ADDRESS to the BOARD OF GOVERNORS

BY

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Washington, D.C.
September 30, 1974

I. INTRODUCTION

In the twelve months since our meeting in Nairobi the world economic scene has grown increasingly turbulent. The series of. changes which have occurred have been of a magnitude previously associated only with major wars and depressions. New problems have arisen, older problems have become more acute, and the cumulative impact of events has touched every nation represented in this room.

What I propose, then, to do this morning is to review with you:

- The scope and interrelated nature of these events;
- Their implications for development on various'groups of our member countries;
- The general measures which might be taken to assist those developing countries most seriously affected by the current problems;
- And what I believe the World Bank can and should do in its Fiscal Year 1975-1979 Program to help meet this new situation.

I want to emphasize at the outset one fundamental point which will underlie the whole of my subsequent argument. It is this. Though all of us have been affected in varying degrees by these complex events, by far the most adverse effects have fallen on those countries least able to cope with them: our poorest developing member nations.

These low income countries — relatively disadvantaged in natural resources, without significant foreign exchange reserves, and already suffering from serious internal deprivations — now find themselves caught in a web of external economic forces largely beyond their control. They can do little to influence the current disequilibrium, nor did they precipitate its underlying causes. And yet they have become the principal victims, and are faced with the severest penalties.

These countries contain a billion individuals.

Whatever the problems and preoccupations of the rest of us may be, we simply cannot turn our backs on half the total population this institution serves.

The real issue, then, is whether we, in this forum, fully understand what is happening to the poorest countries — and having understood it, are ready to do what is necessary to assist them.

That is the essence of what I want to talk to you about this morning.

But before I turn to that in detail, I want to refer back to our last two meetings.

II. SOCIAL EQUITY AND ECONOMIC GROWTH

Two years ago I began a discussion with you of the critical relationship of social equity to economic growth. I emphasized then the wide disparity in income that exists among the peoples of the developing countries, and the need to design development strategies that would bring greater benefits to the poorest among those peoples: the roughly 40% of the population in every developing country who are neither contributing significantly to their nation's economic growth nor sharing equitably in its economic progress.

Last year in Nairobi I explored this problem further, pointing out that among the 2 billion people living in the more than 100 developing countries the Bank serves, there are hundreds of millions of individuals barely surviving on the margin of life, living under conditions so degraded by disease, illiteracy, malnutrition, and squalor as to deny them the basic human necessities. These are the "marginal men," men and women living in "absolute poverty"; trapped in a condition of life so limited as to prevent realization of the potential of the genes with which they are born; a condition of life so degrading as to insult human dignity — and yet a condition of life so common as to be the lot of 40%, some 800 million, of the peoples of the developing countries.

At Nairobi I outlined a program for the Bank which would begin to deal with these issues. That program will put primary emphasis not on the redistribution of income and wealth — as justified as that may be in many of our member countries — but rather on increasing the productivity of the poor, thereby providing for a more equitable sharing of the benefits of growth. I want to report on the steps we have taken to initiate that program and something of what we see ahead.

The first step in reaching the poorest 40% is to identify them — where they are, what they earn, and what public services reach them. With 70% of the population in the developing countries living in the rural areas, the center of the problem is there. And within the rural areas, we can usefully distinguish the following poverty groups:

1. Small farmers whose land holdings are of a size and quality which should enable them to sustain themselves and their families, as well as to produce a marketable surplus, but who now do not do so;
2. Small farmers who cannot sustain the farm family without additional land or without supplementary income from non-agricultural activities;
3. The landless, some of whom migrate to larger towns and cities for off-season temporary employment.

Altogether, these categories contain some 700 million individuals. We do not now have all the information we need to identify the different groups in individual countries. We are, therefore, collaborating with the Food and Agriculture Organization on the development of a better data base and on obtaining a better understanding of the present and potential levels of productivity of individuals in each category.

You will recall that we stated that a reasonable overall productivity improvement objective was to increase production on the 100 million farms, with areas of less than 5 hectares, so that by 1985 their output would be growing by 5% per year, a rate more than double that of the 1960s. It is clearly an ambitious goal, but one whose achievement is made more urgent by the continuing food shortage in the developing world.

The Bank is determined to pursue this goal. But I should stress that what the Bank does is much less important than what governments do to deal with these issues. Progress will only be possible if the countries themselves are willing to make strong commitments to pursue agricultural strategies directed toward the promotion of new income and employment opportunities for the poorest groups. This will involve commitment to effective land reform, assurance of adequate credit at reasonable cost, and reassessment of pricing, taxation, and subsidy policies which discriminate against the rural areas. We are prepared to work closely with governments that wish to take such actions.

Already we see evidence that the objective of a 5% per annum increase in production can be realized. In the past year, we assisted in financing 51 rural development projects in 42 countries involving a total investment of almost $2 billion. These projects are expected to benefit directly at least 12 million individuals. They should generate increases in production of more than 5% per annum for the beneficiaries whose present incomes average less than $75 per capita.

During the next five years our lending to agriculture should double, supporting projects whose total costs will approximate $15 billion and whose direct benefits should extend to 100 million rural poor.

We expect the economic returns on these investments to exceed 15%. They would be similar to the following five projects which were approved by the Bank's Board of Directors in a single two-week period this summer.

