ADDRESS TO THE
BOARD OF GOVERNORS

by

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I. INTRODUCTION

If one surveys what has taken place in the developing world since we last met in this forum, there are, I believe, two important points that emerge.

The first and more obvious one is that the immediate economic outlook, although still clouded, has measurably improved.

You will recall the situation twelve months ago.

The 1975 performance figures for the developing nations were in, and confirmed that their average GNP growth rate did not exceed 3.7%, down sharply from the averages of the 1960s.

The per capita income of the poorest nations—inadequate in the best of years—had simply stagnated.

The middle-income developing nations were faced with mounting external debt, and stubborn problems of adjustment.

And serious difficulties threatened the future operations of the World Bank itself: there were repeated delays in the IDA-V negotiations, and considerable uncertainty over the IBRD capital increase.

It was not a very reassuring situation.

Today, as we meet, the prospects are brighter.

The 1976 performance figures indicate that the average growth rate of the developing countries moved up to 4.7%.

And with the negotiations of IDA-V now successfully concluded, and a broad consensus that there should be both an increase in real terms in the IBRD’s lending program, and an expansion of the capital structure, the uncertainties over the World Bank’s future financial operations are now largely resolved.

There are, then, discernibly better prospects for the period ahead than there were twelve months ago.

And yet beneath this immediate and short-term improvement in the global development scene—and partially obscured by it—lies a more profound and troubling problem.
It is this.

A certain restive and uneasy interlude has followed on the international community's unsuccessful efforts to reach fundamental agreements. There is a pervasive and growing sense of dissatisfaction with the outcome of the lengthy discussions that have taken place over the past two years in various international forums.

The Seventh Special Session of the U.N. General Assembly, the UNCTAD IV Meeting in Nairobi, the protracted North-South Dialogue in Paris, these and a number of other efforts have all come, and gone.

And yet the most urgent issues remain largely unresolved.

Some partial agreements have been reached, some differences have been narrowed, and some willingness to compromise has emerged.

But it is evident that neither the developed nor the developing nations, neither the capital-surplus nor the capital-deficit countries, neither the North nor the South are really satisfied with the outcome. The atmosphere today is at best one of regret and disappointment, and at worst one of frustration and disillusionment.

It is not a promising climate in which to achieve what is needed most of all: a basic understanding of development issues and how to resolve them.

Now, there are two types of actions that can be taken to improve that climate.

One is to prevent the political aspects of the situation from hardening further into stalemate.

That, of course, is essentially a political matter, and as such beyond the mandate of the Bank itself. And it was for this reason that last January I suggested that there be organized a wholly independent, high-level, but deliberately unofficial commission of experienced political leaders—drawn from the developed and developing countries alike—that could assess and recommend feasible alternatives to the current North-South deadlock.
I recommended that someone of the political experience and stature of Willy Brandt, former Chancellor of the Federal Republic of Germany, be the convener and chairman of such a commission.

I continue to hope that Herr Brandt will accept the task, assemble a distinguished group of commissioners, recruit an expert staff, and begin the work.

It would be an important effort to help remove the roadblocks to more effective international development cooperation.

And there is a second type of action that would be useful today: action that would be ongoing and complementary to the political effort.

What is needed is a comprehensive and continuing analysis of development problems: a practical and sustained effort to integrate the diverse components of development experience into a more understandable pattern; an effort to explore and evaluate the critical linkages among such components, linkages that often interact in strongly supportive or seriously disruptive ways not readily apparent; an analysis that would clearly state the costs and benefits to both developed and developing countries of alternative ways of dealing with the central issues.

The truth is that the lack of such systematic, detailed knowledge often makes it difficult for governments to design appropriate long-term development policies with full understanding of their broader impact. The result is that effective international cooperation is hampered.

A good illustration is the population issue. The international community is only now gradually beginning to understand the complicated interrelationships between certain very specific development policies and fertility trends. The critical linkages are there, and have been for years, but even today we have only a dim and tenuous grasp of them. The inevitable result has been piecemeal and inefficient population programs nearly everywhere. And the Bank itself has been no exception to this.

What is true of the population issue is true of many other fundamental problems in development.
The international community today has no fully adequate analytical mechanism for assessing complex development phenomena and hence no fully adequate means of evaluating alternative ways of dealing with them. Nor does it have a satisfactory yardstick by which to measure progress in the cooperative effort.

Earlier this year a number of political leaders of both developed and developing countries proposed that the World Bank should initiate work on such a project—on what might be termed a “World Development Report.”

I believe the proposal has merit.

I have discussed it with the Executive Directors of the Bank, with the Chairman of the Development Committee, with the management of the IMF, and with other interested parties.

This morning I want to explore it further with you. But before doing so, I would like to examine some of the fundamental development issues that need to be integrated into such a general framework.

Specifically, I want to:

• Briefly review what we can learn from the past record of development;

• Discuss the elements of an effective strategy to accelerate economic growth in both the poorest and the middle-income developing countries;

• Suggest how the benefits of that growth can be better channeled to meet the basic human needs of the absolute poor;

• Indicate for the near term the projected financial operations of the Bank required to support accelerated growth and the attack on absolute poverty;

• And, finally, outline the initial steps that can be taken to organize the proposed “World Development Report.”

Let me begin, then, with what we can learn from the past record.
II. THE PAST RECORD OF DEVELOPMENT

It is a very impressive record.

Indeed, historically, it is without precedent. Never has so large a group of human beings—two billion people—achieved so much economic growth in so short a time.

In the quarter century from 1950 to 1975 the average per capita income of the developing world grew at over 3% a year. The present industrialized countries, at a comparable stage in their own development, required a much longer time to advance as far, and attained an annual per capita income growth of only about 2%.

Nor was the achievement exclusively economic. Important social progress was made as well. Average life expectancy, for example, was expanded from about 40 years to 50 years. Though 50 is still 30% lower than the longevity currently enjoyed in the industrialized nations, it took Western Europe a century to achieve what the developing nations did in 25 years.

So successful were the developing countries in reducing their death rates—by either eradicating or severely reducing a number of major diseases—that as an unintended result, their populations began to grow at unacceptably high rates.

In the period 1950-1975 more people were added to the population of the developing world than the present total population of the developed world. It was the demographic effect, not of expanded birth rates, but of diminished death rates.

Excluding the People’s Republic of China, the population of the developing countries increased from 1.1 billion in 1950 to 2 billion in 1975: an annual rate of growth of 2.4%—about double the rate in the developed countries.

That birth rates must come more rapidly into balance with death rates is an urgent imperative of our era, and I have outlined the complex dynamics of this problem in a statement at the Massachusetts Institute of Technology earlier this year.

*I am indebted to David Morawetz for his perceptive study of this subject.
But the fact remains that it was a staggering feat for the developing world to absorb 900 million people into their population in so short a time, and still effect some improvement in their average standard of living. Had the population growth not been so rapid, the improvement would have been even more impressive.

As it is, despite the immense increase in numbers, marginally more food per person is available there today, on average, than it was a quarter century ago. And during the last ten years in particular, calorie consumption per capita appears to have increased in at least 47 developing countries.

