. The continued rapid growth of modern manufacturing industries for both domestic markets and for exports, the need for increased investment in domestic energy sources, and the diversification of trade in the face of rapidly expanding debt, accompanied by high and volatile interest rates—all these factors only underscore the importance of the constructive support that foreign private investment can bring to development.

But there is clearly a need for rules: for broad international arrangements that will promote such investment by providing greater assurance to all parties that their mutual interests will be reflected, and their mutual benefits protected.

The World Bank itself, and particularly the IFC, already does much to assist such flows. But more can and should be done. I will refer later to the work on the multilateral investment insurance mechanism that could become an important element in stimulating private capital flows. And we hope, as well, that in the GATT, or in other forums, we can strengthen those elements of an international framework that will attract additional private capital and technology in support of the development objectives of our members. We in the Bank stand ready to assist in such efforts.

It is clear, of course, that sustained growth in the developing countries inevitably depends on their own sound domestic policies, and that no external economic environment—however improved—can substitute for the basic internal requirements for growth: more efficient use of their own

resources; more carefully selected investment programs; better management of public enterprises; and both more effective export programs and import-substitution policies.

But it is also true that a central requirement for the strengthening of the development process today is to ensure that growth accelerates in the industrial world as well. Surely it is not beyond the wit and wisdom of the industrial nations to devise the balanced combination of policies that will enable their growth to resume without fatally reversing the progress that has already been achieved in the fight against inflation.

The developing countries are making major efforts to deal with these current challenges on the global economic scene. They have made their exports more competitive; many have revised both their budgets and development plans to levels more in line with available resources; inflation rates are being dampened; efficiency in the use of resources is rising; the elimination of excessive controls is proceeding; and debt management is improving. But our member countries continue to need our help in these efforts—both through financial assistance and analytical support. And The World Bank is resolved to do all it possibly can to assist them to meet their development objectives.

Because of its very acute problems, sub-Saharan Africa—which again suffered an overall decline in per capita income this past year—remains our top regional priority. The World Bank's report on sub-Saharan Africa, presented last year, provided the foundation for a number of important joint actions with our member countries in that continent. In fiscal year 1982, the share of Africa in IDA lending operations rose to 31 percent, reflecting this increased priority.

We are expanding our coordination activities both by increasing our field staff and, whenever governments request, by initiating additional consultative groups. We have established

offices in Uganda and Madagascar in the past year, and expanded our service to Rwanda and Burundi by dividing the joint office into one for each country.

We have initiated consultative groups for Mauritius, Madagascar, and Somalia, and others are under consideration. We have strengthened our economic staff on Africa through redeployment. Perhaps most important of all, we have substantially broadened and deepened our policy dialogue with African countries in order to help them formulate the adjustment programs necessary to reverse the long period of economic stagnation and decline.

In our focus, however, on structural change and on improved effectiveness in the use of resources to stimulate growth quickly, we must not ignore basic longer-term issues. In Africa, there has been considerable progress in education, and in human resource development generally, though much yet remains to be done. But there is one area—the continued rapid growth of population—that still receives inadequate attention. This matter requires urgent consideration if even modest prospects for growth in the near term are not to be overwhelmed by the demands of burgeoning populations.

Just as sub-Saharan Africa continues to be our top regional priority, so agriculture, rural development, and energy remain our chief sectoral priorities.

We have raised our level of lending for energy from $2.3 billion in fiscal year 1981 to $3.4 billion in fiscal year 1982. This now represents a quarter of our total operations. Together with our member governments, we are continuing to explore ways of further increasing the level of investment in the energy potential of the developing countries.

Agriculture and rural development also continue to receive a major emphasis in our lending. They are critical both to enhancing food self-sufficiency in the developing countries

and to assisting the poor to become more productive and enter more fully into the development process.

There is a close association between rapid progress in agriculture and rapid growth in the overall economy of a developing country. This is true even in those countries that have already made substantial progress in industrialization. And so, we expect to devote about 25 percent of our total investments to this sector.

Now, as I have pointed out before, a key and central aim of The World Bank is the alleviation of poverty. Our objective in any developing country—anywhere in the world—is precisely the same: to assist the country both to accelerate its economic growth, and to reduce its level of domestic poverty by enhancing the productivity of its poor, and thus make possible a better standard of living for all its people.