- A $10.7 million credit for agricultural development in the southern region of the Sudan which will provide a higher standard of nutrition for some 50,000 farm families through expanded food crops; will assist an additional 13,000 farm families through new cash crops; and will benefit roughly half the region's total population of three million people through improved, disease-free livestock.
- An $8 million credit for a comprehensive rural development project in Upper Volta, covering extension services, small-farmer credit, improved water resources, and greater access to health facilities; a project calculated, in all, to benefit some 360,000 individuals, 7% of the country's total population in over 10% of the country's cultivated land area.
- A $21.5 million credit for a broadly based livestock development program in Kenya, including provisions designed to

assist traditional nomadic herders; to improve 10 million acres of communal rangeland; and to expand wildlife areas in order to lessen the conflict for food and water between wildlife and cattle. the program will enhance the incomes of 140,000 rural inhabitants.

- An $8 million credit for an integrated rural development project in Mali providing farm inputs and equipment; an expanded functional literacy program; improved medical and veterinary facilities; and an agricultural research program. The program will reach over 100,000 farm families — some one million individuals — with agricultural services that are projected to triple their per capita incomes.
- A $30 million credit for a comprehensive dairy development project in India, providing for an increase in production of a million tons of milk a year, as well as for 100,000 heifers; and organizing small cattle owners into 1800 dairy cooperatives which will directly benefit some 450,000 farm families — 2½ million individuals — the majority of whom own holdings less than two hectares in size, or are landless. The economic return of the project is estimated at more than 30% on the capital invested.

Last month the Board approved:

- A $10 million credit for a rural development project in one of the poorest regions in Tanzania to enhance the productivity, incomes and living standards of some 250,000 people — roughly half the entire rural population of the area — through improvements in agricultural practices and infrastructure investments for 135 newly-established villages. The project aims at doubling the per capita incomes of the villagers over a twelve-year period.

Many more similar projects are under preparation. For example:

- A project in the three northern states of Nigeria providing for the construction of 3500 kilometers of low-cost farm-to-market roads, 250 earth dams, 480 rural water supply ponds, and new marketing and credit services. It is designed to benefit 226,000 rural families — over one and one-half million people — by raising incomes substantially above their present level of $40 per capita per year.

- A project in one of the poorest regions of Northeastern Brazil to raise the productivity of 33,000 farms (which support 200,000 people) by increasing the number of extension agents; establishing demonstration farm plots; and introducing improved credit, marketing, health, and education facilities.
- A project in India's drought-prone areas which cover 250,000 square miles, and in which 66 million people live. It aims to diversify their production into activities less dependent on rainfall. The project includes minor irrigation works, watershed management, improved crop production methods, sheep and dairy development, credit facilities (especially to smallholders), applied research, and farmer training programs. A population of over one million will have their incomes increased as a direct result of the project. One hundred thousand man-years of additional employment will be generated.

Perhaps the most comprehensive project we are working on is an effort to assist the Government of Mexico in its nationwide program of rural development. It is designed to reach the lowest income groups, and would involve a total investment of $1.2 billion over a four-year period. The program grew out of the Government's realization that although the nation had achieved, over the last three decades, the highest sustained growth in agricultural production in Latin America, rural poverty appeared to have worsened in many regions throughout the country, especially in semi-arid zones. The economy had been unable to provide the growing rural population with productive employment.

The thrust of the new program is to provide productive investments in low-income rural areas through ?mall-scale irrigation, rainfed crop production, fruit and vegetable growing, and rural industries. These will be supported by associated investments in labor-intensive feeder road construction, water and soil conservation projects, and support services for the implementation of the Mexican land reform program. There will be provision, too, for social infrastructure, such as rural schools, water supply, health facilities, and electrification. This is, in fact, the most complex program with which the Bank has ever been associated.

It is true that the risks of failure are greater in rural development projects than in some of our more traditional investments. Complicated problems of technology, organization, land tenure, and human motivation remain to be resolved. And yet for the first time we are beginning to see substantial income and employment benefits within the reach of very large numbers of the rural poor, along with high economic returns to the national economy.

What is common to all these efforts within the Bank is an increased emphasis on innovative project design directed toward raising the productivity of the absolute poor, and toward helping them become greater participants in their country's progress. It is clear that development efforts of the past, both by governments and by the Bank, have simply not made an adequate contribution to the welfare of this huge and growing group. We must make sure that the unprecedented combination of events which is presently disturbing the world's economy — to which I now want to turn — does not distract our attention from this fundamental task.

III. RECENT ECONOMIC EVENTS

While the economic changes of the past year have been massive, the fact is that no one can see clearly yet either their extent or their duration. In such circumstances, projections of the future are bound to be uncertain. But they must be made if we are to initiate the long lead-time actions required to minimize the adverse effects of the changes, particularly those which are so seriously affecting many of the developing nations.

In this section I want to review the scope and interrelated nature of these events, with particular emphasis on worldwide inflation; changes in the prices of petroleum and other commodities; and the impact of these changes on the outlook for economic growth in the developed nations (which constitute the principal export markets of the developing countries). This discussion will be followed by a review of the effects of these events on the growth prospects and capital requirements of the developing countries through the remaining years of this decade.

Inflation in the Developed Nations

There has, of course, been a significant acceleration in the rate of inflation in the developed nations. It began before the rise in the prices of petroleum and other primary commodities, and it is only partially explained by them.