These emerging societies have also succeeded in increasing the literacy of their peoples. Twenty-five years ago 65 million children were in primary school. Today 260 million are. Then, only 7 million were in secondary and higher institutions. Today 65 million are. In 1950 only a third of their adult population could read and write. Today more than a half can.

Much of this social progress was possible because the real per capita income of the developing world, as the table below indicates, had more than doubled during the period.

**Table I—Growth of GNP Per Capita in Developing Countries**

<table>
<thead>
<tr>
<th>Region</th>
<th>Population (1975; millions)</th>
<th>GNP Per Capita (1976 dollars)</th>
<th>Annual Growth Rate 1951-1975 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Asia</td>
<td>830</td>
<td>1950 85</td>
<td>1975 130</td>
</tr>
<tr>
<td>East Asia</td>
<td>337</td>
<td>1951 170</td>
<td>1975 435</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>309</td>
<td>1952 175</td>
<td>1975 285</td>
</tr>
<tr>
<td>Latin America</td>
<td>309</td>
<td>1953 550</td>
<td>1975 1,050</td>
</tr>
<tr>
<td>North Africa and Middle East</td>
<td>158</td>
<td>1954 385</td>
<td>1975 1,300</td>
</tr>
<tr>
<td>Southern Europe</td>
<td>117</td>
<td>1955 555</td>
<td>1975 1,815</td>
</tr>
<tr>
<td>Total</td>
<td>2,060</td>
<td>1956 210</td>
<td>1975 520</td>
</tr>
</tbody>
</table>

It was, then, in spite of its difficulties, a quarter century of remarkable advance.
And yet, it is very often not perceived as such.

To many people, indeed perhaps to most people in the developed nations, the problems of the developing world seem far more real than its progress.

Nor is that a view shared exclusively by outside observers.

To many within the developing countries themselves, progress seems tortuously slow. And hopes fade and disillusionment grows as the distance between expectation and achievement lengthens.

There are, of course, many reasons for this attitude: some valid, but others quite misleading and unrealistic.

Let me single out two common characterizations that are made about international development today, and briefly examine their validity.

**Closing the Gap**

The first proposition is that development, despite all the efforts of the past 25 years, has failed to close the gap in per capita incomes between the developed and developing countries—a gap that at its extremes ranges in money terms to more than $8,000 per capita.

The proposition is true. But the conclusion to be drawn from it is not that development efforts have failed, but rather that “closing the gap” was never a realistic objective in the first place. Given the immense differences in the capital and technological base of the industrialized nations as compared with that of the developing countries, it was simply not a feasible goal. Nor is it one today.a

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aThe algebra of closing the absolute gap in per capita incomes can be summarized as follows: a poor country growing faster than a rich one will not begin to reduce the absolute income gap between them until the inverse ratio of their growth rates is equal to the ratio of their per capita incomes. Thus, if the historical growth rates continue into the future, the present absolute income gap will continue to widen since developed and developing countries have been experiencing similar rates of per capita growth in the last 25 years. Even if the developing countries manage to double their per capita growth rate, while the industrial world maintains its historical growth, it will take nearly a century to close the absolute income gap between them. Among the fastest growing developing countries, only 7 would be able to close the gap within 100 years, and only another 9 within 1,000 years.
As the table below indicates, the relative income gap—despite the high growth rates the developing countries achieved over the 25-year period—widened rather than narrowed, with the single exception of the oil-exporting countries.

<table>
<thead>
<tr>
<th>Developing Countries</th>
<th>1950</th>
<th>1960</th>
<th>1975</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poorest^b</td>
<td>6.1%</td>
<td>4.0%</td>
<td>2.6%</td>
</tr>
<tr>
<td>Middle-Income</td>
<td>20.8</td>
<td>18.3</td>
<td>17.0</td>
</tr>
<tr>
<td>Oil-Exporting^b</td>
<td>n.a.</td>
<td>16.1</td>
<td>22.6</td>
</tr>
<tr>
<td>All Developing Countries</td>
<td>11.9</td>
<td>9.7</td>
<td>9.2</td>
</tr>
</tbody>
</table>

Income gaps are not unimportant. They tell us a great deal about inequalities in the world, both between nations and within nations. And they make it obvious that the wealthy nations can clearly afford greater financial assistance to the poor nations.

But for the developing nations to make closing the gap their primary development objective is simply a prescription for needless frustration.

What is far more important as an objective is to seek to narrow the gaps between themselves and the developed nations in terms of the quality of life: in nutrition, literacy, life expectancy, and the physical and social environment.

These gaps are already narrowing, and can be narrowed much further in a reasonable period of time. Just how this can be done, I will discuss in a few moments.

**Eliminating Poverty**

Another characterization of the performance of the developing countries over the past quarter century is that they have

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^The income data used to prepare the table reflect currency conversions at official exchange rates rather than comparative purchasing power. Had purchasing power comparisons been available, they would probably have shown similar income trends, but gaps of lesser magnitude.

^Indonesia is included in the “poorest” category.
failed to eliminate, or even significantly reduce the massive poverty in their societies.

Again, the proposition is true, but misleading.

Unlike "closing the gap," reducing poverty is a realistic objective, indeed an absolutely essential one. And it is true that some developing societies have had ineffective policies in this matter. In retrospect, it is clear that too much confidence was based on the belief that rapid economic growth would automatically result in the reduction of poverty—the so-called "trickle down" theory. For several years now the Bank and the countries it serves have been striving to develop effective strategies for dealing directly with the poorest elements in society.

The strategies which are now emerging must, of course, be applied in very different ways for different poverty groups. What is effective for the small farmer with half a hectare of land in the countryside may be irrelevant for the unemployed laborer in the urban slums.

There are ways of dealing with massive poverty effectively, but none of them can completely finish the task in one simple burst of activity, or in one specialized five-year plan, or even in one determined decade of effort.

The time span required depends largely on the institutional structures available through which appropriate policies can be applied. In many of the developing countries those structures are just now coming into place.

There are in the developing world today more trained people, a broader economic and social infrastructure, and a greater practical experience with the development process than these societies have ever enjoyed before. That is a result of their past 25 years of investment and hard work, and it provides the basis for turning the final quarter of the twentieth century into an even more remarkable period.

The characterizations, then, that development has failed because it has not "closed the gap" or "eliminated poverty" are superficial and misleading.
A far more realistic appraisal is that the impressive overall economic growth achieved by the developing world in fact obscures profound differences in the performance of various economic groups. There has been both uneven growth among countries, and misdirected growth within countries.

**Uneven Growth Among Countries**

Consider the following:

- For 32 poor countries, chiefly in South Asia and Sub-Saharan Africa, the rate of increase in per capita income was 1.5% or less per annum—less than half the average rate. Together these countries contain more than 950 million people: 46% of the total in the developing world.

- Not only have the poorest nations experienced substantially slower growth, but as Table III shows, their growth performance has continued to fall further and further behind from one decade to the next. It fell from 2.6% in the 1950s to 1.8% in the 1960s, and to 1.1% in the first half of the 1970s.

