I should like first of all to join with you in greeting all of our Governors, the members of their delegations and our guests from around the world. I wish also to add my thanks to the Prime Minister for his warm words of welcome and to express my appreciation to the Government of Japan for the excellent arrangements made for our meetings.

Like my colleague the Managing Director of the International Monetary Fund, I am particularly pleased that our Annual Meetings are in Tokyo this year, for Japan is a vibrant example of both reconstruction and development. From a state of economic prostration, this nation has risen to take its place among the industrial leaders of the world. The record of economic development in Japan has been magnificent and truly remarkable. Many policies, practices and procedures followed by Japan are worthy of consideration by officials of countries which are traveling the path of development.

Mr. Chairman, my remarks today will be divided into three principal parts. I will briefly report on developments in the Bank group of institutions over the past year. I will indicate some of the problems which, as I see it, will be among our principal preoccupations in the period ahead. Finally, I will say a few words about developments in the world environment in which the Bank group operates and about the possible effect of those developments upon the role of our organizations.

The detailed record of our activities during the past fiscal year is set forth in the Annual Reports which you have before you. As that record suggests, it has been a busy year for all three institutions. Bank lending for the year reached nearly $810 million; the International Development Association extended a record volume of credits, totaling more than $280 million; and the International Finance Corporation's loans, purchases of equities and other commitments amounted to almost $21 million—in the aggregate more than $1,100 million. The pace of our operations since the close of the fiscal year is still quickening—with continuing emphasis on the basic infrastructure fields of transportation and power. One result is that, after a prolonged absence, the Bank will be back in the financial markets of the world to borrow substantial sums during the current fiscal year, and in view of this fact I welcome the many representatives of banking, underwriting and insurance firms here today.

Since the last Annual Meeting we have received the assurance that IDA's resources will be replenished. The additional funds to be made available by 18 capital-exporting countries for commitment, at least through June 30, 1966, will be more than $750 million. I hope that these funds will be augmented, not only by special supplementary contributions from industrialized countries, such as those so generously made by Sweden, but also by contributions from some of the developing countries, in the form of releases from their initial subscriptions. Ireland, Israel and Jordan have set notable examples by agreeing to release their entire local currency subscriptions to IDA on a convertible basis, over a period of years.

In addition, there is a proposal before you that the Bank transfer to IDA a portion of its net income for the fiscal year 1964. Assuming this is approved, IDA's resources will be increased by another $50 million. I hope in the future the Bank can continue to add to IDA's ability to meet the growing demands upon it.

Last year I reported that the Bank intended to explore the possibility of modifying the pattern of
terms and conditions of loans in some special cases where the particular circumstances of the project or the borrowing country made a change in terms appropriate. During the year we have extended loans with a final maturity of as much as 35 years and with a grace period of as long as eight years. Moreover, as of the beginning of the current fiscal year, the commitment charge on the undisbursed portion of Bank loans was cut in half.

Even more important, in my judgment, the Executive Directors have agreed upon a restatement of policy with respect to financing local currency expenditures. It has now been made entirely clear that our criterion in the selection of projects is the extent of their prospective contribution to economic development, regardless of the ratio of costs as between foreign exchange and local currency. We now stand ready to finance some of the local costs of high-priority projects in cases where financing for imports alone would not provide adequate support.

We have also made progress in expanding the scope of Bank and IDA activities relating to agriculture and education and of all three of our institutions in seeking more effective means to promote industrial development.

In the fields of agriculture and education, we have negotiated partnership agreements with the Food and Agriculture Organization of the United Nations and with the United Nations Educational, Scientific and Cultural Organization, under which we enjoy the benefit of the long experience of these agencies. Both arrangements are off to good starts. We are now working together in helping governments to identify and prepare projects suitable for Bank or IDA financing and subsequently in appraising these projects. Some nine educational and 21 agricultural projects are under active consideration for financing, while additional proposals in both fields are in various stages of discussion or investigation. Unesco and FAO are directly involved in the examination of most of these proposals and I am happy to record at this Governors' Meeting my appreciation of the excellent cooperation we are receiving from both these organizations.

I have no doubt that in putting increased emphasis on agriculture and education, we are following the right course. Lagging production of food, the lack of diversification within the agricultural sector itself and the shortage of skilled people at all levels, in both government administration and productive enterprise, are holding back economic growth in far too many countries. But let me add that, in view of the magnitude of the financial requirements for adequate educational and agricultural development, the Bank can do little more than serve as a trail blazer. We can point the way for others by supporting a few strategic projects and by helping to identify, and to move towards solution, a few of the key problems. But these efforts will be useful only if governments follow through by focussing more of their attention on the critical needs of agriculture and education and by according them appropriate priority in the allocation of available resources—both domestic and foreign.

