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INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

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Address by Eugene R. Black, President of the
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The International Bank for Reconstruction and Development is rather a mouthfilling name. People usually cut it down to initials, or call it simply the "World Bank". But once in a while I like to hear it rolled out to full length, because the name alone tells a good deal about what we are and what we are trying to do.

In the first place the Bank is an international institution, owned by forty-eight nations. Our Board of Directors is composed of representatives of those nations, and our operating staff includes citizens of some 26 different countries. It is primarily because of its international character, I think, that the Bank has been able to maintain a high degree of objectivity in relation to the problems and needs of its various member countries, and often to exert a constructive influence on their economic programs and policies.

In the second place this international institution is a bank, and not an agency for relief or emergency aid. We borrow funds in the private capital market for relending abroad, and we expect our loans to be repaid. More important, we lend only for projects which we are satisfied will genuinely increase the productivity and economic strength of the borrowing countries. And, like any good bank, we are concerned to see that the funds

we make available are properly expended for the purposes agreed upon. Where we differ from a private bank is that, because the various member countries share the risk of our loans and in effect guarantee our obligations, we can make loans that private institutions are unable or unwilling to make under present world conditions. Thus we can surmount some of the special difficulties that plague the international economy and, to a certain extent, help to mitigate them.

It is an indispensable condition of the Bank's success and continued operations that it lend soundly, and pay its obligations. Our purpose, however, is not to make profits but, while remaining solvent and meeting our obligations, to contribute effectively to the twin goals of reconstruction and development.

The close linking of these last two words in our title is not accidental or arbitrary. Various governmental and private programs have been undertaken to attack one or the other of these problems -- the restoration of economic stability in countries devastated or severely shaken by the war, and the achievement of higher levels of production and living standards in the less-developed areas of the world. In the minds of many people there seems to be an element of competition between the two. For example, there have been suggestions from some Latin American and Asian spokesmen that too much emphasis has been placed upon the reconstruction of Europe, through ERP and other channels, and that assistance should be given instead to the less-advanced countries. And some of the most vigorous advocates of the Marshall Plan in its early phases were afraid that the simultaneous extension of economic aid to other areas might divert attention from what they

consider the one overriding necessity.

More and more it is clear, however, that these two purposes are two sides of the same coin, that the one cannot be achieved without the other. The European countries have long played a pivotal role in the functioning of the world economy, and unless their foreign trade can be revived and expanded the economic position of almost every other country will remain insecure. But by the same token one of the necessary conditions for achieving a balance in the trade of Europe -- and, in fact, of the world -- is that productivity and purchasing power in the underdeveloped areas be greatly increased. For in the more efficient development of the resources of these areas, and in the expansion of their ability both to produce more at home and to import more from abroad, lie the most promising possibilities for expanding and stabilizing the world's commerce.

During the three and a half years that the Bank has been in active operation, we have learned a good deal about the nature and problems of economic development. Perhaps the most important single thing we have learned is that it is an extremely complex process, in which investment, technical knowledge and skills, political and social conditions, the psychological attitudes, health and vigor of the people, and a multitude of other factors are inseparably combined. There is no single formula which, if applied generally to underdeveloped countries, would bring about their economic progress.

Let me refer briefly to the Bank's activities in three or four specific countries, as examples of the kind of problems with which we are faced and the different approaches we have employed.

You may be familiar with one of the first developments loans we

made about a year ago, to a Canadian corporation, the Brazilian Traction, Light & Power Co., Ltd. The loan is to finance most of the foreign exchange cost of expanding hydroelectric power and telephone facilities of the Company's subsidiaries in the Sao Paulo and Rio de Janeiro areas of Brazil.

This Brazilian Traction loan is a good example, I think, of the kind of loan it is easiest for us to make. The Company is well established and well managed, and its expansion plans were carefully worked out and fully justified - technically, financially and from the standpoint of their contribution to the development of the Brazilian economy. It had resources available to finance the necessary local costs of the project. And the Brazilian Government was willing to guarantee the loan, a requirement of our Articles of Agreement for any loans to a non-government borrower.

