GABRIEL SILVER MEMORIAL LECTURE

FINANCE FOR DEVELOPING COUNTRIES:
A TIME FOR DECISION

Delivered by
THE HONORABLE GEORGE D. WOODS

SCHOOL OF INTERNATIONAL AFFAIRS
COLUMBIA UNIVERSITY
APRIL 13, 1967
THE TENTH
GABRIEL SILVER LECTURE was delivered by the Honorable George D. Woods, President, International Bank for Reconstruction and Development, under the auspices of the School of International Affairs, Columbia University, April 13, 1967.
Previous Gabriel Silver Lecturers were President Dwight D. Eisenhower, the late George C. Marshall, Sir Anthony Eden, His Majesty Mohamed Reza Shah Pahlevi, Sir Sarvepalli Radhakrishnan, the Honorable J. William Fulbright, His Excellency Pierre Mendès-France, the Honorable Willy Brandt, and Lord Caradon.
Printed in the United States of America
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The Honorable George D. Woods

It was an act of bravery for Dean Cordier to invite a banker to come here this evening to deliver the annual Gabriel Silver Lecture Devoted to World Peace. It has been the misfortune of bankers to be recorded in history more often in connection with panic than with peace; and I can hope to reward the Dean’s audacity only in a modest way. Nevertheless, I was delighted to accept his flattering invitation to speak here at Columbia University. Since then I have been emboldened by Pope Paul’s recent encyclical, according to which “The new name for peace is development.”

We are now approaching the 20th anniversary of the inception of the Marshall Plan—the date when Secretary of State Marshall, at a time of deep economic and political crisis in Europe, spoke the sentences which launched the great cooperative effort of the European Recovery Program. Secretary Marshall’s initiative began a transformation. The creative genius of Europe awoke. American aid began to flow out steadily to the 16 countries which had united in the Recovery Program. Those countries, later joined by others, worked their way back to productivity; they formed new habits of collaboration which, as is now apparent to all, opened the way to an economic revolution.

Today, there is another such crisis in the world. It is big, it lacks focus; most of us do not even think of it as a crisis. But food riots in Asia, government coups in Africa, student violence in this Hemisphere and elsewhere, are among the symptoms of it. It is the crisis of a new world trying to be born—the crisis of the developing countries in their struggle to achieve economic viability, national unity, and the respect of other nations.
This new world contains about two billion people—about two-thirds of humanity. Most of it is hungry most of the time. Average calorie consumption is on the order of 2,000 a day—an intake which in Europe two decades ago, we regarded as being dangerously near the famine level. Between the income of an ordinary citizen in western Europe and that of an ordinary African or Asian, the disparity is 10 or 15 to one, with the contrast that implies between standards of shelter and education, work and enjoyment. In the case of the United States, the figure would be 20 to one.

Thanks to modern medicine, underdeveloped countries enjoy a 20th century death rate; but they still are experiencing a 19th century birth rate. As a consequence, five-sixths of the population growth in the world is occurring in the less developed countries. Of the 60-million increase which we can expect in 1967, 50 million will be in countries with per capita incomes of less than $250 a year. Such a rate of population growth has never before occurred over such a wide part of the globe.

The existence of hundreds of millions of destitute human beings in the world is a threat to peace. We see every day how it may create vacuums of authority into which the great powers may be drawn in uneasy confrontation. The chances of disagreement and disaster can be magnified by what happens in places of Africa, Asia and Latin America that many of us had not even heard of ten years ago.

Over the years, rich nations have been engaged in extensive but largely unconcerted efforts to help the poor. The pattern is different from that of the Marshall Plan: instead of one principal country trying to help a dozen, there are now more than a score of countries engaged in various efforts to help about a hundred others. These activities have grown haphazardly, for the most part from former colonial responsibilities, in some part from humanitarian or diplomatic or commercial motives. They have not—and I want to emphasize this—they have not been the result of conscious com-
mitments to a coherent, cooperative attack on the problems of world poverty and disorder. This has not been tried.

The task of development assistance has proved to be one of almost infinite complexity. The process of growth, whether of people or countries, is intricate, and when its intricacy is compounded by all the difficulties of relationships between sovereign nations, problems seem to arise in a limitless number of permutations and combinations.

The effort of some countries to help others has been freighted with irony and paradox. The very economic strength that gives rich countries the means to help the poor also opens up a gap between them: the capital-intensive technology of the industrial countries is not all suited to the problems of the low-income nations.

It is a paradox, too, to speak of development assistance as "foreign aid." In fact, as we all know, in the past much development assistance has been given in forms designed to benefit the immediate self interest of the giver—forms rather different from those that would have been followed had economic development been the prime objective, and rather different also from those which would have been followed if performance by the developing country had been an important consideration.

