ANNUAL ADDRESS BY
GEORGE D. WOODS, PRESIDENT OF THE BANK AND ITS AFFILIATES

MR. CHAIRMAN, this is in many respects a notable occasion. It is notable as the largest assemblage of financial leaders ever to gather together anywhere in the world. I am happy to bid you all welcome—and particularly to associate myself with the greetings extended by the Chairman to the 20 new nations, most of them from Africa, which have joined our membership since we last met.

This occasion is notable, too, for its absences. We miss Per Jacobsson, in whose death the world lost a devoted and uniquely competent public servant. My friend, Mr. Pierre-Paul Schweitzer, has stepped into large shoes, but I am confident that they will fit him comfortably. We have had several visits, and I look forward to the Fund and the Bank working together in close collaboration at all levels.

Absent, too, on this occasion is Eugene Black, who is engaged on one of the new assignments he has undertaken. It was to a large extent his imaginative leadership which made the Bank what it is today. The tributes paid to him last year need no gilding from me. I want only to record that the Bank and its member countries are deeply in his debt.

The Bank and the Fund, under Eugene Black and Per Jacobsson, became strong and powerful instruments in the world's struggle against poverty, instability and ignorance. But that battle has just begun. Indeed, what really makes this occasion notable is the urgency of the problems that still press in on us and the readiness of our members, if I sense their mood correctly, to explore new ways by which our institutions can more effectively meet those problems.

In talking to you this morning, it is my intention to concentrate primarily on the future opportunities for the Bank, as I see them, rather than on the record already made. That record is set out in detail in the Annual Reports of the Bank and its affiliates and I want only to comment on a few highlights of the past year.

First of all, I want to welcome the willingness of the capital-exporting countries to continue and increase their annual contributions in support of the International Development Association. The proposal which the Executive Directors have submitted to the Governors on this matter constitutes a heartening endorsement of the multilateral approach as the most effective means of providing development assistance on an objective, non-political basis. Whereas the $750 million of convertible funds in IDA's initial resources were payable by Part I countries over a period of five years, this proposal calls for an additional $750 million to be contributed in a period of only three years. This is a significant acceleration in contributions which I hope will permit IDA to maintain its operations at the higher level they are now reaching. We are aware that the demand for IDA funds will in all probability exceed the supply, and its policies should therefore be kept under constant review.

Let me also draw your attention to the variety of the operations of the International Finance Corporation. The Corporation obtained wider private participation in its investments than in any previous year. It continued to make loans to private industrial enterprises, but in addition it used in several ways the new powers of equity investment you gave it two years ago. It made investments in the share capital of industrial companies and entered into stand-by agreements in connection with the issue of shares and of debentures as well. It also successfully liquidated its first underwriting commitment, made in the previous year, in respect of a share issue.

Another significant development during the year has been the growing activity of the Bank group of institutions, under the leadership of IFC, in the

establishment and support of local private industrial finance companies. In this field, IFC's ability to acquire equities has opened substantial new opportunities by making possible joint action by IFC and the Bank or IDA.

Finally, let me make an observation about the volume of Bank lending. At $442 million it was considerably lower for the fiscal year ended last June 30 than it was in the previous fiscal year. However, in the three months since June 30, we have approved additional loans amounting to $350 million, and our pipeline is full. From where I sit, the prospect is not for a downward trend in the Bank's operations.

Mr. Chairman, one advantage of a change of command such as we have now had in the Bank and its affiliated organizations is that it provides an opportunity to take stock of our position, to look afresh at our organization and at our problems and policies. And since our problems are to a large extent those of the developing countries, we must look first at their situation.

Despite the voices of pessimism, there is no doubt in my mind that a considerable advance has been made by the underdeveloped countries in the postwar period. Over the last fifteen years their industrial production has risen two-and-a-half times and agricultural production by almost forty percent. By historical standards, this is a notable achievement. Not only do many underdeveloped countries have a substantial record of growth in production and investment, but equally important, an impressive fund of experience and skill has been created. The time is not too distant, I believe, when some countries which are now themselves struggling with the problems of development will be helping others less advanced. A few such instances are indeed already emerging. This is the best proof, if proof were needed, that achieving sustained economic growth in the developing nations is not a task without end or without hope.