Over this past year, the Bank has reviewed its efforts to assist its developing member countries undertake practical and effective measures to alleviate poverty. We have examined the continuing relevance of the anti-poverty objective itself; the Bank's experience in pursuing that objective; and the changes and improvements in the Bank's policies in this matter that may be called for.

The results of this assessment were completed this summer, and thereafter were discussed with our Executive Directors. The principal conclusions are these:

- There are broad and important areas of complementarity between the twin objectives of efficient economic growth and the alleviation of poverty. In general, countries that have placed special emphasis on reducing poverty have not sacrificed growth.

- Reducing poverty helps avoid political tensions that disrupt steady growth; and experience demonstrates that development strategies that bypass a large segment of a society's

people are not the most effective means to raise a nation's standard of living.

- The Bank's projects designed to increase the productivity of the poor have achieved rates of return as high as its other projects and have resulted in broad benefits to substantial numbers of the lowest-income groups.

- The Bank has pioneered innovative techniques for reaching the poor—particularly in its rural development and slum-upgrading projects—that have been adopted in the national programs of many countries, and by other development agencies. It has been less successful, as has everyone else, at reaching those poor who are without any productive assets at all—the rural landless, the urban jobless, and similar groups.

- The Bank has introduced poverty concerns into its country economic work and its policy dialogue with member governments. Where this has occurred, it has been beneficial.

- The demonstration value of poverty-oriented Bank projects is important. But the Bank needs to broaden its efforts beyond project work and give greater attention in its macroeconomic policy analysis to those measures that can increase the productivity—and hence the incomes—of the poor. Further, the alleviation of poverty is closely linked with the reduction of excessive population growth rates, as well as with better health and nutrition policies.

Understandably, the Bank's member countries are wrestling today with such immediate problems as their energy requirements, the scarcity and higher cost of external financing, and the necessity of undertaking difficult structural adjustments in their economies in order to reduce unsustainable balance-of-payments deficits. Many of these societies, particularly in sub-Saharan Africa, are concerned with restoring past levels of production.

These are urgent priorities, and, in trying to cope with them, there is a very real temptation to put aside longer-term objectives such as the reduction of absolute poverty.

But that is a temptation that we must all firmly resist.

For resource constraints in a developing society can create such a crisis atmosphere that short-term, quick-fix choices may be made at the cost of longer-term fundamental investments—in agriculture, for example, or education. And, in such cases, the real trade-off could well turn out to be temporary relief at the cost of *both* economic growth *and* reduced poverty —with negative long-term consequences to the entire economy.

In short, careful analysis indicates that a *balanced* strategy of pursuing faster economic growth, combined with pragmatic measures to reduce absolute poverty, is by far the most effective framework for ongoing development in the circumstances of the 1980s.

The Bank will, then, continue to commit its intellectual, technical, and financial resources in pursuit of these twin development objectives of accelerating growth and reducing poverty. But to do so, it must also continue to have access to funds that it can lend to its member countries on terms that they can afford.

Let me turn now to the financial issues facing the Bank—both in IBRD and IDA—and to the steps we are taking to mobilize the resources necessary to assist our developing member countries in the new and challenging circumstances of the 1980s.

It is fundamental to everything else we do that the IBRD continue to demonstrate the kind of financial strength that has made it a top-quality borrower in capital markets throughout the world. Maintaining that kind of strength is not

easy, particularly in the financial environment that has existed in recent years. But, as the experience of the past twelve months shows, the Bank can make hard choices when the situation demands it.

I am referring in particular to the decisions taken this past year to introduce a supplementary front-end fee on new IBRD loans and, more fundamental still, to modify long-established policies regarding borrowing practices and the lending rate. The specific features of the new policies—which were approved by the Executive Directors on July 1—have already been widely reported.

On the borrowing side, it was agreed that the Bank should begin, in a cautious way, to broaden the range of securities it offers to investors. As a first step, the Bank may borrow up to $1.5 billion in this current fiscal year in the form of short-term notes. We expect to begin a program of discount note sales in the United States within the next several weeks.