Most providers of aid, sooner or later, and in one form or another, have used overseas assistance as a subsidy for their own industries—as a way of exporting goods and services at higher than world prices. It is estimated that the donor countries put a value on their annual aid about $1 billion a year higher than the same goods and services would bring in competitive world markets. And it goes without saying that when development finance has been used to protect spheres of political and commercial influence, or to serve strategic military purposes, it has been to some extent of help to the donor countries themselves.

To win for aid programs the support of legislators with many
vexing problems of their own including poverty pockets and other high-priority domestic demands for public funds all these motives of self-interest have been proclaimed publicly—and often—in donor countries. Small wonder, then, that development assistance has not infrequently failed to stir feelings of gratitude or to encourage the performance that was expected, from the recipient countries.

The paradoxes have not all been on the side of the rich. Not a few developing countries, for instance, have asked for help from abroad at the same time as they have been practicing forms of nationalism that make international cooperation impossible.

While governments and leaders have proclaimed economic development to be high on their list of goals, they often have failed to take the action and adopt the policies necessary to achieve it. Despite the popularity of the phrase, "revolution of rising expectations," the somber truth is that in many countries, the population lacks the ferment of aspiration and determination without which economic development is impossible. In some countries, deep seated political instability has undermined the hope of steady economic progress.

Some paradoxes have trapped both donor and recipient. Consider the irony that development assistance, instead of hastening the day when the poor countries could make their own way, may in some cases actually have postponed it. Exports of American food surpluses have fed the hungry overseas; in their time they have saved the United States Government several hundred million dollars a year which otherwise it would have had to spend on crop storage and price support operations; but food aid programs have not always been administered so as effectively to stimulate increases in production in agricultural sectors overseas. Aid programs have helped recipients, on occasion, to defer or avoid the hard measures they should have been taking on their own behalf. Aid has given donors an excuse—although not a good one—to defer
liberalizations of their own commercial policy which might enlarge the trade earnings of developing countries and thus lessen their reliance on development aid.

Despite its contradictions and paradoxes, in two decades, development assistance has accomplished much good. I think, indeed, that this period since the Second World War will be remembered in history as the period when the engineering of social and economic progress in the developing world first became a universal preoccupation of governments. There has been planted, literally and figuratively, seeds whose fruit the developing countries will be harvesting for many years. For millions of human beings, the development effort has been the difference between life and death; for millions more, it has been the beginning of hope; and for some it has been the beginning of prosperity.

Installed power capacity in developing countries has more than doubled in the last dozen years. Cement production has more than doubled; the manufacture of steel has tripled; mining production is rising at a rate of almost 10 per cent a year. Commerce is growing: freight moved by rail has been increasing annually by 10 per cent in Africa and 12 per cent in Asia. The expansion of education, that vital springboard of economic advance, is proceeding significantly faster than the growth of population. All this began, however, from a low starting point, and much more needs to be done.

Today the capacity of developing countries to grow is greater than it has ever been. The most important single accomplishment of the development effort over the past 20 years is that peoples throughout the developing world have acquired skills, adopted attitudes and built institutions that greatly increase their ability to use capital productively. Many developing countries are attaching greater importance to fiscal and monetary policies, and even to market incentives. It is slow, hard work, but many are building more adequate frameworks of administration. Investment and sav-
ings rates have moved upward. However, given the heavy expenditures on education—and in other sectors which give a return in increased production only after a long waiting period—it is hardly surprising that growth has been spectacular only in a few countries.

Despite many errors of commission and omission, despite the instability of political institutions, the growth potential is there. The developing countries are ready and able to continue progress at a faster rate.

On the side of the countries and institutions engaged in development assistance, experience has brought progress also. The quality of aid, while it still leaves much to be desired, has consistently improved; and the givers of aid have acquired growing understanding of the problems they face.

In the past two or three years, most of the aid-giving countries of the world have put their programs of development assistance under close examination. This scrutiny has resulted in a shift toward the greater use of international organizations, as one way of filtering some of the contradictions out of aid and of directing a larger flow of assistance to countries where economic performance justifies it. Since 1960, the participation of these multilateral organizations in the net transfer of financial resources to developing countries has increased threefold, although it still accounts only for a modest fraction of the total.

Development functions are being more effectively carried out, either by the established multilateral agencies or by new regional organizations which have been created. New combinations of bilateral and multilateral assistance are being worked out, to such an extent that in the next fiscal year, an estimated 85 per cent of United States aid, for instance, will be given either through multilateral channels or as part of a multi-national effort coordinated by international agencies.

