ONCE MORE, IT IS A PLEASURE to greet you at this Annual Meeting.

In the earlier years of the Bank's existence, these gatherings may have been somewhat ceremonial and pro forma occasions. But when you meet now, you meet as shareholders representing most of mankind and its hopes for lives of greater security and well-being.

For us in the Bank, this event crowns the year's business. It is a time both of retrospect and pros-
pect. We have a chance not only to evaluate what has been done since we last met, but also to set ourselves in new directions. More and more often, the Governors have been asked to take decisions that in the end have strongly affected the character of our institutions and their value to their member countries, and this present Meeting will, I am sure, be no exception in this regard.

The operations of the Bank and its affiliates, the International Finance Corporation and the International Development Association, are proceeding at a faster pace than ever before.

As the Reports before you show, the Bank and IDA during the year committed over $1 billion for economic development projects. The Bank figure, some $882 million, was by a considerable margin the highest in our history. More than four-fifths of this amount was lent in support of power and transportation—traditionally the most frequent objects of Bank lending. Two other facts are worth pointing out: for the fifth year, Bank lending for large-scale industrial projects exceeded $100 million; and the cumulative total of Bank loans to industry passed $1 billion.

The Bank's operations continue to have the confidence of the world financial community. Within the past few days, we have arranged the sale of $100 million of United States dollar bonds to purchasers entirely outside the United States. This is our seventh such issue; it is for two years, and carries interest at 3 1/4%. It was sold to purchasers in 25 countries; the demand was so great that the issue was oversubscribed 100 per cent.

During the fiscal year itself, we were able to sell, without our guarantee, parts of our loans amounting to over $300 million. In addition, we raised $270 million in five new borrowing transactions. One transaction, as I was able to mention 12 months ago, was the first Bank borrowing in the Italian market. Three other issues were sold outside the United States. Our last borrowing of the year was our first issue in the United States market since February 1960. Conditions in the private market continue good. They enable me, in fact, to have the pleasure of telling you that our interest rate to borrowers has just been reduced to 3 1/2%—the lowest rate we have been able to offer since 1958.

Since the closing of our Annual Reports, the volume of new lending has continued high. The total for IDA and the Bank amounts to nearly $200 million, and IDA accounts for the larger share. Since the opening of the new fiscal year, the Association already has extended some $110 million of new credits—an amount nearly as much as in the previous 12 months.

IDA has continued to lend for purposes new to the Bretton Woods institutions. When we met last year in Vienna, the Association had just agreed to its first financing of a municipal water supply project. Now I can report to you that IDA has just signed its first agreement to finance a project in the field of education. I refer to a $5 million credit which will help to finance the construction of secondary schools in Tunisia. We take particular pride in this inaugural effort; and this is a subject on which I shall have more to say in a few minutes.

The faster tempo of financial commitments by the Bank has not outstripped the Bank's activities in technical assistance to members. Almost from the beginning of our operations, we have found ourselves giving technical advice of one kind or another in the preparation of development projects. This work is now recognized to be a special branch of Bank activity, administered under special staff arrangements and with its own allocation of funds. Since the Governors met in Vienna, we have agreed to share the cost of hiring and maintaining the best outside talent available to carry out some 10 studies in fields of interest to the Bank or IDA. And we have organized four additional studies as Executing Agent of the United Nations Special Fund. The scope of this work ranges from technical and economic feasibility studies of individual projects to complete surveys of transportation, water resources development and the like.

Our new Development Advisory Service has now come into operation. We have recruited a small corps of highly experienced professionals to assist
the member governments of less developed countries to take up urgent development tasks. They are available to serve as economic and financial advisers, particularly in the preparation and execution of economic development programs. Some of these experts already are serving abroad—in Chile, Ghana, Pakistan and Thailand, for example—while others are taking up interim assignments at the Bank's headquarters in Washington.