I still firmly believe that the Bank, IFC and IDA can and should do more to stimulate industrial development, the third sector which I singled out for special emphasis at our meeting last year. IFC is our principal instrument for financing industry. When the Corporation began its operations, a little more than eight years ago, with its somewhat less than $100 million of capital, it was an experiment. It was by no means clear that IFC would have presented to it a sufficient volume of business of a type which would be suitable for it to engage in. At the same time, there were doubts as to whether it would be able to revolve its funds or whether, once it had committed its initial funds, it might not find itself frozen and with no ability to continue operations.

Significantly, during the past fiscal year the cumulative total of commitments made by IFC exceeded its paid-in capital. Equally significant, more than one-third of these commitments have been repaid, partially through repayments but primarily by having the commitments taken over by private investors. The Corporation in this fiscal year made more commitments in more countries than ever before.
Last year I said that the Executive Directors were considering how additional financial assistance could be made available from the Bank to privately-owned industrial companies without a government guarantee. They have concluded that the most effective way this could be done would be for the Bank to lend to IFC funds which IFC in turn could relend to private companies. Accordingly, there is before you a recommendation by the Executive Directors that the Articles of Agreement of the Bank and of IFC be amended to permit the Bank to make loans to IFC, within limits, for relending to private enterprise without government guarantee.

I strongly support this recommendation. I have already commented on the increased pace of IFC activities. It is clear to me that it is now time to consider all means by which IFC resources can be increased so that the accelerated tempo of operations can be sustained and even enlarged. I believe that IFC should not only continue its present types of activity on an increased scale, but that there is a considerable area of additional operations it could undertake. With increased resources, IFC could make much larger commitments in individual transactions than its present resources permit and, in those cases where appropriate, it could provide finance in the form of direct loans without equity features. Such new dimensions of IFC’s activities would constitute an important new facility available to our member countries for use in their development processes.

There are other ways in which our assistance to industry could be made more versatile and more effective.

During the past year IDA extended a large credit to India to finance the import of capital equipment, raw materials and components which were essential to the full utilization of existing industrial plants in India. For us, this is a new and special type of industrial financing, but I believe there will be some other cases where it will be appropriate.

The development of the industrial sector is not merely a question of providing finance. Often the greatest lack is entrepreneurship, someone to promote and organize and put together a needed venture. IFC and the Bank are actively trying to assist in these promotional activities.

One of the best techniques we have found is to join in partnership with development finance companies in organizing the sponsorship of urgently needed new ventures. We have close relationships with these companies; in fact, the Bank and its affiliates have provided them with about $300 million in finance. We are working with them in many parts of the world.

Many of our member countries have markets for industrial products which are too small to support an economically sized industry. We are seeking to assist, through regional economic grouping, the creation of larger markets. We intend to give high priority to financing and technical assistance activities designed to facilitate such regional groupings.

Over the long run, industrial growth, like economic development in general, must be based primarily on domestic effort and domestic ownership. No country wishes, nor can the people of any country be expected, to rely indefinitely for its industrialization on decisions made primarily by foreign entrepreneurs. But, because of the shortage of local capital, industrial experience and entrepreneurship, the growth of industry which is entirely locally owned is likely to be slower than the balanced economic growth of the country calls for. It is, therefore, in the interest of the developing world to avail itself of the advantages offered by foreign investment. The foreign investor, made to feel welcome, can be a most effective instrument of economic growth, not only because of the capital and technology he can provide, but equally because of the help he can extend in training the labor force and developing local managerial and supervisory skills. Consequently, we regard it as one of the important responsibilities of the Bank and IFC to do what we can to facilitate such investment.

One possible measure to that end is multilateral investment insurance, the feasibility of which we have studied in the past and to which, at the request of the recent United Nations Conference on Trade
and Development, we shall again be turning our attention. Another approach, which we have actively sponsored, is the establishment of international machinery which would be available to deal on a voluntary basis with investment disputes between governments and nationals of other states. This is proposed in the draft Convention on the Settlement of Investment Disputes on which the Executive Directors have submitted a report to you. If you agree, the Executive Directors, assisted by a committee of legal experts designated by interested governments, propose to work out a final text for submission to governments in 1965 and I hope, early in 1965. This proposal, in my view, holds great promise. I recommend it and urge your unanimous approval of it.

II

Mr. Chairman, whatever progress we have made over the past year in expanding the Bank's activities and adapting its policies so as more adequately to meet the new needs of our membership, there remain a number of problems which pose major limitations on the effectiveness of our institutions. I will touch on a few examples.

