Technical Assistance activities of the WORLD BANK

This opportunity of appearing before the Institute of Banking Studies is a most welcome one. It presents an occasion on which the World Bank can acknowledge the important part which France has played in its affairs. France is one of the largest single shareholders in our Bank. Her ready response to our calls on her subscribed capital have constituted an element of strength for us from the early days of our operations. We are also indebted to France for a large and growing number of experts on our staff—economists, engineers, lawyers and other specialists. If you were to visit our headquarters in Washington, as I hope some of you will be able to do, you would soon become very conscious, as we are, of the French presence in the Bank.

No doubt the principal characteristics of the Bank are familiar to many of you. We are an international organization whose membership consists of 102 governments. These governments have subscribed a slightly more than $21,000 million of our authorized capital, and have paid in approximately $2,000 million of this amount. We lend either to governmental or to private borrowers for projects of economic development, and so far have made $7,800 million of long-term loans. We recover our capital through direct repayments of loans, which have amounted to $750 million, and also by sales of portions of our loans to commercial banks and other investors which have amounted to $1,750 million.

One of the Bank’s major objectives is to mobilize private investment for economic development. We therefore augment our capital through borrowings in the world’s capital markets, and these borrowings now stand at $2,500 million. World Bank bonds denominated in dollars have been traded on the Paris Bourse for more than
a dozen years, and if it should become possible for us to borrow francs at a satisfactory rate, we would welcome the chance to sell a bond issue directly in the French market.

It is not my intention, however, to talk to you about any of these things this afternoon. Instead, I want to tell you something about the evolution of the Bank, and more particularly, about how its respect for sound banking and financial practice has led it into a wide range of activities which, in a narrow sense, are not financial at all.

Such a state of affairs was not foreseen by the founders of the Bank. For instance, Mr. Dean Acheson, who was then the American Under Secretary of State, explained to the American Congress that the Bank would be a very conservative and conventional organization indeed. He put it this way: "In the normal case, a country will borrow from private bankers; but where private banks, because of the risk, cannot make the loan on terms which are possible for the borrower, both the borrower and banker may need the assistance of the international bank. The bank's function will be to investigate the soundness of the projects for which capital is desired and, if it agrees they are sound, it will guarantee the loans made by private banks."

In fact, the Bank never did this. One of its first conclusions was that for the Bank to guarantee different loans, issued at different rates for different borrowers, would create confusion in the market. It seemed far better, therefore, for the Bank directly to establish its own credit in the market and, instead of acting primarily as a guarantor, to act as a lender, using its own capital and borrowings for the purpose.

But the Bank did take very seriously indeed its obligation to investigate the proposals put to
it, and it was out of this function of investigation that many of is broader interests grew. The proc-
ess of evolution began early, with the first request put to the Bank by an underdeveloped country, a proposal that we finance a power project in Chile.

We found it necessary to visit Chile several times to get information about the project and its economic setting, and the loan was not made until a year had passed. Meantime, the Bank had acted not merely as financier, but also as econom­mist, engineer and lawyer: the project had been modified and considerably improved, the borrow­ing organization had been strengthened, and the foundation had been laid for a power expansion program in Chile which has been proceeding steadily ever since.

It has continued to be our experience that our financing must be preceded by the earliest possible knowledge about the projects involved. One prospective Latin American borrower, for instance, came to us for a railway equipment loan, in which a major item were a number of large and efficient locomotives. Our investigation showed, however, that locomotives this heavy could not successfully be borne by the bridges of the system and that, in any case, they would quickly derail themselves if they navigated the curves of the system at the speeds expected. We finally made this loan, but only after the project had been carefully studied and the equipment list had been drawn up with scrupulous regard to operating conditions in the country.

