REMARKS

By

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The World Bank

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I am delighted to be here and to join with you in celebrating this 20th year of activities of the Executive Council on Foreign Diplomats.

We are meeting at a time of severe stress. The array of political and economic forces at work that are promoting global instability are substantial. This is a time, therefore, when we are called upon to exert that extra effort to find ways to assure a more secure planet earth.

There are many common objectives among diverse nations, but none are more important than achieving global stability. Now there are many approaches and avenues to attain this objective, but I believe it is through cooperation and not through confrontation that the best results will be realized.

We seek to enhance the welfare of all through partnership. Let me underscore here the wisdom of Thomas Jefferson when he said that there "is a kind of law of nature that every nation prospers by the prosperity of others."

In my first few months at the World Bank I have learned much about international cooperation and global partnership. The World Bank, after all, has many partners. In the first place it is owned by 141 governments. The World Bank has partners in the capital markets where it borrows billions of dollars each year to fund loans to developing nations. It has partners with industry in developed and developing countries, who each year win billions of dollars worth of World Bank procurement contracts.

Central to our work is our partnership with the nations of the Third World, as each of them seek in their own way to advance their development with financial and technical assistance from the Bank.

Then again in the private sector, the Bank has partners in its lending operations. We seek to expand co-financing with private companies to secure greater investment levels in developing nations. We have deep partnerships as well with bilateral governmental agencies and many other institutions that do co-financing with us.

As you can see we enjoy a great variety of partnership relationships in our various activities. Today, however, I want to focus in particular on the role of the private sector in development.

The private sector is what I know best, and what I called home for more than 31 years. As a commercial banker, my whole career was spent in that creative and competitive marketplace -- and therefore I have developed some strong prejudices through those years of experience. And personally, I am rather proud of it.

In my opinion the private companies of the world can be a vital engine to secure a growing global economy in which the developing nations increasingly become significant participants. And therefore it is important that we see much greater investment flows to developing nations.

Now there are moral arguments for development assistance that are most important. Man indeed has an obligation to help his fellow man.

But there are less well-known economic self-interest arguments for development assistance and these the private corporations of the industrial and industrializing world must appreciate.

The World Bank is a catalyst for investment flows to developing nations. Let me tell you a little about our approaches before moving forward to sketch the developments that must in my opinion unfold in the future -- developments where private capital has a central role.

As the developing nations grow, so they directly contribute to a strengthening of the world economy in which all peoples benefit. As these nations grow, so they see ever more clearly the sound reasons why it is in their economic and political self-interest to ensure that harmony, rather than disagreement characterizes global affairs.

We stand, in the World Bank, in the very midst of the process of securing such enhanced international conditions. We provide loans to nations to enable them to develop their basic resources, their economic infrastructure, their foreign exchange earning exports and their manpower skills.

More importantly, we provide professional management advice and economic analysis and technical assistance. And we provide those crucial views in our continuous dialogues with developing countries that help them to move in the appropriate directions. We are in the business of helping nations to help themselves.

We do not give away cash. We do not distribute handouts. We lend on realistic terms. We examine projects in exhaustive detail. We ensure that every loan we make clearly indicates at least a ten percent economic rate of return in real terms! Many of our loans of course achieve much higher rates of return than the minimum target.

And then we disburse funds only as expenditures are incurred for the implementation of our projects.

And our project funds finance imports of material, equipment and technical skills. American companies, for example, win scores of contracts each year for equipment used in our Third World ventures. The scale alone of these contracts for corporations in this country is a sound self-interest argument for United States support of the World Bank if ever there was one.

We go to great lengths to ensure the soundness of our loans because only through very careful screening and selection can we ensure that our limited investment funds have real impact. Now I would be less than candid with you if I were to suggest that we did not need more funds. Because we do! We need more funding from governments and we need more funding from private markets, too.

The Bank is much like a concert orchestra. We have an array of quite separate sections, each able to play great music on its own and each closely relating to the others to produce distinguished, harmonic, sounds.

There is the International Bank for Reconstruction and Development - IBRD - that lends only to creditworthy nations at near market rates of interest of 11.6 percent today. There is the International Development Association - IDA - that provides credits at zero percent interest and only a very small service fee to the poorest of the poor nations. There is the International Finance Corporation - IFC - that through loans and equity participations is our window to private sector investments in all developing countries. There are, as well, an array of significant technical assistance players in our orchestra too.

Now let me stress that as we develop our programs we are mindful of current global economic conditions. Unfortunately, we must admit that the prospects are bleak for a dramatic surge in concessional development assistance funds for the poorest of the developing countries in the immediate years ahead. To think otherwise would be unrealistic.

To maintain the momentum of development that has been achieved in recent years the Bank is now doing all it can to become more efficient. For example, how many of you here know that we made a $600 million profit last year?

I think that is an excellent achievement. But we must have a strong income to have a strong and healthy partnership with the capital markets. We need this strong income to convince our bondholders that we are the triple A rated investment that we are and that we will continue to be.

We are not going to undermine our relationship with our bondholders in any way. And therefore, we are not going to recommend a change in the Bank's capital gearing ratio from the one-to-one ratio it presently enjoys.

Under its articles, the Bank may only lend the equivalent of its capital and reserves. For the time being, we have adequate borrowing capacity as we are in the process right now of doubling our capital through a general capital increase in which our owner governments directly subscribe 7-1/2 percent in paid-in form. And so, we do not believe a change in the gearing ratio is warranted.

Many nations are so poor that they are not creditworthy to borrow from IBRD. Nor can they afford to pay the high interest rate charges. Credits to these countries are granted by IDA. Funds for these credits are made from grant donations by 33 member countries.