Index of International Prices[a]

	1956	1968	1972	1973	1974	1975	1980
Index (1967-69 = 100)	94	98	128	154	175	194	278
Percent change over previous year	2.3	–1.4	10.1	20.5	14.0	10.9	7.5

International prices, which had risen only 6% in the decade prior to 1968—less than 1% per year—have risen at an annual rate of nearly 10% in the five years since. The annual rate of inflation will surely decline from the 1974 level of 14% but could well average more than 7% for the period 1976-80.

Inflation benefits virtually all of the developing countries by reducing the burden of their debt service in relation to the value of their exports. However, for many of them—and especially the poorest—this benefit will be more than offset by the deterioration in their terms of trade.

Furthermore, inflation has already eroded the value of the concessionary aid which they receive. Most governments have not increased the amounts appropriated for Official Development Assistance (ODA) to offset inflation. ODA has declined, therefore, from 0.34% of the GNP of OECD countries[b] in 1972 to 0.30% in 1973 and is likely to fall further in the years ahead.

Petroleum Price Increase

Contributing to world inflation during the past twelve months has been the increase in the price of petroleum. Relative to export prices of manufactured goods, it has risen by four hundred percent. Although there had previously been a slow, long-term decline in petroleum prices which called for correction, the

[a] An index of capital goods and manufactured exports prices of major developed countries. The index also reflects changes in exchange rates.

[b] Twenty-four developed countries which are members of the Organisation for Economic Co-operation and Development.

recent action has resulted in a price that is more than twice as high as it has been in the postwar period in relation to other commodities.

Since imported oil has provided the principal increase in world energy supplies in recent years and cannot rapidly be replaced by other sources, the effect of the price rise is a global imbalance of payments of unprecedented magnitude. Although the export surplus of the members of the Organization of Petroleum Exporting Countries (OPEC) will be offset in part by rapidly rising imports and perhaps by a reduction in oil prices, a substantial trade imbalance is likely to persist at least through the end of the decade.

I am concerned here not with the decision to increase the price of oil, but rather with its consequences for the less developed countries. There are two:

- The cost of their current volume of oil imports has been increased by some $10 billion, which is 15% of their total import bill, and equal to 40% of the entire net inflow of external capital last year. As a result the countries least able to finance this cost increase have already had to curtail their development programs.
- By the end of the decade some of the OPEC countries are likely to have a continuing balance of payments surplus totalling some $30-60 billion per year (in 1974 prices), the amount depending on their absorptive capacity and price policies as well as the success achieved by oil-importing countries in developing other sources of energy. Of this surplus, roughly a quarter — $8-15 billion in 1974 prices — would be directly with the other developing countries. The remaining $22-45 billion of the surplus would be with the developed countries. Such an imbalance would be so large as to exert a cumulative strain on the economies of the developed nations and on international financial markets, making it more difficult for developing countries to expand export earnings and to finance their balance of payments deficits.

Other Commodity Price Changes

Prices of other primary products — prices which had remained fairly stable from the 1960s to mid-1972 — have been increasing very rapidly since then. The high prices of commodities exported by developing countries in 1973 reflected the high level of demand prevailing in a period of exceptionally rapid growth in almost all industrial nations. The failure of wheat and rice crops in widespread areas of the world in 1972 and 1973 also had far-reaching effects on prices of cereal grains. Although some developing countries have benefitted from the recent commodity boom, only a small number of them — principally mineral producers — is likely to continue to do so for the remainder of the decade.

Beyond 1974, price projections for primary commodities depend on the assumptions made about growth in the industrial countries, the major markets for such products. Since, as will be discussed below, the growth prospects in these markets for the remainder of the decade are less than they were in the 1960s and the early 1970s, the prices of most primary commodities are not likely to be very buoyant in the years ahead.

Effect of Price Changes on the Terms of Trade

The net effect of the increase in the prices of petroleum and other primary commodities, together with widespread inflation in the industrialized nations, will be a substantial change in the terms of trade of the developing countries — that is, in the relationship between the prices of their exports and imports.

Terms of Trade: 1973 vs 1980
(1967-69 = 100)

	Population (in millions)	Terms of Trade 1973	Terms of Trade 1980
Developing Countries:			
1. Major Oil Producers	300	140	350
2. Mineral Producers	100	102	102
3. Other Developing Countries			
A. With per capita incomes over $200	600	104	95
B. With per capita incomes under $200	1,000	95	77
Total	2,000		
OECD Countries	600	99	89

For the average of all primary commodity exports, 1973 represented a return to the peak price levels of the Korean War.

However, this commodity boom has benefitted mainly the richer primary producers, while the poorest suffered both in their terms of trade and in their export volumes. By the end of the decade, as indicated in the table above, there is likely to be a decline in the terms of trade of virtually all of the developing countries, with the exception of the petroleum and mineral producers. The poorest countries will in general be the most severely affected. They are likely to suffer a decline of over 20%. As a result, even with expanding export volumes, there will be little increase in the purchasing power of their exports in the face of rapidly increasing import requirements.

The Outlook for Economic Growth in the Developed Countries

The industrialized nations have reacted to the rise of petroleum prices and other commodity prices, and to the worldwide inflation, in ways which have reduced their growth rates. Although they have been pursuing policies designed to adjust to the higher costs of energy and to the other inflationary forces, with minimum impact on production and employment, some slowdown of their economies following a period of very high growth was inevitable.

The sharp increase in the cost of petroleum was bound to lead to basic shifts in the structure of their economies, while the sharp rise in balance of payments deficits and the higher levels of inflation have exacerbated the already complex problems of managing the international financial system. All of these factors will continue to have an impact on the growth rates of the OECD countries. The effect to date is shown by the table below.