<table>
<thead>
<tr>
<th>Table III—Per Capita Income Growth Rates*</th>
</tr>
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<tbody>
<tr>
<td>Developing Countries:</td>
</tr>
<tr>
<td>Poorest</td>
</tr>
<tr>
<td>Middle-Income</td>
</tr>
<tr>
<td>All Developing Countries</td>
</tr>
<tr>
<td>Developed Countries</td>
</tr>
<tr>
<td>1950-60</td>
</tr>
<tr>
<td>2.6%</td>
</tr>
<tr>
<td>3.2</td>
</tr>
<tr>
<td>2.9</td>
</tr>
<tr>
<td>3.0</td>
</tr>
</tbody>
</table>

This decline in the rate of growth of per capita income in the poorest countries is by far the most disturbing trend in the record of development.

**Misdirected Growth Within Countries**

But it is not merely that the poorest nations have suffered

*Excludes "Southern Europe." The universe for each group of countries is the same for each period.
unacceptably low growth rates, but that such growth as there has been—both in the poorest and in the middle-income developing countries—has too often bypassed the poorest people in all these societies.

Economic growth is a necessary condition of development in any society, but in itself it is never a sufficient condition. And the reason is clear. Economic growth cannot assist the poor if it does not reach the poor.

The truth is that in every developing country the poor are trapped in a set of circumstances that makes it virtually impossible for them either to contribute to the economic development of their nation, or to share equitably in its benefits.

They are condemned by their situation to remain largely outside the development process. It simply passes them by.

Nor are we talking here about an insignificant minority. We are talking about hundreds of millions of people. They are what I have termed the absolute poor: those trapped in conditions so limited by illiteracy, malnutrition, disease, high infant mortality, and low life expectancy as to be denied the very potential of the genes with which they were born. Their basic human needs are simply not met.

1.2 billion do not have access to safe drinking water or to a public health facility. 700 million are seriously malnourished. 550 million are unable to read or write. 250 million living in urban areas do not have adequate shelter. Hundreds of millions are without sufficient employment.

These are not simply large rounded numbers. They are individual human beings.

Most tragic of all, many of them are children. For of the total of two billion people in the developing countries, some 860 million are under the age of 15.

They are the chief hope of their societies’ future. And yet almost half of them suffer from some debilitating disease likely to have long-lasting effects. Well over a third of them are undernourished. 290 million of them are not in school.
That is the profile of absolute poverty in the developing world. And that profile cannot be altered by a development strategy that ignores it.

The problem is not so much that we do not know what to do about all of this.

We do know what to do. We must design an effective overall development strategy that can both:

• Accelerate economic growth;

• And channel more of the benefits of that growth toward meeting the basic human needs of the absolute poor.

The problem is that doing this requires changes in both developed and developing countries which may cut across the personal interests of a privileged minority who are more affluent and more politically influential.

Let me try, then, to analyze the two major elements of such a strategy in more detail.

III. POLICIES FOR ACCELERATING ECONOMIC GROWTH

In view of the global economic turbulence of the last five years, are there actions which the international community can take that will give reasonable assurance of achieving higher rates of economic growth in the developing countries?

I believe there are.

The adjustment processes, as painful as they have been, have not broken down.

The OECD nations are displaying signs of recovery—though it remains slower than had earlier been expected—and growth in the poorest and middle-income developing countries is moving in the direction of more normal historical levels.

The developed nations, in all but a few cases, have resisted the temptation to resort to increased protectionism.

The private capital markets responded well to the emergency needs of the developing countries for credit, and despite a major rise in external debt, the situation has remained manageable.
What is needed now is determination in the international community to assist the developing countries to continue the adjustment process, and to accelerate their present pace of growth.

Let me review with you, briefly, our appraisal of the prospects for growth in the developing countries in the 1977-85 period, and the actions necessary to realize them. We can begin with the poorest countries.

**Growth Prospects for the Poorest Countries, 1977-85**

An optimistic program for the poorest countries suggests that they may be able to reverse the declining trend of recent years, and achieve an annual growth rate in per capita income, for the 1977-85 period, of about 2%.

This would be a substantial improvement compared to 1970-75, but would do no more than restore their growth to the average level they experienced in the 1950s and 1960s.

In terms of their immense needs, this is disappointing. It would mean an addition of only about $30 to their per capita incomes by 1985.

But we must be realistic. Even this modest advance requires the following difficult actions:

- The poorest countries must save and reinvest at least one-fifth of the small increase in their per capita income;
- They must achieve a 25% increase in efficiency in their capital utilization, through better investment, pricing, and management policies;
- They must double their export growth in relation to the historical trends;
- And there must be a 50% increase, in real terms, in Official Development Assistance flows to the poorest nations between 1976 and 1985.

Now these policy actions are urgent.
Without them, the outlook is dismal. Even with them, the per capita incomes of these already disadvantaged countries would reach only $185\(^a\) by 1985. I will return to this matter a bit later on.

**Prospects for the Middle-Income Developing Countries, 1977-85**

The growth prospects for the middle-income developing nations are more favorable. During the adjustment period from 1973 to 1976 they managed to maintain a per capita growth of almost 3% per year, and now appear to be poised for a major expansion in their exports, particularly of manufactured goods.

If they continue to improve their efforts to mobilize internal resources, and if the recovery quickens in the developed nations, and world trade expands, it would be reasonable to expect that the middle-income countries could achieve during the 1977-85 period an annual increase in per capita income of nearly 4%.

That would mean about a 40% increase in average incomes over current levels. And if these growth rates could be maintained until the end of the century, these countries as a group would achieve an average per capita income then of about $2,100.

But these favorable prospects cannot become a reality unless there is the will to take appropriate policy actions.

Many of these actions, of course, can be taken only by the developing countries themselves: greater mobilization of internal resources; increased efficiency in their use; better incentives for export promotion.

It is their task to fashion and implement these policies, and the Bank will do all that it can to assist them.

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\(^a\)All per capita income figures in this section and in the following section are expressed in terms of 1976 dollars.
But these actions, as necessary as they are, cannot succeed if the prospects for world trade expansion, and the access to international capital markets, do not improve at the same time.

It is these latter policy actions, both as they relate to the poorest and to the middle-income countries, that I want to examine now.

**Trade Expansion**

The per capita growth rates of 2% for the poorest countries and 4% for the middle-income nations for the years 1977-85 are based on a continuation of the set of policies that produced the expansion in their export earnings in the last decade.

With such policies we believe the developing countries could increase the volume of primary commodity exports by about 50%, and, more importantly, that they could nearly triple manufactured exports, increasing them from $33 billion in 1975 to about $94 billion by 1985.a

To increase exports of manufactured goods at that rate—11% per year—would require a major effort on their part. And the success of this effort assumes a continued tolerance on the part of the developed world to accept such a rapid expansion in imports from the developing countries.

But achievement of the $94 billion level would not exhaust the trade potential of the developing nations. As I pointed out last year in Manila, if the OECD countries were completely to dismantle their trade barriers against the manufactured goods of the developing countries, the latter could, by 1985, earn $24 billion per year beyond the amounts projected above.

And this represents only one part of the additional trading opportunities available to the developing countries. A recent

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*a All trade data in this section are expressed in 1975 dollars. The figures for 1985 are not predictions of what will happen. They simply illustrate the trade levels which could be achieved if importers and exporters alike were to pursue certain feasible policies.*
Bank study indicates that if these countries themselves were to remove all of their own supply constraints on exportable manufactures, they could earn yet another $21 billion per year by 1985.