Our Economic Development Institute completed its seventh regular course this year, and has now returned over 140 Fellows to senior economic posts in their governments. This year the Institute also conducted a special course in French for officials drawn mostly from the newly independent countries of Africa. More than 100 of the Institute's English-language libraries in economic development have been distributed to selected institutions in our member countries. The preparation of a French library is well advanced.

Nothing, I believe, is more vital to the economic progress of the underdeveloped countries than a well-rounded spread of education, and the Executive Directors as well as I myself have become convinced that here is a field in which the Bank might make a useful contribution. We have in mind making grants from our accruing profits to assist, in member countries, economic, technical or vocational education of a sort closely related to the objectives of the lending activities of the Bank and IDA. It is difficult at this stage to estimate precisely the amount to be devoted to this purpose, but it could be as much as $10 million a year. A distinguished American educator, Dr. Harvie Branscomb, former Chancellor of Vanderbilt University, has joined our staff to advise us on the formulation of the program.

The Bank staff has carried forward two special projects which I mentioned in Vienna. It has finished and made public a study of various proposals for setting up some kind of multilateral scheme for insuring international investments. It was not the purpose of the study to reach conclusions with respect to any such scheme, but rather to illuminate the issues involved. It has been given to govern-
ments and to the Development Assistance Committee of the OECD, which asked the Bank to undertake it.

For some time, the Executive Directors of the Bank have been studying a second idea that also is aimed at increasing confidence in international private investment, namely, the establishment, under the sponsorship of the Bank, of some kind of machinery for the conciliation or arbitration of international disputes arising between governments and private parties. A working paper on the subject has been circulated, and we are now receiving comments from governments. I hope that you will agree with me that this approach is an interesting and promising one, and that you will approve the resolution on your agenda specifically authorizing the Directors to study the matter.

I would like to turn now to the Bank's industrial-financing affiliate, the International Finance Corporation.

This is my first address as President of IFC and I am presenting the Corporation's Report to you this year more convinced than ever that our member countries' interests are well served by having an institution in the World Bank family devoted to the promotion of the private industrial sector. During the past year the Corporation made nine investment commitments totaling something over $18 million and organized an underwriting in which it took an initial commitment of some $3 million more. The money total of these transactions was considerably more than the previous year's investment total; but what was more notable was the variety and importance of what was done.

IFC has three major functions to perform: first, to contribute to financing new or expanded ventures, in association with private investors, which are of high developmental priority to the economies of the countries where they are located; second, to contribute to the establishment or the development of capital markets in our member countries; and third, to stimulate the international flow of private foreign capital.

IFC has been able to operate this year with greater flexibility than previously because of the change in
the Charter which the Governors approved last year to allow the Corporation to invest in equity. An IFC investment in a Spanish manufacturing company this year is an example. IFC not only was able to make an appropriate loan but also, for the first time, to strengthen a company's financial structure by purchasing its capital shares. This was the first time that IFC acquired an equity interest as part of the original investment commitment. Private capital from two financial institutions, one in the United States and one in Germany, was attracted to the Spanish investment and participated with IFC.

IFC also went into the underwriting business for the first time. It formed a syndicate with a Mexican investment house to underwrite an issue of capital shares of the largest private steel company in Mexico. As I mentioned, IFC's total initial commitment for the underwriting was some $3 million, but three well-known U.S. and European investment institutions joined with IFC to take over about $1 million of the underwriting commitment. The offering was considerably more successful than had been anticipated, perhaps in part because of the strength of the underwriting syndicate, and IFC had to take up only about $800,000 of its initial commitment.

Since the close of the fiscal year IFC has made another interesting investment, a loan to a large textile company in Colombia. Partly because of the state of the capital market in Colombia, this company had been unable to raise funds from its customary sources at home, and therefore turned to IFC. IFC was able to arrange for the participation of four banks in the United States, one in Germany and one in Switzerland. When the investment agreement was signed, nearly seven-eighths of IFC's $2 million commitment was taken up by the six private banks. This transaction linked with the company leading banking houses on two continents and enabled the company to avoid interrupting an expansion program it had long planned and already begun.