Rates of Real Growth of OECD Countries
(Gross National Product)

1960-70 (average annual)	4.9%
1972	5.8
1973	6.7
1974	1.3

In comparison to growth rates of 5 and 6% in past years, present indications are that the GNP of the OECD countries in 1974 is growing at only 1.3%.

As for the future, a return to the 5% rate of growth realized in the 1960s would require both effective measures to reduce inflation without reducing production, and, equally important, the orderly recycling of the surpluses of the OPEC countries to finance the structural deficits of the industrial countries. Given the difficulties of achieving these objectives, it is only prudent to consider the effects on the developing countries of a drop in GNP growth in the OECD countries to, say, 3.5% or 4.0% for the remainder of the decade.

The adverse effect on the developing countries of such a reduction in economic growth in their major markets would be great. There is a strong relationship — almost 1 to I — between changes in the growth rate of the OECD countries and that of the oil-importing developing nations. This is not surprising. Exports to OECD countries constitute 75% of the total exports of those nations. A diminished growth rate in the OECD countries translates very quickly into reduced demand for these developing nations' exports, leading in turn to a reduced capacity to import, and hence to lower rates of growth.

IV. CONSEQUENCES OF RECENT EVENTS FOR THE DEVELOPING COUNTRIES

Any one of the events described above — the deterioration in the terms of trade, worldwide inflation, the increase in the price of oil, the slowdown in the rate of growth of the OECD countries — would have had a serious impact on the developing nations. In combination, the effect on some nations has been near disaster. The trade deficit of all the oil-importing developing nations will more than double this year to approximately $20 billion, and, if they are to maintain even minimum economic growth, it will continue to rise for the remainder of the decade.

Moreover, if present trends continue, Official Development Assistance, as a percentage of GNP, will continue to decline, and may not even increase sufficiently to offset the effects of inflation. Furthermore, unless steps are taken to expand the supply of capital on intermediate and market terms to the more creditworthy developing countries, they will have difficulty competing with the OECD countries in international markets for the funds necessary to finance their increased trade deficits.

If we were to assume that capital flows to the developing nations, with some adjustments for inflation, would rise from

$20 billion to as much as $33 billion between 1973 and 1980, including an increase in Official Development Assistance from $10 billion to as much as $17 billion — assumptions which are probably optimistic and which I will examine in greater detail in a moment — it is estimated that the growth rates for the developing nations would be as shown in the table below:

Developing Country Rates of Growth Per Capita

Developing Countries by Group	Population (in millions)	GNP Growth Per Capita Average 1965-73	GNP Growth Per Capita Average 1974-80
1. Major Oil Producers	300	5.4%	8.4%
2. Mineral Exporters	100	1.2	3.8
3. Other Developing Countries:			
A. With per capita incomes over $200	600	4.3	3.4
B. With per capita incomes under $200	1,000	1.1	−0.4
Total	2,000		

As is apparent, the growth rates projected for all of the developing nations, other than the petroleum and mineral exporters, are substantially below the levels which were thought likely only a few months ago.

Some countries — for example, Thailand and the Philippines whose reserves have benefitted from buoyant export prices, or Turkey and Yugoslavia which have received substantial remittances from their workers abroad — can partially finance the heavy 1974 trade account deficits and can avoid severe deterioration of their growth rates. The prospects of other countries such as Korea and Brazil, which have been steadily expanding their export of industrial goods, are much better than those of countries dependent on agricultural exports.

The major impact is on the poorest nations. The rising prices of imported petroleum, fertilizer, and cereals; the slack demand for their exports to developed countries; and the erosion by inflation of the real value of development assistance, all have dealt severe blows to the growth aspirations of the poorest members of the Bank. These nations, with a population of one billion, and incomes averaging less than $200 per capita, on the most likely set of assumptions regarding commodity prices, capital flows, and growth rates in the OECD countries, would suffer an actual decline in their per capita incomes. The effect of this on the already marginal condition of life of the poorest 40% within these countries is an appalling prospect.

The countries thus affected are mostly in South Asia and Africa. Consider the following cases:

- INDIA: Higher oil prices will add $800 million to India's import bill this year—an amount equivalent to roughly two-thirds of her entire foreign exchange reserves, over 25% of her total exports, and far in excess of the previously projected net resource transfer. Price increases for nitrogenous fertilizer—and India is the world's largest importer of this essential ingredient of increased agricultural production—will add another $500 million; and higher prices for essential foodgrain imports still another $100 million.
- SRI LANKA: Despite large cuts in food rations, in 1974 cereal grain import costs will rise by $100 million, fertilizer by $40 million, and petroleum by $100 million. And stagnating world prices of tea—Sri Lanka's major export—have in effect locked the country into a long-term deterioration in its terms of trade.
- BANGLADESH: Devastated by both flood and war, the country has had to devote most of its imports to essential reconstruction and minimum food requirements. It has been unable as yet to mount a sustained development program which its more than 75 million people desperately require. To do so it would have to increase its imports substantiajly, and yet this year alone the new oil prices will add $70 million to its costs, and food and fertilizer price increases an additional $100 million.
- The SAHELIAN COUNTRIES OF AFRICA: Due to the most devastating drought in their history, Mali, Niger, Upper Volta, Mauritania, Senegal, and Chad have been unable to take advantage of the favorable world prices of their chief exports: groundnuts, cotton, and livestock. The surge in petroleum prices has driven the cost of their essential fuel imports from 10% of their export earnings to 30 or 40%, at

the same time that their food import requirements — literally to stave off mass starvation — have risen drastically.