On the lending side, it has been agreed that from July 1, 1982, the lending rate for all new loans will no longer be fixed for the life of the loan, but will be adjusted every six months—up or down—in accord with the average cost of a pool of IBRD borrowings. We are confident that this new system will be fair, stable, and, in the long run, less costly to borrowers than the previous system.

These changes in policy were triggerd by the difficult financial environment in which we have been operating in recent years. We all hope that this environment will improve, that interest rates will decline and become more stable, and that there will be a sustained resurgence in the medium- and long-term capital markets. But the Bank must be prepared to carry on even if improvement does not come as rapidly, or as fully, as we hope.

In this connection, let me also stress again the importance of expeditious action by all members on the subscriptions

under the General Capital Increase. As subscriptions are taken up, they expand the Bank's paid-in equity base, thus strengthening its income position and adding to its callable capital. We would urge those member countries that have not yet subscribed to complete their government-approval processes as early as possible.

In my first address to you a year ago, as a new arrival from the commercial banking world, I reported on how impressed I was with the financial strengths of this institution. After a year on the job, I can no longer speak as an outsider. But I can report the facts, and they seem to me to speak for themselves regarding the Bank's ability to perform even in difficult circumstances:

- The borrowings completed in fiscal year 1982 totaled $8.5 billion, a 70 percent increase over the previous year, and these were achieved despite continued weakness in medium- and long-term bond markets.

- The Bank's liquid holdings are up by over $1 billion, and now total $9.4 billion, providing added financial flexibility that is especially important under uncertain market conditions.

- The Bank's net income this past year was about $600 million, a slight increase over the previous year when put on a comparable basis. This was achieved despite a continuation of very high interest rates in most of the markets where we borrow.

This evidence of financial strength, and of the Bank's ability to cope successfully with difficult market conditions, needs to be put into perspective. Financial strength is not an end in itself. Rather, it is a means to permit the Bank to mobilize a growing volume of resources at the lowest possible long-term cost.

These resources, in turn, are committed to carefully prepared, high-payoff projects and programs, that are themselves

selected and pursued because of their prospective contribution to the borrowing country's overall development efforts. Thus, the objective—the end that is served by the Bank's financial strength—is accelerated development in our member countries.

Given the massive adjustment and external financing requirements now facing IBRD borrowers, it is imperative that we use the financial strengths of the Bank as fully and as effectively as possible. As I suggested last year, this requires that we be alert to possible economies internally and that we intensify our collaboration with other sources of external finance.

We have, in fact, made progress over the past year on both these fronts. The administrative budget for the current fiscal year provides for virtually no increase in staff. This has been due, in part, to events outside our control, notably the reduced level of IDA commitment authority. But it also reflects a conscious redeployment of staff resources.

We have also moved forward with our plans to strengthen collaboration with other sources of external finance. These developments, to which I will return in a moment, can leverage the IBRD's own lending efforts, and, thus, increase the resources available to our members for high-priority development activities. But they are not a substitute for that lending.

The Executive Directors have approved an IBRD lending program of $11.2 billion for the current year. As for the future years, we are still operating on the basis of a notional planning figure of $60 billion for the five-year period that ends in fiscal year 1986. While there has been a good deal of discussion about the origin, significance, and appropriateness of this figure, I believe there is one aspect of it that deserves wider recognition, and that is this: If we stick to that planning figure, there is likely to be little if any real growth in IBRD lending over the next few years. We will be on a plateau.

That is not a prospect that can easily be reconciled with the evident needs of our borrowing countries and the apparent financial strengths of the IBRD. Accordingly, we have a responsibility to explore thoroughly the constraints that are implicit in the current planning figure, and to seek broad support for ways of relieving those constraints.

Whatever the outcome of these discussions, the IBRD lending program can only be a small part of the external financing required by borrowing countries. That realization was the basis for my comments to this audience last year regarding the need to expand collaboration between The World Bank and the private sector. Over the past year, we have actively pursued the three initiatives we proposed at that time in order to strengthen the Bank's traditional role as a catalyst for private investment.