These three recent transactions well illustrate the three principal functions of IFC: financing high priority industrial undertakings, developing capital markets, and promoting the international flow of capital.

IFC's pipeline is now filling up. Since the end of the fiscal year the Executive Directors already have approved new investments of more than $6 million in countries of Latin America, Africa and Asia. The preparation of other investments is well under way, and I am confident that this will be the Corporation's most active year since its founding. I want to add that Mr. Martin Rosen, in the new position of Executive Vice President, has displayed the leadership that I expected of him.

Mr. Chairman, I want now to turn to some long-range considerations that affect the prospects for economic growth in the less developed countries.

Since all of you are here today because of a concern or interest in the work of the Bank, IFC and IDA, I do not need to convince you of the general case for providing a continuing flow of development aid. In 1948, when the Bank made its first development loans, the belief was widely held that if enough money could be found and channeled into the financing of the more obviously productive projects in a country, economic development would be almost sure to follow. Experience since then has shown both that there are usually internal obstacles to development that no amount of finance alone can overcome, and that the developing countries also face external economic difficulties—namely, adverse factors in their international trade—that affect the amount and kind of aid they need.

One such difficulty is sometimes created by the trade policies of the industrialized countries themselves. Generally speaking, tariffs or quotas do not at present unduly restrict the exports of primary products from the developing countries, but there are manufactured products—notably cotton textiles—where discrimination is an important factor. I feel considerably more anxiety about the effects of trade restrictions in the future, when we ought to be able to hope for rising exports from the developing countries, and especially of the products of their growing manufacturing industries. The new regional economic groupings of countries in Europe and
elsewhere are obviously one source of concern to the
developing countries. The possibility that the nations
within these groupings may surround themselves
with high protective barriers, offering discriminatory
concessions only to countries with whom they feel
special ties, clouds the economic prospects of those
who feel they may be excluded. If, however, these
groupings adopt liberal trade policies, the under­
developed countries will have nothing to fear; on
the contrary, they can be certain of sharing in the
prosperity of the group’s members.

A more serious situation arises from unfavorable
movement in the terms of trade of most of the under­
developed countries. In recent years the prices of
what they buy from the developed countries have
continued to rise, while with very few exceptions
there has been a fall in the prices of what they sell.
Clearly there is no easy way out, since in almost
every case the recent decline in price reflects a funda­
mental tendency for production of the commodity
concerned to run ahead of world demand for it.
Nevertheless, it does seem to me that the industrial­
ized countries ought to recognize that their own
balances of payments have benefited from the swing
of the terms of trade in their favor. To give you an
instance, in one European country whose experience
is reasonably typical, this swing was sufficient to
make the nation’s total import bill in 1961 about 8%
less than it would have been had 1956 prices still
prevailed. This is one reason—and there are many
others—why most of the industrialized countries are
today in a much better position to increase their
contributions to the international development effort
than they were a few years ago.

What with the continuing need for technical assis­
tance, the implications of international trade policies
and the performance of the prices of internationally
traded commodities, quite sufficient complications
have been introduced into that former simple vision
which saw an inflow of external capital as the sole
prerequisite of economic progress. But one has to
go a stage further. Not only must there be more aid,
if development is to continue, the aid must often be
different in kind as well as greater in amount.

Many countries are finding that their capacity to
make effective use of aid is growing faster than their
capacity to repay. During the early nineteen fifties,
when external debt was still comparatively small and
well-prepared projects were few, most less developed
countries could still prudently accept loans at con­
ventional rates of interest and repayable over the
conventional period of time. But today, in many
cases, a dangerously high proportion of export earn­
ings (the prospects for which are themselves clouded)
are mortgaged to future debt service. Our own fig­
ures show that between 1955 and 1961, a group of
34 countries, accounting for some 70% of the popu­
lation of the underdeveloped world, more than
doubled its total external public debt. Yet over the
same period, the export earnings of the same group
increased by little more than 15%.