The East African countries of Tanzania, Somalia, and Kenya are also facing severe balance of payments pressure.

V. MEASURES TO SPEED THE ADJUSTMENT PROCESS

To assist the developing countries in meeting the cumulative impact of these problems, the Bank has examined the internal and external adjustments which might be undertaken to minimize the setback to development summarized in the tables above.

Much must be done by the developing countries themselves, particularly in restructuring their patterns of use and procurement of energy and even more in expanding their production of cereal grains.

Restructuring Patterns of Use and Production of Energy

The impact of the petroleum price increases on the balance of payments of the developing nations could be diminished, of course, if they could reduce their consumption of imported petroleum. This could result either from a reduction in their consumption of energy in general, or through a shift from imported petroleum to domestic sources of energy supply.

While greater efficiency and conservation in energy use may be feasible in some cases, the amounts involved will be small. On average, the one billion people in the countries with per capita incomes below $200 consume only about 1% as much energy per capita as the citizens of the United States. Reduction of energy consumption in those countries in any significant degree can only lead to reductions in industrial and agricultural production, and a lowering of the standards of living for the masses of the population.

The outlook for substituting other forms of energy for petroleum is brighter. It will be possible in many countries, for example, India, Pakistan, Brazil, and Turkey, to generate power using alternative energy sources. Petroleum-based plants can be replaced with hydropower, geothermal power, or with coal, lignite or nuclear fuel plants. But even in countries where these alternative energy sources are available (and in some, such as Kenya and Upper Volta, this is a very uncertain prospect), exploiting these sources will require time-consuming geological or hydrological surveys and very large additional capital investments.

Moreover, the resources to be used for these investments must be drawn away from other projects, thereby reducing the countries' development programs. And in any event, it will be from 5 to 7 years before such facilities for energy production can become operational and begin to offset the increased foreign exchange costs of petroleum imports.

Expanding the **Production of Food Grains**

Although there has been a reasonable long-run balance between supply and demand of food grains for the world as a whole, there has been a serious and growing shortage of food production in the developing countries. Unless remedial action is taken, the situation will become much worse. The principal reasons for the shortage have been the rapidly expanding population in these countries and their failure to achieve satisfactory levels of agricultural productivity.

Were present trends to continue, it is estimated that the cereal grain import requirements of the developing nations could double between 1970 and the middle of the next decade. By that time those countries would be seeking to import 70 to 80 million tons per year, and the foreign exchange required each year could reach $20 billion. This additional requirement could not be met from any reasonable projection of export earnings or capital inflows. There is only one answer to this problem: the 2.9% rate at which the developing countries have increased their output of food grains over the past two decades must be increased substantially.

This can be done. Grain yields in the developing countries are no more than 40% of the yields in the developed countries. The developing countries do have the potential to increase their agricultural productivity. But that potential cannot be realized unless the developing countries themselves initiate action on a wide front, including measures to expand the cultivated areas under irrigation, promote the availability and use of fertilizer, and maintain a price structure which provides farmers with adequate incentive to grow more food. These are the prerequisites to increasing productivity, and they will require substantial sums of capital.

Investments in world fertilizer capacity have been inadequate 'to cope with the sharp increase in the demand for fertilizers in the major grain-exporting countries of the OECD, and in the developing countries which have been modernizing their agriculture. The developing countries' share in total world consumption of fertilizers has increased from 10% in 1961 to about 17% today, and it is projected to increase further to 25% by the end of the decade.

We estimate that by 1980 the demand for nitrogenous and phosphatic fertilizers in the developing countries will exceed 22 million metric tons annually, only half of which can be produced with their existing capacity and its currently planned expansion. To add 11 million tons of additional production capacity would require an investment of some $6 to $10 billion.

Many developing nations have already initiated action to conserve energy and to explore alternatives to continuing increases in petroleum imports. Some have started to reduce their dependence on imported foodgrains. But years will pass before these efforts bear fruit. In the meantime, the higher import costs of petroleum, food grains, fertilizer, and manufactured goods will place a heavy burden on their balance of payments and reduce their savings available to finance investment. Unless these requirements are met by additional capital flows, the result will be further declines in their rates of growth.

This brings us to a discussion of the volume of capital required, in particular by the poorest developing countries, to prevent this outcome.

VI. CAPITAL REQUIREMENTS

Earlier I stated that were we to assume that capital flows to the developing nations would increase from $20 billion to $33 billion between 1973 and 1980, with Official Development Assistance rising from $10 billion to $17 billion, growth rates during these years for the developing nations (excluding the petroleum and mineral exporters) would average 3.4% per capita for the countries with individual incomes over $200 and would actually decline for those with incomes below $200. It is time to examine that assumption (shown as Case I in the following tables) and to consider alternatives.

The 3.4% per capita rate of growth projected for the middle and high income countries is far from satisfactory, and the decrease of .4% projected for the poorer countries is totally unacceptable. Were we to raise these rates by planning on a 4% per capita growth for the countries with incomes over $200 and a rate one-half of that for those with incomes of $200 or less, we estimate that the capital requirements by 1980 would rise by 60%. Total capital required would increase from $33 billion to $53 billion. ODA would have to rise to $24 billion, a huge sum, but a sum which would still be no larger than its present share of the donors' projected CNP. These data are shown in Case II.