The World Bank group of institutions is in the mainstream of
these developments. This Group, as most of you know, is a cluster of three institutions. At the center is the Bank itself. It is the World Bank—the only thing of its kind. Our member shareholder governments are spread over the world; our financial resources come from all over the world; we finance projects in all quarters of the world; our Executive Directors, officers and staff are from all parts of the world. No other institution or government department has the experience of the World Bank—the concentration of expertise and know-how embodied in our international staff, chosen and retained strictly on professional merit.

The Bank is now 21 years old, and has lent some $10 billion, mostly in developing countries. Its loans are long term, at more or less conventional rates of interest, for projects of high economic priority. About a third of its lending has been for electric power development, a third for the development of transportation, and the rest for agriculture, industry and education.

Flanking the Bank on one side is the International Development Association engaged in the same kind of business, but on much easier conditions of repayment. IDA, as we call the Association for short, lends to the poorest countries in the Bank’s membership—those not able to borrow and service on conventional terms all the capital they can effectively use for development. So far, most of its financing has been done in Asia; and more than 70 per cent of its $1.6 billion of commitments have been made there. The purposes of IDA’s lending reflect some of the most pressing problems of these client countries: the Association has been particularly active in financing agricultural and education projects.

Flanking the Bank on the other side is its other affiliate, the International Finance Corporation, or IFC. IFC works exclusively in the private sector. It does several things the Bank does not do: it makes loans to private borrowers without government guarantee; it invests in share capital; and it underwrites offerings or placements of securities by new or expanding enterprises. IFC operates
in countries with a reasonably high level of savings and entrepre­
neurship; and more than half its $200 million of commitments are
for enterprises in Latin America.

The operations of the three institutions, although each has its
own separate financial assets, are closely integrated. This year,
I expect that they will disburse well over a billion dollars on their
loans and investments, mostly for projects in the developing
countries.

Many of the founding fathers of the Bank have had the oppor­
tunity of seeing their child grow up; otherwise they would not
know their offspring today. Mr. Dean Acheson, who was then the
American Under Secretary of State, expected in 1945 that the
World Bank would be a quite limited enterprise. He explained to
a Congressional committee: “In the normal case, a country will
borrow from private bankers, but where private banks, because of
the risk, cannot make the loan on terms which are possible for the
borrower, both the borrower and banker may need the assistance
of the . . . Bank. The Bank’s function will be to investigate the
soundness of the projects for which capital is desired, and if it
agrees they are sound, it will guarantee the loans made by private
banks.” In fact, of course, this never happened; the Bank, under
the successive presidencies of Eugene Meyer, John McCloy, and
particularly Eugene Black, became a borrower and a lender on its
own account.

While they may not have been good forecasters, the founders
nevertheless gave the Bank a priceless gift in the form of an extra­
ordinary charter, called the Articles of Agreement. This charter
equipped the Bank with three faculties.

First, it gave the Bank an aptitude for cooperation. In fact, the
Bank is a true cooperative, deriving its resources from its members
and using these resources for their benefit. Its member govern­
ments are not only its principal debtors, but also its shareholders
and large creditors.
Second, the Bank was given the opportunity to be independent. It was not to rely solely on paid-in capital from governments; in addition, it was enabled to provide the larger part of its resources by borrowing in the world's capital markets. It was cast in corporate form, and was given the capacity to earn a profit and become self-supporting.

Third, the Bank was given a fundamental policy. It was commanded to base its operations on economic factors, and to stay out of politics. The Bank was thereby given a hunger for facts, and a desire to develop the expertness needed to understand and interpret the facts.

All three of these faculties converged on one objective: the economic growth of the Bank's member countries.

The Bank did not learn to exercise these faculties all at once. As far as cooperation is concerned, some member countries, including Cuba under Castro and Indonesia under Sukarno, decided that the Bank was not the kind of cooperative they wanted to belong to, and they left—although Indonesia has now come back. In dealing with its borrowing shareholders, the Bank has moved carefully from problem to specific problem, elaborating its own policies and marking out its own trials. The Bank has worked hard during nearly all its twenty years to establish and maintain its high standing in the money markets of Western Europe, Canada, and the United States.

The instrument the Bank was given for dealing with its member countries was capital. This capital, to use the words of the charter, was to be applied to "projects, large and small alike." But one of the first things the Bank found out was that many of its clients did not know how to prepare projects. We had proposals, to mention a few, for dams that would be starved for water, for electric power systems that would lack customers, and for highways that would not fit local traffic and terrain.