But the development problems still facing us are huge. If anything, the need to quicken the tempo of economic growth is now more urgent than ever, simply because aspirations for progress are now so universal. In many underdeveloped nations the rate of progress remains discouragingly slow. And there are many new nations taking up the reins of their own affairs for the first time which are joining the development race far in the rear.

Mr. Chairman, this is not the occasion for trying to analyze all the many factors which serve, in varying degree in different countries, to put a brake on economic progress. There are three problems, however, which, because of their importance and the breadth of their impact, seem to me to warrant special attention. The first of these is that in too many cases the export structure is unbalanced and export earnings are not increasing at a satisfactory pace. I will call this the "commodity problem." The second is that a number of governments are burdened by heavy debt service obligations over the short and medium term. This I will call the "debt problem." Finally, there is the difficulty confronting almost all the developing countries of formulating and carrying out economic and financial policies which are effective in mobilizing and properly allocating the resources available to them for development. I will call this the "policy problem."

Let me deal first with the "commodity problem." Despite considerable industrial advance since the war, most underdeveloped countries have remained dependent for their foreign exchange earnings on a limited range of primary products. Prices of these products suffer from severe fluctuations. In addition, international demand for many of them increases only moderately. In the postwar period—one of prosperity in the developed world—the export income of underdeveloped countries as a group has increased at only three percent per year. All evidence suggests that this is less than the growth in the needs of these countries for imports to achieve a satisfactory growth in income. Import substitution as a means of saving foreign exchange expenditure is a partial answer. If the national market is small, however, the room for efficient import substitution is limited and growth is difficult unless new exports can be developed quickly. The alternatives facing these countries are either to contain their imports and depress their income growth or to widen their

exchange gap and face future balance of payments difficulties.

The past year has seen an upswing in commodity prices following a sharp downward movement from 1957 to 1962. But it is not clear that this recovery will be lasting and, in any case, it does not touch the problem of those countries whose exports face competition from more efficient synthetics or from agricultural production in the importing regions. It follows, therefore, that a far-reaching diversification of the production and exports of the developing countries is a basic requisite for their sound economic progress.

Turning now to the "debt problem," it is common knowledge that the external obligations of the developing countries have risen considerably over the past several years. This fact by itself is not disturbing. As long as a country needs net capital inflow and can use it productively, there is nothing inconsistent between growing indebtedness and growing economic strength. Even the interest burden on the existing debt is not excessive. The disturbing factor in the current situation is the unfavorable structure of the debt for many countries. All too frequently, too much of the debt has been contracted at short or medium term, so that there is an excessive concentration of repayment obligations in the early years. In one geographic area, for example, half of the present debt has to be repaid during the next five years. This is a matter which needs to be given greater weight in the future in fixing the terms upon which development assistance is made available.

Finally, let me say a few words about the "policy problem" within the developing countries themselves. Efforts to mobilize national resources for economic development have been handicapped by political and social factors, by runaway inflation and capital flight and by other impediments to economic growth. Ideological preconceptions in some underdeveloped countries have caused private foreign investment to hesitate or even turn away. Some of these obstacles—political expediency, inflation, ideologies—also prevent rational allocation of investible resources. Admittedly, no one can prescribe with assurance any one optimum pattern of investment. Nevertheless, the large and glamorous prestige project which is not productive or the small feeder road which is not maintained are easily recognized instances of waste. Nor is it difficult to find instances where balance of payments pressures can be traced to improper domestic policies. Insufficient savings efforts or inadequate fiscal and monetary policies can slow down export growth or be the main cause of external financial difficulties.

Mr. Chairman, as I have already indicated, the three problems which I have touched upon are only part of the background against which the Bank group of institutions must now formulate their future policies. To the economic difficulties they present must be added the fact that most of our new members lack the administrative structure, and are inexperienced in the techniques, necessary to carry forward the development process. To lend money to them wisely involves a much greater investment of human skills than in the case of countries with a longer experience of development administration. In some countries, too, a number of the more obvious and more easily manageable investment projects, mostly of an infrastructure nature—the large power plants, the highway, railroad and port expansion schemes, the big irrigation projects—have already been or are being financed. These countries now have a growing need for help in other sectors, in particular in agriculture, industry and education, which often present much greater problems of appraisal, planning and management.