If the momentum of development is to be main­
tained, it can only be by grants or by loans largely
at very long term and at very low interest. This
is why the International Development Association
was brought into existence.

The needs of the poorer countries are great, and
they certainly are not likely to diminish over the next
few years. At the same time, if foreign aid is to be
a real help to the recipient countries, and is not to
become an intolerable burden upon the lenders, it
must be offered and applied as economically and
effectively as possible. I should like to discuss one
factor in particular which, I believe, has a great
influence on the effectiveness of aid; this is the choice
of the channels through which the aid is made avail­
able.

An important part of the capital needs of the less
developed countries can and should be met from
foreign private sources. But, for reasons that are
well known, private capital is not willing to venture
into these countries on the scale needed. In par­
ticular, capital for direct investment in roads, rail­
roads, and other basic services, or for social invest­
ments such as schools or hospitals, is almost
unobtainable from private sources on any basis.

This means that private capital investment must
be supplemented on a large scale by funds from
public sources. The question remains: are we likely to get the best results if these funds are supplied on a bilateral basis—direct from one government to another—or should they be channeled through, and administered by a multilateral agency?

Realistically, this cannot be a stark choice between two extreme positions—all aid bilateral or all aid multilateral. It is a question of emphasis. Like it or not, bilateral aid is an instrument of foreign policy, and mixed up with cultural ties, regional loyalties and other circumstances extraneous to purely economic considerations. The aid-giving countries are naturally disposed to direct their help especially to those countries whose friendship or stability they particularly value. Nor do I expect them to stop stinting aid to countries they hold in less regard.

But I do believe that the emphasis should and can be changed, away from bilateral and toward multilateral aid. Bilateral aid is usually—and unfortunately, increasingly—tied to purchases of the giver’s products. However well-intentioned a lending government, it is vulnerable to pressure from its own commercial interests to help finance the sale of particular goods for projects abroad, whether the projects themselves are well justified or not. And, however sensible the government of the recipient country, it may have difficulty in resisting offers of finance, even for low-priority projects and on terms that often are not suited either to the circumstances of the country or the requirements of the project.

My most serious criticism of bilateral aid programs, however, is their susceptibility to political influences, whether overt or otherwise. At its worst, aid is offered or exacted as a price in political bargaining that takes no account of the actual economic requirements of the recipients. But even at best, there is always the risk that political influences may misdirect development aid, since they may bring in considerations that are irrelevant to the real needs. I have known cases where, as a result, a splendid new sports stadium has been built, while the highway system remains primitive; or where the national airport has acquired a strikingly modern terminal building, while parched but fertile land is left without irrigation. Economic priorities are inevitably confused when economic objectivity is lost—and economic objectivity is not easy when aid is influenced by political ends. Moreover, the problem goes deeper than the simple waste of a given amount of money. Aid directed to a government that is unwilling to meet the real needs of a country has one consequence that is pernicious. The most obvious result of some of the bilateral lending of the past decade has been to make it possible for countries to put off undertaking needed reforms; because well-meant but ill-judged offers of aid have been forthcoming, governments have been able to postpone such essential but disagreeable tasks as the overhaul of systems of taxation or essential currency reforms.

I doubt, moreover, whether bilateral aid is any more efficient as a method of achieving political ends than as a means of furthering development. My own acquaintance among leaders of the less developed countries does not suggest to me that they are persons who would be easily bent to any foreigner’s purposes; they value their own and their countries’ independence too highly. In any case it is clear that aid which is at the mercy of the variable winds of diplomacy offers a poor basis for the rational programming of economic development.

Admittedly, bilateral programs have been known to work well, avoiding friction, furthering development, and even garnering some political returns as well. And development aid on a multilateral basis has not always been a success. Having said this, however, I would still assert that multilateral aid, when it is professionally equipped and independent of political pressures, offers advantages that bilateral assistance cannot equal.