In other words, if fully rational policies were pursued by importers and exporters alike, the developing countries’ export earnings from manufactured goods would increase by $45 billion per year above the levels which will result from a continuation of past policies.

It is, of course, unrealistic to expect that the developed world, even over a ten-year period, could dismantle all trade barriers, or that the developing countries over the same period, could remove all supply constraints. That would mean that the developed countries would quickly have to shift capital and labor away from those industries that can no longer compete with imports, and the developing countries would quickly have to shift more of their effort from older, less efficient production into the newer export lines.

Now, neither of these adjustments is going to happen immediately, but they do illustrate the immense contribution to development that greater efforts to liberalize trade can bring about. Would it not be a reasonable goal for both the developed and developing nations to try to achieve one-half of that potential by 1985? As Table IV indicates, this goal can be achieved if:

- First, the Tokyo Round of trade negotiations leads to a tariff reduction of 50%. This would add $4 billion to the developing countries’ manufactured exports by 1985.

- Second, the non-tariff trade barriers of the industrial countries are partially relaxed. This could add $6 billion per year to these earnings.

- And third, the developing countries exploit at least half of their remaining unused export potential—through greater efficiency and further reduction of supply constraints—and the developed countries pledge not to react by increasing their levels of protection. This would boost export earnings by an additional $10 billion per year.
Table IV—LDC Earnings from Export of Manufactures
($ billion, 1975 prices)

<table>
<thead>
<tr>
<th></th>
<th>Poorest Countries</th>
<th>Middle-Income Countries</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1965</td>
<td>$ 2.4</td>
<td>$ 7.6</td>
<td>$ 10</td>
</tr>
<tr>
<td>1975</td>
<td>3.4</td>
<td>29.6</td>
<td>33</td>
</tr>
<tr>
<td>1985—Present Policies</td>
<td>7.3</td>
<td>86.7</td>
<td>94</td>
</tr>
<tr>
<td>Possible Additions from:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Tokyo Round</td>
<td>.3</td>
<td>3.7</td>
<td>4</td>
</tr>
<tr>
<td>• Partial Relaxation of Non-Tariff Barriers</td>
<td>1.0</td>
<td>5.0</td>
<td>6</td>
</tr>
<tr>
<td>• Improved LDC Policies</td>
<td>2.5</td>
<td>7.5</td>
<td>10</td>
</tr>
<tr>
<td>1985—New Policies</td>
<td>11.1</td>
<td>102.9</td>
<td>114</td>
</tr>
</tbody>
</table>

The truth is, of course, that these policy actions are in the larger interest of both the developed and developing nations.

The increased imports from the developing countries would be matched by increased exports from the developed countries. Thus the expanded trade would benefit both consumers and producers in the industrialized countries, and would expand incomes in the less-advantaged countries.

It would require, however, practical adjustment assistance for those industries affected in the developed nations, adjustment assistance which would shift the burden from the displaced labor and capital to society as a whole. And it would mean that the developing countries must move to a more outward-looking economic stance so as not to inhibit the trade expansion that the international markets are willing to absorb.

In short, it would call for enlightened attitudes on both sides, and a mutual measure of political courage.

**Greater Access to Capital**

Better, more realistic trade policies are clearly essential. But foreign exchange earnings will supply only part of the financing required for acceptable levels of growth in the developing countries. They must also have continued access to international capital markets.
As Annex I on page 37 indicates, the bulk of the external capital flow to the poorest countries has come from official sources, including the World Bank, rather than commercial banks. It must continue to do so.

The essential problem in these countries is that the resources used to service external debt diminish the already inadequate resources available to support their development efforts. Thus the problem of debt is linked closely to the need for increased transfers of real resources on concessional terms.

Concessional aid from OECD nations has not been increasing in real terms. The final figures for 1976 reveal that total Official Development Assistance (ODA) was 6% below the estimates made a year ago. The 1976 total, in real terms, was actually less than it had been in 1975. The fact is that the ODA level, in real terms, has been essentially stationary for the past ten years. During that time the real income of the OECD nations has increased over 40%. As a result, Official Development Assistance as a percentage of GNP, has fallen from .42 in 1966 to .33 in 1976. The 1976 ratio is, of course, less than one-half of the .7% goal accepted by the U.N. General Assembly in 1970.

The fact that the total for ODA remained more than 50% below the U.N. target is due chiefly to the three largest ODA contributors. In 1976 the ODA to GNP ratio for the U.S. was .26; for the Federal Republic of Germany .31 (down from .40 in 1975); and for Japan .20 (down from .24 in 1975).

Each of these nations within the past six months has stated its intention to increase significantly its level of ODA in future years. On the basis of the statements of government spokesmen, we have projected that ODA in 1980 will amount to .37 of the donors' GNP, an increase of one-third, or $4.9 billion in real terms. The 50% increase in ODA, in real terms, to the poorest nations between 1976 and 1985—on which their modest growth rate will depend—is premised on this action.

The middle-income developing countries, on the other hand, have relied extensively on private external capital sources, as shown in Annex II on page 38.

*See Annex III on page 39.*
As the table indicates, private credits to middle-income countries increased rapidly—by $35 billion—in the 1973-76 period. There has been concern that this dramatic growth in external borrowing—particularly the borrowing from commercial banks—is unsustainable, and that if it is allowed to continue there will eventually be a generalized debt crisis.

A year ago I argued that such a crisis was not inevitable, and could be avoided through a series of interrelated actions to be taken by the developing countries themselves, by the international banking community, and by the international financial institutions. And the record of the past year indicates that corrective action has in fact been taken.

Thus during 1976 the ten nations which account for three-quarters of all the debt owed to private sources by the oil-importing developing countries managed to reduce their total current deficit by more than one-third: from $22.5 billion in 1975, to approximately $14.2 billion in 1976. This improvement exceeded by a substantial margin the Bank's own projections.

Export performance during 1976 was enhanced by unanticipated increases in certain commodity prices—coffee, for example—but this was far from the whole story. Rates of growth of manufactured exports were also higher than expected. Moreover, as a group these ten countries exercised substantial restraint on imports. In several cases, imports were kept constant, or even reduced in real terms.

In addition, the middle-income countries, as a group, raised their real domestic savings last year by 15%.

These impressive overall figures do, of course, tend to obscure the less than satisfactory performance of a few countries. But on balance the adjustment record of the major borrowing countries this past year has been a good one.

Further there is increased public awareness that the debt problem cannot sensibly be measured by simply charting the growth of the developing world’s debt. Such global statistics reflect a “money illusion” in the sense that much of the apparent growth is simply a consequence of the high rates of inflation experienced in recent years.
If debt is deflated by the borrowing countries' export price index, the real rate of growth of developing countries' debt was actually slower in the last few years (1973-1976) than in the late 1960s. And as a proportion of export earnings, the disbursed debt of the middle-income developing countries increased only 12% over the last decade: from 84% in 1967 to 96% in 1976.

