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

WE MEET HERE IN A CAUSE which is always urgent: the cause of raising living standards— which for over half the population of the member countries of the World Bank are intolerably low. In the past year, the Bank and its affiliates have put forth strenuous efforts in this cause. The World Bank Group committed more funds to financing development than ever. Our commitments exceeded a billion dollars for the third year out of the past four; and our disbursements were more than $800 million.

We not only committed more funds: we committed them for a wider spectrum of purposes. The enlarged activities we have been discussing for the past two years made their mark. While the financing of transportation and electric power continued to be our main business, commitments for agriculture, industry and education increased. Our advisory and technical assistance activities stepped up.

The prospect is that the volume of our business will go on rising. This assumes no further deterioration in the peace of the world and continuing stabilization of the international situation. In part, this upward trend reflects the hard work that we and others have been doing to lift the number and quality of development projects in the member countries of the Bank. Activity is increasing under our new cooperative arrangements with the Food and Agriculture Organization of the United Nations (FAO) and the United Nations Educational Scientific and Cultural Organization (Unesco). I am hoping that as a result, the expanding trend of operations in agriculture and education will continue.

The Bank and the International Finance Corporation continue to be financially strong. In fiscal 1964/65, the Bank sold bonds in Canada, Germany, Switzerland and the United States at rates that compared favorably with general market levels for government issues. For the future, we hope to tap capital markets more frequently than in the recent past. I bespeak the continuing cooperation of the industrialized countries in opening capital markets to us, and in giving our bonds a place of priority in the queue of international issues. Investors in these bonds receive a fair interest rate, enjoy unexcelled security of principal, and at the same time, participate in the task of development.

We are pressing other efforts to encourage private international investment, and two special projects we have undertaken for this purpose are nearing completion.

One is the amendment of the Bank and IFC charters for the purpose of enabling IFC to engage in borrowings from the Bank up to an amount equal to four times IFC's paid-in capital from governments. Substantive action on the charter amendments has been completed, and they will become effective soon. I invite industrial entrepreneurs to note the possibilities that IFC's increased resources will then present.

The second special project on which action is moving to completion is the Convention on the Settlement of Investment Disputes. The Convention will enter into force after signature and ratification by 20 States. I am pleased that in the less than six months since the Convention was submitted to governments, 20 governments of Europe, Africa, Asia and the Western Hemisphere have signed the Convention, and ratification is under way. I am sure that the availability of the machinery to be established under the Convention will improve the climate for international private investment and I urge governments to quicken the steps they are taking toward ratification.

As this project advances, we are beginning to consider another type of measure which has been suggested as a further way to encourage the confidence of private international investors. That would
be to establish a multilateral system for guaranteeing foreign investments in developing countries against non-commercial risks. In June, the Organization for Economic Cooperation and Development (OECD) transmitted to the Bank for its consideration one possible scheme for such investment guarantees. Using this as a springboard, we have begun an examination of the whole matter.

Mr. Chairman, I think you and most of the Governors know that by nature I am an optimist; and certainly I am an optimist about the long-run prospects for economic progress in the less developed areas. The wealth of the world and the well-being of its peoples unquestionably can increase, and it is my belief that they are going to increase.

At the same time, no one can be happy about the state of the international development effort today. Not enough of the underdeveloped countries have taken the true measure of their problems, and not enough countries—both industrialized and underdeveloped—are taking the actions which would adequately respond to the gravity of those problems.

On the other hand, income is rising even higher; but the level of development assistance has been stationary for several years. Not enough people understand that the tasks of development not only take a long time, but that any hesitation in the pace of development tends to make them bigger, more complicated and more difficult. Unless we lenders and donors perceive the urgency of our situation, and soon, such actions as we may be driven to take a few years from now may be too late. Unless we perceive the tremendous size of the problem, they may be too little.

