

IDA DEPUTIES MEETING

(WASHINGTON, D.C., November 22-23, 1982)

OPENING STATEMENT BY A.W. CLAUSEN
PRESIDENT, THE WORLD BANK

OPENING REMARKS BY MR. CLAUSEN AT THE IDA DEPUTIES MEETING

ON MONDAY, NOVEMBER 22, 1982

Good morning, ladies and gentlemen. It gives me great pleasure to welcome you here today for the launching of negotiations for IDA7.

I can't conceive that there is doubt in any of our minds that how these negotiations ultimately turn out over the coming months will have a profound influence on the lives of hundreds of millions of people throughout the world. It will also, of course, have a very direct influence on the future of this institution!

IDA7 is important for several reasons. First, in these troubled times a strong and clear signal is sorely needed that multilateral economic cooperation is not a waning enterprise, and that the world is not too fatigued to act in its own best interests. Second, a successful outcome for IDA7 would enable the most needy countries in the world community to face the future with hope instead of cynicism and despair. And finally, the outcome of IDA7 is a vital piece in the mosaic that characterizes an increasingly uncomfortable relationship between the developed and developing countries. There is no question that a successful conclusion would restore a degree of equilibrium in the quality of economic dialogue between our richer and poorer member nations.

For all these reasons, I believe that this is a momentous occasion. All of us here are embarking on a vital enterprise. There were times throughout the past troubled year for IDA when the prospect of opening negotiations

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on IDA7 anytime soon seemed remote. But the spirit of cooperation and goodwill, for which the Association has always been renowned, again came through. The actions taken by donors to bridge the resource gap that would have emerged in fiscal year 1984 was a remarkable tribute to the willingness of nations in the midst of a common crisis to face it and resolve it. Hopefully, your actions at Toronto will be a major step forward in putting the difficulties of IDA6 behind us - permitting us to look to the future with greater optimism. There remains, of course, some unfinished business on IDA6 and it is our sincere wish that we will clear the decks soon and begin IDA7 with a clean slate.

It looks as though 1983 will be a busy year for all of you. There are many issues to be discussed: the overall size of the replenishment; burden sharing among donors; criteria for the allocation of resources; non-traditional means for augmenting the Association's resources; as well as the topic before you today on "the terms and conditions" of IDA credits. To most of you these are familiar subjects which come up with every replenishment, but on some we hope to break new ground. It may well be that the IDA7 which you negotiate turns out to be different from any previous replenishment exercise. We face difficult times. The circumstances of today are not those of yesterday and we must be forward-looking to face tomorrow.

But before we proceed with the negotiations, we need to consider what we want to achieve here at a time when recession is widespread around the globe.

The prolonged recession has resulted in the economic problems of the poorest countries being aggravated by external factors beyond their control. Exchange rate volatility and interest rate movements have had a severe impact on the debt burden of some of these countries. Most have been faced with: a sharp decline in demand for their exports; a major deterioration in their terms of trade; and the threat of increasingly pervasive protectionism. These external factors have led to immense domestic pressure on developing country budgets, necessitating the deferral of priority projects involving capital expenditures.

In brief, the crisis confronting the world has had the greatest effect on the weakest nations and largely for reasons they can do little about. This is not to say that times have not been rough for all other countries. Many of your governments have had to wrestle with stagnating economies, rapid inflation, substantial budget deficits and high unemployment. But in relative terms, donor countries' difficulties cannot seriously be compared to the severe plight of the poorest nations. They have had to sacrifice vital longer-term investments, representing the foundations for future growth--simply to ensure their short-term survival.

And at precisely this critical time, IDA has failed to deliver the expected level of resources. After five successive replenishments which resulted in average real increases of about 8% per annum in IDA's commitment authority between 1965 and 1980, the pattern abruptly changed with the experience of IDA6. As you are all aware, we were forced to cut IDA's planned lending program in FY82 by some 35% in dollar terms. In real terms, annual

commitments for the first two years of IDA6 have fallen far below annual levels achieved under IDA5. In view of the generous action taken by most donors in Toronto, we can now hope that IDA lending in FY83 and FY84 will at least approach the \$3.5 billion level achieved in FY81. But this still represents amounts which are more than 20% below the program originally envisaged.

This experience raises some fundamental questions: will the diminished levels of IDA6 set the pattern for IDA7? Or can we hope to put IDA back where it belongs, in the vanguard of the fight against poverty-- with resources adequate to tackle this immense task?

The concessional financing requirements of the poorest countries over the IDA7 period will be immense. In addition to general economic trends around the globe we need to be mindful of some specific considerations when thinking of the desirable size of the next replenishment.

The first of these is China. China's inclusion in the list of IDA-eligible countries has literally doubled the population whose needs the Association must address. In the absence of additional resources, adequate and proper attention to China's challenging development problems could only be achieved through drastic cut-backs in other countries' similarly deserving lending programs. An inadequate flow of IDA resources to China will impair our ability to develop the kind of relationship which will strengthen China's efforts to become a full partner in the international economic community.