All of these considerations suggest, I believe, that the time has come when the Bank will have to add new dimensions to both its lending and technical assistance activities. We will have to be prepared, on the one hand, to give more technical advice and assistance earlier in the development process and, on the other, to follow development into its more advanced stages and to use new techniques for that purpose. This will not involve any sharp or radical change in direction. The financing of basic services which has been the bulk of our business in the past will continue to be the bulk of our business in the

future. But I do suggest that, if the Bank in the next decade is to make as large a net contribution toward meeting the needs of its less developed member countries as it has up to now—and certainly this should be a *minimum* target—we must be ready much more often than heretofore to leave this proven ground and venture onto less familiar terrain.

If we are going to intervene earlier in the development process, for example, we are going to have to do much more to help agriculture. In a great many of our less developed member countries, agriculture employs four-fifths of the population. It also provides materials and generates the market demand which together are the basis for healthy industrial growth.

The scale of our lending for agriculture has not, in my view, been commensurate with the importance of this sector. Thus far most of it has been for large-scale irrigation, flood control or land clearance projects. I believe that we must now intensify our support of agricultural development on a broader front—through such means as helping to finance storage facilities and farm-to-market roads, and through strengthening agricultural organizations that extend credit and technical help to the farmer. Such programs are unlikely to yield quick and dramatic returns, and they will be expensive to support in terms of both manpower and administrative costs. But the need is clear and urgent.

One way, I think, in which the Bank could be especially useful is by helping to build up local agricultural credit and investment institutions, which might progressively become important channels for our financing to the agricultural sector and catalysts for a wide range of measures to raise its productivity. Such institutions, by associating technical advice and supervision with the provision of investment funds, can greatly enhance the effectiveness of both. There is an obvious analogy with the role of the industrial finance companies in many countries, with which we have developed such satisfactory relationships. The problems of agricultural financing are different, and inherently more difficult, in many ways. But if, in addition to their direct impact upon agricultural production, our loans serve also to build up vigorous, efficient national agricultural development agencies, we shall have made a valuable contribution to long-range economic progress in the borrowing countries.

We must also make our assistance to industry a good deal more versatile than it has been so far. In this way, we would contribute directly to the diversification of our members' economies and thus to an easing of what I have referred to as the "commodity problem." In some cases what would be involved would be the financing of new industries, of a kind that had not existed before in the developing country. Even though these industries might be slow to gain a foothold and slow in paying out, it would often be appropriate for us to give them assistance, I believe, both for their own sake and because they would form the nucleus around which other development would take place.

Another type of assistance to industry which we are investigating is the possibility of providing, in appropriate cases, long-term financing for the import of individual pieces of equipment, components and spare parts. Loans of this kind would be particularly valuable in cases where full use cannot be made of existing industrial capacity because there is no foreign exchange with which to buy such equipment from abroad. Qualifications may have to be applied to this idea, but an investigation of the possibilities is, I think, an important and timely task.

Still another question we are exploring is the extent to which the Bank is impeded in its efforts to help industry by the requirement of a governmental guarantee for its loans to private borrowers. Private enterprises are often reluctant to seek a government guarantee, and governments often find it constitutionally or politically difficult to give one. It was partly for this reason that the Bank first came to be interested in industrial development finance companies; while Bank loans to them must be guaranteed, they themselves can make non-guaranteed loans to private enterprises. The creation of IFC itself was in large part prompted by the desire to give the Bank an instrument for investing without guarantee. But, notwithstanding these initiatives, I think there is need

for assistance which neither IFC nor local financing companies can today provide. I have in mind cases where loan capital is required in large amounts, generally by established shareholder-owned enterprises. I am actively exploring with the Bank's Executive Directors the extent of this unsatisfied need and what may be the most desirable and effective means of meeting it.

Agriculture and industry are not the only fields in which I think we should expand our efforts. In particular, I believe that we will have to do more to help create the facilities necessary to the spread of education. Education is of course a valued end in itself, but it is also of central importance in the whole development process. It imparts the skills that are needed at every level of activity, from the effective use of planning techniques in government and business right down to proper employment of simple hand tools in workshops and on farms. Secondary and vocational schools, in particular, can have a fairly rapid impact on development by providing the middle-level manpower as well as the specialists in administration, agriculture and other subjects that are so important in economic growth. IDA, as you know, already has made one credit for school construction in Tunisia, and is considering similar credits elsewhere. I believe it would now be appropriate for the Bank, too, to lend for school facilities of high economic priority.