However, in many of the countries and fields of activity which most need development, these favorable conditions are not present. Underdevelopment normally means, almost by definition, that well-established private enterprises are lacking, that local capital is scanty and poorly organized, that technical data and plans are deficient, and that the governmental administration is inadequate. It is precisely because these conditions prevail that outside help is necessary to stimulate and assist in the development process. Yet the existence of these conditions often makes it very difficult to assure that the projects put forward are economically sound, that adequate technical studies and plans are made, and that they are put into execution competently and efficiently.

However, these difficulties can be surmounted. Let me illustrate by citing the case of a Central American country, El Salvador. It is very

small in area but densely populated. The economy is largely agricultural and depends mainly on coffee exports to finance necessary imports. Only a few small consumer goods industries exist. If Salvador is to meet the needs and advance the living standards of its rapidly growing population in any satisfactory manner, there must be a considerable expansion and diversification of its production.

It seemed clear when we surveyed the situation that the first need for Salvadorean development was to increase its electric power facilities for the shortage of power had for some time been limiting the country's industrial development. So when El Salvador made formal application for a loan to help finance a hydroelectric project on the Rio Lempa, the Bank viewed it very sympathetically. We employed a special engineering consultant to make a careful study of the proposal to confirm its economic and technical soundness, and upon his favorable recommendation we agreed to negotiate a loan with the Salvadorean Government. It is an interesting sidelight, I think, that the Government was very careful to exclude the project from the area of political controversy and to establish a firm basis of public support for the loan. It set up an ad hoc committee of 3 Government representatives and 6 independent businessmen, bankers and lawyers, who thoroughly reviewed all aspects of the project and the loan agreement, raised some questions which were resolved to their satisfaction, and then gave the plan their unanimous support.

One important problem which arose in connection with the Rio Lempa loan negotiations, and which arises frequently in our relations with underdeveloped countries, was that of finding adequate local funds to finance the internal costs of the project. Although savings appear to be sufficient

to provide the sum required, the machinery for mobilizing these savings for long-term investment is quite inadequate. Accordingly, the Government asked the Bank for assistance in the techniques of floating an internal loan for the Rio Lempa project. The Bank agreed to do this and our Marketing Director will soon go to El Salvador for this purpose. It is our hope that his work will not only help to obtain the necessary local funds for this particular project but will also be of major benefit in the development of a local capital market to foster long-term investment in other fields.

In both these examples - Brazil and El Salvador - our relationship with the borrowing country has centered about specific projects for which a loan was desired. But with several other countries the Bank has had an opportunity to establish a broader and more intimate kind of partnership.

One of the basic problems in most underdeveloped countries is a persistent shortage of capital in relation to their investment needs. It is important, ~~therefore~~, that they make the best use possible of the capital they do have, and discourage its being dissipated on unproductive or uneconomic purposes. This requires a general determination of priority needs, and usually some adaptation of Government policies so as to encourage investment in the most urgent and productive fields and discourage less useful undertakings. But the reaching of sound decisions on these fundamental policy questions is often handicapped by a lack of adequate technical and economic data, by a shortage of the necessary analytical skills, and frequently by strong pressures from special interests. So some of our member countries have come to the Bank for help in analyzing their problems and potentialities, and for objective advice in formulating balanced development programs and effective policies to carry out those programs.

The most extensive commitment we have undertaken for assistance of this kind has been to the Republic of Colombia. I would like to describe briefly to you what we are trying to do there.

Something over a year ago the Colombian Government applied for loans to finance several projects. Most of them seemed promising, but, as we discussed them, it became clear that a number of basic questions about Colombian development had not been fully thought through. We found that the Government agreed with us, and was anxious to get assistance in working out a sound program. After some preliminary discussions, therefore, we were asked to send a mission to take an objective look at the whole economy.

Colombia's potentialities seemed very promising. Its dollar position was good; it was known to have very rich resources, many of them hardly touched; it possessed a substantial number of well-educated people, who had shown great skill and adaptability in creating and managing modern industries of various kinds; and it had been relatively stable politically for half a century. Nevertheless, the standard of living of the great majority of the people was depressingly low. Most of them had little education, poor health, poor housing, ill-balanced diets, and few of the amenities of life.