Based on a series of consultations between World Bank staff and the major international banks in North America and Europe, it appears that the commercial banks anticipate continued growth in their net lending to developing countries, though at a more moderate rate: perhaps 10 to 15% per annum in current dollars, as compared to more than 30% over the last three years. Such a pace in new lending would be consistent with the requirements for private credit which we project for the developing countries over the next few years. And it means, in effect, that the major lending banks and the major borrowing countries are operating on assumptions which are broadly consistent with one another.

Another critical element in the middle-income countries' debt prospects is the outlook for official finance. For the middle-income countries, the major source of long-term official finance is the World Bank and the Regional Banks. A year ago there were major uncertainties about the prospects for future growth in lending from these institutions, particularly for the World Bank itself. Those uncertainties are now largely resolved.

For all these reasons we are even more confident today than we were a year ago that the debt problem is indeed manageable, and need not stand in the way of desirable rates of growth for the developing countries.

But in stating this conclusion, I would not want to create the impression that the debt issue may simply be ignored. It cannot.

Although the adjustment process has been successfully completed by many of the developing countries that are major borrowers in private markets, there are a few cases that clearly need further corrective action. And though the net requirements of the developing countries for private borrowings will not rise much in real terms in the years ahead, large amounts of recent
medium-term loans will fall due. In 1980, half of all gross borrowings will be needed for amortization payments.

Past experience suggests that liquidity problems will be encountered by at least a few borrowers in the coming years. The challenge to the international community is to ensure that these isolated occurrences do not undermine the stability of the system as a whole. The IMF’s recently approved Supplementary Financing Facility is clearly welcome in this connection.

But the World Bank itself also has a role to play. As I have stressed, there is a need for a better balance between official and private flows over the next few years. This shift should promote greater stability, both by lengthening the debt structure of borrowing countries and by spreading the burden and risk of lending to individual developing countries more broadly throughout the international community.

In summary, then, the goals of expanded trade, and greater access to capital—and the policy actions that will make this possible—are key ingredients of accelerated economic growth in the developing countries.

That growth is absolutely essential to development.

But growth, no matter what its magnitude, cannot assist the hundreds of millions of absolute poor in the developing societies unless it reaches them.

It is not reaching them adequately today, and it is to that issue that I want to turn now.

IV. POLICIES FOR REDIRECTING GROWTH

The aggregate economic growth the developing countries have achieved over the past 25 years—as remarkable as it has been—has not been very effective in reducing poverty.

The poorest countries, as I have noted, participated only modestly in the general trend of rapid growth since 1950. In the last few years, their growth rates have lagged even further behind.
Even in those developing countries that have enjoyed rapid growth, the poorest income groups have not shared in it equitably. Their incomes have risen only one-third as fast as the national average.

Taken together, these two tendencies explain why there has been so little increase in the living standards of the absolute poor throughout the developing world.

It is clear there must be a more equitable and effective sharing of the benefits of growth within both groups of developing countries.

Formulating development objectives in these terms avoids the misconception that because economic growth has not always been effective in increasing the incomes of the poor, it is somehow not really necessary.

It is very necessary.

In the countries with the greatest concentrations of the absolute poor—particularly those in South Asia and Sub-Saharan Africa—economic growth has been particularly slow relative to the growth of population. In these conditions, there is little scope for improving the quality of life through income redistribution alone. The total national income is simply not adequate.

But let us suppose that these poorest nations were now to double the average rate of per capita growth that they experienced in the last 25 years. This is clearly an improbable target, and even if they were able to reach it, their average per capita income, by the end of the century, would only be about $400.

But in the absence of effective government policies to moderate skewed income distribution, such an average level of income in itself cannot effect an extensive reduction in absolute poverty. And that would mean that hundreds of millions of the absolute poor in Asia and Africa have an interminable wait ahead of them before they can begin to lead decent lives in which their basic human needs are met.

The poorest countries, then, must do everything they can to increase per capita income growth, but they must do something
else as well. They must fashion ways in which basic human needs can be met earlier in the development process.

Is that feasible?

It is. A number of countries have made progress towards that goal. Not always very effectively, and never without some setbacks. But progress nevertheless.

Even the middle-income developing countries must not rely solely on rising average levels of per capita income to solve problems of absolute poverty. Like the poorest societies, they must attack it directly. They have far more resources with which to do so, and can cut short the time period in which their least-advantaged citizens must wait to have basic needs met.

The strategy we are discussing for attacking absolute poverty applies, therefore, both to the poorest nations and to the middle-income countries. But it obviously applies with much greater force to the poorest nations since they have no other viable alternatives.

What are the components of those basic needs which must be satisfied if absolute poverty is to be overcome? It is not difficult to list them, although the characteristics of each will vary from country to country, from culture to culture, and from society to society. They include:

- Food with sufficient nutritional value to avoid the debilitating effects of malnutrition, and to meet the physical requirements of a productive life;

- Shelter and clothing to ensure reasonable protection against the rigors of climate and environment; and

- Public services that make available the education, clean water, and health care that all members of society need if they are to become fully productive.

The first requirement for meeting these basic needs is that the absolute poor must be able to earn an adequate income with which to purchase on the market such essential goods as the market can supply: food, for example, and shelter.
Enhancing the Productivity of the Poor

Assisting the poorest groups in the society to find earning opportunities and to enhance their own productivity is essential since they are the very groups that are so often bypassed by the traditional development process.

To the extent that the poor possess some tangible assets, however meager—a small farm, a cottage industry, or a small-scale commercial operation in the urban sector—it is possible to help them to become more productive through better access to credit, extension assistance, and production inputs.

The experience of Malaysia, Kenya, Malawi, Taiwan, Korea, Nigeria, and other countries, demonstrates that the productivity of small farms can be significantly enhanced through such programs, and the Bank itself is committed to this objective through its new rural development projects. We have over the last three years initiated projects which will approximately double the incomes of about 40 million individuals living below the poverty line in both the poorest and middle-income countries.

Both the developing countries themselves, and the Bank, have had less experience in creating off-farm earning opportunities and in assisting cottage industries and small-scale entrepreneurs, but it is clearly important to try to do so. Two-thirds of the employment in the industrial sector of the developing world still originates in small-scale enterprises. Their expansion and increased productivity is vital to the overall growth of the economy, and to the incomes of the poor.

We in the Bank are still in the early stages of launching an increased effort to finance such labor-intensive activities—activities that can provide productive employment at low unit capital costs. By 1980 we intend to increase our annual financial commitments to these types of operations to roughly $300 million. We plan to work through and, where necessary, to create local financial institutions for that purpose. Urban and rural development projects will increasingly include such operations as components of the investment plan.

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*In 1976 prices.
This is already being done in projects in Tanzania, India, and Indonesia. In Madras, for example, an urban development project will create 5,000 jobs in cottage industry activities in slum areas at an average investment cost of $225 per job. Thus, the earning capacity of the urban poor will be increased with only a modest investment of scarce capital.

**Redesigning Public Services**

Equally essential to expanding the capacity of the absolute poor to purchase market goods are the redesign and expansion of public services.

Health care, education, public transportation, water supply, electricity, and similar public services are of course the concern of developing countries everywhere. Over the past 25 years their governments have been faced with increasing pressures to satisfy demand as overall populations have nearly doubled, and urban inhabitants have quadrupled.