First, this has been a record year for private cofinancing: $3.3 billion in fiscal year 1982, as compared with $1.8 billion in the previous fiscal year. But more can and should be done. Cofinancing with The World Bank ensures that the commercial bank loans will be used for high-priority development purposes, that the use of the resources is carefully monitored, and that the project financed will be able to service its debt.

In order to help attract additional private capital to development projects—and to make such capital available on more appropriate terms—we have proposed a series of approaches that are now under consideration by the Executive Directors. We are hopeful that we will be able to put new cofinancing concepts into practice soon.

We have made progress, too, in exploring the possibility of a multilateral investment insurance mechanism. A new scheme must draw on past experience, but it must be tailored to present international circumstances and it must be flexible. The Board has considered ideas on this front, and we are confident that we can count on your support and views as our efforts in this matter continue.

Finally, the International Finance Corporation is making vigorous headway, too. The capital increase of IFC, which was begun in 1977, came to a close last month with fully 90 percent of the shares allotted having been subscribed to by our member governments. We want to thank all who participated.

The number of IFC projects approved in fiscal year 1982 increased 16 percent over the previous twelve months, and nearly half of these were in our smaller and poorer member countries. The number of IFC projects currently under consideration is at an all-time high, and this despite the generally difficult investment climate.

IFC is clearly on the move, attracting private sector investment to the developing countries, and assisting in the development of capital markets.

We can report considerable progress, then, in mobilizing commercial resources through IFC and other initiatives, as well as in assuring the financial strength of IBRD.

But we have failed even to maintain past levels of funding for IDA.

IDA is, of course, of critical concern to the poorest countries. But it ought to be of concern to all the donor nations, as well. For without reasonable concessional assistance, many societies in Asia and Africa will simply not be able to break out of the self-perpetuating cycle of massive poverty in which they are trapped.

Societies as poor as these are, in many cases, vulnerable to social tension and civil unrest. The consequences of poverty-induced destabilization cannot easily be confined within national borders. They can readily spill over and affect other countries, even those more economically advantaged.

There are other sensible reasons that should prompt the industrial nations, in their enlightened self-interest, to assist

the poor nations. These emerging societies are both avid customers for OECD exports and important suppliers of many key raw materials.

It is, then, in the strategic interests of the donors to provide reasonable concessional assistance, and it makes sound, long-range economic sense. Yet there remain honest but serious misunderstandings about what concessional assistance really does.

To help meet those misunderstandings head on, the Bank has just completed an extensive evaluation—the IDA Retrospective Study—that takes a close, hard look at the IDA record. It examines and assesses the effectiveness of IDA's assistance to nearly 80 countries over a period of more than 20 years.

It is a candid and frank appraisal. It is true that IDA has made some mistakes. You can read about those mistakes in that report. But not many close observers over the years will quarrel with the study's chief conclusion: that IDA has been tremendously successful in promoting development in the world's poorest nations.

IDA was created in 1960. Through June 30, 1982, IDA has committed $26.7 billion in some thirteen hundred projects in the poorest countries. On the average, each dollar of IDA finance in a project has been more than matched by additional funds from other donors and the recipient country.

Well, just what has IDA achieved during these past two decades?

Perhaps the most graphic way to answer that complex question is simply to relate briefly three specific examples of IDA's work: one in a very small country of some 7 million people; one in a very large country of nearly 150 million people; and one in a giant country of some 700 million people. All three societies are low-income developing nations, though they differ in many other respects.

The first is the Yemen Arab Republic. When it became a member of IDA in 1970, it had been largely isolated from the rest of the world for centuries. Less than 5 percent of its children were in school. There were few modern institutions—no central bank, no national budget, and no organized program for development.

Working jointly with the Kuwait Fund for Arab Economic Development and other donors, IDA helped get some basic institutions started: a planning body; the highway authority; agricultural development agencies; and a national company for water and sewerage.

A modest $291 million in IDA credits has been extended to the Yemen Arab Republic in the last 12 years. Those investments have made it possible for IDA to play a catalytic and constructive role in Yemen's progress: by helping establish its institutional infrastructure, by initiating projects with other donors, and by assisting the government to devise successful development policies.