Here, then, was a country richly endowed by nature, in which considerable economic development had already occurred, but which gave most of its people a living standard much below that afforded by other countries that have fewer basic resources. If we could not suggest ways of correcting this situation, the possibility of our making an effective contribution to development elsewhere in the world appeared dubious.

To head our Mission to Colombia we were fortunate in obtaining the services of Dr. Lauchlin Currie, a former Canadian who has had a rather unique combination of experience in the United States as a professional economist.

Government executive and private businessman. Acting in conjunction with the Bank's management, he brought together a group of technicians of outstanding ability in their various fields - including experts in agriculture, transportation, public health, industry and power, public finance and foreign exchange, as well as economists with a general background. Three members of the Bank's staff were attached to the Mission; the rest were specially employed for the purpose. At the Bank's request the Food and Agriculture Organization of the United Nations and the World Health Organization nominated the experts in their respective fields, and the International Monetary Fund attached a member of its staff to act as the Mission's expert on foreign exchange.

The various members of the Mission spent from two to nearly four months in Colombia. They traveled widely, interviewed hundreds of people, and struggled with mountains of statistics -- good, bad and indifferent. In short, they made the broadest and most intensive economic study of Colombia ever undertaken. Their report has not yet been submitted to the Bank, and it would be inappropriate for me to try to anticipate their specific findings. But the work is far enough along for us to feel confident of its value, both to Colombia and to the Bank.

The Mission developed for the first time some estimates of Colombia's national income, of the amount of savings, of where those savings come from and where they go, of the likely course of production in various fields, and so on. The value of these data is by no means merely academic, for they form the indispensable framework both for informed investment and for sound public policy. We are accustomed, in Canada, the United States and other economically advanced countries, to take this kind of information

for granted; but when we deal with countries where it is entirely lacking we get a new insight into its importance.

Of course, the Mission also concerned itself with more specific matters. Dr. Currie has told me that they saw many instances where some change in the organization and techniques of production, or some relatively minor investment of capital, might yield returns as great in the aggregate as could be expected from most of the major investment projects. For example, the best agricultural land is now largely devoted to the raising of beef cattle on large estates. Any change that would result in this good land being used more intensively, for crops or dairy products, would mean more to the national welfare than millions of dollars spent on, say, new railroads.

The vitally important road-construction program in Colombia gives rise to a somewhat different kind of problem. A great deal of money and work is being spent on road building, but the effort is dissipated over so many different projects that they all cost more and take longer to finish than should be necessary, and the country gets little immediate benefit from any of them. Moreover, failure to provide for proper maintenance of roads already built prevents the nation from reaping full returns on its investment.

I don't want to exaggerate the importance of these specific problems in relation to the whole body of the Currie Mission's conclusions. I cite them only as random examples of the kind of thing with which it was concerned. The circumstances of Colombia, both the favorable and the unfavorable ones, find parallels in almost every other nation. Certainly there are plenty of instances of ill-advised or wasteful investment in the economic history of Canada and the United States. But it is our hope that by drawing on the

experience of these more advanced countries it will be possible to some extent to ease the difficulties for others now going through a similar development process.

I should like before I conclude to make brief mention of our relations with one other country - Turkey. The Turkish economy is closely tied into that of the rest of Europe, and Turkey is participating in the Marshall Plan. Unlike most of Western Europe, however, Turkey is definitely underdeveloped. Many of its problems are similar to those of Colombia, although they are complicated by the necessity for maintaining a very large defense establishment.

We have agreed to organize a survey mission under the leadership of Mr. James Barker - an outstanding business executive who was formerly Vice-President and Treasurer of Sears Roebuck and is now Chairman of the Board of the All State Insurance Company - which will be more or less like the mission to Colombia in its composition and purposes. We expect it will start work soon. It will work closely with the ECA Mission in Turkey, and since the latter is primarily concerned with the short term period of the European Recovery Program I think our mission will usefully supplement its activities.