In these circumstances, it seemed plain that if the Bank were
to help finance any considerable number of projects, it would have to offer advice about how to prepare them as well. The Bank therefore not only closely examined proposals through studies of documents and visits to the field; as cooperator and expert, it also developed the practice of suggesting modifications or further study whenever necessary. It quickly found itself playing—and has since continued to play—an advisory role of considerable scope and variety, concerned with economics, engineering, administration and other factors bearing on project execution. We discuss with the borrower what kinds of technical services are needed, we advise on how best to obtain these services and, if necessary, we draw up terms of reference for the consultants.

For countries least able technically to prepare projects and least able to bring in the necessary outside help, we bear some of the cost; and we organize and supervise similar project studies financed by the United Nations Development Programme. We have also established cooperative programs whereby the Food and Agriculture Organization of the United Nations and the United Nations Educational, Scientific and Cultural Organization work with us and our member countries to identify and prepare projects in agriculture and education. To help meet the especially urgent needs of African countries, we have established in that continent two regional offices of our own to work directly with local authorities in preparing agricultural and transportation projects.

At about the same time the Bank was discovering that projects often were inadequately studied, we were also finding out that they were planned without sufficient regard for their setting in the economy as a whole. We early concluded that any developing country would benefit from having some kind of program as a framework for development, relating projects to each other, taking account of the availability of financial resources, and giving thought to policy and administrative measures as well as to physical projects that would accelerate economic development. We
have therefore developed a practice of organizing expert missions to visit individual countries and to draw up comprehensive recommendations that could serve as a basis for working out a detailed development program.

The long range solution to the need for economic expertise, however, is for the developing countries to produce their own experts. The Bank has tried to help them do so by establishing an Economic Development Institute for the training of senior officials concerned with economic affairs. The Institute was set up as a sort of staff college where these officials could come together for periods ranging from three to six months, to study, to read, and to discuss practical development problems among themselves and with the best experts available from the Bank and elsewhere. The Institute began its work in 1956, and 700 officials have been through it. Many have advanced to posts of critical responsibility.

What we want, in a word, is to encourage constantly improving economic performance by our developing member countries. Not every country can have, or even profit from, a detailed development program, but every country can aspire to have a well-thought out set of policies which will provide the conditions and motivations conducive to economic growth. This is more and more what we find ourselves talking about with our member countries—fundamental policies to govern their day-to-day economic decisions. We are able to talk about policies and policy changes not as interlopers but as collaborators—and sometimes we give agreed policies the final measure of support they need to tip the scales in their favor in the councils of government.

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In the Bank, we sometimes sum up our interests by saying, “The country is the project.” That being so, we take an interest in the total assistance effort, including what others are doing to assist development in the country. In pursuit of this total view, we are
helping to conduct an experiment intended to lead to a better coordination and use of external resources. This experiment brings together groups of countries and institutions, engaged in one form or another of development finance, for the purpose of considering jointly all the major problems in providing effective development assistance for particular recipient countries.

So far there are coordinating groups of this kind for 13 recipients, and in the next few days, we expect to be establishing a group for a fourteenth. The Bank is organizer and Chairman of ten of them, soon to be eleven. As Chairman, the Bank assumes several responsibilities: It periodically makes comprehensive reports on the country's development possibilities and progress. It helps the developing country to identify and prepare projects, or to obtain the necessary technical assistance for doing so. It helps the government to devise a development program, and advises on problems of carrying out this program if it is asked to do so. It makes recommendations to the recipient government and to the members of the consultative group about the sectors and projects that seem to deserve priority in financing, and on the economic policies needed to achieve agreed development objectives.

Finally, the Bank comments on the country's estimates of aid requirements, making recommendations about the amount, types and terms of aid that are appropriate. The consultative group, nevertheless, is an example of what Dag Hammarskjöld used to call "freedom in unity," because actual aid commitments by members of a consultative group are arranged directly between a donor and the recipient.

While the consultative groups are a relatively new form of aid coordination, they already clearly demonstrate some superiority over uncoordinated bilateral aid. The coordinating group gains from the services of the Bank as honest broker and expert adviser, providing a realistic assessment of the recipient country's prospects and performance, offering a guide for the amount and kind
of assistance the donor countries might render, and—by carrying
the main burden of collecting data—saving both rich and poor
countries much duplication or repetition of effort. Above all,
the process of consultation can effectively mesh external and inter­
nal resources, and can enable donor countries and the recipient to
move in consistent ways toward the same development targets. I
believe this is bound to lead to a decisive improvement in the qual­
ity both of external assistance and of economic performance by
developing countries themselves. Coordinating groups with which
the Bank is associated are now concerned with about two-fifths of
all development assistance from official sources.