Inevitably some mistakes have been made. Wealthy urban and rural families, often constituting a very small but politically influential and elite group, have frequently managed to preempt a disproportionate share of scarce public services.

It is a very old story in human affairs, and far from being an attribute of developing countries only. But wealth and privilege have made their influence felt in these matters, and almost always at the expense of the poor.

Piped water allocation, the availability of electricity, the cost and routing of public transportation, the location of schools, the accessibility of public health facilities — all of these are national and local government decisions that are critical to the living standards of the very poor, who have no margin for alternatives, and no political access to policymakers.

Not only are essential public services often out of financial and geographical reach of the poor, but such facilities as are in place may be so inappropriately designed as to be virtually irrelevant to their needs: impressive four-lane highways, but too
few market roads; elaborate curative-care urban hospitals, but too few preventive-care rural clinics; prestigious institutions of higher learning, but too few village literacy programs.

Public services that are not designed modestly and at low cost per unit will almost certainly end by serving the privileged few rather than the deprived many.

To reverse this trend, governments must be prepared to make tough and politically sensitive decisions, and to reallocate scarce resources into less elaborate—but more broadly based—delivery systems that can get the services to the poor, and the poor to the services.

Our own recent experience shows this is clearly possible. For example:

• El Salvador is developing a basic shelter program within the reach of its poorest urban households. The cost per unit in the two projects we have financed is averaging around $1,500. Over 3,000 units have already been built and sold to families with individual incomes below $240 per year. The shelter program is designed to reach as low as the 10th percentile of the population in terms of income, and it is already beginning to do that.

• In Indonesia, the World Bank is helping to finance the Government’s Slum Improvement Program that will deliver the basic requirements for a healthier and more productive life—clean water, human and solid waste disposal, and surface drainage—to the massive squatter settlements of Jakarta and Surabaya. The program will benefit over 400,000 people at an investment of $60 per person. At these very low costs, the program is financially replicable on a very large scale.

• Colombia has developed a national health program designed to bring basic health services to an estimated 40% of Colombians who at present have no regular access to health care. The program is organized around community workers, community health posts, and self-help. In only two years of operation, it has reached one million poor. If successful—and the extensive study on which it is based indicates it will
be—it will bring basic health services to all of Colombia’s poor by 1985 at a yearly cost of less than $4 per person.

- Upper Volta, one of the poorest countries in the world, discovered that even if all its limited fiscal resources were spent on primary education, it could educate only one-half of its children in formal schools. It has, therefore, been experimenting with an alternative non-formal system in rural areas which provides three years of basic education and practical agricultural training for adolescents who have never been to school. The Upper Volta program, assisted by the Bank, now provides training in literacy, numeracy, and practical skills to about 30,000 such young people.

These are only a few instances of what can be done if the governments concerned are prepared to take the necessary decisions. Technically, much is possible. Politically, such decisions can pose difficult choices.

It always comes down to a question of priorities: more foreign exchange for importing private automobiles; or an expanded bus fleet. Elaborate government offices; or squatter settlement upgrading. A new generation of jet fighters for the air force; or a new generation of infants who will live beyond their fifth birthday.

No government can do everything. To govern is to choose. But poverty will persist and grow if the choice too often favors the peripheral extravagance over the critical need.

Basic human needs are by definition critical. And for governments to assist the poor to satisfy them is not public philanthropy, but a wise investment in human capital formation.

It is the poverty itself that is a social liability. Not the people who happen to be poor. They represent immense human potential. Investing in their future productivity—if it is done effectively—is very sound economics.

Certainly what is very unsound economics is to permit a culture of poverty to so expand and grow within a nation that it begins to infect and erode the entire social fabric.
Poverty at its worst is like a virus. It spreads the contagion of bitterness, cynicism, frustration, and despair. And little wonder. Few human experiences are more embittering than the gradual perception of oneself as a trapped victim of gross social injustice.

No government wants to perpetuate poverty. But not all governments are persuaded that there is much that they can really do against so vast a problem.

But there is.

Moving against the roots of poverty; assisting the poor to become more productive, and hence more an integral part of the whole development process; redirecting economic growth and public services more toward meeting basic human needs: these are practical and attainable objectives.

Last year I suggested that developed and developing nations alike establish as one of their major goals the meeting of the basic human needs of the majority of the absolute poor within a reasonable period of time—say, by the end of the century. I continue to believe such a goal is both fundamental and feasible. Moreover, we see more clearly now, than we did then, the means by which it can be achieved.

Should not, then, the developing nations individually, and the world community collectively, formulate the specific actions that must be taken to accomplish such an objective, lay out the time schedule for these actions, and monitor the progress of the program?

Most of the task must, of course, be done by the developing countries themselves. Only they are in a position to adjust their national priorities. Only they can create the necessary economic and political framework in which to reach their own poor. Only they can mobilize the creative energies of their own citizenry.

But the task is too vast for national efforts alone. If it is left exclusively to these countries—if they are refused reasonable outside assistance—either the time period may stretch so far into the future that it outruns the patience of their own people, or they may be confronted with such critical economic strains in
the short term that they are forced to give up the longer-term effort.

Surely, the developing societies that make a determined commitment to meeting the basic human needs of all their people deserve broader alternatives than those.

That is why—as I have pointed out—the international community must help in this matter by expanding trading opportunities, and by increasing capital flows. What we all must grasp is that the task itself is neither unrealistic nor naive. Indeed, it is clearly manageable in purely technical and supply terms since the shortfalls are quite modest in comparison to total world production.

It is rather the institutional and political constraints—not physical or technological limits—that are the greatest obstacle.

In this overall effort, the World Bank itself must, of course, do all it can through its own financial operations to be helpful.

Let me discuss with you, briefly, the outlook for those operations.

V. THE FINANCIAL PROGRAM FOR THE WORLD BANK

When I spoke to you last year, it was very far from clear what the future scale of World Bank operations would be.

The negotiations for the Fifth Replenishment of IDA’s resources had met with delays, and a discussion on a general capital increase for the IBRD had not yet begun.

Today, as you know, those uncertainties have been largely resolved.

The IDA-V negotiations have been successfully concluded, and—together with the transfer of Bank profits—should enable the Association to commit approximately $8 billion over the next three fiscal years, compared to $4.5 billion over the past three.

Moreover, a consensus has emerged, first at the London Summit Meeting, and subsequently at the CIEC meetings in Paris, in
favor of a General Capital Increase for the IBRD that would enable it to maintain real growth in its operations over the next several years.

Finally, the increase in the capital structure of the IFC has now been formally approved.

On the basis of these developments, the World Bank Group is now planning for commitments in the fiscal year ending June 1978 of $8.7 billion—compared to $7.3 billion in the past year—and $9.8 billion in the following year.

It is reasonable to expect that the Bank Group will begin the decade of the 1980s at a level of operations in excess of $10 billion per year.

In terms of current dollars, this represents nearly a tenfold increase over the average achieved in the mid-1960s, and a fourfold increase over the average of the FY69-73 period.

Some of this growth has, of course, simply reflected the high levels of inflation of recent years, but if the figures are adjusted to eliminate that effect and are expressed in real terms, the increases are still substantial.