The Bank itself does not have enough staff to give all the technical advice necessary in the preparation of projects. We do, however, discuss with the borrower what kinds of advice are needed, we advise on how to obtain the proper technical services from consulting engineers or other appropriate sources, and, if necessary, we
draw up terms of reference for the consultants. When the loan is finally made, the Bank includes in it the amount necessary to reimburse the expert advice involved during both the planning and the execution of the project. French consulting organizations, I may say, have frequently been employed by the Bank’s clients, or such diverse projects as the new port being built at Ashdod in Israel and the Roseires irrigation project in the Sudan.

At about the same time that the Bank was discovering that projects often were inadequately studied, we were also finding out that they were often planned without sufficient regard for their setting in the economy as a whole. We found a simple and interesting case of this in Turkey when we sent a mission there in 1949. At that time, as you will remember, there was a pressing demand for wheat in Europe. The Turks were planning to produce and export wheat on a large scale, and they were receiving overseas funds for tractors to increase production and for the construction of roads to improve the collection of wheat and its transportation to shipping points.

But at the time of our mission, no provision had been made either for storing the wheat which was waiting for shipment or for extending port facilities so that they actually could handle grain on the scale contemplated. The Bank acted to round off the whole program by lending to Turkey for grain storage and port development.

From this and other cases, we early concluded that any developing country would benefit from having some kind of program as a framework for development, relating projects to each other, taking account of the availability of financial resources, and giving thought to policy and administrative measures as well as to physical
projects that would accelerate economic development. When the Colombian Government came to us in 1949 with a request to help formulate such a program, we were glad to comply. We organized a group of 14 experts, drawn from both inside and outside the Bank, to spend three months in Colombia. They finally produced a detailed report designed to give the Colombian Government the basis for drawing up a comprehensive development program.

The Government did draw up such a program. A Planning Organization was established, other important institutional improvements were undertaken, and policy changes were made. A steady stream of funds began to flow to essential projects, especially in the fields of highway, railway and electric power development. A program to mechanize agriculture was begun. Colombia began to achieve a momentum in its economic development which, in spite of inevitable vicissitudes, has continued to the present day. We ourselves have assisted by making 25 loans totalling nearly $390 million for development projects in Colombia.

The Bank has continued to organize missions of this kind to Thailand and Malaya, for instance, to Turkey and Spain, to Tanganyika and Uganda. The twenty-third such mission is only just now finishing its field work in Morocco.

These groups naturally have varied both in quality and effectiveness. Some, like the mission to Colombia, have been quite successful. At least two—the missions to Syria and Iraq—were frustrated by political upheavals which took place not long after their reports were submitted.

Many experts have prepared reports on the less developed countries that have been filed away and now are only gathering dust. The Bank has not been anxious to add to the supply of this
forgotten literature, and therefore has experimented with other methods of helping countries to program their development. In some cases, for instance, it has sent missions to recommend measures and help carry them through on the spot; a written report has been only an incidental product of their work.

During the decade of the 1950s, the Bank found other ways of working on the ground to improve the quality of the development effort. One of these was to station senior staff members in underdeveloped countries to serve as economic advisers to governments, sometimes for a period of a few months, sometimes over a period of years. At the same time, the Bank was also filling many requests from its member countries to provide experts for other special assignments.

In the end, the burden of this work outran the capacity of the Bank’s operating staff; so that two years ago we began building a corps of experts, called the Development Advisory Service, to be available for assignment to strategic development posts in our member countries. There are 22 of these individuals at the present time, some temporarily training in the Bank, others advising governments in Africa, Asia and Latin America. In recruiting individuals for this corps, we count ourselves fortunate to have been able to enlist the talents of a number of outstanding experts whose experience has been in the French overseas service, especially in Africa.

It is still too early to tell how effective the Development Advisory Service is going to be. One member of the Service helped Nigeria to put together a promising development program for the first years of its independence. Another is now the chief planning officer in Libya, and a third is the senior economist of our Moroccan survey group. For the longer run, we ourselves would like to be able to release more members of the
senior staff to take on advisory assignments. But this requires a program to strengthen the lower echelons so that people can be set free at the top. Such a program was established last year. It brings outstanding young people, with a record of some graduate study, into the Bank for two years of intensive training before they take up permanent assignments on the staff. The first three groups already have been chosen; and three of the 31 recruits are from France.