So here is a case of a small country, receiving small IDA credits, which, in their leveraged aggregate, add up to an immensely worthwhile investment in the future of a people.

Now let me take another example from a very different country—Indonesia—and, in this case, as an illustration of IDA's effectiveness as a catalyst in a particular economic sector.

Beginning in 1969, IDA began assisting Indonesia's power authority to develop its electricity-generating capacity and, in the process, to become a central component of the country's infrastructure.

After three IDA credits totaling about $100 million—followed by subsequent loans from other sources—power generation

increased fourfold. More than 2.5 million households gained access to electricity.

The agency's staff received up-to-date training, and the accounting procedures were modernized. Electricity tariffs were adjusted to encourage energy conservation and to strengthen the agency's financial foundation, and thus to permit further expansion.

Thus, IDA's initial assistance in a critical sector—in this case power—was a rewarding catalytic effort in an overall national program.

When the country's oil revenues increased in the late Seventies, the Bank phased out its use of scarce IDA funds in Indonesia. But in the earlier years, when the nation was in severe financial straits, IDA played a key role in mobilizing external development assistance. And not just in the power sector, but in many others as well—education, agriculture, water management—IDA helped to lay the groundwork for the country's effective use of its subsequent oil earnings.

So here, then, is a case of a large country, and IDA's amplifying effects on critical investments—at decisive points—in the development process.

Now let me turn to a third example of IDA's versatility and effectiveness: this one in a giant of a country—India—and in a giant undertaking—food self-sufficiency.

In the mid Sixties, India had become a huge importer of food grains: more than 10 million tons each year.

The country faced a momentous investment decision: It could either expand its infrastructure—its ports, its storage facilities, its roads connecting the main ports with major areas of food deficits—so as to handle this growing level of imports; or it could make a massive effort to increase the productivity of its agriculture sector.

At about this time, scientists working in Mexico had begun to introduce a new high-yielding variety of wheat. The question, then, was whether India should import this new technology, or import more and more food grain.

Clearly, there were risks involved in introducing seeds developed on the other side of the globe into the Indian environment. Would they take to Indian soil? Would the farmers have the resources to exploit a technology that required heavy inputs of fertilizer, insecticides, and water? And even if the farmers had the resources, would they gamble them on these new ideas?

What would happen if the imported seeds failed in India? Would that permanently set back the introduction of new high-yielding strains in the country, even if they were locally developed? Would Indian consumers accept the slight color difference of the Mexican wheat? These, and many other fears, plagued the agricultural planners.

One thing was certain: The introduction of this technology was not a simple matter. It involved immense structural changes.

Indian agricultural science had to be reorganized. Marketing arrangements had to be put together to handle the new inputs. Farmers had to be given access to adequate amounts of credit. Supplies of water had to be increased. Fertilizer had to be made available. And the villagers had to be taught to use these inputs efficiently.

Such a massive effort required substantial new resources. India decided to launch such a program in the late Sixties.

It was at this point that IDA stepped in. It provided India with concessional funds and technical assistance to help develop the country's enormous irrigation potential, to help improve its agricultural credit and extension services, and to help establish a marketing network.

In all, IDA has committed $4.5 billion to the development of agriculture in India, 17 percent of total IDA commitments. Yet, of course, even at this level of activity, IDA has never provided more than a tiny fraction of India's own gross domestic investment in agriculture.

But the important point here is that IDA's assistance—and the broad technical support that came with it—contributed directly to India's superb achievement of food self-sufficiency in the early Eighties.

These, then, are three quite diverse cases of IDA's success. There are many, many more cases, of course. In the end, IDA funds are effective primarily because they are coupled with the Bank's more than 35 years of hard-earned experience in development policy.

And development policy would inevitably be less specific and certainly would be less heeded, if it were not an integral part of a substantial investment program. The money is catalytic, and essential.

As these examples suggest, IDA investments do yield high returns.

Nearly 200 IDA credits that have been fully disbursed have now been audited. They show an average economic rate of return of over 18 percent. That does not include the longer-range benefits of IDA: the new institutions that have been established; the technological advances achieved; the social improvements that will continue to be enjoyed.