Many countries are showing what can be done to lift output and living standards. Out of 80 developing countries in the Bank's membership, about one-third have attained in the recent past rates of 5% or more in growth of real income, the target rate of the Development Decade. A high rate of growth is different from self-sustaining growth, however, and those countries will need encouragement and support for a considerable time to come. On the other hand, in close to half the 80 countries, accounting for 50% of their population, income per head has risen by 1% or less. Even to keep abreast of recent high rates of population growth is not a negligible achievement, but it is far from sufficient. The average per capita income in this group is no more than $120 a year. At a 1% growth rate income levels will hardly reach $170 a year by the end of this century. In some countries it will be much lower. This is crude arithmetic. But its implications are true and sobering. If the present trends are allowed to continue there will be no adequate improvement in living standards in vast areas of the globe for the balance of this century. Only massive and coordinated efforts of both the rich and the poor countries can bring about a substantial acceleration of growth and real progress toward a tolerable level of well-being.

No amount of external assistance, however, can substitute for a greater and more effective effort by the underdeveloped countries in the mobilization and allocation of internal resources. It is this effort which fundamentally determines the rate of growth; it is this effort which provides a basis for external assistance to be received and used effectively.

It is useless to attempt to sugar-coat the fact that in many of the underdeveloped countries, economic performance can be greatly improved. It is essential that these countries take effective measures to increase the mobilization of capital through taxation and through incentives to investment, both domestic and international. It is urgent for many of them to cut down some of the biggest items of waste—excessive military expenditures, prestige projects, inefficient administration, overstaffing of railways and other public enterprises, and subsidies to public services that could and should be self-supporting. These countries should get more for their money through better development programming and project planning. They need, among other things, to maintain fiscal equilibrium and to avoid excessive short-term borrowing. Some must take firm steps
to keep excessive population growth from devouring the hard-won gains of development. Nearly all of the low-income countries must redouble their efforts to overcome the lag in agricultural productivity—literally the most vital, yet at the same time generally the most feeble, of the economic sectors in the underdeveloped world.

It is the effectiveness of internal effort which to a large extent is going to determine the future of external assistance. The low-income countries should take more realistic account of this fact than many of them are inclined to do. In my daily activities, I am constantly and sympathetically aware of the impatience, disappointments and frustrations in the developing countries; but at the same time I am conscious of the frustration and disillusionment that the industrial countries feel about development assistance. Governments which provide development finance are subject to searching questions by their legislatures and peoples about it. The most careful use of aid by each of the recipient countries is constantly necessary if they are to expect continued assistance, and on a larger scale. Performance will have to stand up to close scrutiny.

Improved performance by the developing countries is vital for accelerating the pace of growth; but it will not by itself be sufficient. A dominant difficulty which these countries face, despite their own best efforts, is the uncertainty which clouds the prospects for their exports. Export earnings, far more than investment and foreign assistance—the ratio is about four to one—finance the imports needed to carry forward the development of the underdeveloped countries. But the demand for many of the commodities exported by these countries has grown only slowly. The rise of export earnings, despite the over-all increase of world trade, has been only 3 to 4% a year. This is less than enough to support a satisfactory rate of development.

In the short run the problem is further complicated by abrupt and wide fluctuations in some commodity prices. Many underdeveloped countries have had to adapt themselves to unexpected year-to-year variations of as much as 15% in their export income. Some have experienced short-falls twice as great.

The result of the slow and uncertain growth of export earnings is to retard development, to upset continuity of effort, to diminish the impact of external finance. Uncertainty makes it difficult to plan and effectuate the structural changes that would liberate the developing countries from over-dependence on a narrow range of exports; it exerts pressures leading to fiscal imbalance, to inflation and to stagnation of constructive effort.

Let me suggest that both the high-income and the underdeveloped countries give renewed and purposeful attention to these problems. And let me report to you two initiatives in which the Bank is joining that may help to mitigate some of these problems. The first is a study, organized jointly by the International Coffee Organization, FAO and the Bank. The study will examine the needs of coffee-producing countries to diversify into other lines of production which would impart greater strength and stability to their economies, and will try to identify the possibilities that they have for doing so. A dozen countries in Latin America and Africa depend on coffee as a major source of export earnings: and coffee exhibits some of the worst features of the commodity problem.

The other initiative stems from a proposal put forward by the United Kingdom and Swedish delegations at the 1964 United Nations Conference on Trade and Development, which the Conference asked the Bank to study. The proposal aims at defending development programs from the dangers of disruption arising from unexpected shortages in export earnings by providing supplementary resources under certain conditions to be agreed. Our staff study examines the many facets which impelled the proposal. The study is now nearly ready. I will not attempt to summarize its findings, but I can say that the approach under consideration would call for continuous consultation with the developing countries and close collaboration with the International
Monetary Fund. I expect to forward our study to the United Nations in the not too distant future, and I hope that both the capital-exporting and receiving countries will give it their earnest consideration.