The only long-range solution to this need for economic experts, however, is for the developing countries to produce their own. The Bank has tried to help them do so by establishing an Economic Development Institute for the training of senior officials concerned with economic affairs in the underdeveloped countries. These officials, often in middle career, have found themselves charged with great responsibilities for directing the development plans of their countries. Some studied economics years ago, some never did, but in all cases their experience requires reinforcement by broader perspectives.

The Institute was set up as a sort of staff college where these officials could come together for a period of six months, to study, to read, and to discuss practical development problems among themselves and with the best experts available from the Bank and elsewhere. The Institute began its work in 1956, and nearly 300 officials have been through it. Many have advanced to posts of critical responsibility.

The Institute has been broadening its work, particularly in recent years. It began working entirely in English, but now offers its basic seminars to French-speaking officials as well. Many of these officials are drawn from Africa, and we have been greatly impressed by their intelligence and alertness.
The Institute also has sponsored the preparation and distribution of development libraries—basic collections of some 400 books and essays on economic development. The first libraries were in English; but we have now nearly finished preparing and distributing them in French, and are now moving on to Spanish. The aim, in all cases, is to make basic writings on the economics of development reasonably accessible to the relevant officials of the underdeveloped countries.

The usefulness of development planning by now is generally recognized, and hardly any developing country is without a plan. Ironically, however, the popularity of global planning has run ahead of the preparation of projects. A senior planning official in Pakistan, for example, comments that the fundamental weakness of the Five-Year Plans in his country has been that while "an effort was made to develop consistent, aggregative planning frameworks, not enough effort went into filling these frameworks with well-conceived, well-engineered projects."

So the Bank once more is preoccupied with the subject of its earliest concern—the preparation of projects. Neither general plans nor adequate supplies of capital will accomplish anything until the right techniques, competent management, and manpower with the proper blend of skills are brought together and focused effectively on well-conceived projects. The need is urgent, for the lack of projects today will have a crippling effect on development far into the future.

To help remedy the lack of project planning, the Bank is taking and intensifying measures to promote the preparation of projects in countries least able technically to prepare projects on their own and least able financially to bring in the necessary outside help. For these countries, we
find the necessary experts, draw up an outline of work and pay the foreign exchange costs of studies designed to produce viable projects of high economic priority. In Africa, where we think special difficulties exist, we are considering the establishment of two offices to press this line of endeavor still further. The Economic Development Institute also has been drawn into play; it is now giving special courses in project evaluation, both in English and in Spanish.

Behind all these evolutions of the Bank, there lies a certain paradox. The Bank grew beyond its original concept precisely because of the intention of its charter that it should conduct itself prudently. In order to carry out its lending properly, it had to devote much of its time and energy to technical assistance and even, in such matters as the preparation of projects, to engage in a certain modest amount of well-placed philanthropy. Nor has the paradox ended there.

The Bank’s charter requires that in our lending we should give due regard to the prospects of repayment. Beginning especially in the middle 1950s, however, the Bank found that an increasing number of its member countries were unlikely to be able to repay all the development loans of which they could make use. In some cases, they had contracted too much debt at short term, although their long-run prospects were good. In others, their ability to make use of outside capital was increasing faster than their ability to service conventional loans. Newly independent countries, with young economies and no record of debt performance at all, were a special problem. In one way or another a growing number of the Bank’s member countries were close to what we considered to be their debt limit; and in many of these countries the Bank, as a prudent lender, would not be able to supply all the capital that usefully could be employed.
The solution found by the member countries of the Bank, as you remember, was to create the International Development Association. IDA, as the Association is called for short, is an affiliate of the Bank, having its own funds but administered by the Directors and staff of the Bank.