The second specific issue is the deteriorating economic situation in sub-Saharan Africa, where most countries have suffered declines in average per capita income for about a decade. As you know, the Bank's 1981 report on the region has painted a dismal picture. The region suffered long years of negative growth, sluggish agricultural performance, rapid population increase, and balance-of-payments and fiscal crises. Donor governments recognized that urgent action was required to reverse these trends, and the Bank was given a mandate to exert every effort to accelerate development in the region. Most of these countries are not creditworthy. Therefore, the bulk of the assistance we provide must come from IDA. Yet IDA will be unable to fulfil this mandate without an unjustifiable reduction in its allocations for other countries if its resources are not boosted.

The bottom-line is that the legitimate financing requirements of IDA's constituencies are much larger than they have ever been. Meeting these requirements is very much in the political, economic and security interests of donors as well. Adequate treatment of all these needs would require a substantial increase in the real size of IDA7, significantly higher than any amount which could realistically be imagined in the present political and economic environment. In our view, the outcome of IDA7 should allow the Association a margin of flexibility in its ability to address the needs of its enlarged borrower community. To be sure, while a significant real increase for IDA7 over the negotiated level for IDA6 may seem difficult in the present environment, the critical situation of IDA's recipients certainly justifies considering precisely such an increase. Anything less would represent an inadequate response by the international community to the desperate situation of its poorest members.

There are important economic and strong moral arguments for channeling concessional flows to the poorest countries. The pace of economic development of the poorest nations is of major consequence to all other nations. The more affluent countries have a major stake in the fortunes of the poorest countries--for example in their food and energy production and in their trade. IDA investments are setting the basic structures in place from which all the nations represented in this room today will accrue profits in the years ahead.

As concessional resources become more and more scarce it becomes more important than ever not only to channel such funds to the most deserving cases, but to be concerned about their effective use. IDA's track record clearly shows that it has rightfully earned the confidence of its supporting governments as an effective institution. The recent publication "IDA in Retrospect" took a dispassionate look at IDA's performance over the past 20 years. It concluded that IDA had indeed been most effective in promoting development. Not only has it been able to devote the vast majority of its funds to the poorest countries (80% of its net disbursements in 1980 went to countries with per capita incomes of less than \$410, in comparison with only 34% through bilateral programs) but it has been able to do so without sacrificing project performance. The average economic rate of return on the IDA projects reviewed was even marginally higher than the average for IBRD at 17.9%. Moreover, IDA's influence is greater than can be measured by volume of funds committed or economic rates of return. Its impact on development has derived as much, if not more, from its policy dialogue with borrowers and its efforts to establish enduring development institutions.

As I mentioned earlier, there are several complex issues which the Deputies will need to address in the course of these negotiations. One of them (and I understand it will be the focus of the discussion at this meeting,) is the question of IDA's credit terms. IDA's terms, as you know, have remained substantially unchanged since its inception. Yet some of its larger borrowers have experienced sufficient economic growth to enable them to bear a greater debt-servicing burden. They have, in short, become more creditworthy. But these countries are not yet at the stage where they could be weaned off IDA's resources entirely. Their gain in economic strength is a sign of IDA's past success. While we might consider whether they can now afford harder terms for IDA resources, we should not risk the possibility of retrogression by forcing them to move too far, too fast.

The traditional method of dealing with countries in this category of intermediate creditworthiness has been through blending, whereby a country receives both IDA credits and IBRD loans. However, there are practical limitations on the ability to blend due to constraints on IDA's resources as well as creditworthiness limitations on access to IBRD's resources. Now seems to be an appropriate time to consider whether some changes in terms, as well as differentiation in terms of IDA lending, might not provide an additional and more flexible solution to this question. More significantly, a change in IDA's terms would also open the door to the prospect of supplementing IDA's traditional resources through non-traditional means, if such alternatives were felt by donors to be practical and feasible.

Let me conclude these opening remarks with these thoughts. I wish you well in the progress of these vitally important IDA7 negotiations. As I said at the outset, there is no other single issue in the Bank's program to which I attach more significance--although as most of you know there are many challenging issues facing both the IBRD and the IFC as well. We must progress in these negotiations sufficiently rapidly to reach closure by the time of the Annual Meetings in 1983. I appreciate that this target imposes some pressures. But given the desperate economic situation which our poorer constituents face, you will agree that time is of the essence.

We have therefore proposed to you a demanding schedule, but not an unrealistic one if we are to give the right kind of consideration to the issues we must address. It will require much of your time and more of your patience. On our side, we will be aided in our difficult task by M. Andre de Lattre as our Special Representative for IDA7. He brings a very distinguished background and extensive experience in national and international affairs to help us on a full-time basis with these negotiations - a task which we consider critical. In the coming months, M. de Lattre will be visiting you in your capitals to further these discussions and to prepare for future meetings in which he will actively and fully participate.

IDA has become a cornerstone of international cooperation. It is essential that it remain strong. IDA has a key role to play in promoting long-term development in the poorest countries, to the benefit of the world as a whole. I very much hope that you and your governments will also recognize that role, and negotiate a seventh replenishment of an appropriate shape and form so as to enable the Association to carry out its vital mission.