Table V—World Bank Group New Commitments
(billions of $)

<table>
<thead>
<tr>
<th>New Commitments:</th>
<th>Avg. per Yr. FY64-68</th>
<th>Avg. per Yr. FY69-73</th>
<th>Avg. per Yr. FY74-78</th>
<th>Preliminary Plan FY79</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current $</td>
<td>1.2</td>
<td>2.7</td>
<td>6.7</td>
<td>9.8</td>
</tr>
<tr>
<td>Constant FY77 $</td>
<td>2.8</td>
<td>4.3</td>
<td>7.1</td>
<td>8.5</td>
</tr>
<tr>
<td>No. of IBRD/IDA Projects</td>
<td>57</td>
<td>129</td>
<td>207</td>
<td>255</td>
</tr>
</tbody>
</table>

Despite the uncertainty regarding the precise level of World Bank commitments in 1979 and in the early 1980s, the level of net capital flows—Bank disbursements less repayments made by our borrowing member countries—can be projected with reasonable accuracy for the next several years.
Table VI—Net Disbursement from IBRD and IDA to Developing Countries
(billions of current US$)

<table>
<thead>
<tr>
<th></th>
<th>FY68</th>
<th>FY73</th>
<th>FY78</th>
<th>FY83*</th>
<th>FY64-68</th>
<th>FY69-73</th>
<th>FY74-78</th>
<th>FY79-83*</th>
</tr>
</thead>
<tbody>
<tr>
<td>IBRD</td>
<td>0.4</td>
<td>0.7</td>
<td>2.6</td>
<td>5.0</td>
<td>1.7</td>
<td>2.9</td>
<td>9.1</td>
<td>21.6</td>
</tr>
<tr>
<td>IDA</td>
<td>0.3</td>
<td>0.5</td>
<td>1.3</td>
<td>2.6</td>
<td>1.3</td>
<td>1.4</td>
<td>5.6</td>
<td>10.5</td>
</tr>
<tr>
<td>Total:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current $</td>
<td>0.7</td>
<td>1.2</td>
<td>3.9</td>
<td>7.6</td>
<td>3.0</td>
<td>4.3</td>
<td>14.7</td>
<td>32.1</td>
</tr>
<tr>
<td>FY77 $</td>
<td>1.4</td>
<td>1.9</td>
<td>3.7</td>
<td>5.0</td>
<td>6.3</td>
<td>7.6</td>
<td>15.4</td>
<td>24.0</td>
</tr>
</tbody>
</table>

As the table indicates, a decade ago net capital flows amounted to $0.7 billion. This year they should be just under $4 billion.

By 1983, the total from the IBRD and IDA combined should reach an annual rate of approximately $7.6 billion.

Thus, over the five-year period ending in 1983—with approximately two-thirds of the funds coming from the IBRD, and one-third from IDA—the Bank should provide to the developing countries between $30 and $35 billion in net financing.

The major expansion in IDA resources in the Fifth Replenishment will enable us to make a significant contribution to the acceleration of the pace of development in the poorest nations, which have suffered a decline in the share of total resource transfers in recent years.

The very substantial sums which the IBRD will be lending to the developing countries in the next four years should help restore a healthier balance between official and private lending. This is particularly true of the middle-income developing countries, in which private lending has grown so dramatically in the recent past.

And finally, we expect that the IFC, with a fourfold increase in its capital, will play an increasingly important catalytic role in stimulating private investment in the developing countries.

*Preliminary projections.
Now, the future financial operations of the World Bank, as important as they are, will of course be only a part of a much larger effort of the international development community as a whole to pursue the central objectives of development.

The pursuit of these objectives requires substantial mobilization of financial resources. But it requires, as well, a sound conceptual framework, and a clear understanding of the impact on the development process of alternative national and international policies.

One of the obstacles both to public support of development, and to more effective national and international development programs, is the lack of such a framework.

Let me turn to that issue now.

VI. INITIAL STEPS TOWARD A "WORLD DEVELOPMENT REPORT"

As I have noted, a number of political leaders of both developed and developing countries recommended earlier this year that the World Bank should initiate work on what might be termed a "World Development Report"—that is, a comprehensive analysis of development problems, and of the policies of developed and developing countries that affect them.

The proposal reflects a growing consensus throughout the world that a much more effective approach to the problems of development must be found, and that a prerequisite for this is a better understanding of the impact of internal and external policies on major social and economic issues in countries at different stages of development.

The economic turbulence of the past five years has sensitized every government to the interlocking nature of these issues.

But, understandably, no government has been very certain how best to proceed. More intensive cooperation on the problems of development is obviously necessary. But what kind, how
much, at what cost, and with what blend of policies, has been far from obvious.

It is in this context that the Bank plans to initiate an ongoing assessment of development problems. The objective will be to improve the Bank’s own understanding of the principal components of the development process and their complex interrelationships, and thus gradually develop a framework that can better assist our member countries to deal with that process more effectively.

As this work proceeds, and as more issues and problems are analyzed, it can provide a continuing basis for reviewing development progress in future years. The report will be revised annually as new data and new knowledge emerge, and it will be available for discussion by governments and in appropriate international forums.

I should stress that there will be no effort in this to duplicate or preempt the work of other development institutions or international bodies. Quite the contrary, our work in the Bank, as it has in the past, will draw on their insights and enlist their assistance.

We will begin modestly, and I would hope that by July of next year we could provide the Directors of the Bank with a draft of the first report. That would allow for discussion in the Board in time for possible consideration by the Development Committee at our next Annual Meeting.

VII. SUMMARY AND CONCLUSIONS

Let me now summarize and conclude the central points I have made this morning.

If one looks objectively at the developing world’s economic record during the past quarter century, it is impressive. It surpasses the performance of the present industrialized nations for any comparable period of their own development.
But the unexpectedly high average rate of growth conceals significant differences between groups of countries.

The poorest nations have done only half as well as the middle-income group. Crippled by serious disadvantages, these societies have witnessed their growth gradually diminish. And collectively they contain more than half the total population of the developing world.

In the middle-income countries, the rates of growth have been better, but here too the averages obscure sharply skewed income patterns. Far too many in these societies—as in the poorest nations—have been able neither to contribute much to economic growth, nor to share equitably in its benefits. Development has passed them by.

The tragedy of the absolute poor is that they are trapped in a set of social and economic circumstances that they cannot break out of by their own efforts alone. Hundreds of millions of them cannot read or write; are seriously malnourished; have no access to adequate medical care; are without adequate shelter; and have no meaningful work.

Their basic human needs are simply not met.

For these hundreds of millions, development has failed.

It will continue to fail unless the dynamics of absolute poverty are dealt with directly, and reversed.

There are two essential things that must be done. The rate of economic growth of the developing nations must be accelerated. And more of the benefits of that growth must be channeled towards helping the absolute poor meet their basic human needs.

The task facing the poorest nations of restoring their earlier per capita income growth rates is going to be arduous. Even to return to their average historical level of 2% will require a doubling of their growth in export earnings, and a 50% increase, in real terms, of the current ODA capital flows to them over the next eight years.
Without these two complementary actions, the outlook for the poorest nations—nations that contain well over a billion human beings—is grim indeed.