In addition we have been trying to work out means of stimulating private initiative and investment in Turkey. As is the case with many other underdeveloped countries, Turkish economic growth has been retarded by a reluctance on the part of private capitalists to make long-term investments in productive enterprises, and by a lack of the organizational and managerial skills needed for modern industries. In an attempt to make up for this lack the Turkish Government has itself gone heavily into the financing, ownership and operation of industry. It has made a useful contribution to Turkish economic development in numerous fields, but its activities have been

hampered by the relative rigidity and red tape which often characterize government operations. Furthermore, many of the Government industries have not been subjected to the healthy stimulus of competition.

Both the Government and private interests in Turkey have asked the Bank for assistance in working out a program to encourage private enterprise. Both groups feel, I think, that our participation in such a program, as an independent party friendly to both, would help to allay the distrust that each tends to feel for the other. The Bank employed Mr. Harold F. Johnson, who has had broad experience in the private investment field, as a lawyer and an adviser to the United States Government in its foreign economic operations, to go to Turkey for this purpose. In discussions with Turkish businessmen and Government officials during October and November he worked out a plan for an industrial credit institute - privately owned and directed, but with active support and financial assistance from the Government - to sponsor and finance private industries in Turkey. The details of his plan are now being worked out, and if they prove satisfactory I expect the International Bank will be prepared to make a loan to the institute to finance at least part of the foreign exchange cost of projects sponsored by it. I have great hope that this kind of approach will prove to be a practical means of stimulating the local initiative and investment that is so vitally important to successful development.

The examples I have given - each somewhat different - provide, I think, a pretty good sample of the kinds of things we are trying to do. I should emphasize that where we have undertaken to make a general development survey and recommendations, as in Colombia or Turkey, our aim is not to produce a blueprint or 5-year plan, that could be adopted by the government without change or amplification. Rather these reports are intended to be working

papers, on the basis of which the Government concerned can itself evolve a satisfactory program and policies for development, if it accepts the general pattern recommended by our Mission. We hope that these initial surveys will be the beginning of a fruitful long-term collaboration with the country involved, in each case, in which we can furnish both technical and financial assistance, and that our recommendations will help to foster an economic climate favorable to private enterprise and investment.

I believe this kind of approach is a new departure for an international financing institution but analogous situations can be found in domestic financial operations, both private and governmental.

I recall, for example, that back in the '30s the United States was faced with the problem of how to help the lowest income farmers, who were able only with great difficulty to eke out a bare subsistence on poor, run-down land. They could not compete in the market with more efficient producers, and received little help from the major agricultural aid program. In effect, they constituted an underdeveloped segment of the American economy.

A fund was set up for loans to these farmers, but there were strict conditions attached. On receiving an application for a loan the County Agricultural Supervisor would first look over the farm to determine whether it could ever be expected to produce a decent living. If the land was too poor, or on too steep a slope, or too remote, or too small in area, the loan was refused on the ground that it would simply saddle the farmer with a debt he could never pay and which could only leave him worse off in the long run.

Even if the supervisor felt that with proper utilization the resources at hand would furnish a decent minimum standard of living, he would not approve an outright loan. First, he helped the farm family to work out a plan. Together they might conclude that with certain types of agricultural

tools, seed or fertilizer, some livestock or perhaps some canning equipment, it would be possible for the farmer to live better and at the same time obtain the wherewithal to repay the loan. The supervisor would then approve a loan earmarked for these specific purposes. He would also instruct the farmer in the use of the new equipment and in better farm practices, and would pay periodic visits to check on his progress. As a result of this close combination of financial and technical assistance, practically all the loans were repaid, the fertility of millions of acres was restored, and many thousands of people were transformed from a drag on the economy into self-respecting and self-supporting producers.

What the International Bank is trying to do is quite similar, as I have suggested. Technical advice alone is not sufficient to bring about economic development, nor is financial assistance. What is needed is a combination of the two, so that the granting of development loans is coupled with the provision of acceptable technical help and advice over a long enough period to assure that the improved pattern is firmly established. If we can find ways to apply this combination, in the right proportions, to the needs of the various underdeveloped countries that are members of the Bank, I am confident that we can make an increasingly important contribution to their welfare and progress and to the economic stability of the world as a whole.