Table I
Developing Country Rates of Growth Per Capita

		GNP Growth Per Capita		
			Average 1974-80	
Developing Countries by Group	Population (in millions)	Average 1965-73	Case I	Case II
1. Major Oil Producers	300	5.4%	8.4%	8.4%
2. Mineral Exporters	100	1.2	3.8	3.8
3. Other Developing Countries:				
A. With per capita incomes over $200	600	4.3	3.4	4.0
B. With per capita incomes under $200	1,000	1.1	−0.4	2.1
Total	2,000			

Table II
Net External Capital Flow Required to Achieve Growth Rates in Table I
(Amounts in billions of dollars)

		1980	
	1973	Case I	Case II
ODA—Amount	$ 9.4	$16.7	$24.4
% of Donor GNP	.30%	.20%	.30%
Other Concessionary Aid	$ 1.9	$ 5.5	$ 5.5
Market Terms Borrowing	$ 8.8	$10.8	$23.6
Total Net External Capital Flow	$20.1	$33.0	$53.5

Two-thirds of the increase in the capital required from 1973 to 1980 is needed simply to compensate for the higher prices of commodities and services imported by the developing countries.

Are such capital flows attainable?

In considering the question, I want to emphasize two points:

- First, the substantial increase in market terms borrowing that the middle and higher income developing countries must undertake — efforts which can succeed only if the recycling mechanisms make special provision for the very large capital requirements of these countries as well as for those of the developed nations.
- And second, the alarming rate at which inflation is eroding ODA flows and the failure to compensate for this because of what might be termed the "money illusion" — that is, failing to recognize that in periods of rapid inflation the same number of dollars, at different moments of time, do not represent the same real values.

While the rapid growth of the Eurocredits extended to the developing countries in the recent past is striking, the total market borrowing by these countries was heavily influenced by the amounts lent to a few of the nations' with a high credit standing. More than $3.3 billion out of the total of $8.8 billion raised in 1973 by the developing countries went to just three nations — Mexico, Brazil, and Peru —and an additional $2.1 billion went to the oil- and mineral-exporting countries. Very little was loaned to Turkey, Korea, the Philippines, Thailand, and other middle income countries which will need large amounts of such capital in the future.

To support Case II, the amount of $8.8 billion raised in 1973 would have to increase to $15 billion within the next two years and to some $24 billion in 1980; and the number of borrowers would have to increase significantly.

It is to be hoped that the international banking community will recognize that many of the developing nations, if assisted to make the structural adjustment necessary to realize their long-term growth potential, represent excellent opportunities for profitable placement of surpluses, particularly those generated initially in the OPEC countries. But, as I suggested before, one cannot be sanguine about the prospects of increased borrowing by the developing countries from the Eurocredit markets unless the developed countries provide some support to those markets. The developing countries will face heavy competition from the developed countries seeking to draw on OPEC surpluses to finance their own balance of payments deficits.

Market borrowing has not been a source of funds open to the lower income countries. These nations must depend mainly on concessionary flows, principally ODA. And it is in relation to ODA that the effects of the "money illusion" become most apparent.

Actual and Projected Flows of Official Development Assistance
(Amounts in billions of dollars)

									1980	
Total	1960	1965	1970	1971	1972	1973	1974	1975	Case I	Case II
In Current Prices	4.7	5.9	6.8	7.8	8.7	9.4	10.7	11.9	16.8	24.4
In 1973 Prices	7.7	9.0	9.3	10.0	10.0	9.4	9.4	9.5	9.3	13.5
As % of GNP	.52	.44	.34	.35	.34	.30	.30	.29	.20	.30
ODA Deflator	61	65	73	78	86	100	114	126	181	181

In the past ten years, ODA in relation to CNP has decreased by one-third. Today it is running at scarcely 40% of the .7% target. Since that objective was established by the United Nations General Assembly in 1970, there has been no increase, in real terms, in the concessionary flow despite a 12% increase of GNP in the donor nations. The reason, I believe, is clear: legislatures fail to recognize that the 62% increase between 1970 and 1974 in the money value of the ODA which they have appropriated not only contributes nothing toward attaining the .7% objective, but just barely maintains the real value of the 1970 level of assistance.

The most important single step the developed nations could take to assist the one billion people of the poorest countries would be to recognize that the effects of inflation alone require—and will continue to require--major increases in the appropriated money values of Official Development Assistance.

The OPEC countries are beginning to help meet the capital requirements of the developing nations, including making contributions to ODA which are larger in proportion to gross national product than those of the OECD nations.

Excluding Indonesia and Nigeria which are not in a position to export long-term capital, the projected change in the financial position of the OPEC countries, between the years 1973 and 1980 is shown in the following table:

Projected Change in the Financial Position of the OPEC Countries
(Excluding Indonesia and Nigeria)

	1973	1980
OPEC GNP — Amount	$76 billion	$411 billion
% of OECD GNP"	2.5%	5.0%
GNP per capita — OPEC	$ 951	$ 4240
OECD"	$4735	$11980
OPEC Foreign Exchange Reserves and External Investments	$24 billion	$624 billion
OPEC Income on External Investments	$ 2 billion	$ 40 billion

The data show that the OPEC countries will be highly liquid in 1980, although their GNP will be but a small fraction of that of OCED countries, and their per capita incomes, on average, substantially less. In these circumstances, it can be expected that they will divert a portion of their liquid funds to the financing of the ODA increases required by the poorest countries. But a far larger portion of the OPEC surpluses will no doubt be used to finance the very large capital requirements of the middle and higher income nations.