Another dominant problem of the underdeveloped countries is their continuing need to receive finance from external sources. Our Annual Report gives our staff estimate of the magnitude of resources which effectively could be used. The problem of finance is given added urgency by the volume of the debt that already confronts these countries. In 1956, their outstanding international debt was estimated at just under $10 billion. In 1964, it reached an estimated $33 billion. Because of rising interest rates and the accumulation of short-term debt, the amount of money needed annually to service this debt climbed even faster. From 1956 to 1964 it rose over four times, from $800 million to $3.5 billion.

The external debt of many developing countries, of course, was bound to rise rapidly. These countries were newly independent; they had little debt to begin with, and increased it rapidly as they plunged with energy and enthusiasm into economic development. At the same time, it must be admitted that there was much unwise borrowing—brought about in no small part, it should be added, by the proffering of credit from the high-income countries, at unrealistically short terms and in some cases for purposes of little economic value.

The resulting supplier-credit problem is being studied by the Bank staff at the request of the United Nations Trade and Development Conference. We hope to be able to suggest ways of eliminating the undesirable features of past practices, while maintaining the use of private credit facilities to finance the international exchange of goods and services.

In any case, the underdeveloped countries as a whole must now devote more than a tenth of their foreign exchange earnings to debt service; and the figure is still rising. On present form, amortization, interest and dividends are offsetting the actual gross flow to the developing countries from all sources by half, and will continue to offset it at an accelerating rate. In short, to go on doing what we are doing will, in the not too long run, amount, on balance, to doing nothing at all.

The predicament of the debtor countries calls for a continuing country-by-country review of existing debt and careful consideration of how to handle it. For some countries already caught in exceptionally difficult circumstances, the solution may lie in a rescheduling of obligations. But for the longer haul, and for the developing countries as a group, the requirement is for a greater flow of long-term capital on less burdensome terms.

At the present time, terms are not easing fast enough. Although the need for more favorable terms is universally accepted in principle, and the United Kingdom and Canada have recently taken substantial steps in this direction, the improvement, on the average, has been small. Given the financial facts of life in the underdeveloped countries, a general easing of terms is clearly indicated if we are to avoid disaster in the future. Otherwise, cases of default and serious interruption of capital flow would seem to be inevitable. And harm done by defaults, in my opinion, is much deeper and more serious than the financial figures show; it is truly beyond calculation.

The solution of the debt problem is at least in part within the power—and the means—of the developed countries. They have already demonstrated their willingness by the creation of IDA—a major international initiative for transferring capital to the poor countries on concessionary terms. In a few days, the Association will complete its fifth year of operations. The record of these five years demonstrates that IDA is fully as businesslike as the Bank in its concentration on workable, high-priority projects which bring a reasonable economic return, and in its determination to produce the most development for the money spent.

I again acknowledge with gratitude a number of steps which have been taken to augment the initial
resources of IDA—the first replenishment in 1964 by 18 countries, the special contributions by Sweden, and permission to use part of the subscriptions of some of the developing countries in IDA's membership. The Bank itself is acting to supplement IDA's funds. In Tokyo last year, the Governors approved the transfer of $50 million to IDA from the Bank's net income. At this Meeting, you have before you the recommendation of the Executive Directors that $75 million more be transferred to IDA in the form of a grant from the earnings of the fiscal year just ended. I trust you will give this recommendation your favorable consideration.

What the Bank does to augment the resources of IDA, however, is only supplemental to the contributions made by governments. The first replenishment of IDA funds, as many of you will recall, was intended to support IDA commitments through the current fiscal year, that is through next June 30. It is now time to consider the future of IDA.

As an initial step looking toward replenishing its funds, I recommend that you approve the resolution in the agenda which calls on the Executive Directors of IDA to examine this question. In the final analysis, the high-income countries in IDA's membership must decide what scale of operations they want IDA to undertake in the future. For our part, we will continue to do our best with the resources entrusted to us.