One would suppose as the performance of the developing coun­
tries goes on improving, and as the techniques for development
assistance become demonstrably more effective, that the support
of industrialized countries for international development would
increase. In fact, this is not happening.

Most of the financing of development—about three-quarters of
it in fact—comes from the developing countries themselves, and it
is right and proper for them to be carrying the main responsibility
for investing in their own future. But the industrial countries are
not doing enough to enable the less developed nations to earn their
own way. The export earnings of the developing countries are
not keeping up with the general growth of world trade, and for­
midable barriers in the form of tariffs, quotas and other kinds of
hurdles stand in the way of their achieving a higher share of this
trade. The effective tariffs on imports from developing countries
are commonly from 20 to 40 per cent—a high margin in any case,
but extremely so since this protection is being afforded to mature
economies from economies which in many cases are still in their
infant years.

The seriousness of these barriers can be seen from the fact that
only six developing countries have markets larger in monetary
terms than the State of Connecticut. Almost 100 developing
countries have populations of less than 15 million, and of these, two-thirds have less than five million. These small markets effectively limit the possibility of development based on production for the local market, yet up to now this has been the most common policy aim, and I think the resource growth of both developed and underdeveloped countries has suffered as a result.

Not only is the trade potential of less developed countries being frustrated, but the amount of development finance flowing to these countries is considerably less than they could effectively employ; and it is considerably less than the industrialized countries could reasonably afford—even by their own standards of what is an appropriate basis for sharing a small part of their increasing wealth with the poor countries.

Six years ago, the official net flow of financial resources from the industrialized countries reached a level of about $6 billion a year. Today, after five years of unprecedented prosperity in the donor countries, the figure is about the same. Of the $200 billion by which the production of the industrialized countries has grown in that interval, none has been put at the disposal of the developing countries through programs of assistance.

At a time when we should be making full speed ahead, development assistance is in the doldrums. There is discouragement that after 20 years of promise and exhortation, most of the world’s poor are only a little less poor. There is widespread skepticism about the self-advantage to be had from aid; and there is a general tendency to greatly underestimate the ability and capacity of the developed to help the underdeveloped world. In truth, finance for development abroad has no constituency to influence the executive and legislative branches of governments.

Nevertheless, it is a happy and fortuitous circumstance that humans are humanitarian. As Adam Smith said, “How selfish soever man may be supposed, there are evidently some principles in his nature which interest him in the fortune of others, and render their
happiness necessary to him, though he derives nothing from it except the pleasure of seeing it. Of this kind is ... compassion, the emotion which we feel for the misery of others, when we either see it, or are made to conceive it in a very lively manner ..."

But there are other strong motives for helping less developed nations: the knowledge that more production in all developing countries will mean more trade for everyone; the hope that to make aid more effective now will more quickly bring the necessity for it to an end; above all, the trust that in the long run, rising income in developing countries may provide more room for the orderly evolution of their political institutions and make more likely the emergence of some sort of stable international order. "The new name for peace is development."

There is no danger that development assistance programs will be abandoned. That is not the issue. The issue is whether the industrialized countries will do enough, do it in the right way, and do it in time.

If the momentum of economic growth in the developing countries of Africa, Asia and Latin America is not speeded up, if leaders in these regions lose heart, then the prospect is for a rapid deterioration in world affairs that will inevitably become a matter of highest concern in the United States and other industrial countries. Twenty years ago, when the crisis was faced in Europe, objectives were jointly defined and plans were jointly made to achieve them. In the case of the crisis in the developing world, no common plan has yet been formulated.

What is now necessary, it seems clear, is that industrialized countries should give joint consideration at the highest level to their policies of development finance. After 20 years of experience—and this includes many frustrations—the time has come for a thorough examination of the objectives they are trying to achieve in their relationships with the developing world, of the importance of those objectives to their own national interest, and of the ade-
quacy of the resources, the mechanisms and the techniques which are being employed to attain those objectives.

The kind of examination I have in mind would engage cabinet ministers concerned with foreign policy and finance as well as those more directly concerned with assistance programs. It would seek to move the worldwide aid effort from its somewhat tenuous and uncertain posture to a well thought-out and agreed-upon place in the whole scheme of international affairs.

Since the beginnings of that effort, science, technology and the means of creating material prosperity have advanced at a rate unprecedented in history. We can say confidently that the knowledge and the means exist to enlarge greatly the riches of the world, to help many millions to escape hunger and to achieve, or at least approach, decent living standards for the first time. What is needed now are firm political decisions to carry out an intensive, sustained and coordinated attack on underdevelopment, together with the political will and stamina to stay the course.