When the Bank's Directors drew up IDA's charter, they made two distinctions between IDA and its parent organization. In the first place, it was to offer much easier financial terms. Bank loans have an average length of from 15 to 20 years, and our current rate of interest is 5½%; but up to now, all of IDA's credits have been made for 50 years, and are free of interest, although a nominal charge of ¾ of 1% is made for administrative costs. In the second place, IDA was to have a more benign personality than the Bank: in addition to lending for the large-scale projects in infrastructure and industry that have been the main concern of the Bank, IDA was also to interest itself in projects of a more social character, in such fields as education and health.

IDA has now been operating since 1960. The coexistence between IDA and the Bank has been peaceful, but not uneventful. The presence of IDA, in fact, has brought about certain modifications in the practices of the Bank itself.

Of the two institutions the Bank, of course, is much the larger: it has assets of over $7,000 million and can add to its funds, if necessary, by borrowing in the capital markets of the world. IDA has usable resources, present and prospective, of approximately $1,500 million, and has no prospects of being able to borrow at all.

This has presented us with certain anomalies. The Bank, which deals with our relatively more prosperous customers, has adequate funds for its operations, but IDA, which deals with the poorer nations, has limited funds, and so must ration
its credits. And while it is possible to mitigate this dilemma somewhat by blending Bank loans and IDA credits in the same country, the fact that IDA’s funds are limited restricts this approach.

We also have been faced by the odd circumstances that IDA clients could look to IDA to support a broader range of undertakings than the Bank. An IDA client could obtain finance for construction to expand a school system, for instance, while a Bank client could not.

In the end, we have concluded that the Bank, as the bigger entity, has the strength partly to close the gap between the two institutions. For example, we recently have made a loan in which the Bank allowed an unusually long grace period of eight years, in the case of a borrowing country whose financial position should be stronger in the middle and long run than it is today. This period is almost as long as the ten years allowed by IDA, and three years longer than the usual maximum allowed by the Bank.

In another case, we made a loan with a final maturity of 35 years—10 years longer than the Bank’s usual maximum. In this instance, the justification was that we were lending for a large-scale project with a long life expectancy in a country that already is making very full use of its financial resources. There will be more cases of this kind.

In addition to slightly relaxing the term of Bank loans in special cases, we also are broadening the social perspective of the Bank to correspond more nearly to IDA’s. For example, IDA has financed education projects when it appeared that they could make an important contribution to economic development; and the Bank is now willing to take up a modest share of this task.
One other consequence of prudent behavior was not fully weighed by the founders of the Bank. The Bank’s business, in fact, has proved to be quite profitable—so profitable that certain problems and opportunities have arisen that could not possibly have been foreseen when the Bank was born.

The chief sources of the Bank’s profit, of course, is its income from interest charges, and perhaps you will allow me to digress for just a moment to say how these are set. Since we borrow the greater part of what we lend, our interest charge to borrowers must cover the price which the Bank itself must pay for money. To this we add an amount which is intended to cover our administrative expenses as well as to add to our reserves.

Our interest rate is set in this way: if we were making a loan today, the basic element in what we would charge would be the cost of money to us—to take a hypothetical figure, say 4½%. To this factor we would add 1¼% for reserves and administrative costs—a total of 5¾%. In fact, we are slow to move our rate upward and quick to bring it down, and today, in view of the fact that interest rates have only recently moved up to the 4½% level in the United States, we are charging only 5½%. I may add that even if our financial condition would permit a somewhat lower charge, there is a compelling reason why our rates should reflect market rates of interest. Our charter forbids us to make loans when other capital is available on reasonable terms, and we therefore cannot underbid the market by offering loans at lower rates.

Over the course of time, the Bank’s long-term rate has varied from 4¼% to 6⅓%. In fact, since we have interest-free capital as well as borrowed funds, this has given us a comfortable margin. Our net earnings this year will amount
to nearly $100 million, and our income from commissions will amount to another $30 million or more. All in all, our income from these two sources, plus a certain amount of investment income, has given us reserves and accumulated earnings of almost $950 million.