A problem, which has limited our activities from the start, is the shortage of sound, economically viable projects coming forward from most of the developing countries. A steady increase in the flow of good projects is essential for sustained expansion in the productive capacity of the developing nations and is a basic necessity for the useful investment of the larger sums of development capital which those nations seek.

The Bank institutions have been putting increased emphasis upon providing assistance to our members in identifying promising investment opportunities and in making the necessary economic and technical studies and organizational arrangements to enable those opportunities to be realized. We have added special courses in project evaluation to the curriculum of our Economic Development Institute. We have undertaken more and more preinvestment studies, both as Executing Agency for the United Nations Special Fund and on our own. We are making plans to establish two field offices in Africa, staffed with men whose specific function will be to assist member governments on that continent in preparing projects to the point where they can be presented to the Bank or IDA for financing. And the partnership arrangements with FAO and Unesco have as one of their principal purposes an expansion in the flow of projects in the agricultural and the educational fields. But these efforts, in relation to the need, are still modest. We intend, therefore, to explore the feasibility of other means by which the Bank group may be able to help in this matter.

Another item which looms large on our agenda for the future relates to the debt service burden, which now weighs heavily upon a number of our members. Over the long run, the Bank group makes its most effective contribution in easing this burden through IDA credits, all of which so far have been repayable over a 50-year period and have carried no interest, but merely an annual service charge of 3/4 of 1%. Beyond this, as I have stated, the Bank itself has moved to ease the terms of its loans. Moreover, within the consortia and the consultative groups organized by the Bank, there has been a gratifying tendency toward some over-all improvement in the terms of the loans offered. This tendency has been at least partially offset, however, by a countervailing tendency toward a reduction in the ratio of grants to loans. Furthermore, a high proportion of the burden represented by reduced interest rates and longer maturities has been borne so far by only a very few of the capital-exporting countries. A substantial and broad-based improvement in the terms of development assistance is, in my view, imperative if economic growth in many countries is not to be periodically interrupted by debt crises. These crises are troublesome in themselves but, even more troublesome, they have the by-product effect of delaying and discouraging badly needed private investment.

Meanwhile, some developing countries which have relied far too much on medium- and short-term debt find themselves in a difficult predicament; their debt service is now taking a very high and an increasing
proportion of the total capital flow that is intended to aid development. In most cases, it is not the aggregate volume of the debt which is the most important factor, but rather the excessive concentration of debt service obligations in the early years. Already a few countries are faced with such a heavy debt service burden that they may not be able to extricate themselves without special action by their creditors; others may not be able to avoid such difficulties unless positive affirmative measures are taken in the near future.

As I said at the Geneva Trade and Development Conference, this kind of problem cannot be solved simply by a debt reorganization, unless that reorganization is accompanied by appropriate and effective agreements:

On the part of the debtor, to take all measures possible to bring its balance of payments under control and to meet its obligations as they fall due;

On the part of the creditors, to provide the debtor with capital on long term to meet its legitimate development needs; and

On the part of both debtor and creditors, to avoid, in the future, the kind of short-term credit transactions which caused the trouble in the first place.

Where all parties concerned are willing to agree to appropriate disciplines of this sort in connection with a debt adjustment, they will find the Bank ready to assist in working out the necessary new financial regime and to help in meeting the financial requirements of the situation.

Then there is the all important area closely related to the debt service problem—namely, the provision of adequate resources of foreign exchange for developmental investment and particularly for investment on IDA-type terms. This whole matter, as you know, was extensively discussed at the Geneva Conference and in those discussions the Bank's representatives participated actively. We have been asked to continue that participation by undertaking a number of studies, all revolving around three basic issues: How best to achieve a major increase in the flow of public and private funds to the developing countries; how to assure that a greater proportion of those funds is available on terms which do not unduly burden the economies of the recipient country; and finally, how most effectively to apply those funds in a way that will permit development to go forward smoothly despite fluctuations in export earnings. We have readily agreed to undertake these studies, not only because each relates to an issue of continuing concern to member countries of the Bank and the Fund, but also because several of them form part of the context within which we must, during the next six months, begin detailed consideration of arrangements for the next replenishment of IDA's resources.

On that latter subject, all I want to say today is that, in my judgment, the provision of funds for developmental investment on IDA-type terms ranks high among the urgent unfinished economic business on the agenda of the entire community of our member nations. It is a subject, I can assure you, to which we in the Bank will be giving much thought and attention during the coming months and which, I trust, will command priority consideration by the governments as well.