Allow me to state firmly and bluntly, that if the poorest nations are to become stronger participants in global economics then they must have adequate resources available to them. They must be able to build the human and physical infrastructure upon which real development can bloom.

IDA is a prime source of funding for these nations. We must keep IDA at realistic levels if the poorest nations are to be brought fully onto the international economic and political stage. And they must be brought into the mainstream if security for all is to have meaning. Cut IDA substantially and you cut the prospects for the poorest nations...indeed for all countries. But, IDA is being cut today. A shortfall in contributions from the United States this year has triggered similar cuts from other donor nations. The result is that the Bank has had to reduce its fiscal year 1982 IDA program by about $1.5 billion -- cutting it from $4.1 billion to $2.6 billion.

This is a heavy blow without doubt.

American leadership in the assistance arena has been historically noteworthy. We can all take pride in this great country's record of generosity as exemplified by the Marshall Plan and indeed by the essential role played in the establishment of IDA two decades ago.

I cannot believe this spirit of leadership will not be evident again.

The World Bank group cannot do the job of ensuring real growth in developing nations on its own. Levels of official development assistance must also rise -- particularly in these times of political and economic difficulties. And in addition, we must ensure that official assistance is complemented by substantial flows of private resources to the Third World.

We must find ways for the private sector -- banks and industrial corporations and insurance companies in all nations -- to play a much bigger role in our economic and sector work.

It is for this reason that we in the World Bank are determined to boost our co-financing with private partners.

We propose to expand the activities of the International Finance Corporation. Through IFC we will act as a merchant bank securing the growth of private corporations in developing nations.

IFC is finding strong projects in the private sector in all nations, including some of the very poorest countries. And when developing nations reach that point where they no longer need to borrow from IBRD -- indeed when they graduate under policies that are clearly defined -- then they can still obtain IFC support. Our graduation rules are clear on this point.

Yes, as you will have gathered from what I have said so far, we have an array of instruments for attacking the different problems of development. We see the development process as an evolutionary one. The poorest nations borrow from IDA and perhaps some of them obtain IFC assistance as well. Then these nations grow stronger and drink from both IDA and IBRD, as well as boosting their IFC relationship.

Then they grow still stronger and rely just on IBRD and IFC. And then they graduate from IBRD as well, while still being able to draw on the Bank's technical assistance capability and perhaps on IFC too. And finally, these nations move to that stage of economic strength when they can even start contributing funds to our programs to continue the development process for less fortunate countries on into the future.

Partnership with the private sector is my theme because I am convinced that private investment can play a role in most nations at each stage in this evolutionary development process. I have outlined here our approaches and our role. And candidly, we in the World Bank need strong private sector partners to assist in the development effort. We have some strong incentives to offer.

In the first place, we can reduce the risks to private investors who join us in projects because of our exhaustive appraisal work and our experience. And because we are placing our good name in the projects.

Nations do not default on loans extended by us because they greatly value their ongoing relationships with us. In 35 years we have never had a default. Furthermore, we do not reschedule loan payments to us either.

We are determined to capitalize on this pragmatic phenomenon, in order to play a still greater catalytic role in bringing private investment flows to developing nations. We need your help to spread the word that IDA must be supported, and that we are keen to have private partners.

But outside of what we can do on our own and through co-financing, there must be more direct private investment to developing nations. There are advantages in direct investment to those who provide capital and those who accept it. Investment does not immediately add to debt burden. Productive investment pays for its own amortization. Investment also comes with technology. In many cases, the only viable way of securing access to new technology is by encouraging investment by those who have produced it. And, for the investor, it provides some assurance of uninterrupted supply of raw materials, intermediate inputs, and finished products.

The facts are that direct investment, when measured as a proportion of net financing flows to the Third World, has fallen over the last decade. And the bulk of what was provided went only to a few countries.

There are several reasons for this. For example, there have been fears of nationalization. And then, to take another example, in many instances, there has been an imposition of performance criteria which can add to investment costs. Another frequently mentioned disincentive to such investment is the insistence from time to time by governments on "national treatment"...i.e., the reservation for domestic entrepreneurs of some proportion of the assets to be created.

It would be helpful to have a set of principles, respected by all nations, that would strengthen the environment for private investment flows between nations. Guidelines for investment must be most mindful of the sovereign rights of nations, of different economic systems and priorities from one country to another.

Such guidelines must ensure that there is at every point in an investment venture genuine fairness of treatment to all. Fairness towards the investor. Fairness towards those with whom the investor works.

I believe a clear-cut and a fair set of principles would enhance the flow of private investment. We must have freedom in the investment arena, just as we must have freedom on the international trade front.

I would hope that all parties would work together through the many fora that now exist to see that a viable framework for governing international investment can be established. There has already been progress, for example, in the United Nations and in OECD and in assorted private groups. The International Center for Settlement of Investment Disputes in the World Bank is providing helpful support here. But more must be done. This is an important issue and I would hope that governments would view this as a prime priority in international summits.

We need in this complex world to think clearly about how best we can all cooperate to strengthen the forces for peace and stability. I believe the World Bank has a real role to play. I believe the private sector does too.

In fact I believe that through real partnership we can all be winners. We must ensure that short-term considerations of national and domestic concern do not prevent us from taking those meaningful long-term steps that in time will enhance the condition of man.

Such steps include support for IDA, development of a set of investment guidelines, greater private sector finance flows to developing nations and the other points I have outlined here today.

The road ahead is clear. It is the road of partnership to bring about a more secure and stable world where all may prosper. We must rise boldly to the challenges of the 1980s. We must stretch our imaginations and discover within us still untapped reserves of wisdom and resourcefulness to overcome the multitude of problems that now surround us. Let me today ask you to view the World Bank as your partner, so that we all can march ahead together to secure our common goals!