The international aid organizations are objective, and are known to be so. They enable a developing country to draw on the experience of all nations; to buy in the cheapest market; and to avoid compromising its sovereignty by regulating its internal affairs at the behest of other countries. An international organization will make aid available with the sole purpose of helping the country receiving
that aid. The Bank and IDA, for example, can apply what should be the real criterion—the practical merits of the particular case. Because they are known to have no ulterior motive, they can exert more influence over the use of a loan than is possible for a bilateral lender: they can insist that the projects for which they lend are established on a sound basis, and—most important—they can make their lending conditional upon commensurate efforts being made by the recipient country itself.

This objectivity provides the chief reason for expecting that aid can be most effective if channeled through an international agency—but there are other reasons. Countries receiving aid from a multilateral organization to which many nations have contributed, and under international administration, will be likely to take a more responsible attitude toward the use and repayment of that aid than toward aid received bilaterally. An international organization can also spread its net more widely than any single country. It can provide advice on all aspects of development planning, based on experience drawn from many nations, including the underdeveloped countries themselves. It offers a framework within which can be put to good use the resources and knowledge of industrialized countries too small to be able to justify the administrative effort needed to mount effective aid programs of their own. It may, like the Bank, be able to raise development funds on a world-wide scale in the private market. And in the long run, I am convinced, multilateral aid programs must exert a much healthier influence than bilateral lending upon international relations as a whole.

I have advanced a number of arguments whose relation to one another may not have seemed very clear. But in fact they are all relevant to a single and urgent issue—the future of the International Development Association.

I have argued that more aid is needed; that, in particular, more aid is needed on comparatively easy terms of repayment; and that there are cogent reasons for preferring that such aid be made available on a multilateral basis. IDA is a major source of development aid, and the principal international instrument for the provision of aid on lenient terms of repayment. But IDA faces the imminent full commitment of its initial funds.

The facts are set out in the Report of the Executive Directors regarding the replenishment of IDA's resources. IDA now has about $765 million in usable funds, including the very welcome supplementary contribution recently made by Sweden. We estimate that by mid-1963 most or all of these funds are likely to have been committed. This does not, of course, mean that all of IDA's funds will actually have been disbursed by then: it is quite certain that they will not; we would not expect to pay out the last of our usable funds until 1965. But unless we can be assured—very soon—that further funds will be available from 1965 onward, IDA will not be able to enter into any new lending commitment after about the middle of next year. This is not a situation that can be ignored and allowed to drift. To do nothing would in itself constitute a decision to bring IDA's operations to a halt.

If IDA continues to operate at its normal pace, it seems probable that it will during the current fiscal year commit something like $500 million. This money will be directed only to high-priority developmental purposes, in countries whose capacity to attract and repay loans from conventional sources is limited or non-existent. There is no reason, that I can see, to suppose that the demand for worthwhile credits will be any lower in subsequent years. On the contrary, it is my conviction that the demand will continue to increase, and to increase greatly. Experience has already demonstrated, I believe, that IDA is capable of meeting a very real and important need and, in relation to this need, the original capital of IDA was obviously inadequate. But if it is to meet this need—if it is to become a principal instrument for the development of the poorer countries, and not just a minor gesture of good will toward them—it will clearly require a very substantial addition to its resources.

There is one point that I feel should be made clear. The total amount lent by the Bank this year was much greater than in any previous year. But
we cannot expect the rate of lending by the Bank to continue to expand in future years. Indeed, it may prove difficult to maintain the Bank's operations at their recent level. Many of the Bank's present member countries cannot prudently assume further hard debt without jeopardizing their future, and of about 20 new members expected to join the Bank within the next year or two, few will be in a position to service loans from the Bank. It is to IDA, not to the Bank, that most of them will have to look for help. The future of IDA is therefore the most important issue that I commend to your sympathetic consideration during this week's Meetings.

Over the years, the Governors have made a series of crucial decisions that have shaped the international aid effort, and permitted it to meet the growing and changing needs of the less developed countries. I think particularly of your authorization of the creation of the International Finance Corporation, of the doubling of the authorized capital of the Bank, and of the creation of the International Development Association itself. I believe that your approval of the resolution directing urgent attention to the problem of the enlargement of IDA's resources could well prove to be the most important and fruitful of all these decisions.