The replenishment of IDA resources is closely related to the broader issue of assuring that external financing for development, from whatever source, is used to the best effect. Optimum deployment of development assistance requires close coordination among the aid-giving nations; more important still, it requires full understanding and cooperation between them and the recipient countries. As I see it, a primary task of the World Bank is to facilitate this essential collaboration.

We have already organized groups consisting of interested aid-giving governments and international financing agencies, to coordinate the finance provided to six of our member countries. Now, as our Annual Report indicates, we are undertaking to strengthen and intensify the work of these groups and considering the formation of similar groups for other countries. During and after these Annual Meetings we shall be carrying on discussions in this regard.

Each consultative group has one essential objective: to accelerate economic growth; and it seeks to accomplish this purpose in several ways. In the first place, it aims at enhancing absorptive capacity by helping in the planning of development, in the preparation and screening of projects, and by advising on administrative or financial problems. Second, it is designed to provide the several aid-givers with informed, objective analyses of the country's needs for external finance and technical assistance—not only the amounts it could effectively use, but also the appropriate terms of financing and the purposes that deserve priority. It also undertakes a continuous assessment, in cooperation with the International Monetary Fund and the recipient country, of the latter's economic progress, and attempts to work out agreed solutions to its problems. We expect that these consultations will help to bring about a more adequate and assured flow of aid to the countries with a good record of effective use; and, equally important, encourage the cooperation and mutual trust that is so necessary to the common purpose.

It is our aim over the course of time to bring into this consultative system perhaps a score of developing countries comprising the recipients of much the largest share of international development finance. The Inter-American Committee for the Alliance for Progress—CIAP—is already working in this direction, and our own activities with respect to countries of Latin America will be carried on in cooperation with CIAP and the Inter-American Development Bank. As regional organs evolve for Africa and Asia we shall expect to cooperate with them also. And we look especially to the International Monetary Fund for strength and counsel in all these consultative arrangements.
Mr. Chairman, development, to be successful, requires a dedication and singleness of purpose. However, thus far, no means have been devised to deeply stir patriotic emotions for massive and intensive economic development in agriculture or in extractive and manufacturing and service industry. Yet development should be waged as a war, a war against intolerable living conditions that must be carried on with a determination to overcome all obstacles.

Let us not forget that the World Bank itself is the child of adversity—its charter was written while one of the most violent battles of World War II was raging on the European continent, and at a time well before the end of the war in Asia was in sight. The Bank has not hesitated to carry on in countries faced by adverse and extraordinary circumstances, when it believed that in spite of these circumstances, the objectives of economic development, in the end, could be achieved. We have carried forward projects without interruption in African, Middle Eastern, Southeast Asian and Latin American countries affected by alarms of war and violent political upheavals which sometimes threatened internal order. It is our sincere belief that intensive economic development is the indicated antidote in the 20th century for the age-old instinct for military encounters. We consistently make disbursements against our commitments in troubled areas, and we intend to continue as long as our judgment indicates that it is not an unreasonable development finance risk to do so.

Mr. Chairman, development is not a short-run problem: it is not something we can give marginal attention to for a period of time and then forget. The developing countries need time to accomplish deep-seated changes: in outlook, in social institutions, in economic organization. We have to measure this time in terms of at least a generation.

While progress may at times seem slow, there is no doubt that the ability of the developing countries to make effective use of capital is increasing. Many of the countries are far ahead of where they were one or two decades ago—in the ability to formulate and carry out development policy, in the number of institutions able to conceive and administer measures for economic progress, in the number of individuals able to direct private and public enterprises.

This state of readiness represents an opportunity for further advance which the aid-providing countries should seize. It is clearly time to find more development capital, and I can assure you that much more capital, both public and private, can be effectively used. The sheer bulk of the problems of underdevelopment—the number of mouths to be fed, the number of human beings to be maintained in decent shelter and gradually to be educated and made productive—continues to grow. If we do not begin to make faster progress in these matters, the prospect is for discontent, unrest and tensions that in the end must spill over national boundaries and ultimately infect the rich nations as well as the poor. We have to exchange views and act in collaboration with each other, with speed and on a large scale. It is in this spirit, Mr. Chairman, that I hope this 20th Annual Meeting of the World Bank and our sister entity, the International Monetary Fund, will proceed.