The OPEC countries have already taken a number of initiatives which may lead to an increase in the flow of their development aid. These range from Iran's and Iraq's agreements to supply India with specified quantities of oil on deferred payment terms, to the creation of the Saudi Arabian Development Fund, and the very substantial expansion of the Kuwait and Abu Dhabi Devel-

"The **OPEC GNP** figures are not strictly comparable with those of the **OECD** countries. The former include a high proportion of income from the production of non-replaceable assets for which no depreciation allowance has been provided. Were this factor to be taken into account, **OPEC** per capita **GNP** in 1980 would probably be 30% less than shown.

opment Funds. But many of these initiatives will take time to organize and to staff. Disbursements are, therefore, likely to be slow. The World Bank has offered its assistance to these institutions to accelerate the flow of funds.

VII. THE CONTRIBUTION OF THE WORLD BANK CROUP FOR FISCAL YEARS 1975-79

The net effect of the events we have discussed is a dramatic increase in the capital required by the developing nations for the achievement of even modest rates of growth during the remaining years of the decade. The present plans of the OECD and OPEC countries do not indicate that sufficient capital will be available. Under these circumstances I believe the World Bank Group must expand its lending to the maximum permitted by prudent financial management and the availability of funds. The program which I have presented to our Board of Directors for their consideration is a first step in that direction.

It provides for total lending in the five fiscal years 1975-79 of $36 billion. The program which the Board has approved for FY75 contemplates commitments totalling $5.5 billion, compared to $4.5 billion in the fiscal year just ended, and $3.5 billion in the year before that.

The total of $36 billion for the five years compares with $16 billion for the previous period (FY1970-74). However, the increase of $20 billion — 125% in money terms — provides for an increase of only 40% in real terms (7% per annum).

At Nairobi, the negotiators of the countries contributing to the International Development Association (IDA) believed that their pledges of $4.5 billion for the 4th Replenishment period would provide an increase of 55% over the level of the 3rd Replenishment. Already that expected increase has been more than offset by actual or projected inflation. It now appears that the 4th Replenishment, in real terms, will be slightly smaller than the 3rd. To minimize the impact of this loss of value, we propose to shift the allocation of scarce IDA resources in such a way as to concentrate them on the countries most seriously affected by the recent economic developments. We intend to give priority in these countries to raising agricultural production in general and the productivity of the rural poor in particular.

The proposed Bank Group program is large. It will require net borrowing during the five years of over $13 billion. Much of that amount can, I believe, be borrowed from OPEC countries. They have been most cooperative with the Bank and in recent months we have received loan commitments from them totaling $2 billion. But as large as the Bank program is, in combination with the other funds which the OECD and OPEC countries indicate they plan to make available to the developing countries, it is totally inadequate to meet minimum development objectives.

I strongly recommend that the proposed Joint Ministerial Committee, as its first item of business, appraise the needs of the developing nations for additional capital and examine possible sources of funds to meet those needs. The formation of the Committee offers a new and welcome opportunity to focus the attention of the world's governments on the progress, or lack of progress of the developing nations, as well as the progress, or lack of progress of the richer countries in meeting their responsibility to support development in those nations.

VIII. SUMMARY AND CONCLUSIONS

Let me now conclude by summarizing the central points I have made this morning.

Although there are many ingredients that have contributed to the current economic turbulence, there are at least three principal and interrelated factors which are of major significance for the development scene.

One, of course, is inflation. Itself the troublesome child of many forces, inflation not only penalizes the poor proportionately more than the rich, and severely erodes the value of Official Development Assistance, but in leading to lower growth rates in the developed nations it threatens to reduce demand for the developing countries' exports, as well as to trigger protectionist tendencies.

The second factor is the sudden surge in the price of petroleum. Though it has contributed to balance of payments problems in many nations, it has fallen with the greatest severity on the poorest countries. They possess neither the flexibility of the developed nations to readjust trade and investment, nor the margin to reduce consumption.

And the third factor is the general boom in most other primary commodities. This has clearly benefitted some developing countries. But it has also created further difficulties for the poorest. nations whose exports simply cannot offset the price increases for fertilizer and food, which, in combination with the increases in oil and manufactured goods, have substantially reduced their. terms of trade.

If, then, we survey the development scene as a whole, it is evident that countries with some 20% of the population of the nations we serve have registered a net gain: the oil-exporting countries and some of the mineral producers.

For certain other developing countries, representing about 30% of the total population, the long-run outlook is good although they face serious problems of adjustment to the new conditions. Most of them are in the middle and upper income categories of developing nations. They should be able to borrow much of what they need on the world capital markets if the recycling mechanism is designed and managed with their needs in mind. In addition, they will need large sums on intermediate terms and the Bank must expand its program to help meet this requirement.

But for the poorest of our member countries — countries that represent fully half of the total population of all the nations we serve, countries containing one billion human beings — the situation is desperate.

Almost every element in the current economic situation has worked to their disadvantage, and has been compounded even further for many of them by the natural disasters of flood, drought, and crop failures.

These countries, then, need additional assistance on concessionary terms, and they need it promptly: $3 to $4 billion more per year in the remaining years of the decade.