The middle-income nations have considerably brighter prospects. But they too will be unable to accelerate their present growth rates without greater export earnings, and continued access to capital.

The required increase in export earnings can be realized if the developed countries will make modest concessions in the removal of tariff and non-tariff barriers and if the developing countries reduce their own export constraints.

Economic growth clearly is a necessary condition of development. But it is not in itself a sufficient condition. Little can be done without growth. But much, unfortunately, can be left undone even with growth.

That is what has happened in many of the developing societies over the past 25 years. There has been growth; in some countries very rapid growth. But it has not notably helped the severely disadvantaged break out of their poverty.

What is required, then, is that developing country governments adopt policies that will assist the poor to enhance their own productivity, and that will assure them more equitable access to essential public services.

But the developing countries cannot achieve these immense tasks alone. They will need greater assistance from the developed nations.

The World Bank's contribution to this can at best be only a part of the larger effort of the international community as a whole. But its contribution will not be insignificant. Over the next five years the Bank should be able to provide its member developing countries between $30 and $35 billion in net financing.

Further, the Bank will initiate work on a detailed analysis of major development issues, and of the cost and benefits of alternative policies to deal with them. The objective of this ongoing
“World Development Report” will be both to improve the Bank’s own grasp of these complexities, and gradually to develop a framework that can better assist developed and developing nations alike in their own decisions.

In the end, development is always complex and exacting.

None of it is easy. None of it is without cost. And none of it is without some risk.

But the attack on absolute poverty—basic human needs and their satisfaction—cannot be forgotten, cannot be forever delayed, and cannot be finally denied by any global society that hopes tranquilly to endure.
## ANNEX I

### Capital Flows to and Debt Status of the Poorest Nations

(in billions of current US$)

<table>
<thead>
<tr>
<th></th>
<th>1973</th>
<th>1975&lt;sup&gt;e&lt;/sup&gt;</th>
<th>1976&lt;sup&gt;c&lt;/sup&gt;</th>
<th>1980&lt;sup&gt;d&lt;/sup&gt;</th>
<th>1985&lt;sup&gt;d&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Account Deficit before Interest Payments</td>
<td>1.1</td>
<td>5.6</td>
<td>2.2</td>
<td>4.7</td>
<td>9.2</td>
</tr>
<tr>
<td>Interest Payments</td>
<td>.6</td>
<td>.6</td>
<td>.7</td>
<td>1.0</td>
<td>1.8</td>
</tr>
<tr>
<td>Changes in Reserves and Short-Term Debt</td>
<td>1.6</td>
<td>-.4</td>
<td>3.6</td>
<td>2.7</td>
<td>5.5</td>
</tr>
<tr>
<td>Total to be Financed</td>
<td>3.3</td>
<td>5.8</td>
<td>6.5</td>
<td>8.4</td>
<td>16.5</td>
</tr>
<tr>
<td>financed by Medium- and Long-Term Capital from:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public Sources</td>
<td>3.3</td>
<td>6.3</td>
<td>5.5</td>
<td>8.0</td>
<td>15.8</td>
</tr>
<tr>
<td>Private Sources&lt;sup&gt;b&lt;/sup&gt;</td>
<td>.1</td>
<td>-.5</td>
<td>.9</td>
<td>.4</td>
<td>.7</td>
</tr>
<tr>
<td>Total Net Capital Flows:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<sup>a</sup>Excludes oil exporters.

<sup>b</sup>Includes “Direct Foreign Investment.”

<sup>c</sup>1975 and 1976 data are based on IMF sources.

<sup>d</sup>The data for 1980 and 1985 are projections of current account deficits and capital flows that are consistent with the income and trade projections referred to earlier. They are not predictions of what may actually happen.
# Annex II

## Capital Flows to and Debt Status of the Middle-Income Developing Countries

(in billions of current US$)

<table>
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<tr>
<th></th>
<th>1973</th>
<th>1975&lt;sup&gt;d&lt;/sup&gt;</th>
<th>1976&lt;sup&gt;d&lt;/sup&gt;</th>
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<th>1985&lt;sup&gt;e&lt;/sup&gt;</th>
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<sup>a</sup>Excludes oil exporters.

<sup>b</sup>Includes "Direct Foreign Investment."

<sup>c</sup>Based on a sample of 26 countries that account for 80% of the external debt of the oil-importing middle-income nations.

<sup>d</sup>1975 and 1976 data are based on IMF sources.

<sup>e</sup>The data for 1980 and 1985 are projections of current account deficits and capital flows that are consistent with the income and trade projections referred to earlier. They are not predictions of what may actually happen.
### ANNEX III

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**RAND TOTAL**

- **ODA ($b-Nominal Prices)**
  - 1960: 4.6
  - 1965: 5.9
  - 1970: 6.8
  - 1971: 7.7
  - 1972: 8.5
  - 1973: 9.4
  - 1974: 11.3
  - 1975: 13.6
  - 1976: 13.7
  - 1977: 16.3
  - 1978: 18.8
  - 1979: 21.5
  - 1980: 24.4

- **ODA ($b-Constant 1977 Prices)**
  - 1960: 12.2
  - 1965: 14.1
  - 1970: 14.4
  - 1971: 15.5
  - 1972: 15.8
  - 1973: 14.3
  - 1974: 14.2
  - 1975: 15.1
  - 1976: 14.8
  - 1977: 16.3
  - 1978: 17.4
  - 1979: 18.6
  - 1980: 19.7

- **GNP ($t-Nominal Prices)**
  - 1960: 0.9
  - 1965: 1.3
  - 1970: 2.0
  - 1971: 2.2
  - 1972: 2.6
  - 1973: 3.1
  - 1974: 3.4
  - 1975: 3.8
  - 1976: 4.1
  - 1977: 4.6
  - 1978: 5.3
  - 1979: 5.9
  - 1980: 6.6

- **ODA as % GNP**
  - 1960: .52
  - 1965: .44
  - 1970: .34
  - 1971: .35
  - 1972: .33
  - 1973: .30
  - 1974: .36
  - 1975: .33
  - 1976: .35
  - 1977: .35
  - 1978: .36
  - 1979: .37
  - 1980: .38

- **ODA Deflator**
  - 1960: .38
  - 1965: .42
  - 1970: .47
  - 1971: .50
  - 1972: .54
  - 1973: .66
  - 1974: .80
  - 1975: .90
  - 1976: .93
  - 1977: 1.00
  - 1978: 1.08
  - 1979: 1.16
  - 1980: 1.24

---

Figures for 1975 and earlier years are based on actual data. Figures for 1976 are preliminary. Those for 1977-80 are based on OECD and World Bank estimates of growth of GNP, on information on budget appropriations for aid, and on aid policy statements by governments. They are projections, not predictions, of what will occur unless action not now planned takes place.

Inland became a member of DAC in January 1975.

New Zealand became a member of DAC in 1973. ODA figures for New Zealand are not available for 1960 and 1965.

In 1949, at the beginning of the Marshall Plan, U.S. Official Development Assistance amounted to 2.79% of GNP. It includes the effect of parity changes. Deflators are the same as those for GNP.
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