IDA, in short, has done, is doing, and must continue to do an absolutely essential job in helping the poorest countries of the world assume a more meaningful role in the mainstream of the global economy.

Yet last year, because of a shortfall in funding, we had to slash our IDA program by 35 percent. That is not trimming a

program. That is amputating a program. Who is the amputee? Not IDA the institution. But rather the human individual—multiplied by millions in the poorest developing countries—who is denied IDA assistance to enhance his own productivity and, hence, pry himself loose from the choking grip of poverty.

Last year, I repeat, because of a shortfall in funding, we had to slash our IDA program by 35 percent. It pains me to say that the program for this year remains well below the level originally planned for this period.

I do not use the word "crisis" lightly. But, assuredly, the term is appropriate here.

The very poorest nations of our planet—those still on the fringes of the world economy—are presently being battered by global economic conditions beyond their control. Yet, under these very difficult global economic circumstances, IDA funds are being severely reduced from levels originally indicated and promised.

IDA right now has a pipeline of carefully tailored, high-payoff investments to help meet the present urgent problems of the world's poorest developing countries. It is simply uneconomic and wrong to delay these investments, or to let the opportunities disappear.

We are encouraged that the heads of government of the seven major industrial nations, meeting at Versailles in June, agreed on (to quote them verbatim): "the need for special temporary arrangements to overcome funding problems for IDA VI; and for an early start to consideration for IDA VII."

It is urgent that these nations do—now—what they have agreed must be done. I am pleased that the IDA Deputies, at their recent meeting in The Hague, made progress on both the near-term and longer-term funding problems. Some 12 countries have already agreed in principle to allow IDA to

commit their contributions to IDA VI in full, despite the delay in payments by the United States, and others have agreed to review their positions on this matter.

Moreover, there is now broad agreement that action should be taken promptly to avoid a hiatus in IDA commitments in the fiscal year that begins next July.

In view of the progress made by the Deputies regarding supplementary contributions, I would urge all donor governments that have not already done so to use the mechanism of their choice to provide IDA with commitment authority both for the current year and for fiscal year 1984.

The meeting at The Hague also reached agreement on the launching of IDA VII negotiations this fall. It is important that, once launched, they proceed expeditiously. These negotiations will need all the creativity and political goodwill we can collectively marshall in order to reach agreement on a level of resources that is commensurate with the challenge facing IDA in the middle years of this decade.

For we cannot turn our backs on the more than two billion individuals—half the human race—that live in the poorest societies. To do that is in no one's interest. And most certainly not in the interest of the developed nations, whose prosperity depends now more than ever on a stable and secure global system.

Again, in the words of the joint communiqué at the close of the Versailles Conference: "The growth of the developing countries, and the deepening of a constructive relationship with them, are vital for the political and economic well-being of the whole world."

Exactly so.

Before I close, let me briefly mention the fellowship program that the Bank has established to commemorate Robert S. McNamara's contribution to the cause of economic development. The endowment for the McNamara Fellowships, as of June 30, 1982, stands at $2 million. We are especially grateful to the four governments that have been the first to contribute: India, Pakistan, Peru, and Bangladesh.

Ladies and Gentlemen, allow me to add just one final point.

This institution of ours—this World Bank—has been meeting annually now for over 35 years. And its membership has lived through all kinds of times. Hard times. Hopeful times. Doubtful times.

Everyone is ready to agree, I think, that there have been easier times to get through than 1982.

But we must not lose our perspective.

Think for a moment of what the world looked like in July of 1944 when our Articles of Agreement were written and signed. A world in flames, caught up in the most destructive and widespread war ever waged. Millions dead. Millions yet to die. The final outcome not yet certain.

Those men of vision at Bretton Woods could not know the future. But they were determined that it should be an improvement over the past, and they agreed to work together to help make that happen.

Well, the world *is* improved over what it was then.

But if the 1980s tell us anything, it is that there is still so much that needs to be done. And that the work must go on.

Ladies and Gentlemen, that is what The World Bank is really all about. It is about working together in order to improve the situation. That is what the 143 countries represented in this

room are here to do this week. To work together. And by helping one another, to best help themselves.

That is our agenda.

I look forward to it with the keenest anticipation.

Thank you very much.

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