As Mr. Black told you last year, we have also been formulating our ideas on our proper role in providing technical assistance to education. On the basis of the advice I have received, I have concluded that our help here is likely to be most effective if it is linked closely with actual Bank or IDA lending for educational facilities. On the whole, this attack, in which our technical assistance and our financing will reinforce each other, seems likely to bite deeper into the problem than an independent program of grants.

If we broaden the scope of our interests in the ways I am suggesting, we shall inevitably be led into fields which are already the primary concern of other international bodies, such as FAO, UNESCO and the United Nations Industrialization Center. I welcome this as offering new opportunities for collaborating with other members of the United Nations family and for strengthening the already close relationships we have established with them. We do not intend to trespass where other agencies are better qualified than we. Nor do we intend to risk the dilution of our own special skills by building an ever larger bureaucracy. Cooperation, not competition, will be our purpose, and to this end we shall, whenever feasible, join our sister agencies in the exploration and support of promising new projects.

The whole range of development problems as they are now evolving is extremely complex, and we are only beginning to find the answers to them. One thing I am sure of, however: as we move out to meet these problems, we should take the fullest possible advantage of the strong financial position in which the Bank now finds itself. We should not hoard our strength, we should use it.

To use but one example, I think the Bank now not only has ample reason, but ample strength and ample experience to modify the terms of its lending, in appropriate cases, so that they will be more suitable for the new kinds of clients, and the new kinds of projects that must begin to concern us. In particular instances, the grace period may need to be lengthened, to allow the project financed to be brought into full earning power, or to give a longer breathing spell to a borrower whose repayment capacity may take some years to build up. And it would be equally reasonable, in given instances, to lengthen the maturity of Bank loans which up to now have generally had a maximum life of 25 years.

Because of our strong financial position, too, the Executive Directors have concluded that it is no longer necessary automatically to allocate our net income, as it accrues, to the Bank's Supplemental Reserve. They have decided that, instead, the allocation of net income, whether to Supplemental Reserve or otherwise, will be considered annually after the close of the fiscal year. I welcome the action of the Governors this morning in noting that decision with approval.

Mr. Chairman, I have emphasized the new directions in which I believe the Bank must move because that is the immediate business which concerns us here today. But we must frankly recognize that the Bank's efforts are only a small part of the picture. If the tempo of development is really to be quickened, if we are really to make progress in solving the problems which I sketched at the beginning of this talk, it will call for increased determination and more effective action by national governments, both of the industrialized and of the less developed nations.

So far as the capital-exporting countries are concerned, each year a little more of their growing strength is put at the disposal of the developing world. The flow of development assistance now comes from more sources than ever before; it is better coordinated than in the past; and, over the last five years, the amount of assistance has risen by more than fifty percent.

This aid needs to be continued, and on an increasing scale. Equally important, the terms on which it is provided, although now somewhat better than in the past, still need to be improved. The efforts of the Bank and IDA to alleviate the problems posed by the debt structure of our less developed members will be of little avail unless bilateral aid is more generally available on terms reflecting the recipients' legitimate needs.

In addition to finance on sounder terms the developing world requires from the industrialized nations not only increasing aid, but also easier access to their markets. The primary products of many underdeveloped countries today encounter trade obstacles, be they tariffs, quotas, or internal taxes. Trade restrictions are also a serious barrier to the efforts of the developing countries to industrialize and to diversify their export structures—tasks which would be inherently difficult enough even with free access to markets. The forthcoming United Nations Conference on Trade and Development will provide a useful opportunity for the developed countries to re-examine their trade policies vis-à-vis those less developed. The outcome of that re-examination will be of the greatest significance.

Mr. Chairman, I mentioned earlier the importance of proper resource utilization in the developing countries, what I called the "policy problem." I want to revert to that subject, particularly in connection with the difficulties of project preparation and execution. Although these are a common experience everywhere, I cannot refrain from expressing my concern at the length of time which is generally necessary for our borrowers to prepare a project and make it ready for financing. Even on projects already approved, the rate of disbursement is often slow, and it seems recently to have become even slower.