III

Mr. Chairman, I come to the third and concluding segment of my remarks. Notwithstanding the growth and development of the Bank family over the past year, we cannot feel satisfied, much less complacent, as we appraise the effectiveness of our contribution toward the acceleration of economic progress in the poorer nations. For the blunt fact is that, although a few of the developing countries are making remarkable headway, in most of them the rate of growth is still disappointingly slow—and when taken in conjunction with the rapid population increase, still unabated, there simply has not been, in most of the developing world, any considerable improvement in living standards.

But though visible progress to date has been modest at best, we should not be discouraged as we look ahead. For the world now has a better understanding of development problems than ever
before. Further, it has the resources, if it has the will, to move much faster toward solutions for these problems.

Much of the underpinning is in place: A greatly strengthened and expanded infrastructure of physical facilities; more effective government administrations with a major preoccupation in the promotion of economic growth; a citizenry in many lands whose capacity to produce is improving as a result of more and better education. Above all, there is a better understanding by the developing nations that their economic growth depends primarily on unceasing domestic effort over a period of years—that it cannot be forced by gusty drafts of inflation nor hurriedly imported, in the form of external grants or loans.

At the same time there has been, if I judge correctly, much more general acceptance by the industrialized countries that they have a responsibility to help their less fortunate neighbors along the road to a better life. And I believe it is worth noting that this sense of responsibility is deriving less and less from considerations of ideological conflict or special advantage—and more and more from a realization that peace and economic health for all depend in large measure upon the hope or despair of those who are now the prisoners of poverty.

Both the promise and the problems involved in raising living standards throughout the developing world were explored at length last spring at the United Nations Conference on Trade and Development to which I have referred. That conference was in many respects unique in the annals of international gatherings. For the first time the developing countries, some 77 strong, found it possible to submerge their divergent interests and to present a common front on these two key propositions: First, that their basic concern is not so much with clashes of political ideology, but primarily and urgently with economic development. And second, that they cannot achieve a satisfactory rate of growth by their own efforts alone; their action must be supplemented by action by the industrialized nations—help in the form of capital on a more adequate scale and on more appropriate terms, more freely accessible markets for both their primary and their processed goods, better and more stable terms of trade, and assistance in other respects as well.

The unanimity of approach on these propositions by the developing countries dramatized what I regard as the real significance of the Geneva Conference, namely, that it moved the problem of economic development from the second line of political concern to the forefront of the problems confronting the world's leaders. It marked, I believe, the opening of a new phase of the development effort, and that at a time when, for the reasons I have mentioned, a surge forward seems to be within the realm of practical possibilities.

Attention at Geneva was focussed primarily upon the contributions which faster development requires from the industrialized countries in the form of larger and more stable export markets and of more capital on better terms. These requirements, unquestionably, are real. They need to be satisfied far more adequately than they have been up to now.

But I suggest that the industrialized countries are unlikely to meet these requirements unless the doubts which now exist as to the effectiveness of their development assistance are resolved—and that will happen only if the less developed countries themselves demonstrate a genuine readiness to take the hard domestic decisions required to accelerate economic growth. I refer to such imperatives as political and economic stability, land and tax reform, appropriate educational expansion and, above all, the adoption of policies and conditions conducive to the productive investment of capital. I refer also to the need to avoid unnecessary and wasteful expenditures, whether in connection with overstuffed bureaucracies, ill-advised investments or, as is regrettably the case in some countries, expenditures of sums in excess of irreducible minimums for armaments. Indeed, the Geneva Conference may in the long run prove hurtful rather than beneficial if it serves to divert the attention of the developing countries from those things which they must do for themselves, and induces them to concentrate instead on what the
developed countries can do for them.

In short, we will know success in the new phase of the development effort opened by the Geneva Conference only if all parties, developed and developing alike, act resolutely and on the basis of realistic cooperation between the two groups. It is precisely this kind of cooperation which the World Bank has been trying to encourage for the past decade and a half. Indeed, during the formative period under Eugene Meyer and John McCloy and for an increasingly active period of 14 years under Eugene Black, the Bank has been a principal bridge between North and South, rich and poor—over which has flowed an increasing proportion of the serious economic traffic between them. It seems inevitable that, in the era of Geneva, this traffic will grow, but happily our organizations are now, I believe, experienced enough and strong enough to bear the added strain.

Mr. Chairman, the modernization of the less developed societies of the world—the object of all the Bank's efforts and the goal to which our membership rededicated itself at the Geneva Conference—has rightly been called the most challenging problem of our times. The response to that challenge, by the industrialized countries, by the nations still developing, and by the international agencies meeting here this week, must be—and I am optimist enough to believe that it will be—affirmative, wholehearted and bold. Certainly, it is in that spirit that we in the Bank family intend to push on with our tasks.