Can such assistance be mobilized in the current economic environment — an environment in which the real per capita incomes of many of the largest donors have decreased in the past twelve months and in which all traditional donors face severe inflation, unacceptable unemployment, and uncertain growth prospects?

I believe it can—and I believe it must.

The world has not suddenly lost its wealth. The OPEC countries have gained huge amounts, and the traditionally wealthy nations continue to be wealthy. They are less wealthy than they hoped to be at this time, but they are more wealthy than they were as recently as twenty-four months ago, and immeasurably more wealthy than the nations of the developing world.

What, after all, really constitutes wealth? And what more fundamental measures of wealth are there than the levels of nutrition, literacy, and health? It is in these terms that the average citizen of a developed nation enjoys wealth beyond the wildest dreams of the one billion people in the countries with per capita incomes under $200: his caloric intake is 40% greater; his literacy rate is four times higher; the mortality rate of his children is 90% lower; and his own life expectancy 50% more. Are there any more basic terms in which to compare the wealth of the developed and developing nations?

The developed nations, understandably preoccupied with controlling inflation, and searching for structural solutions to their liquidity imbalances, will be tempted to conclude that until these problems are resolved, aid considerations must simply be put aside.

But aid is not a luxury — something affordable when times are easy, and superfluous when times become temporarily troublesome.

It is precisely the opposite. Aid is a continuing social and moral responsibility, and its need now is greater than ever.

It is true that the affluent nations in the face of shortages and inflation, and in order to continue to expand aid, may have to accept for the time being some selective reduction in their already immensely high standard of living. If they have to, they can absorb such inconveniences.

But for the poorest countries such a downward adjustment is a very different matter. For them downward does not mean inconvenience, but appalling deprivation. And for millions of individuals in these countries downward means simply the risk of death.

The problem, then, is not that the developed nations have suddenly lost their capacity to assist those countries most in need. They have not. The amounts of additional financial assistance that would mean the difference between decency and utter degradation for hundreds of millions of the absolute poor are, in relative terms, minute — perhaps 2% of the increase in real income the developed world can look forward to in the remaining years of the decade.

The basic problem, then, is a philosophical one—a problem of values.

Will 1974 be best remembered as the year prices exploded? Or will it, perhaps, be better remembered in the longer perspective of history as the year when the word interdependence stopped being rhetoric, and started being reality?

One thing is certain: the development task has not diminished. It has only become more urgent. The responsibility of us all is to get on with it.

Flow of Official Development Assistance Measured as a Percent of Gross National Product[a]

	1960	1965	1970	1971	1972	1973	1974	1975	1980[d] Required for Case I	1980[d] Required for Case II
Australia	.38	.53	.59	.53	.59	.44	.53	.54		
Austria		.11	.07	.07	.08	.13	.13	.13		
Belgium	.88	.60	.46	.50	.55	.51	.56	.62		
Canada	.19	.19	.42	.42	.47	.43	.51	.51		
Denmark	.09	.13	.38	.43	.45	.47	.49	.50		
France	1.38	.76	.66	.66	.67	.58	.55	.51		
Germany	.31	.40	.32	.34	.31	.32	.30	.28		
Italy	.22	.10	.16	.18	.09	.14	.10	.08		
Japan	.24	.27	.23	.23	.21	.25	.24	.24		
Netherlands	.31	.36	.61	.58	.67	.54	.61	.65		
New Zealand[b]					.23	.27	.36	.47		
Norway	.11	.16	.32	.33	.41	.45	.63	.65		
Portugal	1.45	.59	.67	1.42	1.79	.71	.47	.42		
Sweden	.05	.19	.38	.44	.48	.56	.69	.70		
Switzerland	.04	.09	.15	.11	.21	.15	.15	.15		
United Kingdom	.56	.47	.37	.41	.39	.35	.34	.32		
United States[c]	.53	.49	.31	.32	.29	.23	.21	.20		
GRAND TOTAL										
—ODA $ millions (current prices)	4665	5895	6832	7762	8671	9415	10706	11948	16760	24400
—ODA 1973 prices	7660	9069	9346	9976	10059	9415	9391	9452	9259	13480
—GNP $ billions (current prices)	898	1340	2010	2218	2550	3100	3530	4100	8200	8200
—ODA as % GNP	.52	.44	.34	.35	.34	.30	.30	.29	.20	.30
—ODA Deflator	60.9	65.0	73.1	77.8	86.2	100.0	114.0	126.4	181.0	181.0

[a] Countries included are members of OECD Development Assistance Committee, accounting for more than 95% of total Official Development Assistance. Figures for 1973 and earlier years are actual data. The projections for 1974 and 1975 are based on World Bank estimates of growth of GNP, on information on budget appropriations for aid, and on aid policy statements made by governments. Because of the relatively long period of time required to translate legislative authorizations first into commitments and later into disbursements, it is possible to project today, with reasonable accuracy, ODA flows (which by definition represent disbursements) through 1975.

[b] New Zealand became a member of the DAC only in 1973. ODA figures for New Zealand are not available for 1960-71.

[c] In 1949, at the beginning of the Marshall Plan, U.S. Official Development Assistance amounted to 2.79% of GNP.

[d] Case I leading to a –0.4% change in GNP per capita per annum in countries with incomes of under $200 per capita would require ODA of $16.7 billion (.20% of DAC GNP) in 1980; Case II with 2.1% growth in GNP per capita would require $24.4 billion (.30% of DAC GNP) in that year.

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