We believe that the Bank is now financially strong enough to lend a hand to IDA. The President of the Bank has announced his intention of recommending to our Directors that at the end of this fiscal year, some of the Bank’s current earnings be transferred to IDA.

What we have in mind is a transfer of an amount which might prudently have been distributed as a dividend. This policy, if approved and continued in future years by the Directors, as we believe it will be, should over a period of time provide IDA with considerable supplemental strength. It is not intended to be a substitute for support of IDA by its member governments, but it will go some way to establish a better balance between the Bank and IDA.

Finally, let me refer to one last unexpected line of evolution, one that springs especially from the Bank’s character as an international organization bound to serve impartially the interests of all its members. Over the years, the Bank’s reputation for impartiality and objectivity has caused its members to call on it more than once to mediate or arbitrate disputes arising in fields in which it has some expertise.

The case which probably is best known in France was the dispute that arose between the shareholders of the Suez Canal Company and the Egyptian Government as a result of the Government’s termination of the Canal lease and the expropriation of Company property. At the request of the parties concerned, the Bank undertook a
detailed study of the issues and the facts; and in the end was able to arrange a settlement, now fully carried out, under which the shareholders received compensation of 28 million pounds.

The Bank or its President were asked to intervene in other cases as well: the disputes between the Government of Iran and the Anglo-Iranian Oil Company, between the Governments of the United Kingdom and Egypt over the incidents of July 1956, between India and Pakistan over the sharing of the waters of the Indus system of rivers. Most recently, the President of the Bank acceded to a request to suggest a settlement of the default by the City of Tokyo on the French tranche of its bonds of 1912—a settlement which we judge to have been a fair one since, while it was accepted by both sides, it aroused the enthusiasm neither of the bondholders nor of the City of Tokyo.

In all these cases, the Bank was seeking to settle disputes whose existence, if continued, would have constituted in greater or less degree an obstruction to the international flow of private capital. Our experience has led us to believe that we might make some more permanent contribution in this direction by creating international machinery under the umbrella of the Bank which would be available on a voluntary basis for the conciliation and arbitration of disputes arising between private investors on the one hand and governments on the other. At the request of the Governors, the Directors and staff of the Bank now have given this idea the form of a draft Convention, and this draft has been discussed by legal experts of our member countries at regional meetings which have been held in Europe, Africa, Latin America and Asia.

The Convention would make available facilities to which foreign investors and governments, as I have said, could have access on a voluntary
basis. The method of settlement selected might be conciliation, arbitration, or conciliation followed by arbitration in case the conciliation effort should fail. The Convention would set up a mechanism for the selection of conciliators and arbitrators and for the conduct of the proceedings.

The initiative for such proceedings might come from a State as well as an investor. But no State that had signed the Convention would be compelled to resort to the facilities of the conciliation and arbitration center, and no foreign investor could initiate proceedings against a signatory State unless that State and the investor had previously agreed to the proceedings. However, once they had so agreed, both parties would be irrevocably bound to carry out their undertaking. The true significance of the Convention, in fact, lies in the insurance it provides that if the parties agree to resort to the international forum, their agreement will be given full effect. On our opinion, this would create an element of confidence which would in turn contribute to a healthier investment climate.

The fact that this may be only a modest contribution does not lessen our enthusiasm for it, and we hope that before long we can present a final text of the Convention to our member governments for their consideration.

That, then, is the story of the World Bank’s evolution. But what has been achieved? It is clear that neither we nor the community of nations as a whole can claim any final or very dramatic success. In some areas where strenuous efforts have been made for nearly two decades the standard of living has increased hardly at all.

Nevertheless, I believe that more progress has been made than even we who live with these problems sometimes realize. One not unimportant
achievement has been the accumulation of a valuable store of knowledge and experience by the many organizations and individuals working in the field of economic development. In Africa, Asia and Latin America, more has been done since World War II than ever before to build the means of production and to create the conditions of progress. It is true that we have a long way to go, but we have come a long way already, and there is good reason to be hopeful about the journey that still faces us.