This is a serious matter and we intend to investigate it thoroughly. The less developed countries cannot afford project delays if they want to realize rapid growth. If part of the trouble lies in our own procedures, we shall seek to improve them. We intend to explore, too, ways in which we may be able to help our borrowers to remove bottlenecks. No assistance from outside can be effective, however, unless the government is itself committed to speeding up project work by simplifying administrative and other practices and by giving to it appropriate priority in the allocation of scarce personnel resources.

In some cases project delays are due to a shortage of local funds needed to supplement the foreign-financed component of investment. This raises a much wider issue of resource mobilization which time does not permit me to explore today. But plainly there is little sense in borrowing external resources if at the same time national capital is escaping abroad. We can only guess at the size of this outflow and it varies greatly from country to country, but certainly considerable funds are involved. At the initiative of one of our Executive Directors, we are considering, in collaboration with the Fund, whether there is anything that external agencies can usefully do to encourage capital repatriation.

Mr. Chairman, financial and technical assistance from the Bank and other public sources is never going to be more than marginal to the requirements of the developing countries. While we can lubricate the machinery, the chief driving power must come from elsewhere—most of all from the developing

countries themselves. But there is one source in particular of which much more use can be made; I am speaking of the energies, the talents and the capital that exist in the private sectors of both the developed and underdeveloped countries. We have an obligation to do all we can to create the conditions which will unlock this resource.

One proposal which we have been actively exploring with this objective in mind is the plan to establish facilities, under the umbrella of the Bank, for the conciliation and arbitration of international investment disputes. The Executive Directors, together with the staff, have had this matter under study following the request made of them by this Board of Governors at last year's Annual Meeting. The proposal has now been given the form of a draft convention. Over the next six months or so, this draft will be discussed at a series of conferences of legal experts of our member countries, to be held, through the courtesy of the four regional Economic Commissions of the United Nations, in Addis Ababa, Bangkok, Geneva and Santiago. I have high hopes that in 1964 the Executive Directors will be able to present to this Board concrete conclusions and recommendations on this matter.

My enthusiasm for the proposal to establish a conciliation and arbitration center is simply a reflection of my interest in exploring all possible ways in which the Bank can help to widen and deepen the flow of private capital to the developing countries. It is not the business of the Bank, nor of its President, to tell the developing nations within the Bank's membership that they must accept private capital from abroad as a partner in their development efforts or what kind of price it is reasonable for them to pay in order to achieve such a partnership. Those are issues which our members, as sovereign nations, must decide for themselves. Whatever decisions they make, the Bank, as a non-political international organization, must and does accept without reservation. For my part, however, I believe that, to a great extent, the attitudes of many of the less developed countries toward foreign private investment are based on the outdated past rather than on present facts. And I am convinced that those of our members who adopt as their national policy a welcome for international investment—and that means, to mince no words about it, giving foreign investors a fair opportunity to make attractive profits—will achieve their development objectives more rapidly than those who do not. For a country which is known to be hospitable to private investment will have access over the years to a much larger and more stable pool of capital than its neighbor which relies solely on government-to-government aid. It will have access, too, to a much larger pool of industrial personnel—managerial, administrative and technical—and to a much larger mass of scientific and technological information than it could possibly acquire in any other way. Most important of all, its economy will be stimulated and invigorated by the many different contacts, at many different levels, which a hospitable investment climate will make possible between enterprises and individuals within its own borders and those within the borders of the industrialized countries. None of these advantages is likely to be fully available to any nation whose government, however well motivated and however well administered, decides to relegate the private sector to a subordinate role.

Mr. Chairman, I am proud of the quality of the World Bank group and of the spirit and competence of its personnel. It is my firm intention to guard the good name and reputation of our organizations, and at the same time to strive for an ever more expert staff, for these are indeed the foundation pieces upon which our future effectiveness will rest. This morning I have deliberately sketched for you horizons for the Bank's future activities in the broadest terms. The matters I have touched on are being thoroughly studied, and it is not my intention to move with undue haste in implementing them. However, I do assume your concurrence in the broad proposition that without departing from the high standards that have served so well in the past, the Bank and its affiliates should and will advance to new plateaus of usefulness to the peoples of their member countries.