Mr. Chairman, as many of the Governors know, this is the last of these Meetings in which I shall be an active participant. Before the next one, I shall have retired as President of the Bank. The time has come for me to heed the advice of that wise poet, Horace, who said long ago: "Solve senescentem mature sanus equum, ne peccet ad extremum ridendus," which I translate freely thus: "When your horse is getting old, be wise: turn him out to grass in good time, lest in the end he stumble and people begin to make fun of him."

At a moment like this, all sorts of thoughts come pressing in. One is about this Meeting, and the significance it has assumed in our lives and in the conduct of the world's affairs.

I shall greatly miss the view from this platform. Before I leave it, let me give the Governors my deeply felt thanks for the support that the Board through the years has given to the Bank and its President. I am sorry that the Bank's accomplishments could not have been greater; what we have been able to do still leaves much undone. But the Board itself, as a group and as individuals, has been a great source of strength to the Executive Directors and to the Management. Nor can the Board in its turn, I think, feel any discontent, or indeed anything but pride, about the men and women who serve it on the staff of the Bank and its affiliates. They are the foundation on which the value of our institutions rests; for capability and sense of purpose, I dare to say that they are the equal of any group of comparable size or mission anywhere.

Much as I shall personally regret parting from the Bank, I think my leaving will be a good thing. Orderly change of any sort is likely to be good—not because it casts away the old, but because it lets in the new. Letting in the new is important if the Bank is to avoid becoming a fossil and to remain a living institution. I look on my retirement as one more contribution I can make to the future of the Bank. I believe my successor will be selected in the near future, and I shall step down soon after that.

As you know, some changes already are being effected in the Management of the Bank. Next month, Sir William Illif will retire. He is one of my oldest associates in the Bank and, through the years, one of those on whom I have come to rely the most as friend, critic and adviser. He is one of the principal architects of the Bank as it is now organized and operating; his judgment in policy matters, his skill and perseverance as a negotiator, and his talent for both official and personal relationships have made him of enormous value to us. He has our fervent good wishes for many happy years ahead.

It is a pleasure to assure you that Mr. Burke Knapp will continue to serve as Vice President, and will go on giving us the benefit of his extraordinary versatility and exceptional energies in that post. As you know, Mr. Geoffrey Wilson has joined Mr. Knapp as a Vice President. Mr. Wilson's first association with the Bank was with its Board of Directors and, following this experience with him, I was very
happy early this year to be able to persuade him to join the staff. I am glad now that he will be working in a position of wider responsibility.

This is a time when there is a changing of the guard in the Bank. But it is not a time of slackening—quite the reverse. The accomplishments of the Bank may not yet loom very large compared with what remains to be done. I do not mean this as belittlement; what I mean is that neither the Bank nor the work in which it is engaged is complete, or ever should be. What the Bank has been able to do is by no means inconsiderable; in fact, the volume of sheer physical creation—the scores of factories, the millions of acres of land, the millions of kilowatts of electric power capacity, the tens of thousands of miles of roads and railroads—can only be called impressive. But the Bank's work is not to be assessed in terms of the building of cold monuments of stone and steel and concrete; it has had a deeper purpose—to enlarge the riches of the earth, to give men light and warmth, to lift them out of drudgery and despair, to interest them in the stirring of ideas and in the grasp of organization and techniques, toward the realization of a day in which plenty will be a real possibility and not a distant dream.

I think I can say with some objectivity that the Bank has made its mark. It is showing how an instrument of international cooperation can bring the world's resources to bear on the problems that are of concern to most of mankind—a kind of burning glass that can kindle the fire of hope even in the most remote and forsaken corners of the earth. Above all, the work is still in progress, and it is work in which we can all take pride. I wish you all success in your endeavors that lie ahead, in this Meeting, and in many Meetings to come.